

**POLISH FINANCIAL SUPERVISION AUTHORITY**

**Consolidated annual report RS 2012**

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

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

for the financial year **2012** comprising the period from **1 January 2012** to **31 December 2012**  
containing the consolidated financial statements according to IFRS in PLN.

publication date: 29 March 2013

<b>KGHM Polska Miedź Spółka Akcyjna</b> (name of the issuer)	
<b>KGHM Polska Miedź S.A.</b> (name of issuer in brief)	<b>Basic materials</b> (issuer branch title per the Warsaw Stock Exchange)
<b>59 – 301</b> (postal code)	<b>LUBIN</b> (city)
<b>M. Skłodowskiej – Curie</b> (street)	<b>48</b> (number)
<b>(48 76) 74 78 200</b> (telephone)	<b>(48 76) 74 78 500</b> (fax)
<b>ir@kghm.pl</b> (e-mail)	<b>www.kghm.pl</b> (website address)
<b>692-000-00-13</b> (NIP)	<b>390021764</b> (REGON)

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

SELECTED FINANCIAL DATA	in '000 PLN		in '000 EUR	
	year 2012 period from 1 January 2012 to 31 December 2012	year 2011 restated period from 1 January 2011 to 31 December 2011	year 2012 period from 1 January 2012 to 31 December 2012	year 2011 restated period from 1 January 2011 to 31 December 2011
I. Continued operations				
Sales	26 704 865	22 107 230	6 398 520	5 339 782
Operating profit	6 594 269	13 231 812	1 579 995	3 196 013
Profit before income tax	6 448 325	13 367 836	1 545 027	3 228 868
Profit for the period from continued operations	4 802 693	11 067 430	1 150 731	2 673 228
II. Profit for the period	4 802 693	11 127 061	1 150 731	2 687 631
III. Profit for the period attributable to shareholders of the Parent Entity	4 802 015	11 126 514	1 150 569	2 687 499
IV. Profit for the period attributable to non-controlling interests	678	547	162	132
V. Other comprehensive income	( 739 605)	297 218	( 177 210)	71 790
VI. Total comprehensive income	4 063 088	11 424 279	973 521	2 759 421
VII. Total comprehensive income attributable to the shareholders of the Parent Entity	4 066 884	11 405 538	974 431	2 754 894
VIII. Total comprehensive income attributable to non-controlling interest	( 3 796)	18 741	( 910)	4 527
IX. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
X. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	24.01	55.64	5.75	13.44
XI. Net cash generated from operating activities	5 521 182	9 098 660	1 322 883	2 197 691
XII. Net cash generated from/(used in) investing activities	(10 762 490)	3 048 579	(2 578 707)	736 354
XIII. Net cash used in financing activities	(4 428 657)	(2 978 408)	(1 061 112)	( 719 405)
XIV. Total net cash flow	(9 669 965)	9 168 831	(2 316 936)	2 214 640
	<b>At 31 December 2012</b>	<b>At 31 December 2011</b>	<b>At 31 December 2012</b>	<b>At 31 December 2011</b>
XV. Non-current assets	23 762 176	12 132 738	5 812 381	2 746 952
XVI. Current assets	9 854 075	18 516 811	2 410 370	4 192 359
XVII. Total assets	33 616 251	30 649 549	8 222 751	6 939 311
XVIII. Non-current liabilities	7 119 676	2 827 280	1 741 519	640 120
XIX. Current liabilities	4 786 602	4 432 081	1 170 834	1 003 460
XX. Equity	21 709 973	23 390 188	5 310 398	5 295 731
XXI. Non-controlling interest	231 585	288 844	56 647	65 397

Average exchange rate for the period\*  
Exchange rate at the end of the period

	<b>31 December 2012</b>	<b>31 December 2011</b>
	4.1736	4.1401
	4.0882	4.4168

\*Exchange rates are the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2012 and 2011

**This report is a direct translation from the original Polish version.  
In the event of differences, reference should be made to the official Polish version.**

# **KGHM** POLSKA MIEDŹ S.A. GROUP

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**CONSOLIDATED ANNUAL REPORT RS 2012 COMPRISES:**

- 1. AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS**
  - 2. DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED CONSOLIDATED FINANCIAL STATEMENTS**
  - 3. DECLARATION BY THE MANAGEMENT BOARD REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS**
  - 4. PRESIDENT'S LETTER**
  - 5. CONSOLIDATED FINANCIAL STATEMENTS**
  - 6. REPORT ON THE ACTIVITIES OF THE GROUP**
-

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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**AUDITOR'S OPINION AND REPORT  
ON ITS AUDIT OF THE CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR 2012**

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Lubin, March 2013



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

We have audited the accompanying consolidated financial statements of the KGHM Polska Miedź Spółka Akcyjna Group (hereinafter called "the Group"), of which KGHM Polska Miedź Spółka Akcyjna is the parent company (hereinafter called "the Parent Company"), with its registered office in Lubin, ul. Marii Skłodowskiej-Curie 48, which comprise the consolidated statement of financial position as at 31 December 2012, showing total assets and total liabilities and equity of PLN 33.616 million, the consolidated statement of profit or loss for the period from 1 January to 31 December 2012, showing a net profit of PLN 4.803 million, the consolidated statement of comprehensive income for the period from 1 January to 31 December 2012, showing a total comprehensive income of PLN 4.063 million, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

The Parent Company's Management Board is responsible for preparing the consolidated financial statements and the Directors' Report for the Group in accordance with the applicable regulations. The Management Board and Members of the Supervisory Board are required to ensure that the consolidated financial statements and the Director's Report meet the requirements set out in the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2009, No. 152, item 1223 with further amendments, hereinafter referred to as "the Act").

Our responsibility was to perform an audit of the accompanying consolidated financial statements and to express an opinion on whether the consolidated financial statements comply in all material respects with the applicable accounting policies and whether they present fairly, in all material respects, the Group's financial position and results.

We conducted our audit in accordance with the following:

- (a) the provisions of Chapter 7 of the Act;
- (b) national standards of auditing issued by the National Chamber of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included an assessment of the accounting policies applied by the Group and significant estimates made in the preparation of the consolidated financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provides a reasonable basis for our opinion.

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Telephone +48 22 523 4000, Facsimile +48 22 508 4040, [www.pwc.pl](http://www.pwc.pl)*



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

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

- a. give a fair and clear view of the Group's financial position as at 31 December 2012 and of the financial results for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union;
- b. comply in form and content with the applicable laws applicable to the Group;
- c. have been prepared on the basis of properly maintained accounting records.

The information in the Group' Report for the year ended 31 December 2012 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("*the Decree*" – Journal of Laws of 2009, No. 33, item 259, with further amendments) and is consistent with the information presented in the audited consolidated financial statements.

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

Marcin Sawicki

Registered Auditor of the Group, Key Registered Auditor  
No. 11393

Wrocław, 27 March 2013 r.

*Translation note:*

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**Report on the consolidated financial statements  
for the financial year ended 31 December 2012  
to the Shareholders' Meeting and Supervisory Board of  
KGHM Polska Miedź Spółka Akcyjna**

**This report contains 16 consecutively numbered pages and consists of:**

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IV. Statements of the independent registered auditor .....	14
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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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**I. General information about the Group**

- a. The Parent Company of KGHM Polska Miedź S.A. Group (“the Group”) is KGHM Polska Miedź S.A. („the Parent Company”) with its seat in Lubin, ul. Marii Skłodowskiej-Curie 48.
- b. The Parent Company was founded as a result of transformation of a state-owned enterprise, Kombinat Górniczo-Hutniczy Miedzi on the basis of art. 5 of the Act dated 13 July 1990 concerning the privatisation of state-owned enterprises (*Jurnal of Laws* No. 51, item 298, with subsequent amendments). The Notarial Deed was drawn up on 9 September 1991 at the Notary Public’s Office No. 18 in Warsaw and registered with Rep. no. 8648/91. On 29 June 2001, the District Court Register decided to enter the Parent Company in the Commercial Register with the reference number KRS 23302.
- c. In the audited year the Parent Company operated on the basis of the concessions granted by Minister of the Environmental Protection, Natural Resources and Forestry.
- d. On 14 June 1993 the Parent Company was assigned the tax identification number (NIP) 692-000-00-13 for the purpose of making tax settlements. On 13 August 2003 the Parent Company was assigned the REGON number 390021764 for statistical purposes.
- e. As at 31 December 2012 the Parent Company’s registered share capital amounted to PLN 2.000 million and consisted of 200.000.000 shares, with a nominal value of PLN 10 per value.
- f. As at 31 December 2012 and as at 27 March 2013, the shareholders of the Parent Company were as follows:

<b>Shareholder’s name</b>	<b>Number of shares held</b>	<b>Par value of shares held (PLN)</b>	<b>Type of shares held</b>	<b>Votes (%)</b>
The Polish State Treasury	63.589.900	635.899.000	ordinary	31,79
Other shareholders	136.410.100	1.364.101.000	ordinary	68,21
	<b>200.000.000</b>	<b>2.000.000.000</b>		<b>100,00</b>

- g. In the audited year, the Group’s business activities included:
  - metal ore mining,
  - production of non-ferrous metals, precious metals, and salts,
  - manufacturing copper and precious metals products,
  - casting of light metals and non-ferrous metals,
  - recovering metals accompanying copper ores,
  - waste management,
  - wholesale trading on the basis of direct payment or contract,
  - geological and exploratory activities, research and technical analyses,
  - construction of mining machinery and equipment, production of road-building material,
  - transport services,
  - research, analysis and design activities.

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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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**I. General information about the Company (cont.)**

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

- Herbert Wirth                      President,
- Maciej Tybura                      I Vice President (Finance)  
(till 28 June 2012),
- Włodzimierz Kiciński              Member of the Board (from 28 June 2012);  
as at 31 December 2012 hold the position  
of I Vice President (Finance),
- Wojciech Kędzia                      Member of the Board;  
as at 31 December 2012 hold the position  
of Vice President (Production),
- Dorota Włoch                      Member of the Board (from 28 June 2012);  
as at 31 December 2012 hold the position  
of Vice President (Development),
- Adam Sawicki                      Member of the Board (from 1 September 2012);  
as at 31 December 2012 hold the position  
of Vice President (Corporate).

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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

**I. General information about the Company (cont.)**

i. As at 31 December 2012 KGHM Polska Miedź S.A. Group comprise of the following entities:

Entity	Type of capital relationship (% of share capital held)	Method of consolidation	Auditor of financial statements	Type of opinion (*)
KGHM Polska Miedź S.A.	Parent Company	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Biowind Sp. z o.o.	Indirect subsidiary (100%)	Full	Not subject to audit	-
Bipromet S.A.	Subsidiary (66%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
Bipromet Ecosystem Sp. z o.o.	Indirect subsidiary (33,66%)	Full	Not subject to audit	-
CBJ Sp. z o.o.	Subsidiary (100%)	Full	Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością Sp.k.	With emphasis of matter concerning first time preparation of financial statement in accordance with MSSF
Centrozłom Wrocław S.A.	Indirect subsidiary (85%)	Full	PricewaterhouseCoopers Sp. z o.o.	The opinion has not been issued until the date of signing this report.
DFM ZANAM – LEGMET Sp. z o.o.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Ecoren DKE Sp. z o.o.	Indirect subsidiary (100%)	Full	Accord'ab Biegli Rewidenci Sp. z o.o.	Refusal of express an opinion concernig going concern risk
Energetyka Sp. z o.o.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Fermat 1 S.à r.l	Subsidiary (100%)	Full	Not subject to audit	-
Fermat 2 S.à r.l	Indirect subsidiary (100%)	Full	Not subject to audit	-
Fermat 3 S.à r.l	Indirect subsidiary (100%)	Full	Not subject to audit	-
Fundusz Hotele 01 Sp. z o.o.	Indirect subsidiary (100%)	Full	Ernst & Young Audit Sp. z o.o.	With emphasis of matter concerning going concern risk
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Indirect subsidiary (100%)	Full	Ernst & Young Audit Sp. z o.o.	With emphasis of matter concerning going concern risk
Polska Grupa Uzdrowisk Sp. z o.o. (Fundusz Uzdrowiska 01 Sp. z o.o.)	Indirect subsidiary (100%)	Full	Ernst & Young Audit Sp. z o.o.	With emphasis of matter concerning going concern risk
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A. (from 09.01.2013 Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.)	Indirect subsidiary (100%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified

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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

**I. General information about the Company (cont.)**

Entity	Type of capital relationship (% of share capital held)	Method of consolidation	Auditor of financial statements	Type of opinion (*)
INOVA Sp. z o.o.	Subsidiary (100%)	Full	Instytut Studiów Podatkowych Modzelewski i Wspólnicy – AUDYT Sp. z o.o.	Unqualified
INTERFERIE S.A.	Indirect subsidiary (67,71%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
Interferie Medical SPA Sp. z o.o.	Indirect subsidiary (89,46%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
KGHM AJAX MINING INC.	Indirect subsidiary (80%)	Full	Ernst & Young LIP Chartered Accountants	Unqualified
KGHM CUPRUM Sp. z o.o. - CBR	Subsidiary (100%)	Full	4AUDYT Sp. z o.o.	The opinion has not been issued until the date of signing this report.
KGHM Ecoren S.A.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM Kupfer AG	Subsidiary (100%)	Full	Not subject to audit	-
KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Subsidiary (100%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Subsidiary (100%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	Subsidiary (100%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
KGHM Kupferhandelsges. m.b.H. i. L.	Subsidiary (100%)	Full	Not subject to audit	-
KGHM LETIA S.A.	Subsidiary (85,45%)	Full	Grupa Audyt Sp. z o.o.	Unqualified
KGHM Metraco S.A.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Subsidiary (100%)	Full	Orient Best Certified Public Accountants	Unqualified
KGHM TFI S.A.	Subsidiary (100%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
Mercus Software Sp. z o.o.	Indirect subsidiary (100%)	Excluded	Not subject to audit	-
Miedziowe Centrum Zdrowia S.A.	Subsidiary (100%)	Full	Biuro Ekspertyz i Badania Bilansów PIAST Sp. z o.o.	Unqualified
NITROERG S.A.	Subsidiary (85%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified

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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

**I. General information about the Company (cont.)**

Entity	Type of capital relationship (% of share capital held)	Method of consolidation	Auditor of financial statements	Type of opinion (*)
Przedsiębiorstwo Budowy Kopalń PeBeKa S.A.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	With emphasis of matter concerning contingent liabilities.
Przedsiębiorstwo Budowlane Katowice S.A.	Indirect subsidiary (58,08%)	Full	Ernst & Young Audit Sp z o.o.	The opinion has not been issued until the date of signing this report.
PHP Mercus Sp. z o.o.	Subsidiary (100%)	Full	Grant Thornton Frąckowiak Spółka z ograniczoną odpowiedzialnością Sp.k.	With emphasis of matter concerning reserve established for litigations
Sugarloaf Ranches Limited	Indirect subsidiary (100% - real share)	Full	Not subject to audit	-
PHU Lubinpex Sp. z o.o.	Indirect subsidiary (100%)	Full	Kancelaria Biegłych rewidentów AKTYWA Sp. z o.o.	Unqualified
PMT Linie Kolejowe Sp. z o.o.	Indirect subsidiary (100%)	Full	Kancelaria Biegłego Rewidenta broniśława Dydyna	Unqualified
POL-MIEDŹ TRANS Sp. z o.o.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Towarzystwo Ubezpieczeń Wzajemnych Cuprum	Indirect subsidiary (100%)	Excluded	FINANS-SERVIS Zespół Doradców Finansowych – Księgowych Sp. z o.o.	Unqualified
Uzdrowisko Cieplice Sp. z o.o.	Indirect subsidiary (91,67%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
Uzdrowisko Połczyn S.A.	Indirect subsidiary (90,45%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified
Uzdrowisko Świeradów-Czerniawa Sp. z o.o.	Indirect subsidiary (87,74%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified
Warszawska Fabryka Platerów Hefra S.A.	Indirect subsidiary (98,5%)	Full	Biuro Ekspertyz i Badania Bilansów PIAST Sp. z o.o.	With emphasis of matter concerning obligation to pass a resolution regarding going concern assumption and lack of observation of stockcount
Walcownia Metali Nieżelaznych Łabędy S.A.	Indirect subsidiary (84,96%)	Full	REWIT POŁUDNIE Sp. z o.o.	With emphasis of matter concerning going concern risk and previous year adjustment
WPEC w Legnicy S.A.	Indirect subsidiary (85%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Zagłębie Lubin S.A.	Subsidiary (100%)	Full	Ernst & Young Audit Sp z o.o.	With emphasis of matter concerning obligation to pass a resolution regarding going concern assumption

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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

**I. General information about the Company (cont.)**

Entity	Type of capital relationship (% of share capital held)	Method of consolidation	Auditor of financial statements	Type of opinion (*)
Zespół Uzdrawisk Kłodzkich S.A.	Indirect subsidiary (91,8%)	Full	Ernst & Young Audit Sp z o.o.	Unqualified
0929260 B.C U.L.C.	Indirect subsidiary (91,8%)	Full	Not subject to audit	-
KGHM INTERNATIONAL LTD. Group (**) with KGHM INTERNATIONAL LTD. as parent company	The share percentage of Parent Company in KGHM INTERNATIONAL LTD. is 100%	Full	PricewaterhouseCoopers LLP	Unqualified

(\*) Financial statement of all entities of the Group were prepared as at 31 December 2012.

(\*\*) The KGHM INTERNATIONAL LTD. Group's structure has been presented in note no. 4 of The accounting policies and other explanatory information to the consolidated financial statements.

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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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**I. General information about the Company (cont.)**

- j. KGHM Polska Miedź S.A. is the Parent Company in the Group which, in the audited year, comprised 84 subsidiaries (including 82 consolidated subsidiaries). During the audited period there were the following changes within the Group's structure:
- 35 subsidiaries have been taken under control, including 34 subsidiaries taken under control as a result of acquisition of the company Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.);
  - two subsidiaries have been established;
  - the share in one subsidiary has increased by the purchase of additional shares.

Additionally at the end of the financial year there were two associated entities. The financial data of one of them have been presented in the consolidated financial statements under the equity accounting method. In addition as at 31 December 2012 there were two joint ventures. The financial data of them have been also presented in the consolidated financial statements under the equity accounting method.

In the year prior to the audited year the Group comprised 47 subsidiaries (including 45 consolidated subsidiaries). Additionally there were two associated entities. The financial data of one of them were presented in the consolidated financial statements under the equity accounting method. During the previous year the shares in one associate and in three subsidiaries have been disposed and three subsidiaries have been liquidated.

The composition of the Group and the result of changes in the Group structure in the audited accounting period were described in Note no. 4 of The accounting policies and other explanatory information to the consolidated financial statement.

- k. The Parent Company is the issuer of securities admitted for trading on the Warsaw Stock Exchange and in accordance with the Act it prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group adopted IFRS in 2005.

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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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**II. Information about the audit**

- (a) The audit of the consolidated financial statements as at and for the year ended 31 December 2012 was conducted by PricewaterhouseCoopers Sp. z o.o. having its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Marcin Sawicki (no. 11393).
- (b) PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 31/VII/10 of the Parent Company's Supervisory Board dated 16 April 2010 in accordance with paragraph 20, point 2 of the Parent Company's Articles of Association.
- (c) PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited Group entity within the meaning of art. 56, clauses 2-4 of the Act on registered auditors and their council, entities entitled to provide an audit of the financial statements and public supervision of 7 May 2009 (Journal of Laws of 2009, No. 77, item 649, with further amendments).
- (d) The audit was performed on the basis of the agreement dated 25 May 2010 and was conducted in the period from 20 February to 27 March 2013.

*Translation note:*

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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2012 (selected lines)**

	31.12.2012 PLN million	31.12.2011* PLN million	Change		Structure	
			PLN million	(%)	31.12.2012 (%)	31.12.2011 (%)
<b>ASSETS</b>						
Non-current assets	23.762	12.133	11.629	95,8	70,7	39,6
Current assets	9.854	18.517	(8.663)	(46,8)	29,3	60,4
<b>Total assets</b>	<b>33.616</b>	<b>30.650</b>	<b>2.966</b>	<b>9,7</b>	<b>100,0</b>	<b>100,0</b>
<b>EQUITY AND LIABILITIES</b>						
Equity	21.710	23.391	(1.681)	(7,2)	64,6	76,3
Long-term liabilities	7.120	2.827	4.293	>100,0	21,2	9,2
Short-termin liabilities	4.786	4.432	354	8,0	14,2	14,5
<b>Total liabilities and equity</b>	<b>33.616</b>	<b>30.650</b>	<b>2.966</b>	<b>9,7</b>	<b>100,0</b>	<b>100,0</b>

\*) restated data

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**for the year ended 31 December 2012 (selected lines)**

	2012 PLN million	2011* PLN million	Change		(% of revenue	
			PLN million	(%)	2012 (%)	2011 (%)
Revenues	26.705	22.107	4.598	20,8	100,0	100,0
Cost of sales	(18.079)	(11.631)	(6.448)	55,4	(67,7)	(52,6)
<b>Gross profit</b>	<b>8.626</b>	<b>10.476</b>	<b>(1.850)</b>	<b>(17,7)</b>	<b>32,3</b>	<b>47,4</b>
<b>Net profit for the year</b>	<b>4.803</b>	<b>11.128</b>	<b>(6.325)</b>	<b>(56,8)</b>	<b>18,0</b>	<b>50,3</b>

\*) restated data

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2012 (selected lines)**

	2012 PLN million	2011* PLN million	Change		(% of revenue	
			PLN million	(%)	2012 (%)	2011 (%)
Net profit for the year	4.803	11.128	(6.325)	(56,8)	18,0	50,3
Other comprehensive income	(740)	297	(1.037)	<(100,0)	(2,8)	1,4
<b>Total comprehensive income</b>	<b>4.063</b>	<b>11.425</b>	<b>(7.362)</b>	<b>(64,4)</b>	<b>15,2</b>	<b>51,7</b>

\*) restated data

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**KGHM Polska Miedź S.A.**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

---

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

**Selected ratios characterising the Group's financial position and results**

The following ratios characterize the Group's activities, results of operations during the audited year and its financial position as at the end of the reporting period compared with previous year:

	<b>2012</b>	<b>2011*</b>
Asset ratios		
- receivables turnover	38 days	27 days
- inventory turnover	64 days	76 days
Profitability ratios		
- net profit margin	18 %	50 %
- gross margin	27 %	43 %
- return on capital employed	21 %	58 %
Liability ratios		
- gearing	35 %	24 %
- payables turnover	40 days	25 days
	<b>31.12.2012</b>	<b>31.12.2011*</b>
Liquidity ratios		
- current ratio	2,1	4,2
- quick ratio	1,3	3,6
Other ratios		
- effective tax rate	25,5 %	20,8 %

\*) for the restated data

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

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

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**KGHM Polska Miedź S.A.**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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

The consolidated financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 2,4% in the audited year (4,6% in 2011).

The comparability of the financial statements for 2012 and 2011, and thus the information content of the financial ratios for these years, may be limited due to the impact of the changes in the accounting policy resulted from the early adoption by the Group, according to the transitional provisions, the changes in IAS 19 "Employee benefits". The changes implemented by the Group affect recognizing of actuarial gains and losses in other comprehensive income (except for actuarial gains and losses on jubilee awards), instead of profit or loss. Additionally, the Group has changed its accounting policies regarding the recognition of the greenhouse gas emission allowances granted to the companies within the Group in the consolidated financial statements. The changes in the accounting policy have been described in point 2.1.2 of The accounting policies and other explanatory information to the consolidated financial statements.

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

The factors described below had a significant impact on the Group's profit and on its financial position as at the end of the reporting period:

- As at the end of the financial year the Group's total assets amounted to PLN 33.616 million. During the year total assets increased by PLN 2.966 million, i.e. by 9,7%. This increase was financed mainly by the increase in borrowings and finance lease liabilities by PLN 2.560 million. During the financial year the Group has generated a net profit in the amount of PLN 4.803 million and paid a dividend of PLN 5.668 million to its shareholders.
- As at the end of the audited period property, plant and equipment amounted to PLN 14.116 million and increased by PLN 5.023 million (i.e. 55,3%) compared to the previous year. This increase results mainly from the purchase of the shares in the company Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.).
- The value of investments accounted for using the equity method increased mainly as a result of the purchase of the shares in the company Quadra FNX Mining Inc. (currently KGHM INTERNATIONAL LTD.). As at the end of the reporting period the main component of the investments accounted for using the equity method were shares in joint venture Sierra Gorda S.C.M.
- Cash and cash equivalents contained deposits amounted to PLN 2.038 million and cash in bank amounted to PLN 562 million. The drop by PLN 10.501 million (i.e. 80,0%) compared to the previous year was mainly due to the acquisition of the shares in the company Quadra FNX Mining Inc. (currently KGHM INTERNATIONAL LTD.) and payment of dividend to the shareholders of the Parent Company in the amount of PLN 5.668 million.

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**KGHM Polska Miedź S.A.**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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

- The Group's financial ratios and structure of debt has changed. The Group's debt ratio amounted to 35% at the end of audited year (24% at the end of the previous year). The payables turnover amounted to 40 days (25 days in the previous year).
- Total revenues from continued operations amounted to PLN 26.705 million and increased by PLN 4.598 million, i.e. 20,8%) when compared to the previous year. In 2012 the Group continued the strategy adopted in previous years, which focuses on production of copper, precious metals and smelter by-products. The revenue realized on sales of copper, precious metals and smelter by-products constituted 86,1% of total sales revenue (86,8% in the previous year). The growth on the Group's core activities in the amount of PLN 3.376 million was mainly due to the favourable conditions on international and domestic industrial goods markets during 2012, which were reflected in the increase in sales volume of copper and copper products. The additional factor for the growth was the increase of the average exchange rate of US Dollar compared with the prior year by 10%. In the same period the average price of copper and silver decreased by 10% and 11% respectively when compared to 2011. The revenues include also profit on hedge transactions amounted to PLN 333 million.
- The operating expenses (the total of cost of sales, selling and administrative expenses) on continued operations increased by PLN 6.896 million, i.e. 54,5%) when compared to 2011. The change was mainly due to the growth of depreciation, employee benefits expenses and material and energy costs by the total amount of PLN 3.528 million as a result of acquisition of the shares of the company Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.) and its subsidiaries, as well as due to the growth of the cost of taxes and charges by PLN 1.632 million as a result of implementation in 2012 the mineral extraction tax referring to the activities of the Parent Company.
- The amount of deferred and current income tax for the audited period equalled to PLN 1.645 million and decreased by PLN 655 million comparing to 2011 due to lower taxable profit obtained by the Group in 2012. As a result as at the end of the reporting period the balance of current income tax liabilities amounted to PLN 448 million and decreased by PLN 1.148 million when compared with the previous accounting period. The increase in the effective tax rate was mainly due to the implementation in 2012 the mineral extraction tax that is not deductible for corporate income tax purposes, but was and expense in the statement of profit or loss of the Parent Company.
- Profitability measured with net profit amounted to 18% and was 32 percentage points lower than in the previous year. The change in the Group's profitability was primarily due to the sale of shares of Polkomtel S.A. in 2011 and the implementation in 2012 the mineral extraction tax.
- The Group's liquidity has changed. The current ratio amounted to 2,1 (4,2 in 2011), whereas the quick ratio amounted to 1,3 (3,6 in 2011).

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**KGHM Polska Miedź S.A.**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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**IV. Statements of the independent registered auditor**

- a. The Management Board of the Parent Company provided all the information, explanations and representations required by us in the course of the audit and provided us with the representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and subsequent events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The Group has up-to-date documentation of its accounting policies, approved by the Parent Company's Management Board. The Parent Company's accounting policies were tailored to the Group's needs and ensured the recognition of all events having a material effect on the assessment of its financial position and results, taking into consideration the prudence principle. Changes to accounting policies were properly disclosed in additional notes and explanations to the consolidated financial statements.
- d. The calculation of goodwill and the excess of the acquirer's share in the fair value of identifiable assets, liabilities and contingent liabilities of acquire over the acquisition cost and their recognition in the consolidated financial statements complied with IFRSs as adopted by the European union in all material respects.
- e. The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
- f. The elimination of mutual balances (receivables and payables) and transaction (revenue and costs) of the consolidated entities were carried out in accordance with the IFRSs as adopted by the European Union in all material respects.
- g. Eliminations of gains/losses unrealized by the consolidated entities included in the value of assets and in respect of dividends were conducted in accordance with the IFRSs as adopted by the European Union in all material respects.
- h. The impact of disposal or partial disposal of shares in subordinated entities was accounted for properly in accordance with the IFRSs as adopted by the European Union in all material respects.
- i. The consolidated documentation was complete and correct and method of storage provides adequate protection.
- j. The consolidated financial statements of the Group for the period from 1 January to 31 December 2011 were approved by Resolution No. 20/2012 passed by the Shareholders' Meeting on 28 June 2012, filed with the National Court Register in Wrocław on 5 July 2012 and published in Monitor Polski B No. 3179 on 3 December 2012.
- k. The consolidated financial statements for the previous financial year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued the unqualified opinion.

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**KGHM Polska Miedź S.A.**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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**IV. Statements of the independent registered auditor (cont.)**

- l. The notes to the consolidated financial statements present all material information required by the IFRS as adopted by the European Union.
- m. The information in the Directors' Report for the year ended 31 December 2012 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws of 2009, No. 33, item 259, as amended) and are consistent with that presented in the financial statements.

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**KGHM Polska Miedź S.A. Group**  
**Report on the consolidated financial statements**  
**as at and for the year ended 31 December 2012**

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**V. Final information and comments**

This report has been prepared in connection with our audit of the consolidated financial statements of KGHM Polska Miedź Spółka Akcyjna Group, of which KGHM Polska Miedź Spółka Akcyjna with registered office in Lubin, ul. Marii Skłodowskiej-Curie 40 is the Parent Company. The consolidated financial statements were signed by the Parent Company's Management Board and the person entrusted with maintaining the books of account on 27 March 2013.

This report should be read in conjunction with the Independent Registered Auditor's unqualified opinion to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna dated 27 March 2013, concerning the said consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual consolidated financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements as a whole.

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

Marcin Sawicki

Registered Auditor of the Group, Key Registered Auditor  
No. 11393

Wrocław, 27 March 2013

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**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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

---

Lubin, March 2013

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

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

<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Herbert Wirth	President of the Management Board	
27 March 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
27 March 2013	Wojciech Kędzia	Vice President of the Management Board	
27 March 2013	Adam Sawicki	Vice President of the Management Board	
27 March 2013	Dorota Włoch	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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

---

Lubin, March 2013



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

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

<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Herbert Wirth	President of the Management Board	
27 March 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
27 March 2013	Wojciech Kędzia	Vice President of the Management Board	
27 March 2013	Adam Sawicki	Vice President of the Management Board	
27 March 2013	Dorota Włoch	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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**PRESIDENT'S LETTER**

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Lubin, March 2013

Dear Shareholders!

It is with enormous pleasure that I present to you the Consolidated Annual Report of the KGHM Polska Miedź S.A. Group for 2012.

It was an extraordinarily important year for our Group, due to completion of the acquisition of the Canadian mining company Quadra FNX Mining Ltd., owning mines and projects in the USA, Canada and Chile. This was an enormous success. We are consistently realising the strategy of developing our resource base and increasing production from foreign projects.

This investment enables the Group to increase its production by 25 percent and to reduce average extraction costs. In the first half of 2014 the Sierra Gorda mine in Chile will commence operations. Starting this project gives us access to 1.3 billion tonnes of ore rich in copper, gold and molybdenum. In 2012, the KGHM INTERNATIONAL LTD. Group produced 110.5 thousand tonnes of copper. This is a further step towards achievement by the KGHM Polska Miedź S.A. Group of the strategic goal of annual production of 700 thousand tonnes of copper by 2018.

The Group achieved very good production results. In 2012, total copper production amounted to 673.3 thousand tonnes. This is an increase of 18 percent versus 2011. 1274 tonnes of silver were produced, making us one of the global leaders in the production of this metal. The Group earned a profit for 2012 of PLN 4.868 billion.

To further enhance the company's value and strengthen its position on the global market, KGHM Polska Miedź S.A. is continuing to develop its resource base in Poland. The first positive results from drilling in the Niecka Grodziecka deposit in the vicinity of Bolesławiec justify the execution of further stages of this project. In accordance with the plan, the Głogów Głęboki Przemysłowy (Deep Głogów) investment is also underway. This is an important element of the strategy to develop our resource base. It enables the prolongation of our activities in this region for another several decades. In 2012, new mining technology came into use, thanks to which the Company will be more competitive on the market.

The year 2012 also witnessed investments in the energy sector. With respect to increasing energy production to meet company needs, projects were continued whose realisation will enable approx. 30 percent of the Company's energy needs to be secured. The most important project in this area is the construction of gas-steam blocks at the power plants in Głogów and Polkowice. Start-up of the blocks is planned in the second quarter of 2013. Taking into consideration the significance of energy supplies for the functioning of the Group, in 2012 a joint venture was commenced with TAURON Wytwarzanie S.A. – the special purpose company „Elektrownia Blachownia Nowa”. This company will oversee the comprehensive realisation of an investment comprising the preparation, construction and operation of an 850 MW gas-steam block. The Company also joined in the search for shale gas, and signed a Letter of Intent on the construction and operation of the first Polish nuclear power plant. All of these actions are aimed at creating for the companies of the Group opportunities for their further and continuous development.

In 2013 we will continue the realisation of tasks aimed at increasing the value of KGHM Polska Miedź S.A. Our goal is to develop our resource base, both domestically and abroad. The decisions taken last year will undoubtedly have a positive impact on this year's results. I am convinced that we will achieve our intended goals, to the benefit of all of our shareholders and investors.

President of the Management Board

Herbert Wirth

Lubin, 27 March 2013

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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**CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR 2012**

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Lubin, March 2013

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KGHM Polska Miedź S.A. Group  
Annual consolidated financial statements  
prepared in accordance with IFRS as adopted by the European Union  
for the period from 1 January 2012 to 31 December 2012  
(amounts in tables in PLN million, unless otherwise stated)

## Consolidated statement of financial position

	Note	31 December 2012	At 31 December 2011 restated*	1 January 2011 restated*
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	6	14 116	9 093	8 671
Intangible assets	7	2 259	663	605
Investment property	8	59	60	60
Investments accounted for using the equity method	9	3 078	-	1 431
Deferred tax assets	24	637	272	593
Available-for-sale financial assets	10	892	994	752
Mine closure financial assets	11	460	112	84
Derivatives	12	745	899	404
Trade and other receivables	13	1 516	40	14
		<b>23 762</b>	<b>12 133</b>	<b>12 614</b>
<b>Current assets</b>				
Inventories	14	3 769	2 658	2 222
Trade and other receivables	13	2 846	1 839	2 728
Current corporate tax receivables		77	8	4
Available-for-sale financial assets	10	149	16	416
Mine closure financial assets	11	-	2	4
Derivatives	12	382	860	298
Cash and cash equivalents	15	2 629	13 130	3 087
Non-current assets held for sale	16	2	4	1
		<b>9 854</b>	<b>18 517</b>	<b>8 760</b>
<b>TOTAL ASSETS</b>		<b>33 616</b>	<b>30 650</b>	<b>21 374</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to shareholders of the Parent Entity</b>				
Share capital	17	2 000	2 000	2 000
Revaluation reserve from measurement of available-for-sale financial assets	18	( 51)	( 38)	120
Revaluation reserve from measurement of cash flow hedging instruments	18	286	574	90
Exchange differences from the translation of foreign operations statements	18	( 235)	19	-
Retained earnings	19	19 478	20 547	12 461
		<b>21 478</b>	<b>23 102</b>	<b>14 671</b>
<b>Non-controlling interest</b>	20	<b>232</b>	<b>289</b>	<b>256</b>
<b>TOTAL EQUITY</b>		<b>21 710</b>	<b>23 391</b>	<b>14 927</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Trade and other payables	21	733	142	136
Borrowings, debt securities and finance lease liabilities	22	1 783	194	174
Derivatives	12	230	538	712
Deferred tax liabilities	24	1 760	129	168
Employee benefits liabilities	25	1 615	1 339	1 222
Provisions for other liabilities and charges	26	999	485	521
		<b>7 120</b>	<b>2 827</b>	<b>2 933</b>
<b>Current liabilities</b>				
Trade and other payables	21	3 025	2 249	2 106
Borrowings, debt securities and finance lease liabilities	22	1 075	104	96
Current corporate tax liabilities		448	1 596	672
Derivatives	12	25	331	482
Employee benefits liabilities	25	133	126	111
Provisions for other liabilities and charges	26	80	26	47
		<b>4 786</b>	<b>4 432</b>	<b>3 514</b>
<b>TOTAL LIABILITIES</b>		<b>11 906</b>	<b>7 259</b>	<b>6 447</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>33 616</b>	<b>30 650</b>	<b>21 374</b>

\* details presented in note 2.1.2

The accounting policies and other explanatory information presented on pages 9 to 145 represent an integral part of these financial statements

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**Consolidated statement of profit or loss**

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
<b>Continued operations</b>			
Sales	28	26 705	22 107
Cost of sales	29	(18 079)	(11 631)
<b>Gross profit</b>		<b>8 626</b>	<b>10 476</b>
Selling costs	29	( 402)	( 187)
Administrative expenses	29	(1 082)	( 849)
Other operating income	31	1 669	4 605
Other operating costs	32	(2 217)	( 813)
<b>Operating profit</b>		<b>6 594</b>	<b>13 232</b>
Finance costs	33	( 146)	( 52)
Share of profits of investments accounted for using the equity method	36	-	188
<b>Profit before income tax</b>		<b>6 448</b>	<b>13 368</b>
Income tax expense	37	(1 645)	(2 300)
<b>Profit for the period from continued operations</b>		<b>4 803</b>	<b>11 068</b>
<b>Discontinued operations</b>			
Profit for the period from discontinued operations	48	-	60
<b>Profit for the period</b>		<b>4 803</b>	<b>11 128</b>
Profit for the period attributable to:			
shareholders of the Parent Entity		4 802	11 127
non-controlling interest		1	1
<b>Earnings per share from continued operations attributable to the shareholders of the Parent Entity for the reporting period</b> (in PLN per share)	39		
- basic		24.01	55.34
- diluted		24.01	55.34
<b>Earnings per share from discontinued operations attributable to the shareholders of the Parent Entity for the reporting period</b> (in PLN per share)	39		
- basic		-	0.30
- diluted		-	0.30

\* details presented in note 2.1.2

The accounting policies and other explanatory information presented on pages 9 to 145 represent an integral part of these financial statements



## Consolidated statement of comprehensive income

	Note	Financial period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
<b>Profit for the period – continued operations</b>		<b>4 803</b>	<b>11 068</b>
<b>Profit for the period – discontinued operations</b>		-	<b>60</b>
<b><u>Profit for the period</u></b>		<b><u>4 803</u></b>	<b><u>11 128</u></b>
<b><u>Other comprehensive income – continued operations</u></b>			
<b>Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met</b>		<b>( 570)</b>	<b>363</b>
Available-for-sale financial assets		( 6)	( 195)
Income tax		( 7)	37
		( 13)	( 158)
Cash flow hedging instruments		( 355)	598
Income tax		67	( 114)
		( 288)	484
Exchange differences from the translation of foreign operations statements		( 269)	37
<b>Other comprehensive income, which will not be reclassified to profit or loss</b>		<b>( 170)</b>	<b>( 66)</b>
Actuarial losses*		( 210)	( 82)
Income tax		40	16
<b><u>Other comprehensive net income for the financial period</u></b>	18	<b><u>( 740)</u></b>	<b><u>297</u></b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b><u>4 063</u></b>	<b><u>11 425</u></b>
Total comprehensive income attributable to:			
shareholders of the Parent Entity		4 066	11 406
non-controlling interest		( 3)	19
Total comprehensive income attributable to shareholders of the Parent Entity			
from continued operations		4 066	11 346
from discontinued operations		-	60

\* details presented in note 2.1.2

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**Consolidated statement of changes in equity**

Note	Equity attributable to shareholders of the Parent Entity						Equity attributable to non-controlling interest	Total equity
	Share capital	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging instruments	Exchange differences from the translation of foreign operations statements	Retained earnings	Total		
<b>At 1 January 2012 restated*</b>	<b>2 000</b>	<b>( 38)</b>	<b>574</b>	<b>19</b>	<b>20 547</b>	<b>23 102</b>	<b>289</b>	<b>23 391</b>
Dividends from profit for 2011 - paid	40	-	-	-	(5 668)	(5 668)	( 1)	<b>(5 669)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>( 13)</b>	<b>( 288)</b>	<b>( 265)</b>	<b>4 632</b>	<b>4 066</b>	<b>( 3)</b>	<b>4 063</b>
Profit for the period		-	-	-	4 802	4 802	1	<b>4 803</b>
Other comprehensive income	18	-	( 13)	( 288)	( 170)	( 736)	( 4)	<b>( 740)</b>
Changes in ownership shares in subsidiaries which do not lead to a loss of control	20.1	-	-	-	11	( 22)	( 53)	<b>( 75)</b>
<b>At 31 December 2012</b>	<b>2 000</b>	<b>( 51)</b>	<b>286</b>	<b>( 235)</b>	<b>19 478</b>	<b>21 478</b>	<b>232</b>	<b>21 710</b>
<b>At 1 January 2011</b>	<b>2 000</b>	<b>120</b>	<b>90</b>	<b>-</b>	<b>12 456</b>	<b>14 666</b>	<b>256</b>	<b>14 922</b>
Change in accounting policies*		-	-	-	5	5	-	<b>5</b>
<b>At 1 January 2011 restated*</b>	<b>2 000</b>	<b>120</b>	<b>90</b>	<b>-</b>	<b>12 461</b>	<b>14 671</b>	<b>256</b>	<b>14 927</b>
Dividends from profit for 2010 paid	40	-	-	-	(2 980)	<b>(2 980)</b>	-	<b>(2 980)</b>
<b>Total comprehensive income</b>	<b>-</b>	<b>( 158)</b>	<b>484</b>	<b>19</b>	<b>11 061</b>	<b>11 406</b>	<b>19</b>	<b>11 425</b>
Profit for the period – restated*		-	-	-	11 127	<b>11 127</b>	1	<b>11 128</b>
Other comprehensive income - restated*	18	-	( 158)	484	19	( 66)	18	<b>297</b>
Obligation to repurchase of non-controlling interest	21	-	-	-	( 2)	<b>( 2)</b>	-	<b>( 2)</b>
Changes due to obtaining control of subsidiaries	20.1	-	-	-	-	-	22	<b>22</b>
Changes in ownership shares in subsidiaries which do not lead to a loss of control	20.1	-	-	-	7	<b>7</b>	( 8)	<b>( 1)</b>
<b>At 31 December 2011 restated*</b>	<b>2 000</b>	<b>( 38)</b>	<b>574</b>	<b>19</b>	<b>20 547</b>	<b>23 102</b>	<b>289</b>	<b>23 391</b>

\* details presented in note 2.1.2

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**Consolidated statement of cash flows**

	Note	Financial period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
<b>Cash flow from operating activities</b>			
Profit for the period		4 803	11 128
<b>Adjustments to profit for the period:</b>		<b>3 588</b>	<b>( 714)</b>
Income tax recognised in profit or loss		1 645	2 307
Amortisation/Depreciation		1 453	913
Losses on the sale of property, plant and equipment and intangible assets		6	9
Losses on the sale and fair value changes of investment property		-	4
Gains on the sale of available-for-sale financial assets		-	( 17)
Gains on the sale of subsidiaries and an associate	4, 31,9	-	(2 311)
Impairment loss on property, plant and equipment, intangible assets, available-for-sale financial assets and allowances for impairment of loans granted		203	11
Share in profits of associates accounted for using the equity method		-	( 188)
Interest and share in profits (dividends)		8	( 23)
Foreign exchange losses/(gains)		852	( 866)
Change in provisions	41	68	36
Change assets/liabilities due to derivatives		( 5)	( 542)
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives		( 333)	( 242)
Other adjustments		16	( 49)
Changes in working capital:		( 325)	244
Inventories	41	( 287)	( 436)
Trade and other receivables	41	( 346)	568
Trade and other payables	41	308	112
Income tax paid		(2 870)	(1 316)
<b>Net cash generated from operating activities</b>		<b>5 521</b>	<b>9 098</b>
<b>Cash flow from investing activities</b>			
Purchase of subsidiaries, less acquired cash and cash equivalents	4	(7 010)	( 117)
Proceeds from sale and liquidation of subsidiaries	4	-	892
Purchase of an entity accounted for using the equity method		( 33)	-
Proceeds from sale of associates	9	-	3 672
Purchase of property, plant and equipment and intangible assets		(2 402)	(1 859)
Advances granted for purchase of property, plant and equipment and intangible assets		( 93)	( 68)
Proceeds from sale of property, plant and equipment and intangible assets	41	42	19
Purchase of available-for-sale financial assets		-	(1 586)
Proceeds from sale of available-for-sale financial assets		3	1 560
Purchase of mine closure financial assets		( 93)	( 26)
Establishment of deposits		( 43)	( 518)
Termination of deposits		66	800
Loans granted	35.2.4	(1 251)	-
Interest received		1	9
Dividends received		57	277
Other investment proceeds/(expenses)		(6)	(6)
<b>Net cash (used in)/generated from investing activities</b>		<b>(10 762)</b>	<b>3 049</b>

\* details presented in note 2.1.2

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**Consolidated statement of cash flows (continued)**

	Note	Financial period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
<b>Cash flow from financing activities</b>			
Capital contributions to a subsidiary from holders of non-controlling interest		17	-
Proceeds from bank and other loans		1 439	141
Repayments of bank and other loans		( 86)	( 105)
Payments of liabilities due to finance leases		( 11)	( 24)
Interest paid		( 139)	( 12)
Dividends paid to shareholders of the Parent Entity	40	(5 668)	(2 980)
Donations received		19	-
Other financial proceeds		-	1
<b>Net cash used in financing activities</b>		<b>(4 429)</b>	<b>(2 979)</b>
<b>Total net cash flow</b>		<b>(9 670)</b>	<b>9 168</b>
Exchange (losses)/gains on cash and cash equivalents		( 831)	875
<b>Movements in cash and cash equivalents</b>		<b>(10 501)</b>	<b>10 043</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>15</b>	<b>13 130</b>	<b>3 087</b>
<b>Cash and cash equivalents at end of the period</b>	<b>15</b>	<b>2 629</b>	<b>13 130</b>
including restricted cash and cash equivalents		99	10

\* details presented in note 2.1.2

The accounting policies and other explanatory information presented on pages 9 to 145 represent an integral part of these financial statements

## Accounting policies and other explanatory information

### 1. General information

#### Company name, registered office, activities

KGHM Polska Miedź S.A. (the "Parent Entity") with its registered office in Lubin at 48 M. Skłodowskiej-Curie Street is a stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, operating on the territory of the Republic of Poland. The Parent Entity was assigned the tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764.

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter Division, Legnica Smelter Division, the 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.

According to the classification of the Warsaw Stock Exchange, KGHM Polska Miedź S.A. is classified under the "basic materials" sector.

The principal activities of the Parent Entity comprise:

- mining of copper and non-ferrous metals ore,
- excavation of gravel and sand,
- production of copper, precious and non-ferrous metals,
- production of salt,
- casting of light and non-ferrous metals,
- forging, pressing, stamping and roll forming of metal - powder metallurgy,
- waste management,
- wholesale based on direct payments or contracts,
- warehousing and storage of merchandise,
- holding management activities,
- geological and exploratory activities,
- general construction activities with respect to mining and production facilities,
- generation and distribution of electricity, steam and hot water, production of gas and distribution of gaseous fuels through a supply network,
- scheduled and non-scheduled air transport, and
- telecommunication and IT activities.

The business activities of the Group also include:

- production of mined metals, such as copper, nickel, gold, platinum and palladium,
- production of goods from copper and precious metals,
- underground construction services,
- production of machinery and mining equipment,
- transport services,
- activities in the areas of research, analysis and design,
- production of road-building material, and
- recovery of associated metals from copper ore.

#### Going concern assumption

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

The activities of the KGHM Polska Miedź S.A. Group with respect to the exploration for and mining of deposits of copper, nickel and precious metals ores are based on legal titles held by KGHM INTERNATIONAL LTD., KGHM AJAX MINING INC. and KGHM Kupfer AG for the exploration for and extraction of these basic materials in the USA, Canada, Chile and Germany, and on concessions held by KGHM Polska Miedź S.A. to mine deposits in Poland.

Legal title to carry out mining in North and South America are in accordance with federal and state laws. KGHM INTERNATIONAL LTD. holds all required permits to conduct the aforementioned activities in an unaltered form and scope for a period of at least 12 months from the end of the reporting period.

## 1. General information (continued)

Activities involving the exploitation of copper ores are carried out based on concessions held by the Parent Entity, which were issued by the Minister of Environmental Protection, Natural Resources and Forestry and the Ministry of the Environment in the years 1993-2004, most of which expire by December 2013. The concessions which expire on 31 December 2013 cover the following deposits: „Polkowice”, „Sierszowice”, „Lubin-Małomice”, „Rudna”. The concession covering „Radwanice-Wschód” deposit expires in 2015.

In view of the above, in 2010 the Parent Entity commenced the project CONCESSIONS 2013, whose goal is to obtain concessions for the extraction of copper ore from the aforementioned mining areas for the maximum possible period provided for by law, which is 50 years. As part of the work related to this project, the Parent Entity in the years 2010-2012 carried out work related directly to the process of obtaining concessions, i.e.

- the preparation and approval of supplementary information to the geological documentation,
- the preparation of deposit development plans (DDPs),
- submission to the Regional Directorate for Environmental Protection (RDEP) of environmental impact reports,
- the signing of an agreement with the State Treasury for the paid use of the right to geological information,
- the signing of agreements with the municipalities (Gminas) of Rudna and Lubin Miasto referring to the scope of required changes to the planning documents of the Gminas.

All of these actions were aimed at preparing the appropriate documentation and obtaining the appropriate permits required for submission of the concession applications to the concessioning body, i.e. the Ministry of the Environment.

### Status at the date of signing the financial statements

The most recent decision, which enabled the Parent Entity to submit concession applications, issued on 3 December 2012, by the Regional Directorate for Environmental Protection in Wrocław, was a decision on the environmental impact of a project titled „The extraction of copper ore from the following deposits: „Polkowice”, „Sierszowice”, „Radwanice-Wschód”, „Rudna” and „Lubin-Małomice”, with an order of immediate enforceability. This decision obtained the status of final decision on 16 January 2013. Following receipt of this decision, KGHM Polska Miedź S.A. immediately submitted concession applications to the concessioning body for the aforementioned 5 deposits. From information available to the Parent Entity it appears that the concessioning body, after preliminary review of the applications, has no concerns as to their content or form.

The concessioning body has forwarded the DDPs, being the fundamental element in concession applications, to the forum of the Minerals Resources Commission (MRC), being the application assessing and advisory body of the Ministry of the Environment. To accelerate the process of assessing the applications up to four joint report reviewers were selected. The Parent Entity has received joint reports for review. The review of the relevant deposit development projects (with the participation of KGHM Polska Miedź S.A. representatives) took place on 1 March 2013. The comments of the reviewers involved minor corrections and clarification of the material, while the committee voiced no concerns negating the propriety of the DDPs. The Parent Entity declared it would make the corrections and supplement the material and would arrange with the reviewers the final version of the DDPs by 29 March 2013. This process will conclude with the receipt by the concessioning body of the opinion of the MRC. The DDPs, corrected in accordance with the suggestions of the reviewers, were sent to the MRC on 12 March 2013.

### Planned actions following the date of signing of the financial statements

Following receipt of the opinion of the MRC, the concessioning body will forward the concession applications to the 9 relevant mining municipalities (Gmina Lubin, Lubin Miasto, Polkowice, Radwanice, Jerzmanowa, Rudna, Sierszowice, Chocianów and Grębocice), which should take a position.

During this time the Parent Entity, as was done to date, will organise in March and April of 2013 working meetings and seminars with the aforementioned municipalities, at which all questions regarding the contents of the concession applications will be answered. In this manner, the Parent Entity intends to deal with all possible concerns and doubts which may be voiced in the municipalities before they arise.

In subsequent steps, (expected timeframe May-June 2013) in accordance with regulatory procedure, the Ministry of the Environment will prepare draft concession decisions which will be forwarded to the Minister in charge of the economy and to the municipalities within whose territory the deposits for which concessions are being sought are located for the purpose of agreement. As part of this process, representatives of these municipalities may voice their opinions and concerns regarding the draft concession decisions in a justified scope (e.g. by committing the Parent Entity to undertake additional measurements and observations with respect to protection of the surface terrain and mining-related damage, additional analyses or expert opinions on these matters).

In the opinion of the Parent Entity, the process of submitting concerns should last no longer than 30 days. Following this procedural stage, the Ministry of the Environment will send to the municipalities the draft concession decisions, and if within 14 days from the date of their receipt the municipalities do not voice any concerns, the body will treat the decisions as agreed.

Based on art. 106 of the Administrative Proceedings Code (APC) the taking of a position by a body (the relevant municipality), including refusal to agree the applications and concession decisions, will occur in the form of a decision.

If however agreement on the concession decisions is not reached, the Parent Entity has the right to submit a complaint. The timeframe for submitting a complaint begins from the date the aforementioned decisions are delivered/handed over to the parties and lasts 7 days from the receipt or announcement of a decision. The complaint, in accordance with art. 17 of the APC, is forwarded to the Government Appeals Collegium – being the

## 1. General information (continued)

higher level administrative body with respect to a mayor. The appeals body will also be able to maintain in force the appealed decisions, as well as make a decision in reference to the essence of the matter. Under current law, this should occur within a month of the date of receipt of a complaint.

Another legal tool available to the parties is to appeal the decisions of the Government Appeals Collegium to the Regional Administrative Court (RAC). An appeal, based on art. 53 §1 of the Law on Proceedings before Administrative Courts must be submitted within 30 days of delivery/handing over to the appealing party.

Parties are allowed to appeal the judgement of the RAC, under art. 173 of the Law on Proceedings before Administrative Courts, in the form of a cassation appeal to the Supreme Administrative Court (SAC) in Warsaw, submitted within 30 days of delivery/handing over to the party an official copy of the judgement with justification. A judgement issued as a result of a cassation appeal by the SAC is legally binding.

Due to the awareness of the importance attached to the continuation of the operations of KGHM Polska Miedź S.A. in the region as the main employer and taxpayer to the municipalities, the Management Board of the Parent Entity does not foresee the possibility of a failure to agree the concession decisions. This is confirmed by the previous stage of agreement by the RDEP with the municipalities of environmental decisions, when none of the municipalities raised any concerns.

As a result of the close and open cooperation of the Parent Entity with the municipalities and the good atmosphere between the parties, no concerns whatsoever have been raised during the process of obtaining environmental decisions. In the Parent Entity opinion, this is a clear signal confirming the declarations of acceptance for the actions of KGHM Polska Miedź S.A. which were submitted many times by the municipal bodies, and justifies minimisation of the assessed actual threat of not obtaining these mining concessions. We assume that any eventual concerns which are raised will be of a substantive nature and will not threaten the successful realisation of the project CONCESSIONS 2013.

An inseparable element of the process of obtaining mining concessions is the signing with the State Treasury of an agreement on setting mining usufruct rights, granting a company the exclusive right to conduct the activities covered by a concession. Normally the concessioning body takes the initiative, directing the entity applying for a concession to sign the relevant agreement.

The final task of the project CONCESSIONS 2013 is the development of Mine Operating Plans for the 3 mines and their submission for approval by the District Mining Office, following the receipt of concessions for each of the deposits covered by the operating plans. The Management Board of the Parent Entity expects this will occur by 31 October 2013.

Considering the current progress of the concessioning process and the positive social conditions of this process, the Management Board of the Parent Entity estimates the timeframe for receiving the concessions as the end of June-early July 2013. Additionally, the Management Board believes that the probability of not receiving these concessions and having the District Mining Office not approve the Mine Operating Plans by 31 December 2013 is minimal and does not represent a threat for the going concern assumption of KGHM Polska Miedź S.A.

### Period of operation

KGHM Polska Miedź S.A. has been conducting its business since 12 September 1991. The Parent Entity has an unlimited period of operation.

The legal antecedent of KGHM Polska Miedź S.A. was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin transformed into a State-owned joint stock company in accordance with principles set forth in the law dated 13 July 1990 on the privatisation of State-owned enterprises.

### Composition of the Management Board of the Parent Entity

The 7th-term Management Board of KGHM Polska Miedź S.A. as at 1 January 2012 consisted of:

- Herbert Wirth President of the Management Board,
- Maciej Tybura I Vice President of the Management Board (Finance) (to 28 June 2012),
- Wojciech Kędzia Vice President of the Management Board (Production).

On 27 June 2012, due to expiration of the term of office of the Management Board, the Supervisory Board of KGHM Polska Miedź S.A. appointed Herbert Wirth as President of the 8th-term Management Board, as well as the following Members of the Management Board:

- Włodzimierz Kiciński (from 28 June 2012),
- Wojciech Kędzia,
- Dorota Włoch (from 28 June 2012),
- Adam Sawicki (from 1 September 2012).

On 25 July 2012, the Supervisory Board appointed Włodzimierz Kiciński to the function of I Vice President of the Management Board.

## 1. General information (continued)

The composition and scope of duties of the Management Board at 31 December 2012 was as follows:

- Herbert Wirth	President of the Management Board,
- Włodzimierz Kiciński	I Vice President of the Management Board (Finance),
- Wojciech Kędzia	Vice President of the Management Board (Production),
- Adam Sawicki	Vice President of the Management Board (Corporate Affairs)
- Dorota Włoch	Vice President of the Management Board (Development).

### Supervisory Board of the Parent Entity

The 8th-term Supervisory Board of KGHM Polska Miedź S.A. as at 1 January 2012 consisted of:

- Jacek Kuciński	Chairman
- Marcin Dyl	Deputy Chairman
- Marek Panfil	Secretary
- Franciszek Adamczyk	
- Arkadiusz Kawecki	
- Marzenna Weresa	
- Jan Rymarczyk	

as well as the following employee-elected members:

- Lech Jaroń
- Maciej Łaganowski
- Paweł Markowski.

During the period from 1 January 2012 to the date of authorisation of this report for issue, the bodies of the Parent Entity undertook the following decisions, which affected the composition of the Supervisory Board:

- 1) On 19 January 2012, the Extraordinary General Meeting resolved to:
  - dismiss from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa,
  - appoint to the Supervisory Board: Aleksandra Magaczewska, Krzysztof Kaczmarczyk, Mariusz Kolwas, Robert Oliwa and Jacek Poświata.
- 2) On 13 February 2012, the Supervisory Board selected to serve in the function of:
  - Deputy Chairman - Marek Panfil,
  - Secretary - Mariusz Kolwas.
- 3) On 17 April 2012, Marek Panfil resigned from the function of Deputy Chairman and on the same day the Supervisory Board selected Aleksandra Magaczewska to serve in this function.
- 4) On 24 April 2012, Mariusz Kolwas resigned from serving as a Member of the Supervisory Board.
- 5) On 25 April 2012, the Extraordinary General Meeting resolved to:
  - dismiss from the Supervisory Board: Jacek Kuciński and Marek Panfil,
  - appoint to the Supervisory Board: Paweł Białek, Dariusz Krawczyk and Ireneusz Piecuch.
- 6) On 21 May 2012, the Supervisory Board selected to serve in the function of:
  - Chairwoman - Aleksandra Magaczewska,
  - Deputy Chairman - Krzysztof Kaczmarczyk,
  - Secretary - Dariusz Krawczyk.
- 7) On 28 June 2012, the Ordinary General Meeting, after reviewing the requests of employees regarding the dismissal of members of the Supervisory Board elected by the Parent Entity's employees, dismissed the following persons from the Supervisory Board: Lech Jaroń, Maciej Łaganowski and Paweł Markowski.
- 8) On 3 July 2012, Robert Oliwa submitted his resignation from serving as a Member of the Supervisory Board effective as of the date of the General Meeting of KGHM Polska Miedź S.A., the subject of which will be changes in the composition of the Supervisory Board.
- 9) On 3 September 2012, the Extraordinary General Meeting appointed Krzysztof Opawski to the composition of the Supervisory Board.
- 10) On 21 November 2012, the Extraordinary General Meeting appointed Bogusław Szarek, member of the Supervisory Board elected by the employees of KGHM Polska Miedź S.A., to the composition of the Supervisory Board.



## **1. General information (continued)**

At 31 December 2012 the composition of the Supervisory Board was as follows:

- Aleksandra Magaczewska                      Chairwoman
- Krzysztof Kaczmarczyk                      Deputy Chairman
- Dariusz Krawczyk                              Secretary
- Paweł Białek
- Krzysztof Opawski
- Ireneusz Piecuch
- Jacek Poświęta
- Bogusław Szarek.

### **Authorisation of the annual consolidated financial statements (consolidated financial statements)**

The consolidated financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 27 March 2013.

### **Seasonal or cyclical activities**

The Group is not affected by seasonal or cyclical activities.

## 2. Main accounting policies

### 2.1 Basis of preparing financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, on the historical cost basis (adjusted for the effects of hyperinflation in respect of property, plant and equipment and equity), except for available-for-sale financial assets and derivatives measured at fair value.

The carrying amount of recognised hedged assets and liabilities is adjusted for the changes in fair value attributable to the hedged risk.

The accounting policies described in note 2.2 were applied in a continuous manner to all presented periods, except for the changes described in note 2.1.2.

#### 2.1.1 New standards

**From 1 January 2012 the following new and changed standards and interpretations are binding for the Group:**

- **Amendments to IFRS 7 Disclosures – Transfers of Financial Assets.**

**In addition, the Group decided on the early application from 1 January 2012 of non-obligatory standards and interpretations approved for use by the European Union:**

- **Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;**
- **Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets;**
- **Amendments to IAS 1 Presentation of Financial Statements – Presentation of items of Other Comprehensive Income;**
- **Amended IAS 19 Employee benefits.**

The above changes to the standards have been approved for use by the European Union up to the date of publication of these financial statements.

#### **Amendments to IAS 1 Presentation of Financial Statements – Presentation of items of Other Comprehensive Income.**

On 16 June 2011, the International Accounting Standards Board published amendments to IAS 1 Presentation of Financial Statements titled *Presentation of Other Comprehensive Income*.

Changes were introduced in the title of one of the basic financial statements, from „Statement of comprehensive income” to „Statement of profit or loss and other comprehensive income”, leaving the possibility to present the statement of profit or loss separately. Entities may apply titles for these statements other than those set forth in IAS 1.

Also introduced were rules providing for a more transparent identification of the impact of other comprehensive income items on the future financial results of companies, thanks to the separate grouping of these items which may be reclassified to profit or loss and to the separate presentation of those other comprehensive income items which will never be transferred to profit or loss, in accordance with individual IFRS.

In principle amendments to IAS 1 will be effective for annual periods beginning on or after 1 July 2012, however the Group decided on their early adoption for the annual period beginning on 1 January 2012, with the appropriate restatement of data within other comprehensive income presented for the comparable period. A description of these changes is presented in point 2.1.2.

#### **Amended IAS 19 Employee Benefits**

On 16 June 2011, the International Accounting Standards Board published an amended IAS 19 *Employee Benefits*. Work on the standard was carried out in conjunction with the American Financial Accounting Standards Board to unify certain regulations concerning employee benefit programs between IFRS and US GAAP.

The amendments to the standard introduce significant changes with respect to accounting for specified employee benefit programs. Among the items eliminated was the so-called 'corridor' approach enabling deferral in the recognition of actuarial gains and losses. This results in the necessity to recognise actuarial gains and losses when they arise. Elimination of this recognition option introduces consistency and clarity to the presented data. The requirement for early recognition (usually in the period in which they initially arise), was also introduced for costs of past employment.

## 2. Main accounting policies (continued)

Changes in the standard also involve the means of presentation of changes in the value of assets and liabilities of specified benefit programs. Among others the principle of ongoing recognition of changes arising as a result of the measurement of assets and liabilities of a program in other comprehensive income was introduced, with respect to benefits paid following the period of employment, while changes arising as a result of remeasurement of a program's assets and liabilities with respect to benefits paid during the period of employment, as well as costs of employment and interest, will continue to be recognised under profit or loss.

The amendment significantly expands the scope of disclosures for specified benefit programs, mainly with respect to the nature of these programs and the risk to which an entity is exposed due to participation in a program as well as sensitivity analysis for specified benefit programs.

The amended IAS 19 will be effective for annual periods beginning on and after 1 January 2013.

The Group decided on the early application of the changes to this standard for the annual period beginning on 1 January 2012. As a result of amendments to the standard, the Group has changed its presentation of actuarial gains/losses, recognising them in other comprehensive income instead of profit or loss, with the exception of actuarial gains/losses due to measurement of non-current employee benefits paid during the employment period (jubilee bonuses), which still will be recognised in profit or loss. The Group also made a one-off recognition in profit or loss of past employment costs, until now recognised using the straight-line method. A description of these changes may be found in point 2.1.2.

### **Non-obligatory standards and interpretations approved for use by the European Union which the Group did not apply earlier:**

#### **IFRS 10 Consolidated Financial Statements**

On 12 May 2011, the International Accounting Standards Board published IFRS 10 *Consolidated Financial Statements*. The new standard supersedes SIC 12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* with regard to consolidated financial statements.

The purpose of introducing the new standard was primarily to unify definitions of control, which due to inconsistencies between IAS 27 and SIC 12 led to various interpretations by economic entities.

IFRS 10 establishes a revised concept of control as being the deciding factor in whether to include an entity in consolidated financial statements, comprising three elements:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014 and will not result in changes to the statutes of subsidiaries consolidated by the Group, although it will affect decisions on the consolidation of subsidiaries acquired after 1 January 2014.

#### **IFRS 11 Joint Arrangements**

On 12 May 2011, the International Accounting Standards Board published IFRS 11 *Joint Arrangements*. The new standard supersedes IAS 31 *Interests In Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*.

The new standard should be applied by entities which are parties to joint arrangements, i.e. those initiatives in which two or more parties exercise joint control over an investment, based on the unanimous consent of the parties with respect to the taking of decisions on important activities affecting return on their investment, resulting from contractual agreements.

IFRS 11 describes two types of joint arrangements: joint operations and joint ventures.

The type of joint arrangement is determined based on analysis of the rights and obligations of the parties resulting primarily from the structure and legal form of the joint arrangement. If the contractual terms grant the parties the right to the assets of the joint arrangement as well as obligations for the liabilities relating to the arrangement, then we identify the joint arrangement as a joint operation, and the parties to this arrangement recognise respectively the assets, liabilities, income and costs of the joint operation in their financial statements according to their respective interests in the joint operation.

If however the terms of the arrangement grant the parties the right to the net assets of the joint arrangement, then we identify the joint arrangement as a joint venture, in which the parties account for their respective investment using the equity method.

In addition, IFRS 11 stipulates that a joint venture may only be accounted for using the equity method, eliminating the previous option of proportional consolidation.

## 2. Main accounting policies (continued)

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014. These amendments will not result in changes regarding the scope of recognition and measurement of joint arrangements currently held by the Group, although they will affect the assessment of the type of joint arrangements acquired after 1 January 2014.

### IFRS 12 Disclosure of Interests in Other Entities

On 12 May 2011, the International Accounting Standards Board published IFRS 12 *Disclosure of Interests in Other Entities*. This standard will be applicable to the financial statements of entities having interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities.

The new standard combines the disclosure requirements regarding interests in other entities which are currently described in IAS 27, IAS 28 and IAS 31, introducing coherence and completeness in disclosures, and also expanding their scope. The purpose of introducing the changes was to ensure that users of financial statements have a better opportunity to evaluate the nature of, and risks associated with, the interests of a given entity in other entities, and to understand the effects of those interests on the investor's financial position, profit or loss and cash flows. The standard sets forth the minimum scope of disclosures which the investor can expand, if it is felt that additional disclosures are required to meet the purposes of the standard.

IFRS 12 will be effective in the European Union for annual periods beginning on or after 1 January 2014. The Group will apply the scope of disclosure in its financial statements required by the standard.

### IFRS 13 Fair Value Measurement

On 12 May 2011, the International Accounting Standards Board published IFRS 13 *Fair Value Measurement*. This standard is the result of the process carried out by the IASB, introducing unified accounting rules in terms of international and American standards.

IFRS 13 introduces a new definition of fair value, unified conceptual assumptions and amended disclosure requirements with respect to fair value measurements, without expanding the scope of fair value measurements. The new requirements are to be applied to those standards (with certain exceptions), which at present require or allow for the fair value measurement of assets and liabilities, in respect of which the current guidelines regarding fair value measurements and disclosures are incoherent.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price). Consequently, the standard provides guidelines as to the method of fair value measurement, both at the moment of initial recognition as well as on subsequent reporting period end days.

In the current standards, a broad range of disclosures concerning measurement to fair value are mainly in respect of financial instruments. The application of IFRS 13 will encompass those disclosures as well as other assets and liabilities which are subject to fair value measurement.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2013. The Group estimates that although IFRS 13 will affect the presentation of disclosures involving fair value measurement in the consolidated financial statements, this will depend on those assets and liabilities held which are measured to fair value.

### IAS 27 Separate Financial Statements

On 12 May 2011, the International Accounting Standards Board published the amended IAS 27 *Separate Financial Statements*, which supersedes the existing IAS 27 *Consolidated and Separate Financial Statements* in that part involving separate financial statements. The change in the standard is a result of the Board's „Consolidation“ project, as a result of which the existing scope of IAS 27 was divided between IFRS 10 *Consolidated Financial Statements* and IAS 27, which will only deal with separate financial statements. Likewise, the requirements regarding separate financial statements set forth in IAS 28 and IAS 31 were transferred to the amended IAS 27.

The definitions and terminology of the amended standard were unified with IFRS 10, IFRS 11 and IFRS 12.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014 and will not affect the consolidated financial statements of the Group.

### IAS 28 Investments in Associates and Joint Ventures

On 12 May 2011, the International Accounting Standards Board published the amended IAS 28 *Investments in Associates and Joint Ventures*, which superseded the existing IAS 28 *Investments in Associates*. The change in the standard was due to the Board project „Joint Ventures“.

In this project, the IASB decided to include accounting for joint ventures within the scope of the amended IAS 28, as the new standard IFRS 11 *Joint Arrangements* will only allow for the measurement of interests in joint ventures using the equity method. As a result, an entity should apply IFRS 11 solely for the purpose of determining the type of joint arrangements in which it participates, and upon determining that the interests are in a joint venture, the investment is recognised and is measured using the equity method, in accordance

## 2. Main accounting policies (continued)

with the amended IAS 28. Although the amended standard introduces no changes in the methodology of measurement using the equity method, it no longer contains requirements concerning disclosures, as these were included in IFRS 12.

The amended standard will be effective for annual periods beginning on or after 1 January 2014, and will not affect the consolidated financial statements of the Group.

### **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

On 19 October 2011, the International Accounting Standards Board published Interpretation IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. The Interpretation is applied to the recognition of costs of accessing ore through the removal of overburden during the production phase of a surface mining operation. In accordance with the Interpretation, the stripping of overburden at the production stage may lead to the arising of economic benefits for the entity. These benefits may arise from the ore used in the production of inventories, or through access to ore located at deeper levels which will be extracted in future periods. In the first case, an entity should recognise costs in accordance with IAS 2 Inventories. In the second case, an entity should recognise the costs of such work under non-current assets as an asset due to the stripping of overburden, and subsequently amortise these costs in the period when the identified area of the deposit, to which access has improved as a result of this work, is put to use. Given the technical inability to directly allocate the costs incurred between these two types of activities, these costs should be allocated based on a rationally-determined measure of production. IFRIC 20 is effective for annual periods beginning on or after 1 January 2013, and will not have a significant impact on the consolidated financial statements of the Group.

### **Amendments to MSSF 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities**

On 22 December 2011, the International Accounting Standards Board published the document *Disclosures - Offsetting Financial Assets and Financial Liabilities* as an amendment to IFRS 7. The amendments introduce additional information disclosure requirements, which enable users of financial statements to better evaluate the impact, or potential impact, of offsetting agreements, with the actual or potential impact from realisation of a legally enforceable right to set off financial assets and liabilities recognised by an entity in its statement of financial position. Additional detailed disclosures will affect all amounts for which an entity holds valid offsetting agreements, which are not however offset in the statement of financial position under para. 42 of IAS 32. The amendments are effective for annual periods beginning on or after 1 January 2013, and will affect the consolidated financial statements of the Group through changes in the scope of disclosure adapted to the requirements of the standard.

### **Amendments to IFRS 1 First-time Adoption of IFRS: Government loans**

In March 2012, the International Accounting Standards Board published the document *Government Loans (Amendments to IFRS 1)*. These amendments introduce a further exception from the retrospective application of the standards at the time of transition to IFRS. This exception provides the option of retrospectively restating the value of government loans which the entity received under other than arm's length. This only applies to the application of IAS 20 and IFRS 9 (IAS 39 for those entities which are not yet able to apply IFRS 9) and means that an entity applying IFRS for the first time should not recognise the corresponding benefit of the government loan at a below-market rate of interest as a government grant at the time of transition to IFRS. If a first-time adopter of IFRS applies this exception, then the carrying amount of the loan set at the time of transition to IFRS, in accordance with the accounting principles previously applied by the entity, will represent the opening carrying amount of this loan in the statement of financial position. The entity is also obligated to measure such a loan in accordance with IFRS 9 (IAS 39) following the date of transition to IFRS.

This amendment will be effective for annual periods beginning on or after 1 January 2013 and will not affect the Group's consolidated financial statements.

### **Standards and interpretations which are not binding and have not been adopted by the European Union up to the date of publication of these consolidated financial statements**

#### **IFRS 9 Financial instruments**

On 12 November 2009 the International Accounting Standards Board published IFRS 9 *Financial instruments*. This standard is the result of the initial stage of work by the Board aimed at withdrawal of IAS 39 *Financial Instruments: Recognition and Measurement* and replacement by a new one, IFRS 9. This standard essentially simplifies the principles for classifying financial assets, introducing only two categories: assets measured at fair value, and assets measured at amortised cost. This classification, at the initial recognition, should result from the business model adopted by the entity for managing the assets and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets, their reclassification and the recognition of profits and losses arising from these assets. This standard becomes effective for annual periods beginning on or after 1 January 2015 and will affect the consolidated financial statements, in particular with respect to presentation. Potential changes in value which

## 2. Main accounting policies (continued)

could impact the financial statements could arise due to changes in the measurement of equity instruments, which due to the lack of an active market are measured at cost less any impairment. It is however expected that the changes will not have a significant impact on the consolidated financial statements of the Group.

On 28 October 2010, the International Accounting Standards Board reissued IFRS 9 *Financial Instruments*. This reissue is the result of the conclusion of a further phase of the Board's work aimed at replacing IAS 39 *Financial Instruments: Recognition and Measurement*. To IFRS 9 the Board added requirements regarding the classification and measurement of financial liabilities, the majority of which were transferred to the new standard directly from IAS 39.

Under IFRS 9, liabilities representing derivatives which are related to and settled through the delivery of an unquoted equity instrument are measured at fair value, as in the case of investments in unquoted equity instruments and derivative financial assets related to these investments.

In addition, the standard introduces the requirement to recognise changes in the fair value of financial liabilities measured at fair value through profit or loss resulting from changes in credit risk related to these liabilities, in other comprehensive income. The remaining amount of change in the fair value of liabilities is presented in profit or loss, unless recognition of the affects of these changes in the credit risk of these liabilities would create or enlarge an accounting mismatch; in such a case the entity would recognise the full amount of the change in the fair value in profit or loss.

### **Mandatory Effective Date and Transition Disclosures. Amendments to IFRS 9 and IFRS 7**

On 16 December 2011, the International Accounting Standards Board published the document *Mandatory Effective Date and Transition Disclosures* as an amendment to IFRS 9 and IFRS 7. This document amends the effective date of IFRS 9 from on or after 1 January 2013 to on or after 1 January 2015, and allows for early application. The Board also amended IFRS 7, requiring additional disclosures in terms of the transition from IAS 39 to IFRS 9 depending on the initial date of adoption by an entity of IFRS 9 (i.e. prior to 2012, after 2012 or after 2013). Deferment of the Mandatory Effective Date to apply IFRS 9 is a result of the Board's deferral of the work on the remaining parts of the project aimed at replacing IAS 39 by IFRS 9 to later periods. The change introduced will cause a deferment in application by the Group of the standard in respect of the initial deadline, due to the high probability that IFRS 9 will be adopted by the European Union only in its complete form.

### **Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities.**

On 16 December 2011, the International Accounting Standards Board published the document *Offsetting Financial Assets and Financial Liabilities* as an amendment to IAS 32. The Board supplemented the Application Guidance accompanying the standard with respect to the conditions for offsetting and presenting financial assets and liabilities in a net amount in the statement of financial position. Under paragraph 42 of IAS 32, an entity may offset financial assets and liabilities, if (a) it currently has a legally enforceable right to set off the recognised amounts, and (b) it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Due to practical doubts in interpretation, in terms of the legally enforceable right to set off and in terms of recognising a given settlement as a net settlement (even for gross cash flows) with the participation of settlement institutions, the Board introduced additional explanations, enabling uniform implementation of the requirements of para. 42 of IAS 32 by financial institutions. The amendments will be effective for annual periods beginning on or after 1 January 2014. It is estimated that the impact of these changes on the consolidated financial statements of the Group will be immaterial.

### **Annual Improvements 2009-2011 cycle**

In May 2012, the International Accounting Standards Board published Annual Improvements 2009-2011 cycle. This document is a collection of amendments to IFRS as well as related justifications to requests and implementation guidelines, developed during the reviews of standards conducted regularly by the Board. Some of the changes introduced are the result of changes in other IFRSs. The date on which each of these changes comes into force is set forth in the relevant Standard. During the 2009-2011 cycle, changes were introduced to the following standards: IFRS 1 in which the repeated application of IFRS 1 was permitted, and to borrowing costs; IAS 1 in which the requirements for comparative information were clarified; IAS 16 involving the scope of classification of servicing equipment; IAS 32 with respect to the tax effect of a distribution to holders of equity instruments; and IAS 34 with respect to interim reporting and segment information for total assets and liabilities.

## 2. Main accounting policies (continued)

The Group believes that the aforementioned amendments will not have a material impact on its consolidated financial statements. The amendments will be effective for annual periods beginning on or after 1 January 2013, with the retrospective application of changes.

### **Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance.**

In June 2012, the International Accounting Standards Board published the document „Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance”, as amendments to IFRS 10, IFRS 11 and IFRS 12, aimed at easing principles for the full retrospective application of new IFRSs.

The amendments to IFRS 10 limit the obligation for the retrospective application of changes. The Board decided that the scope of restated comparable information will depend on determination of the date on which control was obtained as at the date of initial application of the standard, defined as the beginning of the annual reporting period in which IFRS 10 is applied for the first time. Retrospective recognition of changes will be necessary only if the determination of control is different under IFRS 10 than under IAS 27 as at the date of initial application of IFRS 10. Any eventual correction will only affect the immediately preceding comparable annual period in which IFRS 10 was applied for the first time.

Under the amendments to IFRS 11, if, as a result of applying this standard, there is a change from the proportionate consolidation method to the equity method for a given investment, then the initial measurement of the investment should be set as the aggregate carrying amount of the assets and liabilities measured previously by the entity using the proportionate consolidation method, together with any goodwill from acquisition, as at the beginning of the immediately preceding comparable annual period in which IFRS 11 was applied for the first time. The opening value of an investment set in the manner described above will represent the so-called deemed cost of an investment at initial recognition. Similarly, if, as a result of initial application of IFRS 11, an entity ceases to measure an investment using the equity method and recognises respectively the assets and liabilities of a joint operation, then restatement is performed based on the amount at the beginning of the immediately preceding comparable annual period in which IFRS 11 was applied for the first time.

In accordance with the amendments introduced to IFRS 12, entities restate data on interests in other entities only in the immediately preceding comparable annual period in which IFRS 12 was applied for the first time. Simultaneously, there is no need to disclose comparable data for interests in unconsolidated entities structured in any comparable period preceding the period in which IFRS 12 was applied for the first time.

These changes will be effective for annual periods beginning on or after 1 January 2013. The Group will adjust the scope of disclosure in the financial statements to the requirements of the standard.

### **2.1.2 Changes in accounting policies and impact of final accounting for acquisition of shares**

These consolidated financial statements have been prepared using the same accounting principles for the current and comparable periods, applying changes in accounting policies and presentation to the comparable period and final accounting for the acquisition of shares in a subsidiary.

#### **The changes in the principles of presentation of the comparable period, which did not impact the financial data presented in the financial statements for the reporting and comparable periods, were:**

- a change in the nominal value of the presentation currency, from thousand PLN to million PLN. This change enabled the aggregation and classification of immaterial financial data in accordance with their nature and function, and also limited the scope of published financial information to key categories of the financial statements, making them more understandable,
- a change in the name of the statement of financial position item in which financial assets acquired using the Mine Closure Fund are presented. Considering the substantial amount of these assets and a better reflection of their nature and designation, the name of the item in assets was changed from „Held-to-maturity investments” to „Mine closure financial assets”,
- changes in the presentation of property, plant and equipment. As a result of the acquisition of KGHM INTERNATIONAL LTD. there was a substantial increase in the value of the Group's property, plant and equipment, with a significant change in their structure. To adapt the presentation of property, plant and equipment to their mining and metallurgical nature, property, plant and equipment has been separated into two main categories: „Mining and metallurgical assets”, presenting those assets closely related to the mining and metallurgical activities, and „Other assets not related to the mining and metallurgical activities”,

## 2. Main accounting policies (continued)

- a change in the presentation of the statement of comprehensive income. Taking into consideration the clarity and transparency of the presented financial data, the Group decided to present the income and expenses of the reporting period in two financial statements: the statement presenting profit or loss (the statement of profit or loss) and in the statement which begins with profit or loss and presents other comprehensive income (the statement of comprehensive income),
- a change in the presentation of other comprehensive income. The Group decided on the early adoption of changes to IAS 1 *Presentation of Financial Statements - Presentation of Other Comprehensive Income Items*, consequently the presentation of other comprehensive income items is done in two groups, which pursuant to other IFRS principles:
  - will be reclassified to profit or loss when specified conditions are met, and
  - will not be reclassified to profit or loss,
- changes in the presentation of individual items of equity. To improve the transparency and clarity of the financial data, the Group decided to present other comprehensive income in the statement of financial position under the individual categories of this income. As a result of these changes, in the statement of financial position the item „Accumulated other comprehensive income” was replaced by the following equity items:
  - “Revaluation reserve from the measurement of available-for-sale financial assets”
  - “Revaluation reserve from the measurement of cash flow hedging instruments”
  - “Exchange differences from the translation of foreign operations statements”

### Changes in accounting principles which affected amounts presented in prior periods involved the following:

- (a) early adoption by the Group of changes to IAS 19 *Employee Benefits*, in accordance with rules regarding transition. The changes introduced by the Group involved the recognition of actuarial gains and losses from the measurement of specified benefits programs following the period of employment in other comprehensive income and not as previously in profit or loss. As a result of the application of this standard in the consolidated financial statements as at 31 December 2011, other comprehensive income for the period from 1 January 2011 to 31 December 2011 decreased by PLN 66 million (PLN 81 million less deferred tax in the amount of PLN 15 million), and simultaneously the profit for the period increased by the same amount. In the statements of profit or loss for the period from 1 January to 31 December 2011 the following items were decreased:
- costs of sales by PLN 33 million,
  - administrative expenses by PLN 48 million, and
- deferred income tax was increased by PLN 15 million.

Past employment costs not recognised in the consolidated statement of financial position as at 31 December 2011 were recognised in profit or loss 2012 because of their insignificant impact.

The adjustment has not impacted the statement of financial position items.

The following table presents the impact of changes on the quarterly results published in 2012:

	Statement of profit or loss			Other comprehensive income
	Profit before tax	Tax	Profit for the period	
<b>Financial data before changes in policies</b>				
for the 1 <sup>st</sup> quarter of 2012	1 737	(364)	1 373	(634)
for 2 quarters of 2012	3 550	(835)	2 715	268
for 3 quarters of 2012	5 191	(1 248)	3 943	(576)
for 2012	6 238	(1 605)	4 633	(570)
<b>Impact of changes on financial data</b>				
for the 1 <sup>st</sup> quarter of 2012	47	(9)	38	(38)
for 2 quarters of 2012	28	(5)	23	(23)
for 3 quarters of 2012	56	(11)	45	(45)
for 2012	210	(40)	170	(170)
<b>Financial data after changes in policies</b>				
for the 1 <sup>st</sup> quarter of 2012	1 784	(373)	1 411	(672)
for 2 quarters of 2012	3 578	(840)	2 738	245
for 3 quarters of 2012	5 247	(1 259)	3 988	(621)
for 2012	6 448	(1 645)	4 803	(740)



## 2. Main accounting policies (continued)

(b) recognition in the consolidated financial statements of greenhouse gas emissions allowances granted to Group companies under the National Allocation Plan. Until now the Group has treated the emissions allowances received from the government as non-cash subsidies, and has presented them in the consolidated financial statements on a net basis together with the allowances granted, representing intangible assets. Under the net basis principle, in a situation where actual emissions exceed the amount of allowances granted, the Group recognised a provision for greenhouse gas emissions solely in an amount exceeding the value of the allowances held. This provision was measured at the fair value of the emission allowances (calculated at their market value) which the Group was obliged to redeem due to increased emissions. Due to the significant amount of the emission allowances received as a result of newly granted allowances in 2013, the Group reviewed the principles of recognising emission allowances received free of charge and the principles of recognising the provision for redeemable allowances. The Group decided to present allowances together with the respective non-cash subsidies by the separate presentation of assets and liabilities. Also the principle was adopted that liabilities due to greenhouse gas emissions (the provision for redeemable allowances) is recognised at the amount of the allowances held, and if there is a deficit of allowances, the remaining part is recognised at the market value of the allowances needed.

Impact of this change on the consolidated financial statements:

- at 1 January 2011, an increase in intangible assets by PLN 132 million and an increase in liabilities by PLN 127 million (non-current PLN 16 million, current PLN 111 million) as well as in retained earnings by PLN 5 million,
- at 31 December 2011, an increase in intangible assets by PLN 83 million and an increase in liabilities by PLN 79 million (non-current PLN 12 million, current PLN 67 million) as well as in retained earnings by PLN 4 million,
- for the period from 1 January 2011 to 31 December 2011, there was an increase in costs of sales by PLN 42 million and an increase in other operating income by PLN 41 million.

### Impact of final accounting for the acquisition on the comparable data

In connection with the final accounting for the acquisition (acquisition date – 2 February 2011) of shares of NITROERG S.A. under IFRS 3, final fair values of the company net assets were set and amortisation of the difference between the fair value of the company net assets and their carrying amount was adjusted. As a result of accounting in the statement of financial position, at 31 December 2011 there was a change in the following items:

	Adjustment
<b>ASSETS</b>	
<b>Non-current assets</b>	
Property, plant and equipment	47
Intangible assets	(34)
of which goodwill	(34)
<b>TOTAL ASSETS</b>	<b>13</b>
<b>EQUITY AND LIABILITIES</b>	
<b>Equity</b>	
Retained earnings - equity attributable to shareholders of the Parent Entity	(2)
of which profit for the period	(2)
Non-controlling interest	6
	<b>4</b>
<b>Deferred tax liabilities</b>	<b>9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>13</b>

As a result of all changes there was an increase in basic and diluted earnings per share from continued operations attributable to the shareholders of the Parent Entity for the period from 1 January 2011 to 31 December 2011 from PLN 55.02 per share to PLN 55.34 per share.

Due to the restatement of comparable data, the data in the statement of financial position at 1 January 2011 conforms to IFRS. In the explanatory notes to the financial statements items in which the change in accounting policies did not impact the amounts presented in the comparable period, the name of the comparable period will not be referred to as "restated".

## 2. Main accounting policies (continued)

### 2.2 Accounting policies

#### 2.2.1 Property, plant and equipment

The following are considered to be items of property, plant and equipment:

- assets held by the entity for use in production, supply of goods and services or for administrative purposes,
- assets which are expected to be used during more than one year,
- assets which are expected to generate future economic benefits that will flow to the entity, and
- assets whose value can be measured reliably.

Upon initial recognition, items of property, plant and equipment are measured at cost.

Borrowing costs incurred for the purchase or construction of a qualifying item of property, plant and equipment are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.26.

Foreign exchange differences arising from foreign currency liabilities, related to the purchase or construction of an item of property, plant and equipment, are recognised in profit or loss in the period in which they are incurred.

If payment for an item of property, plant and equipment is deferred for a period which is longer than standard for ordinary buyer's credit (in practice a period of over 1 year is assumed), its purchase price should reflect the amount which would be paid in cash.

Upon initial recognition, in the costs of property, plant and equipment are included the anticipated costs of future assets' dismantling and removal and cost of restoring the sites on which they are located, the obligation for which an entity incurs either when the item is installed or as a consequence of having used the item for purposes other than to produce inventories. In particular, in the initial cost of items of property, plant and equipment are included discounted decommissioning costs of assets relating to underground mining, as well as of other facilities which, in accordance with binding laws, must be liquidated upon the conclusion of activities.

Mine decommissioning costs recognised in the initial cost of an item of property, plant and equipment are depreciated in the same manner as the item of property, plant and equipment to which they relate, beginning from the moment a property, plant and equipment is brought into use, throughout the period set out in the asset group decommissioning plan within the schedule of mines decommissioning.

The decommissioning costs of other facilities recognised in the initial cost of an item of property, plant and equipment are amortised beginning from the moment an item of property, plant and equipment is brought into use, throughout the period of use and in accordance with the method used for the depreciation of those items of property, plant and equipment to which they have been assigned.

Property, plant and equipment acquired before 31 December 1996 and brought into use after this date, for which expenditures were incurred to the end of 1996, were restated to account for the effects of hyperinflation in accordance with IAS 29, *Financial reporting in hyperinflationary economies*.

As at the end of the reporting period, items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Principles for the impairment of assets are presented in point 2.2.4.

Subsequent expenditures on items of property, plant and equipment (for example to increase the usefulness of an item, for spare parts or renovation) are recognised in the carrying amount of a given item only if it is probable that future economic benefits associated with these expenditures will flow to the entity, and the cost of the expenditures can be measured reliably. All other expenditures on repairs and maintenance are recognised in profit or loss in the period in which they are incurred.

**Depreciation** of property, plant and equipment (excluding land) is performed by the Group depending on the manner in which the economic benefits of a given item of property, plant and equipment are consumed:

- **using the straight-line method**, for those assets used in production on a systematic basis throughout their entire useful life, and
- **using the natural depreciation method (units of production method)**, for those assets in respect of which the consumption of economic benefits is directly related to the amount of mineral extracted from ore (or to the amount of cathodes produced) and this extraction or processing is not equally distributed throughout their entire useful life. In particular this refers to buildings and mining facilities, as well as to mining machinery and equipment.

**Depreciation using the straight-line method** is performed by the even depreciation of the depreciable amounts over the expected useful life of a given asset.

**Depreciation using the natural depreciation method** is performed based on the expected amount of mineral reserves tonnage to be extracted (in the case of underground mines) or based on the expected amount of copper cathode tonnage to be produced (in the case of open-pit mines whose final product is cathodes).

All changes arising from conducted reviews are recognised as changes in estimates, accordance with the guidelines contained in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*.

## 2. Main accounting policies (continued)

The useful lives, and therefore the depreciation rates of items of property, plant and equipment used in the production of copper, are adapted to the plans for the closure of operations.

For individual groups of assets, estimated based on expected mine life reflecting ore content, the following useful lives have been adopted:

- buildings and civil engineering objects: 25 - 60 years,
- technical equipment and machines: 4 - 15 years,
- motor vehicles: 3 - 14 years,
- other property, plant and equipment, including tools and instruments: 5 - 10 years.

Depreciation begins when an item of property, plant and equipment is available for use. Depreciation ceases at the earlier of the date that the asset is classified as held for sale (or included as part of a disposal group which is classified as held for sale) in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* or when it is derecognised upon disposal or retirement.

The basis for the calculation of depreciation is the cost of an item of property, plant and equipment less its estimated residual value.

The individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the given asset as a whole and whose cost is significant in comparison to the cost of the item of property, plant and equipment as a whole, are depreciated separately, applying depreciation rates reflecting their anticipated useful lives.

An asset's carrying amount is written down to its recoverable amount, if the carrying amount of the asset (or a cash-generating unit to which it belongs) is greater than its estimated recoverable amount.

The asset's carrying amount includes costs of necessary regular major overhauls, including costs of overhauls for the purpose of certification.

Specialised spare parts and spare equipment with a significant initial cost and an anticipated useful life of more than 1 year are recognised as an item of property, plant and equipment. Other spare parts and servicing-related equipment with an insignificant cost are recognised as inventories and accounted for in profit or loss at the moment they are used.

A fixed asset is derecognised when it is sold, decommissioned or if no future economic benefits are expected to be derived from its use or disposal.

### 2.2.2 Intangible assets

Intangible assets include the following identifiable non-monetary assets without physical substance:

- goodwill,
- development costs,
- rights to the emission of greenhouse gases,
- software,
- acquired concessions, patents, licenses,
- other intangible assets, and
- intangible assets not yet available for use (under construction), including expenditure on exploring for and evaluating mineral resources (point 2.2.3).

#### Goodwill

**Goodwill** represents the excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date amounts of the identifiable assets and liabilities.

Goodwill on acquisition of a subsidiary is included in intangible assets. Goodwill on acquisition of investments in entities accounted for using the equity method is included in the carrying amount of such investment.

Goodwill recognised in intangible assets is tested annually for impairment and is recognised in the statement of financial position in the amount initially recognised less any accumulated impairment losses.

Testing for impairment is performed and any potential impairment loss is recognised in accordance with the policies described in point 2.2.4.

## 2. Main accounting policies (continued)

The carrying amount of goodwill relating to the subsidiary which was disposed is recognised in profit or loss on disposal of subsidiaries.

### Development costs

The entities of the Group carry out development projects which are primarily aimed at reducing copper production costs, increasing the production capacity of smelters and mines, improving the technical parameters of manufactured products, and improving copper production technology.

An intangible asset arising from development is recognised if the entity can demonstrate:

- a) the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- b) the intention to complete the intangible asset and use or sell it,
- c) its ability to use or sell the intangible asset,
- d) the manner in which the intangible asset will generate probable future economic benefits,
- e) the availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset, and
- f) its ability to measure reliably the expenditures attributable to the intangible asset that have been incurred during its development.

Internally generated costs of development projects recognised as an item of intangible assets is the sum of expenditure incurred from the date when the intangible asset arising from development first meets the criteria for recognition.

Capitalised development costs are recognised as an intangible asset not yet available for use and are not amortised until the moment when the given intangible asset is completed and the decision has been taken to implement it. Such intangible assets are, however, tested annually for impairment. The amount of the impairment is recognised in profit or loss.

Internally generated intangible assets are amortised using the straight-line method over the period of their anticipated use.

Research expenditure is recognised as an expense as incurred.

### Greenhouse gas emission allowances

The companies of the Group participate in a program to limit emissions of carbon dioxide based on the Kyoto protocols of 11 December 1997, which commit government bodies, including those in Poland, to control and reduce emissions of greenhouse gases.

Emissions allowances to be used by an entity for its own needs are recognised as intangible assets.

At inception:

- government-granted emissions allowances and any related non-cash government subsidies (recognised as deferred income) are measured at the fair value reflecting the market value of these allowances at inception. Emissions allowances are initially recognised at the date they are granted.
- purchased emissions allowances are measured at cost.

At the end of the reporting period these allowances are measured at cost less any impairment allowances. Emissions allowances are not subject to amortisation.

Emissions allowances recognised under intangible assets are settled and removed from the accounts each time they are redeemed\* by the President of the Energy Regulatory Office and used by the Group.

\*redemption means the decision to redeem emissions allowances issued by the President of the Energy Regulatory Office based on information provided by the owner of an installation on emissions.

### Other intangible assets

The following are recognised by the Group under other intangible assets: rights to water; acquired concessions, patents and licenses; the fee for managing Sierra Gorda S.C.M.; intangible assets due to signed contracts for the sale of services; computer software and other intangible assets.

## 2. Main accounting policies (continued)

Other intangible assets are measured at cost at initial recognition.

Any borrowing costs incurred for the purchase or construction of a qualifying item of intangible assets are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.26.

If payment for an intangible asset is deferred for a period which is longer than standard for ordinary buyer's credit (in practice a period of over 1 year is assumed), its purchase price should reflect the amount which would be paid in cash.

The difference between this amount and the total payment is recognised in profit or loss as interest cost (a discount of liabilities) in financial costs in the period of repayment (settlement) of liabilities. Exchange differences which arise from liabilities in a foreign currency which are related to the acquisition or construction of an item of intangible assets are recognised in profit or loss in the period in which they are incurred.

At the end of the reporting period intangible assets are measured at cost less any accumulated amortisation and accumulated impairment losses. The principles of impairment losses recognition are presented in detail in point 2.2.4.

Intangible assets (excluding goodwill, greenhouse gas emission allowances, water rights, exploration and evaluation assets and intangible assets not yet available for use) are amortised using the straight-line method over their anticipated useful lives, which are as follows for the specific types of intangible assets:

- Development costs – 5 – 15 years,
- Software – 2 – 8 years,
- Concessions, licenses and patents – 2 - 5 years,
- Other intangible assets, including rights to geological information – 50 years.

The amortisation method and the amortisation rate are subject to review at the end of each reporting period. As in the case of goodwill, intangible assets not yet available for use (under construction) are not amortised, but are tested annually for impairment. Any potential impairment loss is recognised in profit or loss in accordance with the principles described in point 2.2.4

### 2.2.3 Exploration and evaluation assets

Intangible assets and property, plant and equipment used in the exploration for and evaluation of mineral resources are recognised as exploration and evaluation assets, but they do not include expenditures on development work related to mineral resources or expenditures incurred:

- a) prior to the commencement of exploration for and evaluation of mineral resources, i.e. expenditures incurred prior to the acquisition of legal rights to carry out exploratory activities within a specified area, and
- b) after the technical feasibility and commercial viability of extracting a mineral resource is demonstrable.

Recognition of intangible assets includes among others acquired exploration rights, expenditures on drilling, exploration work, sampling, the topographical, geological, geochemical and geophysical analysis of deposits, wages and related costs and other employee benefits for employees, teams or designated units or those delegated to the supervision or operation of individual projects, and other direct costs related to the acquisition or creation of intangible assets pursuant to IFRS 6.

If an exploration right could not be exercised without the acquisition of the land in which it is situated, the acquired land rights together with the respective concession are classified as intangible assets at the stage of exploration for and evaluation of mineral resources.

Exploration and evaluation assets are recognised and presented as a separate group of intangible assets not available for use.

The following expenditures are classified as exploration and evaluation assets:

- work on geological projects,
- obtaining environmental decisions,
- obtaining concessions and mining usufruct for geological exploration,
- work related to drilling (drilling; geophysical and hydrogeological research; geological, analytical and geotechnical services; etc.),
- the purchase of government geological information,
- the execution of geological documentation and its confirmation,
- the execution of economic and technical assessments of resources for the purpose of obtaining decisions on the application for mine operating concessions,
- equipment usage costs (property, plant and equipment) used in exploratory work.

## 2. Main accounting policies (continued)

Exploration and evaluation assets are measured at the moment of initial recognition at cost. For purposes of subsequent measurement the Group applies a measurement model based on cost less any accumulated impairment.

The Group is required to test a separate entity (project) for impairment when:

- when the technical feasibility and commercial viability of extracting a mineral resource is demonstrable, i.e. prior to reclassification of these assets to another asset group (including to fixed assets under construction or intangible assets not yet available for use other than those used in the exploration for and evaluation of mineral resources), and
- when the facts and circumstances indicate that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

Any potential impairment losses are recognised prior to reclassification.

### 2.2.4 Impairment of non-financial assets

Goodwill, water rights, and other intangible assets with an unspecified period of use, are tested annually for impairment.

Other non-financial assets are tested for impairment whenever an event or change in circumstances indicates that its carrying amount may not be recoverable. Amongst the fundamental external indications of possible impairment for the Group's companies listed on active markets are the continuation over the long term of a situation in which the carrying amount of the Group's companies net assets exceeds their market value. Additionally, amongst the most significant indications are unfavourable technical, market and economic changes to the environment in which the Group's companies operate, including on the destination markets for products of the Group's companies, as well as an increase in market interest rates and premiums for risk reflected in calculations of the discount rates used to calculate the value in use of Group's companies assets. Internal factors taken into account in determining whether assets have been impaired primarily include the substantial decrease in actual net cash flow in relation to the net cash flow from operating activities assumed in the Budget, and, with respect to individual assets, any physical damage, loss of utility and the generation of lower economic benefits than expenditures incurred on their acquisition or construction, if a given asset independently generates cash flow.

An impairment loss is recognised as the amount of the carrying value of the given asset or cash-generating unit which exceeds its recoverable amount. The recoverable amount is the higher of two amounts: fair value less costs to sell, and value in use.

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

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

Impairment losses are recognised in the statement of profit or loss.

Non-financial non-current assets, other than goodwill, for which an impairment loss was recognised in prior periods, are tested at the end of each reporting period whether there is any indication of the possibility that an impairment loss may be reversed.

### 2.2.5 Investment property

Investment property is property which the Group treats as a source of income from rentals, or for capital appreciation, or both. Investment property also includes property held under an operating lease agreement, as long as it would otherwise meet the definition of investment property. Investment property (other than that held under an operating lease agreement) is initially measured at cost. Transaction costs are included in the initial measurement. The initial cost of the right to use an investment property (a property interest) held under a lease is recognised at the lower of the fair value of the property and the present value of the minimum lease payments.

## 2. Main accounting policies (continued)

At the end of subsequent reporting periods ending the financial year investment property is measured at fair value. Any gain or loss arising from a change in the fair value of the investment property affects profit or loss for the period in which it arises.

Investment property is derecognised from the statement of financial position on disposal, or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

### 2.2.6 Investments in subsidiaries

Subsidiaries in the consolidated financial statements of the KGHM Polska Miedź S.A. Group are those entities which the Group has the power to govern in terms of their financial and operating policies in order to achieve benefits from their activities. Such control is exercised through ownership of the majority of the total number of votes in the governing bodies of these entities, i.e. in their management and supervisory boards.

The purchase method is used to account for the acquisition of subsidiaries by the Group.

The carrying amount of investments held by the Group in each subsidiary is eliminated, along with the respective portion of equity of each subsidiary.

As goodwill is recognised the excess of the payment made by an acquirer, the amount of all non-controlling shares in an acquiree, and fair value of an ownership interest of the acquiree at the acquisition date, belonging to the acquirer prior to obtaining control, over the net amount set at the acquisition date of the value of identifiable acquired assets and liabilities of the acquired subsidiary. The excess of the Group share in the fair value of net assets over the purchase price, which is the gain on a bargain purchase, is recognised directly in profit or loss.

The payment for acquisition is measured at fair value, being the total fair value of the transferred assets, outstanding liabilities and issued equities at the acquisition date. The payment for acquisition also includes all assets and liabilities resulting from decisions in respect of contingent payments, if such decisions are made. Costs associated with acquisition are settled as a cost of the period in which they are incurred, while costs of issuing debt securities and equities are recognised in accordance with IAS 32 and IAS 39.

Identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

Inter-company transactions, balances, income, expenses and unrealised gains recognised in assets are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.

Non-controlling interest in the net assets of consolidated subsidiaries are recognised as a separate item of equity "Non-controlling interest".

Consolidation of subsidiaries is discontinued from the date on which control ceases.

Changes in the share of ownership of the Group which do not result in a loss of control of a subsidiary are recognised as an equity transaction. The carrying amount of the shares granting control and not granting control are adjusted, reflecting the change in the share of ownership in a given subsidiary. The difference between the amount to be paid due to the increase or decrease of shares and the carrying amount of the respective shares not granting control is recognised directly in equity attributable to the shares granting control.

### 2.2.7 Investments accounted for using the equity method

#### Associates

Investments in associates, i.e. entities over which the Group has significant influence but does not control, and in which it participates in setting both the financial and operating policies of the entity, are accounted for using the equity method in the consolidated financial statements.

These investments are initially recognised at cost. The net value of Group investments in the associate which is recognised in the statement of financial position also includes, as set on the date control was obtained, goodwill and identified items not recognised in the statement of financial position of the acquiree measured at fair value.

The Group's share of post-acquisition profits or losses of associates is recognised in its profit or loss, and its share of post-acquisition movements in accumulated other comprehensive income is recognised in the respective item of the accumulated other comprehensive income. The cumulative post-acquisition movements in equity are adjusted against the carrying amount of the investment. When the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses, unless it has incurred obligations or made payments on behalf of the associate.

## 2. Main accounting policies (continued)

The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate.

### Joint Ventures

The Group owns interests in a joint venture, being a jointly controlled entity, based on the contractually defined division of control over the economic activities of this entity, in respect of which strategic financial and operating decisions require the unanimous consent of the controlling parties (the joint venture partners).

In the consolidated financial statements, the interests in the joint venture are measured at cost, and at the end of subsequent reporting periods are measured using the equity method. The share of the Group in the financial results of the joint venture from the acquisition date are recognised in profit or loss, while its share in changes in other comprehensive income from the acquisition date are recognised in the appropriate item in other comprehensive income. The carrying amount of the investment is adjusted by total changes in equity from the acquisition date.

### 2.2.8 Financial Instruments

#### 2.2.8.1 Classification of financial instruments

Financial instruments are classified into one of the following categories:

- financial assets measured at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets,
- financial liabilities measured at fair value through profit or loss,
- other financial liabilities,
- derivative hedging instruments.

Financial instruments are classified based on their characteristics and the purpose for which they were acquired. Classification is made upon initial recognition of the financial asset or liability. Classification of derivatives depends on their purpose and on whether they qualify for hedge accounting according to the requirements of IAS 39. Derivatives are classified as: derivative hedging instruments, trade instruments, instruments initially designated as hedging instruments excluded from hedge accounting or as instruments measured at fair value through profit or loss.

The carrying amount of cash flows due to financial instruments with a maturity period of more than 12 months from the end of the reporting period is classified as a non-current asset or non-current liability. The carrying amount of cash flows due to financial instruments with a maturity period of less than 12 months from the end of the reporting period is classified as a current asset or current liability.

The following principles for the classification of financial instruments have been adopted to the above specified categories of financial assets and liabilities:

#### **Financial assets and liabilities measured at fair value through profit or loss**

This category includes financial assets and financial liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss at their initial recognition.

A financial asset is classified to this category if it is acquired principally for the purpose of selling in the near term or if it is designated by the Group upon initial recognition as at fair value through profit or loss. A financial asset or financial liability may be designated by the Group when initially recognised at fair value through profit or loss only if:

- a) such classification eliminates or significantly reduces any inconsistency in respect of measurement or recognition (also defined as "an accounting mismatch"), that would otherwise arise from measuring assets or liabilities or recognising gains or losses using a different basis; or
- b) a group of financial instruments is managed properly and the performance of the group is evaluated on the fair value basis, in accordance with a documented risk management or investment strategy.

Available-for-sale financial assets and liabilities include derivatives, unless they have been designated as hedging instruments.

Assets and liabilities in this category are classified as current if the carrying amount is realised within a period of up to 12 months from the end of the reporting period.



## **2. Main accounting policies (continued)**

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Loans and receivables are classified as current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables with maturities greater than 12 months after the end of the reporting period are classified as non-current assets. Loans and receivables are included in trade and other receivables in the statement of financial position.

Cash and cash equivalents and mine closure financial assets are also classified as loans and receivables. In the statement of financial position both cash and cash equivalents, and mine closure financial assets are separate items.

### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets that are either designated as "available-for-sale" or not classified to any of the other categories. This category primarily includes financial assets which do not have a fixed maturity date and which do not meet the criteria for being included in other categories.

Available-for-sale financial assets are included in non-current assets unless the Group intends to dispose of the investment within 12 months from the end of the reporting period.

### **Other financial liabilities**

Financial liabilities included in this category are those that were not classified at their initial recognition as measured at fair value through profit or loss.

### **Hedging instruments**

Derivatives designated and qualifying for hedge accounting are classified into a separate category called: Hedging instruments. The Group presents as hedging instruments the entire fair value of instruments designated to this category and qualifying for hedge accounting, even if the Group excludes the time value of a derivative from effectiveness measurement.

### **Instruments initially designated as hedging instruments excluded from hedge accounting**

Derivatives initially designated as qualifying for hedge accounting, and then excluded from hedge accounting, are presented as Instruments initially designated as hedging instruments excluded from hedge accounting.

Instruments initially designated as hedging instruments excluded from hedge accounting are measured at fair value through profit or loss.

#### **2.2.8.2 Initial measurement and derecognition of financial instruments**

Transactions respecting the purchase and sale of investments, including regular way purchases or sales, are recognised at the trade date, initially at fair value plus transaction costs, with the exception of financial assets and liabilities measured at fair value through profit or loss, which are initially recognised at fair value.

Investments are derecognised when the rights to the cash flows from the investments have expired or have been transferred and the Group has transferred substantially all of the risks and rewards of their ownership. Where substantially all of the risks and rewards of ownership have not been transferred, investments are derecognised when the Group loses control over a given asset.

#### **2.2.8.3 Measurement of financial instruments at the end of the reporting period**

### **Financial assets and financial liabilities measured at fair value through profit or loss, available-for-sale financial assets and hedging instruments**

Financial assets and financial liabilities measured at fair value through profit or loss, available-for-sale financial assets and derivative hedging instruments are subsequently measured at fair value. Available-for-sale financial assets, which do not have a fixed maturity date, and the fair value of which cannot be determined in a reliable manner, are carried at cost.

Gains and losses on financial assets which are classified as financial assets measured at fair value through profit or loss are recognised in profit or loss in the period in which they arise.

## 2. Main accounting policies (continued)

Gains and losses on financial assets which are classified as available-for-sale are recognised in other comprehensive income, except for impairment losses and exchange gains or losses on monetary assets and gains or losses on interest which would be recognised at the measurement of these items using amortised cost and applying the effective interest rate, and which are recognised in profit or loss. When available-for-sale financial assets are derecognised, the total cumulative gains and losses which had been recognised in other comprehensive income are reclassified to profit or loss as an adjustment from reclassification.

The disposal of investments of the same type but with a different cost is accounted for using the FIFO method, i.e. the disposal of these assets is measured successively at the prices of those elements which the entity acquired earlier.

### Loans and receivables, held-to-maturity investments

Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest rate method.

### Other financial liabilities

After initial recognition, the Group measures all financial liabilities, apart from those classified as at fair value through profit or loss, at amortised cost using the effective interest rate method except for:

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition.

If the transfer of financial assets does not qualify them for derecognition because the Group retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the Group continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received. In subsequent periods, the Group recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability;

- financial guarantee agreements, measured at the higher of two amounts:
  - the amount determined in accordance with point 2.2.18 Provisions, or
  - the amount initially recognised less cumulative amortisation recognised according to IAS 18 *Revenue*.

#### 2.2.8.4 Fair value

Fair value is considered to be the purchase price of a financial instrument or, in case of financial liabilities, the sales price of an instrument, unless there are any indicators that a financial instrument was not purchased at fair value.

At the end of the reporting period, the fair value of financial instruments, for which an active market exists, is established based on the current bid/ask prices. If the market for a financial instrument is not active (and in relation to non-quoted securities), the Group establishes fair value using appropriate valuation techniques. Valuation techniques used include comparison with recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques/models which are commonly used by market participants, adjusted to the characteristics and parameters of the fair valued financial instrument and the situation of the issuer.

Estimated fair value reflects the amount recoverable or payable to close out an outstanding position at the end of the reporting period. Where possible, transactions are fair valued based on market prices. In the case of purchase or sale of commodity forwards, fair value was estimated based on forwards prices for the maturity dates of specific transactions. In case of copper, the official London Metal Exchange closing prices and volatility estimates as at the end of the reporting period are obtained from the Reuters news service. For silver and gold, the London Bullion Market Association fixing price at the end of the reporting period is used, and in the case of volatility of prices and forward prices, quotations given by Banks/Brokers are used.

Currency interest rates and currency volatility ratios obtained from Reuters are used. Forwards and swaps on copper market are priced based on forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets, whereas the standard German-Kohlhagen model is used for European options pricing on currency markets.

The fair value of unquoted debt securities is established as the present value of future cash flows, discounted using the current interest rate.

## **2. Main accounting policies (continued)**

The fair value of participation units of open-end cash investment funds is determined based on the valuations quoted by those funds. The fair value of share in close-end investment funds qualified as available-for-sale financial assets is measured based on the data included in the financial statements of the funds.

The fair values of other financial instruments held by the Group are determined based on market prices or on valuation techniques which use as input data only observable market variables from active markets.

### **2.2.8.5 Impairment of financial assets**

At the end of each reporting period an assessment is made of whether there is objective evidence that a financial asset or a group of financial assets is impaired. The following are considered significant objective indicators (evidence of impairment): significant financial difficulty of the debtor, legal action being taken against the debtor, the occurrence of significant unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the prolonged significant decrease of the fair value of an equity instrument below its cost.

If any such evidence exists in the case of available-for-sale financial assets, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and reclassified to profit or loss as a reclassification adjustment. Impairment losses on equity instruments recognised in profit or loss are reversed through other comprehensive income. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

If evidence of potential impairment of loans and receivables or of held-to-maturity investments measured at amortised cost exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate calculated at the initial recognition for fixed interest rate assets, and the effective interest rate computed at the last revaluation for floating interest rate assets).

Any impairment loss is recognised in profit or loss. The carrying amount of such financial assets includes the impairment loss (due to credit losses) recorded in a separate account.

Loans and receivables, as well as held-to-maturity investments which are measured at amortised cost, are individually tested for impairment at the end of each reporting period. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets portfolio).

An impairment allowance is reversed, if in subsequent periods the impairment is reduced, and this reduction may be attributed to events occurring after recognition of the impairment allowance. The reversal of an impairment allowance is recognised in profit or loss.

### **2.2.8.6 Embedded derivatives**

#### **Initial recognition of derivatives**

Embedded derivatives are separated from host contracts and accounted for as at the date of transaction, if all of the following conditions are met:

- the hybrid (combined) instrument is not measured at fair value, with changes in fair value recognised in profit or loss,
- the characteristics and risk of the embedded derivative are not closely related to the characteristics and risk of the host contract, and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

## **2. Main accounting policies (continued)**

Re-assessment of contracts for possible separation of embedded instruments is made whenever there is a significant change to the contract that significantly modifies cash flows arising from the contract.

These criteria in particular are deemed as being met for contracts involving metals sales or the purchase of copper-bearing materials, in which prices are set after the date of sale or purchase. In such cases the Group accounts for the embedded derivative separately from the host sale/purchase contract. From the moment of separation, the embedded derivative is measured at fair value at the end of each reporting period. From the date of separation, the embedded derivative is classified as a financial asset or liability measured at fair value through profit or loss. Any change in the balance of the embedded derivative is accounted for as an adjustment respectively of revenues from sales or costs of sales.

### **2.2.8.7 Hedge accounting**

Hedging, for accounting purposes, involves proportional offsetting of the effects of changes in the fair value or changes in cash flows arising from a hedging instrument and a linked hedged item. Hedges include fair value hedges, cash flow hedges and hedges of net investment in foreign operations. Financial assets which are not derivatives, or financial liabilities which are not derivatives, may be designated as hedging instruments only for the currency risk hedging relationships.

The Group does not recognise either fair value hedges or hedges of shares in net assets of foreign operations. Hedging instruments are designated as cash flow hedges.

#### **Derivatives used in cash flow hedges**

The Group hedges forecasted cash flows. In a cash flow hedge, a derivative used as a hedging instrument is an instrument which:

- hedges the exposure to volatility of cash flows which is attributable to a particular type of risk associated with an asset or liability recognised in the statement of financial position, or a highly probable forecast transaction, and
- will affect profit or loss.

Gains and losses arising from changes in the fair value of the hedging instrument in a cash flow hedge are recognised in other comprehensive income, to the extent by which the change in fair value represents an effective hedge of the associated hedged item. The portion which is ineffective is recognised in profit or loss as other operating income or costs. Gains or losses arising from the hedging instrument in cash flow hedges are recognised in profit or loss as a reclassification adjustment, in the same period or periods in which the hedged item affects profit or loss.

Hedge effectiveness is the degree to which changes in the cash flows of the hedged item that are attributable to the hedged risk are offset by changes in the cash flows of the hedging instruments.

If the hedged firm commitment or forecast future transaction subsequently results in the recognition of a non-financial asset or non-financial liability in the statement of financial position, then, at the time the item is recognised, all associated gains and losses are included in the initial cost or other carrying amount of the asset or liability.

The designated hedges relate to the future transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Group estimates that the probability of these transactions occurring is very high, as from a historical point of view, sales were always realised at the levels assumed in Sales Plans.

When entering into hedging transactions, the Group documents the relationship between hedging instruments and the hedged items, as well as the objective of entering into a particular transaction. The Group also documents its assessment, both at the date of inception of the hedge as well as on an on-going basis, of whether the hedging instruments are and will be highly effective in offsetting changes in the cash flows of the hedged items.

#### **Discontinuation of hedge accounting**

The Group ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the Group revokes its designation of a given instrument as a hedging instrument. The Group may designate a new hedging relationship for a given derivative, change the intended use of the derivative,

## 2. Main accounting policies (continued)

or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in accumulated other comprehensive income until the hedged item affects profit or loss.

If the hedge of a firm commitment or forecast future transaction ceases to exist, because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecast transaction will not occur, then the net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment.

### 2.2.9 Inventories

Inventories consist of the following items:

- materials,
- half-finished products and work in progress, including mainly copper ore, copper concentrate being processed, copper ore undergoing leaching, copper blister, and convertor and anode copper,
- finished goods, including mainly copper concentrate designated for sale, copper cathode, silver, copper rod and
- merchandise including property rights resulting from certificates of origin for coloured energy (detailed accounting policy relating to these rights is presented in point 2.2.23).

#### **The Group measures inventories, including work in progress in respect of ore being processed into copper concentrate through floatation, in the following manner:**

Inventory additions are measured in accordance with the following principles:

- materials and merchandise – at cost,
- finished goods, half-finished products – at actual manufacturing cost,
- work in progress – based on valuation of the work-in-progress inventories.

Inventory disposals are measured in accordance with the following principles:

- materials and merchandise – at average cost based on the weighted average cost of a given item,
- finished goods, half-finished products and work in progress – based on weighted average actual manufacturing cost.

Inventories are measured in accordance with the following principles:

- materials and merchandise – at average cost as set for inventory disposal,
- finished goods, half-finished products and work in progress – based on weighted average manufacturing costs and giving due regard to the balance at the beginning of the reporting period.

**For production in which the Group obtains cathodes through the process of leaching**, work in progress means extracted ore placed in a heap leach pad for further processing. The amount of copper produced is calculated as an estimate based on the expected content of copper in ore and the quality of copper in ore. Estimates of copper content in ore located on a heap leach pad used in the measurement of inventories are continuously reviewed with the actual amount of copper produced. Inventories are measured quarterly, based on average weighted cost of production.

At the end of the reporting period inventories are measured, using the above-mentioned policies, but not higher than the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

### 2.2.10 Trade and other receivables

Trade receivables are recognised initially at fair value. After initial recognition, trade receivables are measured at amortised cost using the effective interest rate, less allowance for impairment, while trade receivables with the maturity period of up to 12 months from the receivable origination date are not discounted.

Impairment allowances on trade receivables are recognised when there is objective evidence that the Group will not be able to collect all amounts due. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The amount of the impairment allowance is recognised in profit or loss.

## 2. Main accounting policies (continued)

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

Receivables with a maturity period of over 12 months from the end of the reporting period are classified as non-current assets. Current assets include receivables with a maturity period of up to 12 months from the end of the reporting period.

### The category trade and other receivables includes:

- **trade receivables** – these are receivables which arise from the principal operating activities of the Group,
- **other receivables**, including:
  - loans granted,
  - other financial receivables, i.e. receivables meeting the definitions of financial assets,
  - other non-financial receivables, including among others advances for deliveries, fixed assets, fixed assets under construction, intangible assets and for shares in subsidiaries, co-subsidiaries and associates, receivables from employees, if they are settled other than by cash payment, and also Budget receivables, and
  - prepayments.

### 2.2.11 Cash and cash equivalents

Cash and cash equivalents includes cash in hand and in bank accounts, on-demand deposits, other safe current investments with original maturities of three months or less from the date of their placement, acquisition or issuance and with high liquidity. Cash and cash equivalents also include interest on cash equivalents.

### 2.2.12 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale, if their carrying amount is to be recovered principally through sale transactions rather than through continuing use, under condition that they are available for immediate sale in their present condition subject only to terms that are customary for sales of such assets (or disposal groups) and their sale must be highly probable.

Before the initial classification of assets (or disposal groups) as held for sale, the carrying amount of the asset is measured in accordance with applicable standards.

At the moment of reclassification these assets are measured at the lower of their carrying amount and their fair value less costs to sell.

### 2.2.13 Equity

Equity consists of:

1. Share capital,
2. Revaluation reserve from measurement of the cash flow hedging instruments in the portion reflecting an effective hedge,
3. Revaluation reserve from the fair value measurement of available-for-sale financial assets,
4. Exchange differences from the translation of foreign operations statements.
5. Retained earnings, composed of:
  - undistributed profit or unabsorbed losses from previous years,
  - reserve capital created in accordance with the Commercial Partnerships and Companies Code,
  - reserve capital created and used in accordance with the Statutes,
  - capital from valuation of the put option for employee shares,
  - actuarial gains/losses from the measurement of specified benefits programs following the period of employment,
  - profit or loss for the period.

## 2. Main accounting policies (continued)

### 2.2.14 Liabilities

Liabilities are present obligations of the Group arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Liabilities comprise:

- liabilities arising from bank loans, debt securities, other loans (borrowings) and finance lease liabilities,
- trade payables,
- other financial liabilities, and
- other non-financial liabilities.

Liabilities are measured at amortised cost in accordance with IAS 39.

Current trade payables are recognised in the statement of financial position at their nominal value. The carrying amount of these liabilities reflects the approximate amount representing the level of amortised cost, calculated using the effective interest rate.

Liabilities not classified as financial liabilities are measured at the amount due.

### 2.2.15 Leases

A lease is classified as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership of assets. The leased asset is capitalised at the inception of the lease at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

A depreciable asset acquired in a finance lease is depreciated over the shorter of its useful life and the lease term. Minimum leasing payments are divided between finance costs and the decrease of liabilities due to leasing. Finance costs are settled in the specific periods covered by a given lease, to receive a fixed period interest rate in respect of the unpaid balance of the liability. Contingent leasing payments are recognised as a cost in the period in which they are incurred.

Where the substantial part of the risks and rewards incidental to ownership of an asset is retained by the lessor, a lease contract is classified as an operating lease. Payments under operating leases are settled using the straight line method over the life of the contract. Group liabilities due to operating leases not recognised in the statement of financial position, in particular with regard to payments to the State Treasury and to territorial self-government entities due to perpetual usufruct of land, as well as liabilities due to other operating leases agreements, are presented in note 44.

### 2.2.16 Accrued expenses

Accrued expenses are due and payable liabilities arising from goods received or services performed, for which the payment has not yet been made, an invoice has not been received or a formal agreement not been reached with the supplier, including amounts due to employees.

Accruals include among others:

- remuneration and the related surcharges paid on a one-off basis, relating to annual periods,
- accrued taxes and local fees,
- short-term accruals for unused annual leave,
- provisions for costs resulting from the requirement to redeem property rights resulting from certificates of origin of energy from renewable resources and cogeneration, and
- provisions for costs arising from the obligation to redeem allowances for emissions of CO<sub>2</sub>.

### 2.2.17 Deferred income

Deferred income includes mainly:

- monetary resources received to finance the acquisition or manufacture of fixed assets under construction or development work, which are recognised as income over the periods necessary to match them with the depreciation of the assets financed by these resources, and
- the amount being the equivalent fair value of CO<sub>2</sub> emissions allowances received free of charge which are settled in profit or loss matching actual CO<sub>2</sub> emissions, in the scope in which such emissions were covered by allowances received,
- prepayment by Franco Nevada under an agreement for the supply of 50% of gold, platinum and palladium content in ore extracted by the KGHM INTERNATIONAL LTD. Group.

## 2. Main accounting policies (continued)

The value of fixed assets, fixed assets under construction and intangible assets acquired for free as grants, is accounted for in accordance with description in point 2.2.27.

### 2.2.18 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are recognised, in particular, in respect of the following:

- future costs of mine decommissioning, after the conclusion of mining activities,
- future costs of decommissioning of technological facilities (in the copper smelters) and other facilities in cases where the law provides for the obligation to dismantle and remove such assets after the conclusion of mining activities and to restore the sites to their original condition,
- the effects of court proceedings and of disputed issues, and
- guarantees granted.

Provisions are recognised in an amount representing the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditure expected to be required to settle the obligation.

The provision for future decommissioning costs of mines and other facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition. Estimation of this provision is based on specially-prepared studies using ore exploitation forecasts (for mining facilities), and technical-economic expertise prepared either by specialist firms or within the Parent Entity. Provisions are reviewed at the end of the reporting period.

All changes arising from changes in the amount of provisions are recognised in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*.

Revaluations of the provision reflect:

- decreases due to its utilisation,
- increases due to the approach of time (unwinding of the discount) – recognition in finance costs,
- increases/decreases due to changes in the discount rate – recognition in the initial value of property, plant and equipment\*,
- increases/decreases due to changes in assumptions, including changes in construction-assembly prices – recognition in the initial value of property, plant and equipment\*,
- increases due to the acquisition of new assets under the future decommissioning program,
- decreases due to early, unplanned liquidation of assets under the future decommissioning program.

\*Changes in the discount rate or in the estimated decommissioning cost adjust the value of the relevant item of property, plant and equipment, unless the amount of this change exceeds the carrying amount of property, plant and equipment. Any surplus above this amount is immediately recognised in profit or loss of the current period in other operating income.

The discount rate calculation methodology used to measure provisions is described in Note 3.

In accordance with IAS 1 *Presentation of Financial Statements* provisions are presented in the statement of financial position as either current or non-current.

### 2.2.19 Employee benefits

The Group pays benefits due to one-off retirement-disability rights, post-mortem benefits, coal equivalent payments and jubilee bonuses according to the Collective Labour Agreements.

The amount of the liability due to these benefits is equal to the present value of the defined benefit obligation at the end of the reporting period, and reflects actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the end of the reporting period by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of future benefit payment, with maturities similar to those of the liabilities due to be paid. According to IAS 19, Employee benefits, the discount rate should be based on the market yields of highly liquid commercial bonds with low risk. Should there be no developed market for such bonds, and such a situation



## 2. Main accounting policies (continued)

does exist in Poland, the yield on government bonds at the end of the reporting period should be applied. Market rates of return used for estimating of provisions are discussed in note 3.

Actuarial gains and losses from the measurement of specified benefits programs following the period of employment are recognised in other comprehensive income in the period in which they arose. Actuarial gains/losses from other benefits (for example benefits due to jubilee bonuses are recognised in profit or loss). Costs of past employment related to defined benefit plans are recognised in profit or loss once in the period in which they arose.

### 2.2.20 Income taxes

Income taxes recognised in profit or loss comprise: current tax and deferred tax.

Current income tax is calculated in accordance with current tax laws.

Deferred tax is determined using tax rates and laws that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

A deferred tax liability is recognised for all taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. This liability is not discounted.

A deferred tax asset is recognised for all deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised if it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:

- is not a business combination, and
- at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax liability is likewise not recognised on temporary differences arising from the initial recognition of goodwill.

Deferred tax is recognised in profit or loss for a given period, unless the deferred tax:

- arises from transactions or events which are directly recognised in other comprehensive income – in which case the deferred tax is also recognised in the other comprehensive income, or
- arises from a business combination – in which case the deferred tax affects goodwill or gains on a bargain purchase.

Deferred tax assets and deferred tax liabilities are offset if the Group entities have a legally enforceable right to set off current tax assets and current tax liabilities, and if the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

### 2.2.21 Contingent liabilities

Contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- b) a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
  - the amount of the obligation (liability) cannot be measured with sufficient reliability.

The contingent liabilities include, among others:

- guarantees and promissory notes issued for the benefit of third-parties in connection with contracts,
- liabilities due to compensation for damages arising in the course of business activities, resulting from matters which remain unresolved,
- conditionally-suspended penalties for economic use of the natural environment, and
- other contingent liabilities arising from contracts.

## 2. Main accounting policies (continued)

### 2.2.22 Presentation of income and costs in the reporting period

The Group presents information on income and costs and gains and losses in the reporting period in the statement of profit or loss and in the statement of comprehensive income.

**The statement of profit or loss** for a given period presents the total amount of all income and costs in a period, excluding items of other comprehensive income. The cost of sales format is applied as the basic costs accounting method. Result of the period in the statement of profit or loss is the profit/loss for the period.

**The statement of comprehensive income** presents profit or loss for the period in a single amount as well as items of other comprehensive income. Under other comprehensive income the Group recognises gains and losses which, under individual standards, should be recognised apart from the statement of profit or loss. In addition the Group presents items of other comprehensive income in two groups, separating those items which, under other IFRSs, will be reclassified subsequently to profit or loss when specified conditions are met from those items which will not be reclassified.

Consequently, in the group of items which, under other IFRSs, will be reclassified to profit or loss when specified conditions are met, the following are recognised:

- gains and losses of the period regarding the fair value measurement of available-for-sale financial assets,
- gains and losses from the fair value measurement of the effective portion of future cash flow hedging instruments, and
- exchange differences from the translation of foreign operations, including related tax effect.

For those items which will not be reclassified to profit or loss the following is recognised:

- actuarial gains or losses, including related tax effect.

Profit for the period in the statement of comprehensive income is the total comprehensive income for the period, being the sum of profit or loss for the period and other comprehensive income.

### 2.2.23 Revenues

Revenues from sales are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. In the case of sales for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale. Revenues from sales which are recognised at such an amount are adjusted at the end of each reporting period by any change in the fair value of embedded derivatives, which are separated from the host sales contract in accordance with point 2.2.8.6. Sales revenues are adjusted for the gain or loss from the settlement of derivative hedging future cash flows, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same item of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

Recognised in sales are revenues arising from ordinary operating activities of the Group, i.e. revenues from sales of products, services, merchandise and materials, reflecting any rebates granted and any other decreases in selling prices.

In addition, revenue for the given reporting period which affects the profit or loss of the period includes:

**other operating income**, which is indirectly related to the activities carried out, in particular:

- income and gains from investments (including income from dividends and interest),
- gains from the measurement and realisation of trading derivatives and the ineffective portion of gains from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities,
- reversal of impairment losses on held-to-maturity investments, available-for-sale financial assets, and loans,
- release of unused provisions, previously charged to other operating costs,
- gains on disposal of property, plant and equipment and intangible assets, and
- received subsidies and donations.

**finance income**, representing primarily income related to financing of the activities of the Group, including:

- net foreign exchange gains arising exclusively on liabilities from sources of financing of the Group activities (bank and other loans, bonds, finance leases etc.),
- income from realisation and fair value measurement of derivatives related to hedge liabilities financing the Group's activities.

## 2. Main accounting policies (continued)

### Moment of recognition of revenues

#### Revenues from the sale of products, merchandise and materials are recognised when:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the merchandise, finished goods and materials,
- the Group has ceased to have a continued involvement in the management of merchandise, finished goods and materials sold to the extent usually associated with inventory management function, and no longer exercises effective control over those items,
- the amount of revenue can be measured in a reliable manner,
- it is probable that the economic benefits associated with the transaction will flow to the Group, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

The transferral of the subject of transaction is done when substantially all of the risks and rewards of ownership of the merchandise are transferred to the buyer, in accordance with the INCOTERMS delivery base used for a given transaction.

#### Revenues from the sale of services are recognised when:

- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Group,
- the stage of completion of the transaction at the end of the reporting period can be measured reliably, and
- the costs connected with the transaction and the costs to complete the transaction can be measured reliably.

#### Revenues from the realisation of construction contracts

In a case where the result of a contract can be reliably estimated, the Group recognises income and costs respectively to the degree of realisation of a contract at the end of the reporting period. The degree of realisation is measured as the proportion of costs incurred to the total estimated costs of the contract. Income from contracts comprises the initial amount of income described in a contract and any changes in the scope of work, claims and premiums to the extent to which it is probable that they will result in income and it is possible to reliably determine their value, and that the party requesting such changes agrees to them.

In a case where the result of a contract cannot be reliably estimated, the Group recognises income from this contract at the amount of costs incurred, in respect of which it is probable that they will be recovered. Contract-related costs are recognised as costs of the period in which they were incurred.

In a case where it is probable that the total costs of a contract exceed total income from the contract, the anticipated loss on the contract is recognised immediately as a cost.

Interest income is recognised on an accrual basis, using the effective interest method.

Income from dividends is recognised when the shareholder's right is set.

### 2.2.24 Costs

The Group recognises as costs any probable decrease, in the reporting period, of economic benefits of a reliably-determined amount, in the form of a decrease in the value of assets, or an increase of provisions and liabilities, which lead to a decrease in equity or an increase in negative equity in a manner other than the withdrawal of funds by its shareholders or owners.

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals. In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the end of each reporting period is adjusted by any change in the fair value of embedded derivatives, which are separated from the host purchase contract in accordance with point 2.2.8.6.

Costs are accounted for both by nature and by the cost centres, and are reported in profit or loss using the costs by function (cost of sales) format as the primary cost reporting format.

The total cost of products, merchandise and materials sold comprises:

- the manufacturing cost of products sold,
- the cost of merchandise and materials sold,
- selling costs, and
- administrative expenses.

## 2. Main accounting policies (continued)

In addition, costs for the given reporting period which affect profit or loss for the period include **other operating costs**, indirectly connected with operating activities, including in particular:

- costs and losses on financial investments,
- losses from the measurement and realisation of traded derivatives and the ineffective portion of losses arising from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities,
- impairment losses on held-to-maturity investments, available-for-sale financial assets, loans and other investments,
- provisions recognised for disputed issues, penalties, compensation and other costs indirectly related to operating activities,
- donations granted,
- losses on disposal of property, plant and equipment and intangible assets, and

**finance costs** related to financing of the activities of the Group, including in particular:

- overdraft interest,
- interest on short- and long-term loans, bank loans, debt securities and other sources of finance, including unwinding of the discount from non-current liabilities,
- net foreign exchange losses arising on liabilities from sources of financing of the Group's activities,
- costs from the realisation and fair value measurement of derivatives related to the liabilities due to financing of the entity, and
- changes in provisions arising from the approach of the maturity date of a liability (the so-called unwinding of the discount effect).

### 2.2.25 Foreign currency transactions and the measurement of items denominated in foreign currencies

#### Functional and presentation currency

Items included in the financial statements of Group entities are measured using the currency of the primary economic environment in which the Group's entities operate, i.e. in the functional currency. The functional currency of individual Group entities is the currency in which the given entity generates and expends cash, in particular:

- the functional currency of entities operating in Poland is the złoty (zł., PLN),
- the functional currency of entities operating in the subgroup KGHM INTERNATIONAL LTD. is the US dollar (\$, USD),
- the functional currency of the remaining entities is the currency of the given economic environment.

The consolidated financial statements of the Group are presented in the Polish złoty (PLN).

#### Transactions and balances

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

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

At the end of each reporting period:

- foreign currency monetary items are translated at the closing rate prevailing on that date,
- non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate prevailing on the transaction date, and
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

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

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

## 2. Main accounting policies (continued)

Foreign exchange gains or losses arising on non-monetary items, such as equity instruments, are recognised as an element of changes in fair value, if such instruments are measured at fair value through profit or loss, or in other comprehensive income at fair value, if such equity instruments are classified as available-for-sale financial assets.

### 2.2.26 Borrowing costs

Borrowing costs, which are directly attributable to the acquisition, construction or production of a qualifying asset, affect its initial value as an element of its cost. Such costs are capitalised when it is probable that they will result in future economic benefits to the entity, and the costs can be measured reliably.

Borrowing costs consist of interest and other borrowing-related costs incurred, and include in particular:

- interest costs calculated using the effective interest method in accordance with IAS 39;
- financial charges due to financial leasing contracts recognised in accordance with IAS 17;
- exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Borrowing costs for loans which were drawn without a specified purpose, but which were allocated to finance the acquisition or production of a qualifying asset, affect the initial value of the qualifying asset by the amount of the capitalisation rate applied to the expenditures on that asset. The capitalisation rate is the weighted average of all borrowing costs of an entity that are outstanding during a given period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Exchange differences on borrowings drawn in a foreign currency (both specific and general) affect the initial value of the qualifying asset to the extent in which it represents an adjustment of interest costs. The amount of the exchange differences adjusting the interest cost is the difference between the cost of interest on similar financing which a Group would have drawn in its functional currency and the financing cost incurred in the foreign currency.

Other borrowing costs are accounted for as costs in profit or loss in the period in which they are incurred.

### 2.2.27 Government grants

Government grants are not recognised until there is a reasonable assurance that the entity will comply with the conditions attaching to them, and that the grants will be received.

Grants for assets are presented in the statement of financial position as deferred income and are recognised systematically as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They are not credited directly to equity.

A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable.

Grants related to income are presented as income, separately from the related costs which the grants are intended to compensate. Grants are recognised as income regardless of whether they were received in the form of cash or as a decrease of liabilities.

Non-monetary grants are accounted for at their fair value.

### 2.2.28 Segment reporting

Segment reporting involves the grouping of segments by the component parts of the Group:

- that engage in business activities from which the component may earn revenues and incur expenses,
- whose operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

## 2. Main accounting policies (continued)

The Management Board of KGHM Polska Miedź S.A. is the main body responsible for making decisions as to the allocation of resources and for assessing segment results (the chief operating decision maker, or CDM). As a result of analysis of the manner of supervision of Group companies and of management of the Group, reflecting aggregation criteria and quantitative thresholds from IFRS 8, the reporting segments were identified which are presented in note 5.

### 2.2.29 Earnings per share

Earnings per share for each period are calculated by dividing the profit for the given period attributable to the shareholders of the Parent Entity by the average weighted number of shares in that reporting period.

### 2.2.30 Statement of cash flows

Cash flows from operating activities are presented using the indirect method.

### 2.2.31 Capital management

The Group manages its capital in order to maintain the capacity to continue its operations, including the realisation of planned investments, in a manner enabling it to generate returns for the shareholders and benefits to other stakeholders.

In accordance with market practice, the effective use of capital is monitored among others on the basis of the following ratios:

- The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets, and
- The ratio showing the relationship of borrowings and finance lease liabilities less cash and cash equivalents to EBITDA. EBITDA is operating profit plus depreciation/amortisation.

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

### 2.2.32 Property rights resulting from certificates of origin for energy from renewable resources and cogeneration

Based on the Energy Act and on executive decrees of the Minister of the Economy, power companies involved in the generation and trade in and sale of electricity to end users are required to purchase and present for redemption property rights resulting from certificates of origin or the making of substitute fees.

This obligation is considered as met if, for a given financial year, the share of total volume of electricity resulting from said certificates of origin in the total annual sale of electricity to end users conforms to the limits set forth in decrees of the Minister of the Economy.

Property rights resulting from certificates of origin are recognised in the statement of financial position under merchandise.

The acquired property rights are initially measured at cost, equivalent to:

- the cost of a given certificate of origin based on current market price, or
- the amount of the negotiated contractual price if such rights are purchased in off-session market transactions.

Property rights **received free of charge**, granted by the President of the Energy Regulatory Office, are **measured at fair value** at inception and are treated, as non-cash subsidies, as a one-off recognition under profit or loss in other operating income. The Group recognises property rights received free of charge on the date of generation and sale of a given type of coloured energy, i.e. at the moment the right to receive transferable property rights arises.

At the end of the reporting period property rights are measured at cost less any impairment, though in no case higher than their net sale price. The disbursement of property rights is performed based on the average weighted cost of the given asset.

## 2. Main accounting policies (continued)

The allocation of property rights due to their sale is taken to profit or loss and recognised as a value of sold property rights – merchandise. Revenues from the sale of property rights to energy are recognised in profit or loss as revenues from the sale of property rights – merchandise.

A deficit in property rights is supplemented by their purchase or through substitute fees.

At the end of the reporting period, due to the obligation to redeem property rights, the Group creates a provision. The provision:

- increases the value (cost of acquisition) of merchandise sold to the extent to which the obligation to redeem property rights involves electricity purchased and sold to end consumers,
- increases the cost of manufactured products to the extent to which the obligation to redeem property rights involves electricity purchased and consumed to meet a company's needs, and
- increases the cost of generated energy sold to the extent to which the obligation to redeem property rights involves electricity manufactured by the company and sold to end consumers.

The provision is measured:

- at the carrying amount of the property rights held, and
- to the extent not covered by the property rights held – at the market value of the property rights at the date the provision is created or at the amount of the substitute fees matching the amount of energy sold, whichever is lower.

In the statement of financial position, the provision for liabilities due to the obligation to redeem an appropriate number of certificates with the President of the Energy Regulatory Office as well as the assets held in the form of property rights resulting from certificates of origin are shown separately.

Settlement of the provision and the redemption of property rights is made at the date of redemption of these rights by the President of the Energy Regulatory Office.

### 3. Important estimates and assumptions

In preparing the consolidated financial statements, the Management Board of the Parent Entity makes use of estimates based on assumptions and opinions which affect the applied accounting principles and presented assets, liabilities, income and costs. The assumptions and estimates on which they are based result from historical experience and the analysis of various factors which are considered as prudent, while their results represent the basis for professional judgement as to the value of the item which they concern. In certain vital questions the Management Board relies on the opinions of independent experts. Estimates and assumptions of importance for the consolidated financial statements of the Group are presented below.

#### (a) Settlement of the acquisition of subsidiaries

In the current reporting period, the KGHM Polska Miedź S.A. Group performed a preliminary identification of the assets and liabilities of the acquired KGHM INTERNATIONAL LTD. Group and recognised them in the consolidated financial statements in provisionally set amounts. Estimates and assumptions related to the identification and fair value measurement of the acquired assets and liabilities of the KGHM INTERNATIONAL LTD. Group are described in note 4.

#### (b) Joint ventures (jointly controlled entities)

In the current period the Group classified the following two projects as a joint ventures under IAS 31:

- the „JV Sierra Gorda” agreement, in which the share of KGHM INTERNATIONAL LTD. equals to 55%, entered into to develop the extraction of copper and molybdenum in the Sierra Gorda area,
- the agreement „Elektrownia Blachownia Nowa”, in which the Group has 50% interest, entered into to build a gas-fired source of power generation on the grounds of the existing Blachownia Power Plant.

Classification of Sierra Gorda S.C.M. as joint venture agreement despite the 55% share of the Group, was made based on analysis of the terms of the agreements between the parties and contractual stipulations which indicated jointly control relationship.

Analysis was also performed of the impact of IFRS 11 *Joint arrangements*, which is obligatory for the Group for annual periods beginning on or after 1 January 2014, on the recognition and measurement of the current joint ventures of the Group. This analysis determined that IFRS 11 will not cause changes in the classification and recognition of the current joint ventures of the Group.

According to this method the shares in the jointly controlled entities were measured at the moment of initial recognition at cost, and then on dates ending subsequent reporting periods were respectively adjusted by any changes which appeared after the date of their acquisition in the value of net assets attributable to the share of the joint operator. Financial data on joint ventures is presented in note 9.

#### (c) Property, plant and equipment – depreciation

The management boards of Group companies perform annual reviews of residual values, depreciation methods and anticipated periods of use of property, plant and equipment subject to depreciation.

The depreciation methods adopted reflect the manner of use of the economic benefits received from a given asset.

For assets which, in the opinion of companies management boards, are used on a systematic basis, the straight-line method of depreciation is applied. Depreciation are set through the estimation of periods of use and equal distribution of the amounts to be depreciated. It is estimated that the periods of use of assets acquired by Group companies for purposes of depreciation reflect the expected periods in which these assets will provide economic benefits in the future. The net value of property, plant and equipment subject to depreciation using the straight line method as at 31 December 2012 amounted to PLN 8 110 million (as at 31 December 2011, PLN 7 169 million).

For assets whose utilisation, in the opinion of company management boards, is directly related to the amount of mineral extracted from ore or the amount of cathodes produced, and extraction or production is not equally distributed during their useful lives, the natural depreciation method (units of production method) is applied. Depreciation are estimated based on the expected amount of mineral reserves tonnage to be extracted, or based on the expected amount of copper cathodes to be produced. The net value of property, plant and equipment subject to depreciation using the units of production method as at 31 December 2012, amounted to PLN 3 468 million, and represented the assets of KGHM INTERNATIONAL LTD.



### **3. Important estimates and assumptions (continued)**

#### **(d) Testing for impairment**

Pursuant to IAS 36, the Management Board of the Parent Entity, at the end of the reporting period, performs annual testing for the impairment of cash-generating units to which goodwill was allocated. The impairment tests performed in the current period were in respect of the goodwill assigned to three cash-generating units in the total amount of PLN 66 million. As a result of this work the fair value less selling costs of these cash-generating units was estimated, using discounted cash flow based on current six-year financial plans approved by management. Due to the nature of the sector, the plans of the companies are approved for the period to 2018. In this calculation a discount rate of 4.56% was applied for WPEC w Legnicy S.A., 4.23% for Energetyka Sp. z o.o. and 9.77% for NITROERG S.A.

As a result of the tests performed and the estimated future benefits due to synergy achieved as a result of combination, as at 31 December 2012, no impairment of goodwill was identified.

IAS 36 also requires annual testing for impairment of intangible assets with unspecified periods of use. As at 31 December 2012, the Group has included in this group of intangible assets water rights held in Chile, acquired as a result of the acquisition of the Quadra FNX Group – note 4, in the item "Mineral properties, plant and equipment and other intangible asset" in the amount of PLN 180 million (USD 58 million) accounted for provisionally. The adoption of an unspecified period of use was due to the nature of this asset, i.e. the inexhaustibility of the source. As part of the testing of this asset, its recoverable amount was measured, using assumptions respecting the market price of a liter of water recovered from the source per second at the level of USD 150 thousand (the equivalent of PLN 465 thousand, at the USD/PLN sale price set by the National Bank of Poland from 31 December 2012).

As a result of comparing the carrying amount of these water rights to their recoverable amount as determined by an independent assessor, no impairment was identified.

#### **(e) Valuation of inventories**

In the consolidated financial statements the amount of the inventories of the KGHM INTERNATIONAL LTD. Group, which arise from the leaching process, is determined based on the estimated recovery of metal from ore. The nature of the process of leaching copper from ore restricts the precision of monitoring the level of inventories arising during this process. In subsequent reporting periods, adjustments are made to the estimated recovery of copper from the leaching of ore in a given reporting period to the level of production achieved in the subsequent period. As at 31 December 2012, the provisionally-set value of inventories amounted to USD 72 million (PLN 225 million).

#### **(f) Impairment of available-for-sale financial assets**

As at 31 December 2012, the Group identified evidence of an impairment of the shares classified to the category of available-for-sale assets in accordance with the accounting policy binding in the Group. A substantial or lasting decrease in the fair value of these shares versus the cost of their acquisition resulted in the impairment of the assets held in Tauron Polska Energia S.A., whose shares are listed on the Warsaw Stock Exchange, and of the shares of ABACUS MINING & EXPLORATION CORPORATION listed on the TSX Venture Exchange, and the need to recognise an impairment losses of PLN 151 million with respect to the shares of Tauron Polska Energia S.A. and PLN 7 million with respect to the shares of ABACUS MINING & EXPLORATION CORPORATION. As a result of this impairment loss the existing losses as an adjustment due to reclassification were removed from the revaluation reserve from the measurement of available-for-sale financial assets, and the entire impairment loss was recognised in profit or loss.

As at 31 December 2012 the carrying amount of available-for-sale financial assets was PLN 1 041 million (as at 31 December 2011, PLN 1 010 million).

#### **(g) Measurement of future employee benefits liabilities**

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

Future employee benefits (retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments) are equal to the present value of the defined benefit obligation. The amount of obligations depends on many factors, which are used as assumptions in the actuarial method. Every change in these assumptions impacts the carrying amount of the liability.

### 3. Important estimates and assumptions (continued)

One of the basic assumptions for setting the amount of these liabilities is the interest rate. At the end of the reporting period, based on the opinion of an independent actuary, an appropriate discount rate is applied used for setting the present value of estimated future cash flow due to these benefits. In setting the discount rate for the reporting period, the actuary extrapolates current interest rates of government bonds along the profitability curve expressed in the currency of the future benefits payments, to obtain a discount rate enabling the discounting of payments using maturities which are longer than the maturities of the bonds.

Remaining macroeconomic assumptions used to measure liabilities due to future employee benefits, such as inflation or the minimum wage, are based in part on current market conditions. The assumptions applied to measurement as at 31 December 2012 may be found in note 25.

#### Impact of changes in the indicators on the balance of liabilities

	At	
	31 December 2012	31 December 2011
an increase in the discount rate by 1%	(178)	(122)
a decrease in the discount rate by 1%	230	168
an increase in the coal price and salary increase rates by 1%	227	177
a decrease in the coal price and salary increase rates by 1%	(181)	(132)

#### (h) Provision for decommissioning costs of mines and other facilities

This provision represents the discounted to present value estimated future decommissioning costs of mines and other facilities. Revaluation of this provision at the end of the reporting period is affected by the following indicators:

- a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
- b) the real discount rate calculated based on the yield of treasury bonds with the maturities nearest to planned financial outflow (nominal discount rate) and the forecast rate of inflation.
- c) the rate of return on investments in US 10-year treasury notes, and
- d) the rate of return on investments in 5-year and 10-year government bonds issued by the National Bank of Canada.

Detailed information on revaluation of provisions is presented in Note 26.

Discount rates (nominal and inflation) in the Parent Entity are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year.

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

- 1.2% - 1.8% - in the United States,
- 1.8% - in Canada.

A 1% increase in the nominal discount rate (assumed in the reporting period in the Parent Entity at the level of 4.2%) used to estimate the amount of the provision for decommissioning costs of mines and other facilities in the Parent Entity would cause a decrease in the carrying amount of the provision by PLN 171 million. However, a 1% decrease in the nominal discount rate, which is the most impacting factor on the estimated provision, would cause an increase in the carrying amount of the provision by PLN 223 million.

An increase in the real discount rate used to estimate the provision for the decommissioning costs of mines and other technological facilities in the KGHM INTERNATIONAL LTD. Group by 1% would cause a decrease in the carrying amount of this provision by PLN 21 million. Meanwhile a decrease in the real discount rate by 1% would cause an increase in the carrying amount of this provision by PLN 23 million.

The programme and schedule of decommissioning of technological facilities and estimates of decommissioning costs for the Parent Entity have been worked on since 2001 in cooperation with the subsidiary, KGHM Cuprum sp. z o.o. CBR. Revaluations of the base decommissioning costs, calculated in 2001, are made periodically, generally based on the index of changes in prices for the construction-assembly industry, which are published by the GUS, and movements in tangible fixed assets encompassed by the programme.

### **3. Important estimates and assumptions (continued)**

Subsequent updates are made should there occur economic events affecting the amount of the provision, while also utilising experience gained during the decommissioning of individual facilities. The last update to the decommissioning plan was made in 2011. The lack of an update in the schedule of decommissioning costs of technological facility in KGHM Polska Miedź S.A. in 2012 was due to the lack of existence of significant economic events affecting the value of the technological facilities covered by the provisions, and therefore, as a result of work performed, the present closure program reflects the schedule of technological facility closures from 2009 and the current update in forecast decommissioning costs. According to this update, the total costs of decommissioning increased by 2%, i.e. by PLN 31 million. The update assumed that mine production in KGHM Polska Miedź S.A. in the current concession areas will end in 2042.

Estimate of the decommissioning costs of mines and other technological facilities in the KGHM INTERNATIONAL LTD. Group is performed based on methodology created jointly by the Nevada Department of Environmental Protection (NDEP) and the U.S. Bureau of Land Management (BLM). The most recent update of this model and of the Standard Reclamation Cost Estimator (SRCE) was made in 2011. To calculate the decommissioning costs of mines and technological facilities in the KGHM INTERNATIONAL LTD. Group, it was also assumed that mined production by the Robinson mine would end in 2019, and by the Carlota mine 2017.

#### **(i) Deferred tax assets/liabilities**

The deferred tax assets/liabilities are measured using the tax rates which are expected to apply at the moment when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted at the end of the reporting period in the given country.

The probability of realising the deferred tax asset with future tax income is based on the budgets of Group companies. The companies of the Group recognised in their accounts deferred tax assets in amounts to which it is probable that they will achieve taxable profit which will enable the deduction of deductible temporary differences.

Companies of the Group which historically have generated losses, and whose financial projections do not foresee the achievement of taxable profit enabling the deduction of deductible temporary differences, do not recognise deferred tax assets in their accounts.

#### **(j) Investment property**

Investment property is measured at fair value, depending on the nature of the investment by either the comprehensive or income approach. The measurement of investment property was carried out by independent, professionally-qualified valuers, holding valid authorisation to perform such valuation. The property (land) located in Lubin and belonging to KGHM Ecoren S.A. was estimated using a comprehensive approach, by comparing sale prices of similar properties during the period of assessment. The remaining investment property was measured using the income approach, by investment techniques. Selection of the approach and method was based on principles set forth in the act on property management and the decree of the Council of Ministers regarding the principles of property valuation and the principles and manner of preparing a valuation survey. Detailed information is presented in note 8.

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**4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries**

Entity	Head office	Scope of activities	% of Group's share as at	
			31 December 2012	31 December 2011
"BIOWIND" sp. z o.o.	Lubin	generation, transfer and distribution of electricity	100	100
BIPROMET S.A.	Katowice	construction, urban planning, and technology design; erection of complete facilities or parts thereof; civil and water engineering; property leasing	66	66
Bipromet Ecosystem Sp. z o.o.	Katowice	execution of central heating and ventilation installations	33.66	33.66
CBJ sp. z o.o.	Lubin	technical research and analyses; measurement of imissions and emissions; industrial research	100	100
CENTROŻŁOM WROCŁAW S.A.	Wrocław	purchase/sale of scrap: steel, coloured metals and steel alloys, sale of smelter products and construction reinforcing materials, waste recycling	85	85
DFM ZANAM - LEGMET Sp. z o.o.	Polkowice	repair and manufacture of machinery	100	100
Ecoren DKE sp. z o.o.	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	100	100
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat; water-sewage management	100	100
Fermat 1 S.á r.l.	Luxembourg	foundation, development, management or exercise of control of other companies	100	100
Fermat 2 S.á r.l.	Luxembourg	foundation, development, management or exercise of control of other companies	100	100
Fermat 3 S.á r.l.	Luxembourg	foundation, development, management or exercise of control of other companies	100	-
Fundusz Hotele 01 Sp. z o.o.	Wrocław	financial activities, trade in real estate, management consulting	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Wrocław	financial activities, retail and wholesale of different merchandise and products	100	100
Polska Grupa Uzdrowisk sp. z o.o. – former Fundusz Uzdrowiska 01 Sp. z o.o.	Wrocław	financial holding activities, financial services, turnover and real estate services	100	100
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A. – since 9 January 2013 Polska Grupa Uzdrowisk Sp. z o.o. SKA	Warsaw	financial activities, retail and wholesale of different merchandise and products	100	100
INOVA Spółka z o.o.	Lubin	inspections and control of machinery, R&D work	100	100
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	67.71	66.82
Interferie Medical SPA Sp. z o.o.	Lubin	hotel services, recreation, rehabilitation, health tourism and wellness	89.46	89.17
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	80	51
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100

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**4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)**

Entity	Head office	Scope of activities	% of Group's share as at	
			31 December 2012	31 December 2011
KGHM Ecoren S.A.	Lubin	production of ammonium perrhenate and road-building material; sale of raw materials for the production of abrasives; the processing and recovery of metals from ores, mineral resources and industrial waste	100	100
KGHM Kupfer AG	Berlin	exploration for and evaluation of deposits of copper and other metals in Europe	100	100
KGHM I FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM II FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM III FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM Kupferhandelsges. m.b.H.i L.	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation; technology transfer; operation of a technology park; property sale and rental	85.45	85.45
KGHM Metraco S.A.	Legnica	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt, spedition services	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	wholesale activities, import/export of copper/silicon products and chemicals, mechanical and electrical equipment, office materials, commercial consulting services	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	hospital services; physician practice; activities related to protecting human health; occupational medicine	100	100
NITROERG S.A.	Bieruń	production of explosives and detonation agents used in mining	85	85
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
Przedsiębiorstwo Budowlane Katowice S.A.	Katowice	construction of complete facilities or parts thereof, general and specialty construction	58.08	58.08
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
Sugarloaf Ranches Limited	Vancouver	agricultural activity	100*	-

\* actual Group share

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**4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)**

Entity	Head office	Scope of activities	% of Group's share as at	
			31 December 2012	31 December 2011
PMT Linie Kolejowe Sp. z o.o.	Polkowice	management over railway infrastructure	100	100
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	railway and road transportation services; trade in fuels	100	100
„Uzdrowsko Cieplice” Sp. z o.o.	Jelenia Góra	spa services	91.67	91.67
Uzdrowsko Polczyn S.A.	Polczyn Zdrój	spa services	90.45	90.45
Uzdrowsko “Świeradów-Czerniawa” Sp. z o.o.	Świeradów Zdrój	spa services	87.74	87.74
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics	98.5	98.5
WMN “ŁABĘDY” S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	84.96	84.96
WPEC w Legnicy S.A.	Legnica	generation, transfer and distribution of heat	85	85
Zagłębie Lubin S.A.	Lubin	management of football section, organisation of professional sporting events	100	100
ZUK S.A.	Polanica Zdrój	spa services, production and sale of mineral waters	91.80	91.80
0929260 B.C U.L.C.	Vancouver	management or exercise of control of other companies	100	-
<b>KGHM INTERNATIONAL LTD. Group</b>				
KGHM INTERNATIONAL LTD.	Vancouver	foundation, development, management or exercise of control of other companies	100	-
Quadra FNX Moly Holdings (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	-
Quadra FNX Intermoly Holdings Limited	Barbados	management and exercise of control of other companies	100	-
Malmbjerg Molybdenum A/S	Greenland	management and development of the Malmbjerg project with respect to molybdenum mining	100	-
International Molybdenum Plc	United Kingdom	financial activities	100	-
Quadra FNX Holdings (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	-
Quadra FNX Chile (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	-
Quadra FNX Holdings Chile Limitada	Chile	management and exercise of control of other companies	100	-
Quadra FNX SG (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	-
Quadra FNX Water Holdings (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	-
Aguas de la Sierra Limitada	Chile	ownership and exercise of water rights in Chile	100	-

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**4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)**

Entity	Head office	Scope of activities	% of Group's share as at	
			31 December 2012	31 December 2011
Quadra FNX FFI Ltd.	Barbados	financial activities	100	-
Robinson Holdings (USA) Ltd.	Nevada, USA	technical and management services for subsidiaries in the USA	100	-
Wendover Bulk Transshipment Company	Nevada, USA	loading services for the Robinson mine	100	-
Robinson Nevada Mining Company	Nevada, USA	copper ore mining, copper production and sale	100	-
Robinson Nevada Railroad Company	Nevada, USA	railway services for the Robinson mine	100	-
Carlota Holdings Company	Arizona, USA	management and exercise of control of other companies	100	-
Carlota Copper Company	Arizona, USA	leaching of copper ore, copper production and sale	100	-
FNX Mining Company Inc.	Ontario, Canada	copper and nickel ore mining, copper and nickel production and sale, Victoria project development	100	-
DMC Mining Services Ltd.	Ontario, Canada	mining services contracting	100	-
Quadra FNX Holdings Partnership	British Columbia, Canada	management and exercise of control of other companies	100	-
Raise Boring Mining Services, S.A. de C.V.	Mexico	mining services contracting	100	-
FNX Mining Company USA Inc.	USA	management and exercise of control of other companies	100	-
DMC Mining Services Corporation	USA	mining services contracting	100	-
Centenario Holdings Ltd.	British Virgin Islands	management and exercise of control of other companies	100	-
Pan de Azucar (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	100	-
Minera Carrizalillo Limitada	Chile	management and exercise of control of other companies	100	-
Volcanes (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	100	-
Mineria y Exploraciones KGHM International SpA	Chile	exploration services for the Sierra Gorde project and the Franke mine	100	-
Frankie (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	100	-
Sociedad Contractual Minera Franke	Chile	leaching of copper ore, production and sale of copper	100	-
Centenario Copper (BVI) Ltd.	British Virgin Islands	financial activities	100	-
0899196 B.C. Ltd.	British Columbia, Canada	management and exercise of control of other companies	100	-
Quadra Mining Australia PTY Limited	Australia	activities related to an acquisition of a subsidiary in Australia	100	-

#### **4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)**

In the current period in the consolidated financial statements one associated entity - BAZALT-NITRON Sp. z o.o. and two joint ventures: Sierra Gorda S.C.M. and „Elektrownia Blachownia Nowa” sp. z o.o. were accounted for using the equity method.

#### **Effect of changes in the structure of the KGHM Polska Miedź S.A. Group during the reporting period**

##### **Purchase of KGHM INTERNATIONAL LTD. (formerly Quadra FNX Mining Ltd.)**

On 5 March 2012, the KGHM Polska Miedź S.A. Group purchased from the former shareholders of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") 100% of the shares of Quadra FNX.

The consideration transferred comprises:

- the purchase of ordinary shares for the amount of PLN 9 363 million,
- the purchase of warrants for the amount of PLN 39 million,
- the realisation of purchased warrants in the amount of PLN 305 million.

The shares were purchased in execution of the agreement dated 6 December 2011 signed by the Parent Entity of the KGHM Polska Miedź S.A. Group and Quadra FNX under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX ("Agreement"). The shares purchased represent 100% of the share capital of Quadra FNX and 100% of the votes at the General Meeting of this company. 5 March 2012 was assumed as the date of obtaining control. Until the moment of obtaining control by the KGHM Polska Miedź S.A. Group, the Quadra FNX shares were listed on the TSX Venture Exchange in Toronto.

The operations of Quadra FNX (name changed to KGHM INTERNATIONAL LTD. from 12 March 2012) are focused on mine production of metals (including copper, nickel, gold, platinum, palladium) in the following mines: Robinson and Carlota in the USA, Franke in Chile, and McCreedy West, Levack (with the Morrison deposit) and Podolsky in Canada.

The activities of the acquired company also include mining projects at the pre-operational stage at various stages of development, including Sierra Gorda in Chile (the company's major development project, involving one of the largest new copper and molybdenum deposits in the world), and the pursuit of exploration projects.

The signing of the Agreement is consistent with the strategy of the KGHM Polska Miedź S.A. Group aimed at increasing the resource base as well as copper production. The acquisition described above will increase annual mined copper production in the KGHM Polska Miedź S.A. Group by over 100 thousand tonnes beginning from 2012, and in 2018 by over 180 thousand tonnes, meaning a 25% increase versus the pre-acquisition level of the KGHM Polska Miedź S.A. Group production.

As part of the activities related to acquiring the shares of KGHM INTERNATIONAL LTD., the KGHM Polska Miedź S.A. Group created a holding structure, as a result of which in 2012 the following companies were founded:

- a company under the name 0929260 B.C. UNLIMITED LIABILITY COMPANY with its registered head office in Vancouver, Canada (on 3 January 2012); the share capital of the founded company amounted to CAD 100 and was paid for in cash,
- a company under the name Fermat 3 S.à r.l. with its registered head office in Luxembourg (on 15 February 2012), in which, 20 000 shares was acquired with a nominal value of 1 USD/share for USD 20 000 paid for in cash, representing 100% of the share capital of Fermat 3 S.à r.l.

The KGHM Polska Miedź S.A. Group performed an initial recognition of assets and liabilities of the acquired business, and accounted for them in the consolidated financial statements in provisionally-set amounts. The accounting data used were based on the consolidated financial statements of KGHM INTERNATIONAL LTD. as at 29 February 2012, and were updated in respect of significant operations to the balance at 5 March 2012, i.e. to the date control was obtained. In the opinion of the Management Board of KGHM Polska Miedź S.A., there are no significant differences, in other questions regarding accounting data, between the date of preparation of the consolidated financial statements by KGHM INTERNATIONAL LTD. and the date control was obtained. Details regarding the initially estimated fair value of the net assets acquired, the gain on a bargain purchase and the purchase price at the date control was obtained are presented below (in M PLN):



**4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)**

	<b>Carrying amount according to the financial statements of the acquired Group</b>	<b>Fair value and other adjustments</b>	<b>Provisionally determined fair value</b>
Mineral properties, plant and equipment and other intangible assets	3 781	1 518	5 299
Investment in Sierra Gorda joint venture	1 616	1 431	3 047
Intangible assets due to signed services sales contracts	-	107	107
Mine closure financial assets	256	-	256
Inventories	487	213	700
Trade and other receivables	757	-	757
Cash and cash equivalents	2 806	-	2 806
Other assets	1 480	( 286)	1 194
Bonds	(1 515)	( 76)	(1 591)
Liabilities due to Franco Nevada streaming contract	( 578)	( 86)	( 664)
Provisions	( 314)	13	( 301)
Trade and other liabilities	( 599)	177	( 422)
Deferred tax	( 411)	(1 017)	(1 428)
<b>Acquired net assets</b>	<b>7 766</b>	<b>1 994</b>	<b>9 760</b>
Provisionally determined gain on a bargain purchase (*)			( 53)
<b>Purchase consideration</b>			<b>9 707</b>
Paid in cash			9 707
Acquired cash and cash equivalents, of which:			(2 806)
- restricted cash and cash equivalents			74
Cash expense due to acquisition			6 901

(\*) To avoid volatility of the financial result for individual quarters of 2012 during initial accounting for this acquisition, the gain on a bargain purchase determined at this stage was not recognised in the financial result, due to the significant risk of changes in the amount of this gain. The provisionally determined gain on a bargain purchase was accounted for as a decrease of the largest item in assets, „Mineral properties, plant and equipment and other intangible assets“, as the most exposed to further adjustments of changes in value due to completion of the process of determining the fair value of the acquired net assets.

<b>Items adjusted to fair value</b>	<b>Description</b>	<b>Method</b>
Mineral properties, plant and equipment and other intangible assets	Assets held by acquired entities	Fair value set by the discounted cash flow method
Investment in Sierra Gorda	Investment in joint venture	Fair value set by the discounted cash flow method
Intangible assets due to signed services sales contracts	Recognised intangible assets	Fair value set by the discounted cash flow method
Inventories	Inventories held by acquired entities	Method based on net realisable value (assuming the rational level of profit on sales) less the costs necessary to make the sale
Issued senior notes	Senior notes for financing a share of the Sierra Gorda project	Method based on determining the amount of debt portion together with adjustment due to issuer options
Liabilities due to Franco Nevada streaming contract	Recognised liabilities due to supply of metal (deferred income in this regard was presented in the financial statements of the acquired Group)	Fair value set by the discounted cash flow method (using contractual clauses involving contracted metals prices and forecast metals market price)
Provisions	Provision for site closure and other	Adjustment to the applied discount rate
Trade and other liabilities	Derivatives related to the supply of water and hydrochloric acid	Forwards, fair value equal to zero at the date of separation
Deferred tax	Recognised deferred tax from adjustment to fair value	Average assumed rate of 25%

#### **4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)**

In the current reporting period amortisation was adjusted due to the remeasured assets and realisation of inventories and liabilities for the period from the acquisition date to 31 December 2012.

Due to the complexity of the recognition process of the net assets of the acquired business, their measurement process at the date control was obtained will be completed no later than within 12 months of the acquisition date.

Costs related to the acquisition incurred to 31 December 2012 were recognised in the administrative expenses in the amount of PLN 91 million, of which PLN 16 million was settled in 2011, while PLN 75 million in 2012.

Revenues of the KGHM INTERNATIONAL LTD. Group recognised in the consolidated statement of profit or loss of the KGHM Polska Miedź S.A. Group for the period from the moment of acquisition to 31 December 2012 amounted to PLN 3 836 million, while the profit for this same period amounted to PLN 231 million.

Had the KGHM INTERNATIONAL LTD. Group been acquired on 1 January 2012, the consolidated statement of profit or loss of the KGHM Polska Miedź S.A. Group for 2012 would have shown revenues of PLN 27 341 million and a profit for the period of PLN 4 904 million.

#### **Exercise of option to purchase a further 29% of the shares of KGHM AJAX MINING INC.**

On 2 April 2012 KGHM Polska Miedź S.A. exercised the option to purchase a further 29% of the shares of KGHM AJAX MINING INC. with its registered head office in Vancouver ("Ajax") from Abacus Mining & Exploration Corporation ("Abacus") based on the shareholders agreement dated 12 October 2010 and increased its share in Ajax from 51% to 80%. The shares were acquired for the amount of USD 30 million (the equivalent of PLN 93 million, according to the sale exchange rate of the National Bank of Poland for USD/PLN of 2 April 2012).

The difference of PLN (22) million between the purchase price for a 29% non-controlling interest and a 29% of the acquired equity of KGHM AJAX MINING INC. was recognised in the consolidated statement of financial position to retained earnings in the amount of PLN (33) million and to exchange differences from the translation of foreign operations in the amount of PLN 11 million.

#### **Acquisition of shares of KGHM AJAX MINING INC. by 0929260 B.C. UNLIMITED LIABILITY COMPANY (Group subsidiary)**

On 26 April 2012, changes in ownership were carried out within the KGHM Polska Miedź S.A. Group, as a result of which:

1. KGHM AJAX MINING INC. – until now a direct subsidiary of KGHM Polska Miedź S.A. – became an indirect entity of the Parent Entity and a direct subsidiary of 0929260 B.C. UNLIMITED LIABILITY COMPANY. The transaction was concluded through the acquisition of shares of KGHM AJAX MINING INC. by 0929260 B.C. UNLIMITED LIABILITY COMPANY in exchange for the issuance of its own shares in the amount of PLN 203 million acquired by KGHM Polska Miedź S.A.,
2. KGHM Polska Miedź S.A. contributed the shares of 0929260 B.C. UNLIMITED LIABILITY COMPANY to Fermat 2 S.à r.l. in exchange for the acquisition of additional shares issued by Fermat 2 S.à r.l.,
3. KGHM Polska Miedź S.A. contributed the shares of Fermat 2 S.à r.l. to Fermat 1 S.à r.l. in exchange for the acquisition of shares in the increased share capital of Fermat 1 S.à r.l. in the amount of PLN 203 million.

Execution of this transaction is one of the stages in the process of reorganising the structure of the Group.

#### **Acquisition of shares of Sugarloaf Ranches Ltd.**

On 31 July 2012, an indirect subsidiary of KGHM Polska Miedź S.A. - KGHM AJAX MINING INC. acquired 100% of the shares of Sugarloaf Ranches Ltd. with its registered head office in Vancouver. The company was purchased in order to realise the construction project assumptions for the Afton-Ajax mine. Acquisition of this company was accounted for as an acquisition of assets, as the acquired entity is not an enterprise as understood by IFRS 3. The acquisition price in the amount of CAD 12 million (the equivalent of PLN 40 million at the CAD/PLN sale exchange rate of the National Bank of Poland of 31 July 2012) was allocated to the acquired assets (of which land is the most important item) based on their relative fair value.

The fair value of the acquired assets did not differ substantially from the acquisition cost.

#### 4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)

##### Final accounting for the acquisition of NITROERG S.A.

During the current reporting period, a measurement to fair value was performed on the assets and liabilities of NITROERG S.A., a subsidiary acquired in 2011, as at the date control was obtained, as well as final accounting for the impact of acquisition, as shown in the table below:

	Carrying amount assumed to provisional accounting	Fair value adjustments	Fair value assumed to final accounting
Property, plant and equipment	51	49	100
Deferred tax assets	3	-	3
Inventories	16	-	16
Trade and other current receivables – gross	47	-	47
Trade and other current receivables - net	44	-	44
Cash and cash equivalents	27	-	27
<b>Total assets</b>	<b>141</b>	<b>49</b>	<b>190</b>
Trade and other non-current payables	2	-	2
Deferred tax liabilities	-	9	9
Borrowings, non-current	1	-	1
Trade and other current payables	33	-	33
Borrowings, current	3	-	3
Employee benefits liabilities	16	-	16
Provisions for other liabilities and charges	2	-	2
<b>Total liabilities</b>	<b>57</b>	<b>9</b>	<b>66</b>
<b>Net assets at the acquisition date</b>	<b>84</b>	<b>40</b>	<b>124</b>
Net assets attributable to the Group	71	34	105
% in net assets	85%	85%	85%
Purchase price	120	-	120
Acquisition-related cost recognised in profit or loss	1	-	1
Total cash flow from the acquisition less cash and cash equivalents received	94	-	94
<b>Goodwill</b>	<b>49</b>	<b>( 34)</b>	<b>15</b>

#### 4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)

##### Changes in 2011

Description	Transaction date	% of acquired shares with voting rights	Number of purchased /sold shares	Nominal per-share value (in PLN, EUR)	Purchase price/ share capital increase in PLN million	Payment method	Direct parent entity
<b>Purchase</b>							
NITROERG S.A.	2 February 2011	85	5 260 820	10	120	cash	KGHM Polska Miedź S.A.
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	20 September 2011	88	13 459	500	21	cash	KGHM I FIZAN
<b>Transactions with non-controlling interest</b>							
Shares of non-controlling interest of KGHM Kupfer AG	20 April 2011	21	12 551	1 EUR	1	cash	KGHM Polska Miedź S.A.
<b>Increase in share capital</b>							
Zespół Uzdrowisk Kłodzkich S.A.	4 January 2011	2	800 000	10	8	cash	KGHM I FIZAN
Uzdrowisko Połczyn S.A.	3 February 2011	1	100 000	10	1	cash	KGHM I FIZAN
"Uzdrowisko Cieplice" Sp. z o.o.	18 March 2011	2	30 000	50	1	cash	KGHM I FIZAN
KGHM KUPFER AG	27 April 2011	-	750 000	1 EUR	52	cash	KGHM Polska Miedź S.A.
"MCZ" S.A.	5 October 2011	-	63 099	71	4	cash	KGHM Polska Miedź S.A.
KGHM Metraco S.A.	17 October 2011	-	20 000	500	10	cash	KGHM Polska Miedź S.A.

Fair value of net assets of Uzdrowisko "Świeradów-Czerniawa" Sp z o.o.	Note	At the acquisition date
Property, plant and equipment		30
Intangible assets		8
Current trade and other receivables		2
<b>Total assets</b>		<b>40</b>
Borrowings and other long-term sources of financing		2
Current trade and other payables		4
Employee benefits liabilities		1
Deferred tax liability		5
Provisions for other liabilities and charges		1
<b>Total liabilities</b>		<b>13</b>
<b>Assets at the acquisition date</b>		<b>27</b>
Net assets attributable to the Group		24
% in net assets		87.74%
Purchase price		21
Total cash flow from the acquisition less cash and cash equivalents received		21
<b>Gain on a bargain purchase – final accounting</b>	31	<b>3</b>

#### **4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)**

##### **Establishment of new entities in 2011**

On 30 December 2011, KGHM Polska Miedź S.A. established a company under the name Fermat 1 S.á r.l. with its registered head office in Luxembourg, in which, through a cash transfer of EUR 12 500, it acquired 12 500 shares with a nominal value of 1 EUR/share, representing 100% of the share capital of Fermat 1 S.á r.l. (as at 31 December 2011 the carrying value amounted to PLN 55 thousand).

On 30 December 2011, Fermat 1 S.á r.l. established a company under the name Fermat 2 S.á r.l. with its registered head office in Luxembourg, with share capital of EUR 12 500 (as at 31 December 2011 the carrying value amounted to PLN 55 thousand).

Both companies were established as part of the activities related to the creation of a holding structure for purchase the shares of Quadra FNX.

##### **Sale and liquidation of subsidiaries in 2011**

###### **Sale of DIALOG S.A. Group – discontinued operations**

On 16 December 2011, KGHM Polska Miedź S.A. sold to Netia S.A. 19 598 000 shares of Telefonía DIALOG spółka akcyjna with its registered head office in Wrocław, with a nominal value of PLN 490 million, representing 100% of the share capital of DIALOG S.A. and 100% of the votes at the general meeting of DIALOG S.A.

The sale of these shares took place in performance of obligations arising from the contingent binding agreement on the sale of the shares of DIALOG S.A. entered into between KGHM and Netia on 29 September 2011. The final price at which the Parent Entity sold these shares was calculated in accordance with the formula set forth in the contingent agreement, and amounted to PLN 969 million (paid in cash), in the statement of cash flows it was decreased by PLN 90 million of cash sold.

For accounting the sales of the DIALOG S.A. Group (a pre-tax loss of PLN 2 million) cost was set at the level of PLN (971) million.

The activities of the DIALOG S.A. Group were classified as discontinued operations (further information is presented in note 48).

The result on sales (loss) was recognised in profit for the period from discontinued operations.

###### **Resolution of the Extraordinary General Shareholders Meeting of KGHM Kupferhandelsges. m.b.H.i.L on company liquidation**

On 30 May 2011, the Extraordinary General Shareholders Meeting of KGHM Kupferhandelsges. m.b.H. with its registered head office in Vienna resolved to dissolve and liquidate the company as at 1 June 2011. Mr. Michał Jezioro was appointed as liquidator of KGHM Kupferhandelsges. m.b.H.i.L. The decision to liquidate KGHM Kupferhandelsges.m.b.H. is connected with the takeover by KGHM Polska Miedź S.A. of the commercial activities of this company.

###### **Liquidation of the company "FADROMA-SERWIS-REMONTY" Sp. z o.o. in liquidation**

On 12 August 2011, the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register issued a judgment on the removal of "FADROMA-SERWIS-REMONTY" Sp. z o.o. in liquidation from the National Court Register, attaching to the register statements on liquidation of the company together with the auditor's opinion and report on the audit of the financial statements for the period from 1 January 2011 to 30 June 2011. The liquidation proceedings were concluded as a result of the division of company assets between creditors and shareholders.

###### **Liquidation of KGHM Polish Copper Ltd**

On 23 December 2011, the dissolution of KGHM Polish Copper Ltd. was registered in the register of the United Kingdom. At the date of closure of the company's liquidation, its assets were distributed by payment to the owner (the Parent Entity) of the net assets (cash) in the amount of PLN 13 million. The net assets earned by KGHM Polish Copper Ltd. during the period of the Group's control equal the cash paid to KGHM Polska Miedź S.A. within the liquidation.

## 5. Information on business segments

Information previously presented on the business segments of the KGHM Polska Miedź S.A. Group only reflected the structure and nature of the KGHM Polska Miedź S.A. Group before the acquisition of the KGHM INTERNATIONAL LTD. Group, in which the activities of KGHM Polska Miedź S.A. are concentrated on the domestic mining industry, while the profiles of activities of most of the subsidiaries of the KGHM Polska Miedź S.A. Group differ from the main activities profile of the Parent Entity.

The acquisition in the first quarter of 2012 of the shares of KGHM INTERNATIONAL LTD., aimed at increasing the resource base and increasing copper production, had a major impact on the changes of assets structure and the generation of revenues by the KGHM Polska Miedź S.A. Group, in which the most important role is played by KGHM Polska Miedź S.A. and the KGHM INTERNATIONAL LTD. Group.

As a result of significant changes in the structure of the KGHM Polska Miedź S.A. Group and the new manner of perceiving areas of activities by the bodies making operating decisions, new solutions were introduced in the way the Group is managed.

In the process of identifying business segments and developing a new model for managing the Group's structure, and also taking into account the principles of IFRS 8, as well as the usefulness of the information to users of the financial statements, five business segments were temporarily identified which are analysed in detail by management bodies. The identified business segments are simultaneously reporting segments:

- KGHM Polska Miedź S.A. - this segment comprises KGHM Polska Miedź S.A.,
- KGHM INTERNATIONAL LTD. - this segment comprises companies of the KGHM INTERNATIONAL LTD. Group,
- Sierra Gorda project - this segment comprises the joint venture Sierra Gorda S.C.M.,
- resource base development - this segment comprises companies involved in the exploration for and evaluation of minerals resources, companies intended to carry out mining,
- support of the core business - this segment comprises companies directly related to the core business of the Parent Entity\*.

Other business segments were included in "Other segments". These are companies of the Group not related to the mining industry.

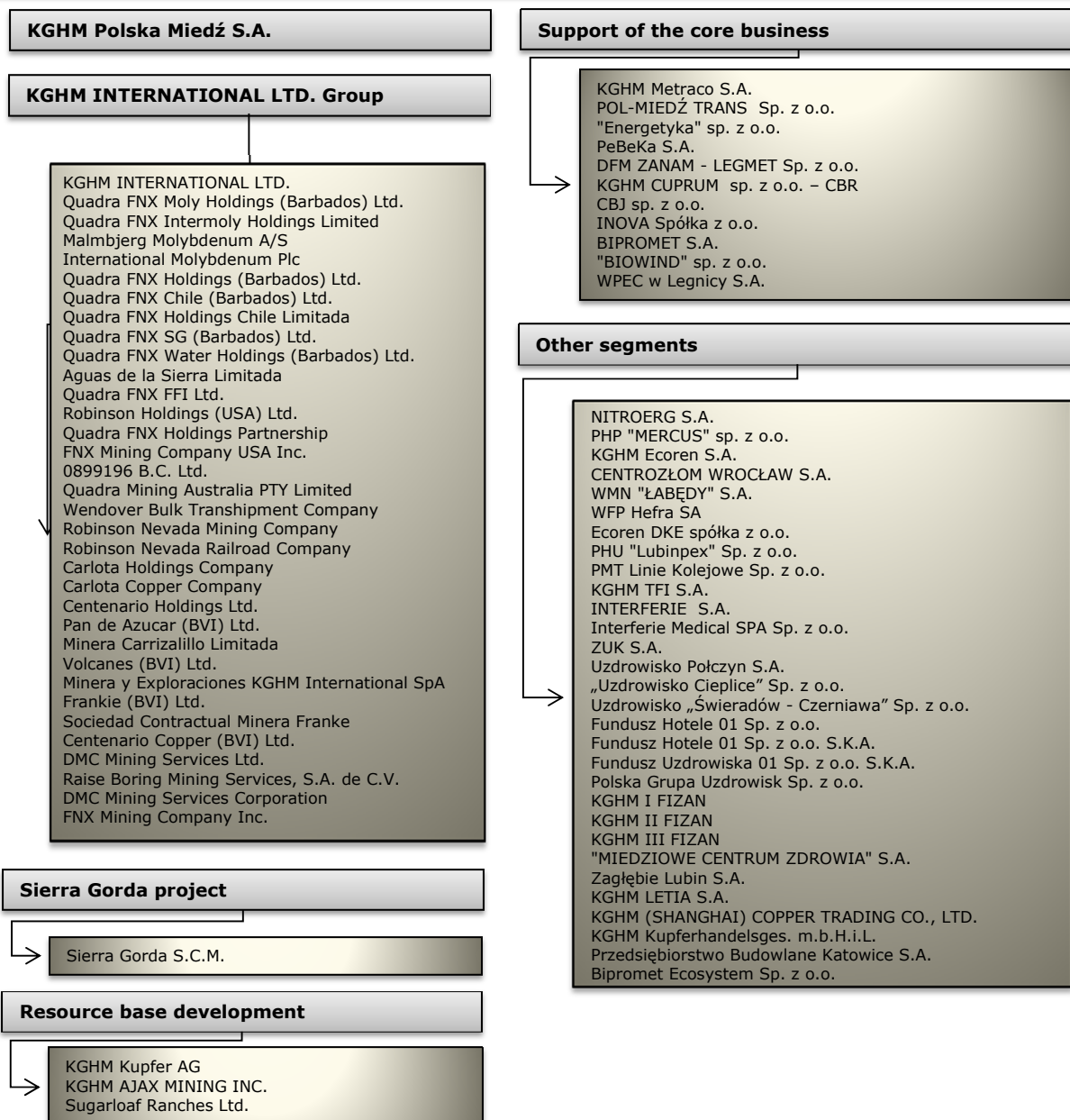
\* in the reporting period KGHM Metraco S.A. was classified to the segment "support of the core business" due to its significant share in securing supplies of copper scrap for KGHM Polska Miedź S.A. The comparable data was restated respectively to the presentation in the current period.

Due to a change during the reporting period in the Group's organisational structure, there occurred a change in the composition of its reporting segments, as a result of which analogous information for the comparable period was restated.

The ordering of the KGHM Polska Miedź S.A. Group by segment is presented in the following diagram.

**5. Information on business segments (continued)**

## Reporting segments of the KGHM Polska Miedź S.A. Group as at 31 December 2012



Internal reports on the results of the Group are prepared monthly in a condensed form, and quarterly in an expanded scope. The Management Board of the Parent Entity is the body which performs regular reviews of the internal financial reports of the whole Group for purposes of making major investment decisions, as it is the body which is responsible for allocating resources within the Group.

Inter-segment transaction prices are set under arm's length conditions, similarly as in relations with parties external to the Group.

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**5. Information on business segments (continued)**

**For the period from 1 January to 31 December 2012**

	<b>KGHM Polska Miedź S.A.</b>	<b>KGHM INTERNATIONAL LTD.</b>	<b>Sierra Gorda project***</b>	<b>Resource base development</b>	<b>Support of the core business</b>	<b>Other segments</b>	<b>Adjustment restating to measurement/ principles under IFRS</b>	<b>Consolidation adjustments</b>	<b>Total</b>
Sales	20 737	3 836	-	1	6 195	2 859	-	(6 923)	<b>26 705</b>
Inter-segment sales	626	-	-	-	5 132	1 024	-	(6 782)	-
External sales	20 111	3 836	-	1	1 063	1 835	-	( 141)	<b>26 705</b>
Operating costs	(13 602)	(3 535)	-	( 9)	(6 191)	(2 827)	( 290)	6 891	<b>(19 563)</b>
Depreciation/Amortisation	( 772)	( 394)	-	-	( 107)	( 67)	( 150)	37	<b>(1 453)</b>
Operating profit/(loss)	6 426	448*	-	( 10)	81*	91*	( 290)	( 152)	<b>6 594</b>
<b>Profit/(loss) before income tax</b>	<b>6 417</b>	<b>328</b>	<b>-</b>	<b>( 9)</b>	<b>68</b>	<b>88</b>	<b>( 290)</b>	<b>( 154)</b>	<b>6 448</b>
Income tax expense	(1 549)	( 97)	-	-	( 21)	( 13)	55	( 20)	<b>(1 645)</b>
<b>Profit/(loss) for the period</b>	<b>4 868*</b>	<b>231*</b>	<b>-</b>	<b>( 9)</b>	<b>47</b>	<b>75*</b>	<b>( 235)</b>	<b>( 174)</b>	<b>4 803</b>
<b>At 31 December 2012</b>									
<b>Segment assets</b>	<b>28 177</b>	<b>11 416</b>	<b>4 689</b>	<b>375</b>	<b>2 341</b>	<b>2 290</b>	<b>(2 351)</b>	<b>(13 321)</b>	<b>33 616</b>
<b>Liabilities</b>	<b>6 254</b>	<b>3 674</b>	<b>3 092</b>	<b>17</b>	<b>1 080</b>	<b>628</b>	<b>(2 446)</b>	<b>( 393)</b>	<b>11 906</b>
<b>Other information</b>									
Investments accounted for using the equity method	33	1 615**	-	-	-	-	1 430	-	<b>3 078</b>
Capital expenditure	1 766	348	2 371	86	253	125	-	(2 433)	<b>2 516</b>
<b>EBITDA</b>									
(operating profit plus depreciation/amortisation)	<b>7 198</b>	<b>842</b>			<b>188</b>				
<b>% of sales to KGHM Polska Miedź S.A.</b>					<b>79%</b>				
<b>Production and cost data</b>									
Payable copper ('000 t)	565.8	110.5							
- including from purchased copper-bearing materials ('000 t)	146.7	-							
Nickel ('000 t)	-	4.8							
Silver (t)	1 273.8	-							
Gold (kg)	916.4	1 489.8							
Platinum (kg)	-	538.1							
Palladium (kg)	-	933.1							
C1 cash cost of copper in concentrate production (USD/lb)	1.34	2.43							

„Adjustment restating to measurement/principles under IFRS” – respecting adjustment due to provisional accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidated level, reflecting adjustments from the acquisition date to 31 December 2012

Production and cost data relating to KGHM INTERNATIONAL LTD. respect the period of 12 months of 2012

\* result analysed in a given segment

\*\* Sierra Gorda S.C.M. accounted for using the equity method

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



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**5. Information on business segments (continued)**

**Information on business segments for the comparable period**

**For the period from 1 January to 31 December 2011 - restated**

	<b>KGHM Polska Miedź S.A.</b>	<b>KGHM INTERNATIONAL LTD.</b>	<b>Sierra Gorda project</b>	<b>Resource base development</b>	<b>Support of the core business</b>	<b>Other segments</b>	<b>Discontinued operations</b>	<b>Consolidation adjustments</b>	<b>Total continued operations</b>
Sales	20 097	-	-	-	5 120	2 493	506	(6 109)	<b>22 107</b>
Inter-segment sales	748	-	-	-	3 997	846	19	(5 610)	-
External sales	19 349	-	-	-	1 123	1 647	487	( 499)	<b>22 107</b>
Operating costs	(10 660)	-	-	( 7)	(5 071)	(2 929)	( 447)	6 447	<b>(12 667)</b>
Depreciation/Amortisation	( 672)	-	-	-	( 92)	( 68)	( 65)	51	<b>( 846)</b>
Operating profit/(loss)	13 761	-	-	( 1)	90*	5*	68	( 691)	<b>13 232</b>
<b>Profit/(loss) before income tax</b>	<b>13 727</b>	-	-	-	<b>80</b>	<b>( 3)</b>	<b>67</b>	<b>( 503)</b>	<b>13 368</b>
Income tax expense	(2 333)	-	-	-	( 19)	( 3)	( 7)	62	<b>(2 300)</b>
<b>Profit/(loss) for the period</b>	<b>11 394*</b>	-	-	-	<b>61</b>	<b>( 6)*</b>	<b>60</b>	<b>( 441)</b>	<b>11 068</b>

**At 31 December 2011 - restated**

<b>Segment assets</b>	<b>29 252</b>	-	-	<b>324</b>	<b>2 074</b>	<b>2 215</b>	-	<b>(3 215)</b>	<b>30 650</b>
<b>Liabilities</b>	<b>6 117</b>	-	-	<b>21</b>	<b>971</b>	<b>642</b>	-	<b>( 492)</b>	<b>7 259</b>

**Other information**

Capital expenditure	1 519	-	-	58	197	206	66	( 89)	<b>1 957</b>
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**EBITDA**

(operating profit plus depreciation/amortisation)	<b>14 433</b>	-	-	-	<b>182</b>	-	-	-	-
<b>% of sales to KGHM Polska Miedź S.A.</b>					<b>75%</b>				

**Production and cost data**

Payable copper ('000 t)	571.0
- including from purchased copper-bearing materials ('000 t)	124.6
Silver (t)	1 259.6
Gold (kg)	703.8
C1 cash cost of copper in concentrate production (USD/lb)	0.63

\* result analysed in a given segment

## 5. Information on business segments (continued)

### Revenues from sales of the Group - external clients with geographical breakdown

The geographical breakdown reflects the location of end clients.

	Financial period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Poland, of which:	5 309	5 845
- discontinued operations	-	487
Germany	4 564	4 479
The United Kingdom	3 950	2 734
China	3 047	2 425
The Czech Republic	1 604	1 347
Canada	1 431	2
Italy	1 217	1 191
The USA	758	1 027
France	872	654
Hungary	750	523
Belgium	407	386
Switzerland	404	354
Austria	357	483
Japan	317	-
Turkey	269	94
Holland	246	2
South Korea	200	34
India	176	7
Slovakia	155	110
Denmark	120	92
Bulgaria	58	74
Bosnia and Herzegovina	34	16
Slovenia	28	20
Ukraine	22	101
Finland	16	41
Other countries (dispersed sale)	394	553
<b>Total</b>	<b>26 705</b>	<b>22 594</b>

### Main customers

During the period from 1 January 2012 to 31 December 2012, and in the comparable period, the revenues from no single customer exceeded 10% of the revenues of the Group.

55.99% of the non-current assets of the Group are located in the country of origin of the Parent Entity. The remaining 44.01% of the non-current assets are located in the following countries: Chile - 19.65%; Canada - 18.43%; the USA - 5.68%; other countries - 0.25%.

## 6. Property, plant and equipment

	At		
	31 December 2012	31 December 2011 restated*	1 January 2011 restated *
<b>Mining and metallurgical assets, of which:</b>	<b>11 513</b>	<b>6 979</b>	<b>6 268</b>
Buildings and land**	5 580	2 486	2 466
Technical equipment and machinery, motor vehicles and other fixed assets	3 728	2 770	2 584
Fixed assets under construction	2 205	1 723	1 218
<b>Other assets not related to mining and metallurgical activities, of which:</b>	<b>2 603</b>	<b>2 114</b>	<b>2 403</b>
Buildings and land	1 483	1 168	1 456
Technical equipment and machinery, motor vehicles and other fixed assets	907	784	846
Fixed assets under construction	213	162	101
<b>Total</b>	<b>14 116</b>	<b>9 093</b>	<b>8 671</b>

\*details presented in note 2.1.2

\*\*In the item buildings and land, the costs of stripping of overburden to enable extraction, the construction of mines and metallurgical facilities and remeasurement cost of deposits due to the acquisition of mining assets in the Group were recognised.

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**6. Property, plant and equipment (continued)**

**Changes in property, plant and equipment in the period from 1 January 2012 and 31 December 2012**

	Note	Mining and metallurgical assets			Other assets not related to mining and metallurgical activities			Total
		Buildings and land	Technical equipment and machinery, motor vehicles and other fixed assets	Fixed assets under construction	Buildings and land	Technical equipment and machinery, motor vehicles and other fixed assets	Fixed assets under construction	
<b>At 1 January 2012 – restated*</b>								
Gross carrying amount		6 080	6 545	1 726	1 676	1 464	163	17 654
Accumulated depreciation		(3 594)	(3 775)	-	( 487)	( 673)	-	(8 529)
Impairment losses		-	-	( 3)	( 21)	( 7)	( 1)	( 32)
Net carrying amount		<b>2 486</b>	<b>2 770</b>	<b>1 723</b>	<b>1 168</b>	<b>784</b>	<b>162</b>	<b>9 093</b>
<b>Changes in 2012 net</b>								
Settlement of fixed assets under construction		358	883	(1 298)	164	224	( 331)	-
Purchase		68	37	1 763	34	11	381	2 294
Self-constructed		-	-	42	-	-	1	43
Changes due to decommissioning/scraping, sale, donations and no-cost transfer		( 7)	( 13)	-	( 3)	( 7)	-	( 30)
Changes due to acquisition/transfer of assets used based on lease agreement		-	-	-	-	12	-	12
Purchase of a subsidiary		2 834	675	159	169	2	-	3 839
Change in amount of provisions for costs of decommissioning		242	-	-	30	-	-	272
Depreciation	29	( 440)	( 744)	-	( 67)	( 116)	-	(1 367)
Impairment losses	29, 32	( 16)	( 9)	( 2)	( 13)	( 6)	-	( 46)
Other changes		55	129	( 182)	1	3	-	6
<b>At 31 December 2012</b>								
Gross carrying amount		9 552	7 915	2 207	2 067	1 635	213	23 589
Accumulated depreciation		(3 956)	(4 178)	-	( 549)	( 715)	-	(9 398)
Impairment losses		( 16)	( 9)	( 2)	( 35)	( 13)	-	( 75)
Net carrying amount		<b>5 580</b>	<b>3 728</b>	<b>2 205</b>	<b>1 483</b>	<b>907</b>	<b>213</b>	<b>14 116</b>

\*details presented in note 2.1.2

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**6. Property, plant and equipment (continued)**

**Changes in property, plant and equipment in the period from 1 January 2011 and 31 December 2011 - restated**

	Mining and metallurgical assets			Other assets not related to mining and metallurgical activities			Total
	Buildings and land	Technical equipment and machinery, motor vehicles and other fixed assets	Fixed assets under construction	Buildings and land	Technical equipment and machinery, motor vehicles and other fixed assets	Fixed assets under construction	
Note							
<b>At 1 January 2011 – restated*</b>							
Gross carrying amount	5 930	6 103	1 221	2 453	2 119	140	17 966
Accumulated depreciation	(3 464)	(3 519)	-	( 752)	(1 075)	-	(8 810)
Impairment losses	-	-	( 3)	( 245)	( 198)	( 39)	( 485)
Net carrying amount	<b>2 466</b>	<b>2 584</b>	<b>1 218</b>	<b>1 456</b>	<b>846</b>	<b>101</b>	<b>8 671</b>
<b>Changes in 2011 net</b>							
Settlement of fixed assets under construction	208	685	( 905)	151	261	( 400)	-
Purchase	-	-	1 386	1	8	480	1 875
Self-constructed	-	-	24	-	-	3	27
Changes due to decommissioning/scrapping, sale, donations and no-cost transfer	( 3)	( 8)	-	( 2)	( 7)	( 1)	( 21)
Changes due to acquisition/transfer of assets used based on lease agreement	-	-	-	-	6	-	6
Purchase of a subsidiary	-	-	-	83	42	5	130
Reclassification to assets held for sale	-	-	-	( 447)	( 204)	( 23)	( 674)
Change in amount of provisions for costs of decommissioning	( 41)	-	-	-	-	-	( 41)
Depreciation from continued operations	29	( 144)	( 491)	( 53)	( 129)	-	( 817)
Depreciation from discontinued operations	29	-	-	( 24)	( 36)	-	( 60)
Impairment losses	29,32	-	-	-	( 1)	( 5)	( 6)
Reversal of impairment losses	29,31	-	-	1	-	3	4
Other changes	-	-	-	2	( 2)	( 1)	( 1)
<b>At 31 December 2011 – restated*</b>							
Gross carrying amount	6 080	6 545	1 726	1 676	1 464	163	17 654
Accumulated depreciation	(3 594)	(3 775)	-	( 487)	( 673)	-	(8 529)
Impairment losses	-	-	( 3)	( 21)	( 7)	( 1)	( 32)
Net carrying amount	<b>2 486</b>	<b>2 770</b>	<b>1 723</b>	<b>1 168</b>	<b>784</b>	<b>162</b>	<b>9 093</b>

\*details presented in note 2.1.2

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**6. Property, plant and equipment (continued)**

Depreciation of property, plant and equipment used in production or in the provision of services was recognised as a manufacturing cost of products in the amount of PLN 1 282 million (for the period from 1 January 2011 to 31 December 2011, PLN 785 million). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 22 million (for the period from 1 January 2011 to 31 December 2011, PLN 19 million), in selling costs in the amount of PLN 9 million (for the period from 1 January 2011 to 31 December 2011, PLN 8 million) and in the value of production inventories in the amount of PLN 54 million (for the period from 1 January 2011 to 31 December 2011, PLN 5 million).

**The KGHM Polska Miedź S.A. Group as a lessee uses the following property, plant and equipment under finance lease agreements not related to mining and metallurgical activities**

	At					
	31 December 2012			31 December 2011		
	Initial cost	Accumulated depreciation	Net carrying amount	Initial cost	Accumulated depreciation	Net carrying amount
<b>Technical equipment and machinery, motor vehicles and other fixed asset</b>	<b>66</b>	<b>22</b>	<b>44</b>	<b>49</b>	<b>13</b>	<b>36</b>

**KGHM Polska Miedź S.A. Group as a lessor leased out the following property, plant and equipment based on operating lease agreements not related to mining and metallurgical activities**

	At							
	31 December 2012				31 December 2011			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
<b>Buildings and land</b>	46	1	25	21	36	1	19	17
<b>Technical equipment and machinery, motor vehicles and other fixed asset</b>	1	-	-	1	2	-	2	-
<b>Total</b>	<b>47</b>	<b>1</b>	<b>25</b>	<b>22</b>	<b>38</b>	<b>1</b>	<b>21</b>	<b>17</b>

## 6. Property, plant and equipment (continued)

The amount of collateral for the repayment of liabilities of the KGHM Polska Miedź S.A. Group established on property, plant and equipment was presented in note 23 Collateral for the repayment of liabilities.

### Major investment projects recognised under fixed assets under construction, in the category of mining and metallurgical assets

	At	
	31 December 2012	31 December 2011
Construction of the SW-4 shaft	438	471
Deep Głogów (Głogów Głęboki – Przemysłowy)	419	296
Construction of gas-steam blocks in Głogów and Polkowice Powerplants	345	180
Program of Pyrometallurgy Modernisation	195	78
Investments related to mining region infrastructural development in mines	189	111
Investments in power and communications infrastructure, replacement of technological facilities and other investments in the Concentrators	60	32
Exploratory drillings (to analyse mineral ore) in the Weisswasser concession	54	31
Exchange of floatation machinery in the Concentrators	47	69
Power and communications infrastructure	47	37
Conformatory work	45	43
Purchase of mine machinery and technical equipment	36	51
Conveyor belt and pipeline transport investments	34	20
Ventilation and air conditioning equipment in the mines	33	136
<b>Total</b>	<b>1 942</b>	<b>1 555</b>

### Capital commitments at the end of the reporting period, not yet recognised in the statement of financial position

	At	
	31 December 2012	31 December 2011
Purchase of property, plant and equipment, of which:	9 260	710
- for the purchase of mining assets in the Sierra Gorda S.C.M. project*	7 093	-
Purchase of intangible assets	40	18
<b>Total capital commitments</b>	<b>9 300</b>	<b>728</b>

\*As at 31 December 2012, the 55% share of the Group in the investment liabilities of the Joint Venture Sierra Gorda S.C.M. related to the phases I and II of the project, amounted to PLN 7 093 million, of which PLN 6 342 million related to the creation of infrastructure and construction of a mine, with PLN 751 million due to orders for mining equipment.

## 7. Intangible assets

	Note	At		
		31 December 2012	31 December 2011 restated*	1 January 2011 restated*
Development costs		3	-	5
Goodwill		66	66	53
Software		27	14	42
Acquired concessions, patents, licenses		47	52	51
Other intangible assets		704	254	281
- management fee for Sierra Gorda S.C.M.**		255	-	-
- water rights**		180	-	-
- intangible assets due to service sales contracts**		65	-	-
Exploration and evaluation assets	41	1 376	250	149
Other intangible assets not yet available for use		36	27	24
<b>Total</b>		<b>2 259</b>	<b>663</b>	<b>605</b>

\*details presented in note 2.1.2

\*\* relates to the KGHM INTERNATIONAL LTD. Group

As at 31 December 2012, the largest item within intangible assets not yet available for use is exploration and evaluation assets in the amount of PLN 1 376 million (as at 31 December 2011, PLN 250 million) of the following companies:

- KGHM INTERNATIONAL LTD. – expenditures in the amount of PLN 979 million related to exploratory work mainly within the Victoria project located in the Sudbury Basin in Canada. In 2012 work continued on gaining access to the copper, nickel and precious metals deposit (from the acquisition date i.e. from 5 March 2012 to 31 December 2012, expenditures amounted to PLN 43 million),
- KGHM AJAX MINING INC. – expenditures related to exploratory work within the Afton – Ajax project in the amount of PLN 219 million (as at 31 December 2011, PLN 196 million),
- KGHM Polska Miedź S.A. in the amount of PLN 73 million (as at 31 December 2011, PLN 53 million) - expenditures incurred for the nickel ore deposit management „Szklary” and for evaluation of the new reserve areas „Gaworzyce”, „Radwanice” and „Niecka Grodziecka”.

As at 31 December 2012 liabilities related to investing activities due to exploration for and evaluation of mineral resources amounted to PLN 16 million (as at 31 December 2011, PLN 7 million).

Goodwill as at 31 December 2012 was tested for impairment, which is described in detail in note 3.

The amortisation of intangible assets utilised in the production or in the providing of services was recognised as a manufacturing cost of products in the amount of PLN 83 million (for the period from 1 January 2011 to 31 December 2011 in the amount of PLN 17 million). The amortisation of other intangible assets was recognised mainly in administrative expenses in the amount of PLN 3 million (for the period from 1 January 2011 to 31 December 2011: PLN 3 million).

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## 7. Intangible assets (continued)

### Changes in intangible assets in the period from 1 January 2012 to 31 December 2012

	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Exploration and evaluation assets	Other intangible assets not yet available for use	Total
<b>At 1 January 2012 – restated*</b>									
Gross carrying amount		12	70	48	117	186	250	28	711
Change in accounting policies*		-	-	-	-	83	-	-	83
Gross carrying amount - restated		12	70	48	117	269	250	28	794
Accumulated amortisation		( 11)	-	( 34)	( 65)	( 13)	-	-	( 123)
Impairment losses		( 1)	( 4)	-	-	( 2)	-	( 1)	( 8)
<b>Net carrying amount</b>		<b>-</b>	<b>66</b>	<b>14</b>	<b>52</b>	<b>254</b>	<b>250</b>	<b>27</b>	<b>663</b>
<b>Changes in 2012 net</b>									
Settlement of intangible assets not yet available for use		2	-	3	4	1	-	( 10)	-
Purchases		-	-	5	1	11	139	20	176
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer		-	-	-	-	( 12)	-	-	( 12)
Purchase of subsidiaries		-	-	12	-	561	1 015	-	1 588
Amortisation	29	-	-	( 7)	( 9)	( 70)	-	-	( 86)
Impairment losses	29	-	-	-	-	( 1)	-	-	( 1)
Reversal of impairment losses	29	-	-	-	-	2	-	-	2
Other changes		1	-	-	( 1)	( 47)	( 28)	( 1)	( 76)
<b>At 31 December 2012</b>									
Gross carrying amount		14	70	67	122	781	1 376	36	2 466
Accumulated amortisation		( 10)	-	( 40)	( 75)	( 76)	-	-	( 201)
Impairment losses		( 1)	( 4)	-	-	( 1)	-	-	( 6)
<b>Net carrying amount</b>		<b>3</b>	<b>66</b>	<b>27</b>	<b>47</b>	<b>704</b>	<b>1 376</b>	<b>36</b>	<b>2 259</b>

\*details presented in note 2.1.2



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## 7. Intangible assets (continued)

### Changes in intangible assets in the period from 1 January 2011 to 31 December 2011 - restated

	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Exploration and evaluation assets	Other intangible assets not yet available for use	Total
<b>At 1 January 2011 – restated*</b>									
Gross carrying amount		25	57	121	109	164	149	25	650
Change in accounting policies*		-	-	-	-	132	-	-	132
Gross carrying amount - restated		25	57	121	109	296	149	25	782
Accumulated amortisation		( 19)	-	( 77)	( 58)	( 15)	-	-	( 169)
Impairment losses		( 1)	( 4)	( 2)	-	-	-	( 1)	( 8)
<b>Net carrying amount</b>		<b>5</b>	<b>53</b>	<b>42</b>	<b>51</b>	<b>281</b>	<b>149</b>	<b>24</b>	<b>605</b>
<b>Changes in 2011 net</b>									
Settlement of intangible assets not yet available for use		-	-	4	10	18	-	( 32)	-
Purchases		-	-	2	-	11	64	40	117
Purchase of subsidiaries		-	15	-	-	8	-	-	23
Reclassification to non-current assets held for sale		( 3)	( 2)	( 26)	-	( 4)	-	( 7)	( 42)
Amortisation from continued operations	29	( 1)	-	( 4)	( 9)	( 6)	-	-	( 20)
Amortisation from discontinued operations		( 1)	-	( 4)	-	( 2)	-	-	( 7)
Impairment losses	29	-	-	-	-	( 2)	-	-	( 2)
Other changes		-	-	-	-	( 50)	37	2	( 11)
<b>At 31 December 2011 – restated*</b>									
Gross carrying amount		12	70	48	117	269	250	28	794
Accumulated amortisation		( 11)	-	( 34)	( 65)	( 13)	-	-	( 123)
Impairment losses		( 1)	( 4)	-	-	( 2)	-	( 1)	( 8)
<b>Net carrying amount</b>		<b>-</b>	<b>66</b>	<b>14</b>	<b>52</b>	<b>254</b>	<b>250</b>	<b>27</b>	<b>663</b>

\*details presented in note 2.1.2

## 7. Intangible assets (continued)

### Perpetual usufruct of land

At 31 December 2012, the Group entities used land under perpetual usufruct rights comprising a total area of 6 999 ha (at 31 December 2011: 6 659 ha).

	At	
	<u>31 December 2012</u>	<u>31 December 2011</u>
	(ha)	(ha)
KGHM Polska Miedź S.A.	5 703	5 700
Subsidiaries of the Group	1 296	959

The Parent Entity and some Group companies received perpetual usufruct rights free of charge based on laws in force. The land held under perpetual usufruct comprises industrial terrain related to the principal activities of the Group, which also include protective zones in which environmental quality standards have been transgressed due to the activities carried out by the Group.

Due to the nature of the use of the above-mentioned land, the Group has not determined a fair value for these perpetual usufruct rights at 31 December 2012.

### Future payments due to perpetual usufruct of land

	At	
	<u>31 December 2012</u>	<u>31 December 2011</u>
Under one year	12	12
From one to five years	50	49
Over five years	668	667
<b>Total value of future conditional payments due to perpetual usufruct of land</b>	<b>730</b>	<b>728</b>

	For the period	
	<u>from 1 January 2012 to 31 December 2012</u>	<u>from 1 January 2011 to 31 December 2011</u>
<b>Payments due to perpetual usufruct of land recognised in profit or loss</b>	16	12

Liabilities of the Group due to the perpetual usufruct of land not recognised in the statement of financial position were estimated on the basis of annual payment rates resulting from the recent administrative decisions and the useful life of the land subject to this right.

## 8. Investment property

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Beginning of financial period</b>		<b>60</b>	<b>60</b>
Purchase of subsidiaries		-	2
Fair value measurement	31, 32	-	(1)
Transfer to property, plant and equipment of property for internal use		1	(1)
Sale of properties		(2)	-
<b>End of financial period</b>		<b>59</b>	<b>60</b>

Investment property in the amount of PLN 59 million was set based on the valuation as at 31 December 2012.

The measurement of investment property was described in note 3.

## 9. Investments accounted for using the equity method

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Beginning of financial period</b>		-	<b>1 431</b>
At the date of obtaining control of a subsidiary		3 047	-
Purchase of shares		33	-
Share of (losses)/profits of investments accounted for using the equity method	36	-	188
Changes in equity due to payment of dividend		-	( 250)
Exchange differences from the translation of foreign operations shares at the end of the reporting period		( 2)	-
Reclassification of the shares in Polkomtel S.A. to non-current assets held for sale		-	(1 360)
Amortisation of relations with customers identified in the process of allocating purchase cost		-	( 9)
<b>End of financial period</b>		<b>3 078</b>	<b>-</b>

The increase in investments accounted for using the equity method in the reporting period is due to the following:

- acquisition of the KGHM INTERNATIONAL LTD. Group, which holds a 55% interest in the Sierra Gorda joint venture in the amount of PLN 3 047 million.  
Sierra Gorda is a mine development project at the pre-operational stage located in Chile. It is a joint venture of KGHM INTERNATIONAL LTD. and companies of the Sumitomo Group – Sumitomo Metal Mining Co, Ltd. and Sumitomo Corporation.  
The Sierra Gorda project comprises the construction of an open-pit mine in one of the largest new deposits of copper and molybdenum in the world. The start of production at Sierra Gorda is projected in 2014.
- founding on 5 September 2012 by the Parent Entity and TAURON Wytwarzanie SA of a special purpose company called "Elektrownia Blachownia Nowa" sp. z o.o. in which the Parent Entity acquired 50% of the share capital.  
The Shareholders Agreement of the special purpose company "Elektrownia Blachownia Nowa" sp. z o.o. regulates the detailed principles of cooperation between the parties regarding realisation of the enterprise, comprising the preparation, construction and operation of the approx. 850 MW gas-steam block on the grounds of the Blachownia power plant in Kędzierzyn-Koźle belonging to the TAURON Group. The total estimated expenditure on this investment in the years 2012-2017 will amount to around PLN 3 500 million.

In 2011, the Parent Entity transferred ownership of ordinary registered shares representing 24.39% of the share capital of Polkomtel S.A. and 24.39% of the total number of votes at the general meeting of Polkomtel S.A. to Spartan Capital Holdings Sp. z o.o. The price paid by the Purchaser to KGHM Polska Miedź S.A. in exchange for the shares amounted to PLN 3 672 million and was paid by the purchaser in cash.

## 9. Investments accounted for using the equity method (continued)

The carrying amount of the shares in the consolidated financial statements as at the sale date amounted to PLN 1 360 million.

Gains on sales in the amount of PLN 2 313 million was recognised in other operating income in the item gains on the sale of an associate.

### Interests held by the Group in entities accounted for using the equity method

As at 31 December 2012, at different levels of the Group the following entities were accounted for using the equity method:

- the associate, BAZALT-NITRON Sp. z o.o. – PLN 289 thousand,
- the jointly controlled entity, Sierra Gorda S.C.M. – PLN 3 045 million,
- the jointly controlled entity „Elektrownia Blachownia Nowa sp. z o.o.” – PLN 33 million.

As at 31 December 2011, the associate, BAZALT-NITRON Sp. z o.o. was accounted for using the equity method in the amount of PLN 472 thousand.

Condensed financial data in carrying amounts At 31 December 2012	Associate	Jointly controlled entities	
	BAZALT-NITRON Sp. z o.o.	Sierra Gorda S.C.M.*	"Elektrownia Blachownia Nowa" sp. z o.o.
% of share capital held	26	55	50
% of voting power	26	55	50
Non-current assets	2	6 186	28
Current assets	2	2 341	39
Non-current liabilities	1	4 907	-
Current liabilities	1	715	2
<b>For the period from 1 January 2012 to 31 December 2012</b>			
Sales	7	-	1
Costs of sales	7	-	1
<b>At 31 December 2011</b>			
Non-current assets	2		
Current assets	4		
Non-current liabilities	1		
Current liabilities	1		
<b>For the period from 1 January 2011 to 31 December 2011</b>			
Sales	8		
Costs of sales	8		

\*The share of the Group in the carrying amount of the net assets of Sierra Gorda S.C.M. as at 31 December 2012 amounted to PLN 1 598 million. The provisionally set fair value of the investment accounted for using the equity method as at the date control was obtained over the KGHM INTERNATIONAL LTD. Group was set at PLN 3 048 million. The final accounting for fair value will be made no later than within 12 months of the date of acquisition.

## 10. Available-for-sale financial assets

	Note	At	
		31 December 2012	31 December 2011
Shares in unlisted companies		11	11
Shares in listed companies		873	983
Debt securities		8	-
<b>Non-current available-for-sale financial assets</b>	<b>34</b>	<b>892</b>	<b>994</b>
Shares in listed companies		149	6
Debt securities		-	8
Participation units in open-end investment funds		-	2
<b>Current available-for-sale financial assets</b>	<b>34</b>	<b>149</b>	<b>16</b>
<b>Total available-for-sale financial assets:</b>	<b>34</b>	<b>1 041</b>	<b>1 010</b>

Changes in the reporting period related to:

- a decrease in non-current available-for-sale assets due to impairment of shares in listed companies in the amount of PLN 158 million (details described in note 3),
- an increase in the value of current available-for-sale financial assets due to the acquisition of the KGHM INTERNATIONAL LTD. Group, which as at 31 December 2012 held shares in the listed companies in the amount of PLN 145 million.

## 11. Mine closure financial assets

	Note	At	
		31 December 2012	31 December 2011
Cash for mine closure		164	112
Debt securities		296	-
<b>Non-current mine closure financial assets</b>		<b>460</b>	<b>112</b>
Cash for mine closure		-	2
<b>Current mine closure financial assets</b>		<b>-</b>	<b>2</b>
<b>Total mine closure financial assets</b>	<b>34</b>	<b>460</b>	<b>114</b>

As at 31 December 2012, cash for mine closure comprised the following:

- (a) Cash accumulated by the Parent Entity in a separate bank account of the Mine Closure Fund (MCF) based on obligations resulting from the Law on Geology and Mining, dated 9 June 2011 (Journal of Laws No. 11.163.981) to cover future decommissioning costs of mines and other facilities (balance of the Fund as at 31 December 2012 – PLN 141 million, as at 31 December 2011 – PLN 114 million)
- (b) Cash accumulated by KGHM INTERNATIONAL LTD. on a trust account of Royal Gold Inc. pursuant to the terms of purchase agreement of the Robinson mine, in order to cover the costs of restoration of areas degraded by the activities of this mine. (balance as at 31 December 2012 – PLN 23 million).

As at 31 December 2012, debt securities in the amount of PLN 296 million represented funds to cover the mine decommissioning costs of the KGHM INTERNATIONAL LTD. Group. In accordance with provisions binding in the USA and Canada, the KGHM INTERNATIONAL LTD. Group is obliged to purchase government environmental bonds in the amount of estimated provision for decommissioning of mines and other facilities.

## 12. Derivatives

	Note	At	
		31 December 2012	31 December 2011
<b><u>Non-current assets</u></b>			
Hedging instruments		742	896
Trade and embedded instruments		3	3
<b>Non-current assets due to derivatives, total:</b>		<b>745</b>	<b>899</b>
<b><u>Current assets</u></b>			
Hedging instruments		381	851
Trade and embedded instruments		1	9
<b>Current assets due to derivatives, total:</b>		<b>382</b>	<b>860</b>
<b>Total assets due to derivatives</b>	<b>34</b>	<b>1 127</b>	<b>1 759</b>
<b><u>Non-current liabilities</u></b>			
Hedging instruments		197	427
Trade and embedded instruments		33	111
<b>Non-current liabilities due to derivatives, total:</b>		<b>230</b>	<b>538</b>
<b><u>Current liabilities</u></b>			
Hedging instruments		21	126
Trade and embedded instruments		4	205
<b>Current liabilities due to derivatives, total:</b>		<b>25</b>	<b>331</b>
<b>Total liabilities due to derivatives</b>	<b>34</b>	<b>255</b>	<b>869</b>

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**12. Derivatives (continued)**

TRADE INSTRUMENTS	Volume/ Notional	Avg. weighted price/ex. rate	At 31 December 2012 [PLN '000]				At 31 December 2011 [PLN '000]			
			Financial assets		Financial liabilities		Financial assets		Financial liabilities	
			Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>Type of derivative</b>	Cu [t] Ag [^000 troz] Currency [^000 USD] [^000 EUR]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN] [EUR/PLN]								
<b>Derivatives – Commodity contracts – Metals – Copper</b>										
Options										
Sold call options								(188 331)	(16 474)	
Purchased put options						8 713	2 818			
Sold put options	184 500	4.627			(49)	(17 909)		(8 713)	(12 061)	
<b>TOTAL</b>			-	-	(49)	(17 909)	8 713	2 818	(197 044)	(28 535)
<b>Derivatives – Commodity contracts – Metals – Silver</b>										
Options										
Purchased call options						410	207			
Sold put options	3 600	20.00			(315)	(142)		(4 183)	(22 599)	
<b>TOTAL</b>					(315)	(142)	410	207	(4 183)	(22 599)
<b>Derivatives – Currency contracts</b>										
Forwards/swaps										
Forwards/swaps – sold USD	5 505	3.1962	481				7		(927)	
Forwards/swaps – sold EUR	11 240	4.2055	867				382		(57)	
Options										
Sold put options – USD	840 000	2.6429			(2 017)	(15 174)			(2 957)	(59 930)
Purchased call options – EUR	300	4.1500	22							
Collar – EUR	2 100	4.1643-4.3905	199			(127)				
<b>TOTAL</b>			1 569	-	(2 144)	(15 174)	389	-	(3 941)	(59 930)
<b>TOTAL TRADE INSTRUMENTS</b>			1 569	-	(2 508)	(33 225)	9 512	3 025	(205 168)	(111 064)

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**12. Derivatives (continued)**

HEDGING INSTRUMENTS	Volume/ Notional	Avg. weighted price/ ex. rate	Maturity/ settlement period		Period of profit/loss impact		At 31 December 2012 [PLN '000]				At 31 December 2011 [PLN '000]			
							Financial assets		Financial liabilities		Financial assets		Financial liabilities	
							Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>Type of derivative</b>	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	<b>From</b>	<b>Till</b>	<b>From</b>	<b>Till</b>	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
<b>Derivatives – Commodity contracts - Metals - Copper</b>														
Options														
Collar	73 500	7 976-10 696	Jan-13	Dec-13	Feb-13	Jan-14	108 590	16 008	(12 596)	(3 587)			253 654	(49 212)
Collar- seagull											156 744	90 889	(96 075)	(60 413)
Collar	136 500	7 696-9 985	Jan-13	June-15	Feb-13	Jan-16	47 040	351 772	(6 255)	(170 461)				
Purchased put options – producer’s put											313 489	39 363		
<b>TOTAL</b>							<b>155 630</b>	<b>367 780</b>	<b>(18 851)</b>	<b>(174 048)</b>	<b>470 233</b>	<b>383 906</b>	<b>(96 075)</b>	<b>(109 625)</b>
<b>Derivatives – Commodity contracts - Metals - Silver</b>														
Options														
Purchased put options											183 366	19 008		
Collar											107 594	10 811	(410)	(207)
Collar-seagull												172 364		(6 001)
Seagull	3 600	40.00-65.00	Jan-13	Dec-13	Feb-13	Jan-14	102 955	9 585	(5)	(5)				
<b>TOTAL</b>							<b>102 955</b>	<b>9 585</b>	<b>(5)</b>	<b>(5)</b>	<b>290 960</b>	<b>202 183</b>	<b>(410)</b>	<b>(6 208)</b>
<b>Derivatives – Currency contracts</b>														
Options USD														
Purchased put options											731			
Collar	1 200 000	3.3200-4.3800	Jan-13	Dec-15	Jan-13	Dec-15	67 936	229 980	(571)	(19 046)	64 778	94 796	(23 787)	(95 064)
Collar-seagull											23 828	215 490	(5 482)	(216 152)
Seagull	840 000	3.3000-4.2143	Jan-13	Dec-14	Jan-13	Dec-14	54 503	134 855	(1 479)	(3 877)				
<b>TOTAL</b>							<b>122 439</b>	<b>364 835</b>	<b>(2 050)</b>	<b>(22 923)</b>	<b>89 337</b>	<b>310 286</b>	<b>(29 269)</b>	<b>(311 216)</b>
<b>TOTAL HEDGING INSTRUMENTS</b>							<b>381 024</b>	<b>742 200</b>	<b>(20 906)</b>	<b>(196 976)</b>	<b>850 530</b>	<b>896 375</b>	<b>(125 754)</b>	<b>(427 049)</b>



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**12. Derivatives (continued)**

**INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS  
EXCLUDED FROM HEDGE ACCOUNTING**

Type of derivative	Volume Ag ['000 troz]	Avg. weighted price Ag [USD/troz]	Maturity/ settlement period		Period of profit/loss impact		At 31 December 2012 [PLN '000]				At 31 December 2011 [PLN '000]			
							Financial assets		Financial liabilities		Financial assets		Financial liabilities	
			From	Till	From	Till	Current	Non- current	Current	Non- current	Current	Non- current	Current	Non- current
<b>Derivatives – Metals - Silver</b>														
Options														
Sold call options			-	-	-	-								(409) (207)
<b>TOTAL</b>														<b>(409) (207)</b>
<b>TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING</b>														<b>(409) (207)</b>

**EMBEDDED INSTRUMENTS**

Type of derivative	At 31 December 2012 [PLN '000]			
	Financial assets		Financial liabilities	
	Current	Non- current	Current	Non- current
<b>Embedded financial instruments – based on copper price:</b>				
Long-term contracts for the supply of sulphuric acid		2 525	(1 594)	
Long-term contracts for the supply of water		605	(546)	
<b>TOTAL EMBEDDED INSTRUMENTS*</b>		<b>3 130</b>	<b>(2 140)</b>	

\* relates to KGHM INTERNATIONAL LTD.

### 13. Trade and other receivables

	Note	At	
		31 December 2012	31 December 2011
<b>Trade and other non-current receivables</b>			
Deposits of over 12 months		1	34
Loans granted*		1 470	-
Other financial receivables		20	5
Impairment allowances	35.2.6	-	( 1)
<b>Total loans and financial receivables, net</b>	<b>34.1</b>	<b>1 491</b>	<b>38</b>
Prepayments		25	2
<b>Total non-financial receivables, net</b>		<b>25</b>	<b>2</b>
<b>Trade and other non-current receivables, net:</b>		<b>1 516</b>	<b>40</b>
<b>Trade and other current receivables</b>			
Trade receivables		2 248	1 388
Unsettled derivative instruments receivables**		22	30
Loans granted		1	2
Deposits of over 3 up to 12 months		47	35
Other financial receivables		64	68
Impairment allowances	35.2.6	( 70)	( 71)
<b>Total loans and financial receivables, net</b>	<b>34.1</b>	<b>2 312</b>	<b>1 452</b>
Other non-financial receivables, including:		507	397
- due to taxes and other charges		415	346
- advances granted		80	34
Prepayments		53	18
Impairment allowances		( 26)	( 28)
<b>Total non-financial receivables, net</b>		<b>534</b>	<b>387</b>
<b>Trade and other current receivables, net</b>		<b>2 846</b>	<b>1 839</b>
<b>Total trade and other non-current and current receivables, net</b>		<b>4 362</b>	<b>1 879</b>

\* relates to a loan granted by KGHM INTERNATIONAL LTD. to Sierra Gorda S.C.M. Details presented in note 35.2.4

\*\* The amount of receivables due to unsettled derivatives represents the items whose date of settlement falls on 3 January 2013 for the balance as at 31 December 2012 and 4 January 2012 for the balance as at 31 December 2011.

As at 31 December 2012, the gross amount due from clients due to work based on construction contracts amounted to PLN 165 million (as at 31 December 2011, PLN 21 million). The retained amount due to these contracts as at 31 December 2012, amounted to PLN 31 million.

#### 14. Inventories

	Note	At	
		31 December 2012	31 December 2011
Materials		669	307
Half-finished products and work in progress		2 162	1 682
Finished goods		811	581
Merchandise		127	88
<b>Total carrying amount of inventories, net</b>		<b>3 769</b>	<b>2 658</b>
<b>For the period</b>			
		<b>from 1 January 2012 to 31 December 2012</b>	<b>from 1 January 2011 to 31 December 2011</b>
<b>Write-down of inventories in the financial period</b>			
Write-down of inventories recognised in cost of sales	29	(8)	(11)
Reversal of write-down recognised in cost of sales	29	2	4

#### 15. Cash and cash equivalents

	Note	At	
		31 December 2012	31 December 2011
Cash in hand		1	1
Cash at bank		562	52
Other cash		28	8
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		2 038	13 069
<b>Total cash and cash equivalents</b>	<b>34.1</b>	<b>2 629</b>	<b>13 130</b>

Components of cash and cash equivalents presented in the consolidated statement of cash flows are the same as those presented in the consolidated statement of financial position.

## 16. Non-current assets held for sale

	At	
	31 December 2012	31 December 2011
Property, plant and equipment	2	4
	<b>Note</b>	
	<b>For the period</b>	
	<b>from 1 January 2012</b>	<b>from 1 January 2011</b>
	<b>to 31 December 2012</b>	<b>to 31 December 2011</b>
<b>Beginning of the financial period</b>	<b>4</b>	<b>1</b>
Reclassification of property, plant and equipment	( 2)	2
Reclassification of investments in associates	9	1 360
Reclassification of the DIALOG S.A. Group net assets	48	1 015
Sales	4,9	(2 374)
<b>End of the financial period</b>	<b>2</b>	<b>4</b>

## 17. Share capital

As at 31 December 2012, the share capital of the Parent Entity, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Parent Entity has not issued preference shares. Each share gives the right to one vote at the general meeting. The Parent Entity does not have treasury shares.

Subsidiaries and associates, and also other entities accounted for using the equity method in the consolidated financial statements do not have shares of KGHM Polska Miedź S.A. In the years ended 31 December 2012 and 31 December 2011 there were no changes in the registered share capital or in the number of shares.

In 2012 and in 2011 there were no changes in significant packets of shares of KGHM Polska Miedź S.A.

The only shareholder of the Parent Entity, owning in 2012 and 2011 number of shares granting the right to at least 5% of the share capital and total number of votes was the State Treasury.

At 31 December 2012 and at the date of preparation of these financial statements, the shareholder structure of the Parent Entity is as follows:

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

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**18. Other equity items attributable to the shareholders of the Parent Entity**

	Note	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging instruments	Exchange differences from the translation of foreign operations statements	Retained earnings	Total
<b>At 1 January 2012 restated*</b>		( 38)	574	19	20 547	21 102
Dividends from profit for 2011 - paid		-	-	-	(5 668)	(5 668)
<b>Total comprehensive income</b>		( 13)	( 288)	( 265)	4 632	4 066
Profit for the period		-	-	-	4 802	4 802
Other comprehensive income		( 13)	( 288)	( 265)	( 170)	( 736)
Fair value losses on available-for-sale financial assets		( 163)	-	-	-	( 163)
Amount transferred to profit or loss due to settlement of available-for-sale financial assets		( 1)	-	-	-	( 1)
Amount transferred to profit or loss due to impairment of available-for-sale financial assets		158	-	-	-	158
Impact of effective cash flow hedging transactions	35.1.6	-	( 22)	-	-	( 22)
Amount transferred to profit or loss due to the settlement of hedging instruments	35.1.6	-	( 333)	-	-	( 333)
Actuarial losses from the measurement of benefits following the period of employment		-	-	-	( 210)	( 210)
Exchange differences from the translation of foreign operations statements		-	-	( 265)	-	( 265)
Deferred income tax		( 7)	67	-	40	100
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	11	(33)	(22)
<b>At 31 December 2012</b>		( 51)	286	( 235)	19 478	19 478

\* details presented in note 2.1.2

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**18. Other equity items attributable to the shareholders of the Parent Entity (continued)**

		Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging instruments	Exchange differences from the translation of foreign operations statements	Retained earnings	Total
<b>At 1 January 2011*</b>		120	90	-	12 456	12 666
Change in accounting policies		-	-	-	5	5
<b>At 1 January 2011 restated*</b>		120	90	-	12 461	12 671
Dividends from profit for 2010 - paid		-	-	-	(2 980)	(2 980)
<b>Total comprehensive income</b>		( 158)	484	19	11 061	11 406
Profit for the period restated*		-	-	-	11 127	11 127
Other comprehensive income restated*		( 158)	484	19	( 66)	279
Fair value losses on available-for-sale financial assets		( 190)	-	-	-	( 190)
Amount transferred to profit or loss due to settlement of available-for-sale financial assets		( 10)	-	-	-	( 10)
Amount transferred to profit or loss due to impairment of available-for-sale financial assets	32	5	-	-	-	5
Impact of effective cash flow hedging transactions	35.1.6	-	840	-	-	840
Amount transferred to profit or loss due to the settlement of hedging instruments	35.1.6	-	( 242)	-	-	( 242)
Actuarial losses from the measurement of benefits following the period of employment		-	-	-	( 82)	( 82)
Exchange differences from the translation of foreign operations statements		-	-	19	-	19
Deferred income tax	24	37	( 114)	-	16	( 61)
Obligation to repurchase of non-controlling interest		-	-	-	( 2)	( 2)
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	-	7	7
<b>At 31 December 2011 restated*</b>		( 38)	574	19	20 547	21 102

\* details presented in note 2.1.2

## 19. Retained earnings

	<b>31 December 2012</b>	<b>At 31 December 2011 restated*</b>	<b>1 January 2011 restated*</b>
Undistributed profit/(loss) from prior years	(730)	(146)	(616)
including valuation of the employee shares put option	(70)	(70)	(67)
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	720	693	693
Reserve capital created and utilised in accordance with the Statutes of Group entities	14 686	8 939	7 655
Profit for the current period	4 802	11 061	4 729
<b>Total retained earnings</b>	<b>19 478</b>	<b>20 547</b>	<b>12 461</b>

\* details presented in note 2.1.2

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

As at 31 December 2012, this statutory reserve capital in the Group entities amounts to PLN 720 million, of which PLN 660 million relates to the Parent Entity.

## 20. Changes in equity attributable to non-controlling interest

	<b>Note</b>	<b>For the period</b>	
		<b>from 1 January 2012 to 31 December 2012</b>	<b>from 1 January 2011 to 31 December 2011 restated*</b>
<b>At beginning of the period</b>		<b>289</b>	<b>256</b>
Non-controlling interest in profits of subsidiaries		1	1
Dividend paid to non-controlling shareholders		(1)	-
Changes in equity attributable to non-controlling interest due to obtaining/(losing) control of subsidiaries	20.1	-	22
Changes in ownership shares in subsidiaries which do not result in loss of control	20.1	(53)	(8)
Changes in equity attributable to non-controlling interest due to exchange differences from the translation of foreign operations statements		(4)	18
<b>At end of the period</b>		<b>232</b>	<b>289</b>

\* details presented in note 2.1.2

## 20. Changes in equity attributable to non-controlling interest (continued)

### 20.1 Transactions with non-controlling interest and transactions of obtaining control

For the period from 1 January 2012 to 31 December 2012	Note	Net assets at the day of obtaining control/ change in % held	% of non- controlling interest in respect of changes	Net assets attributable to non-controlling interest in respect of changes	Transaction value	Impact on equity attributable to non-controlling interest	Impact on equity attributable to the Parent Entity
<b>Changes in ownership shares in subsidiaries which do not result in loss of control</b>	<b>20</b>			<b>89</b>	<b>111</b>	<b>(53)</b>	<b>(22)</b>
Purchase of non-controlling shares of KGHM AJAX MINING INC.		243	29%	71	93	(71)	(22)
Increase in the share capital of KGHM AJAX MINING INC.		92	-	18	18	18	-
<b>For the period from 1 January 2011 to 31 December 2011 – restated*</b>	<b>Note</b>	<b>Net assets at the day of obtaining control/ change in % held</b>	<b>% of non- controlling interest in respect of changes</b>	<b>Net assets attributable to non-controlling interest in respect of changes</b>	<b>Transaction value</b>	<b>Impact on equity attributable to non-controlling interest</b>	<b>Impact on equity attributable to the Parent Entity</b>
<b>Changes due to obtaining control/(loss of control) of subsidiaries</b>	<b>20</b>			<b>22</b>	<b>22</b>	<b>22</b>	
Purchase of NITROERG S.A.	4	124	15%	19	19	19	
Purchase of Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	4	27	12%	3	3	3	
<b>Changes in ownership shares in subsidiaries which do not result in loss of control</b>	<b>20</b>			<b>10</b>	<b>3</b>	<b>(8)</b>	<b>7</b>
Increase in the share capital of ZUK S.A.		114	1.71%	3	2	(2)	1
Increase in the share capital of "Uzdrowisko Cieplice" Sp. z o.o.		24	1.96%	2	1	(1)	1
WMN "ŁABĘDY" – new entity founded from the combination of WMN Sp. z o.o. and WM „ŁABĘDY” S.A.		54	15.04%	5	-	(5)	5

\* details presented in note 2.1.2



## 21. Trade and other payables

	Note	31 December 2012	At 31 December 2011 restated*	1 January 2011 restated*
<b>Trade and other non-current payables</b>				
Trade payables		5	20	12
Put option liabilities for employee shares		85	74	68
Other financial liabilities		30	14	11
<b>Total financial liabilities (scope of IFRS 7)</b>	<b>34.1</b>	<b>120</b>	<b>108</b>	<b>91</b>
Deferred income		613	33	45
including liabilities due to Franco Nevada streaming contract		564	-	-
Other non-financial liabilities		-	1	-
<b>Total non-financial liabilities</b>		<b>613</b>	<b>34</b>	<b>45</b>
<b>Total trade and other non-current payables</b>		<b>733</b>	<b>142</b>	<b>136</b>
<b>Trade and other current payables</b>				
Trade payables		1 273	1 056	890
including payables due to purchase, construction of property, plant and equipment and intangible assets		292	279	231
Payables due to unsettled derivatives		16	17	50
Other financial liabilities		54	30	21
<b>Total financial liabilities (scope of IFRS 7)</b>	<b>34.1</b>	<b>1 343</b>	<b>1 103</b>	<b>961</b>
Employee benefits liabilities		198	181	169
Liabilities due to taxes and social security		524	317	307
Other non-financial liabilities		49	54	46
Special funds		169	138	112
Deferred income		96	35	86
Accruals		646	421	425
of which bonus paid on a one-off basis together with the related surcharges recognised in the costs of financial year		353	305	295
<b>Total non-financial liabilities</b>		<b>1 682</b>	<b>1 146</b>	<b>1 145</b>
<b>Total trade and other current payables</b>		<b>3 025</b>	<b>2 249</b>	<b>2 106</b>
<b>Total trade and other non-current and current payables</b>		<b>3 758</b>	<b>2 391</b>	<b>2 242</b>

\* details presented in note 2.1.2

As at 31 December 2012, accruals consist mainly of one-off bonus paid after the approval of the annual financial statements and other employee benefits resulting from the collective labour agreements in the amount of PLN 353 million (PLN 305 million as at 31 December 2011) and costs due to unused annual leave in the amount of PLN 44 million (PLN 22 million as at 31 December 2011).

As at 31 December 2012, the gross amount due to clients due to work based on construction contracts amounted to PLN 28 million (as at 31 December 2011, PLN 48 million). The amount of prepayments received due to these contracts as at 31 December 2012, amounted to PLN 8 million (PLN 7 million as at 31 December 2011).

## 21. Trade and other payables (continued)

Details on the valuation of put option liabilities for employee shares are presented in the table below:

<b>Companies, whose employees have the right to receive shares free of charge pursuant to the Act dated 30 August 1996 on the commercialisation and privatisation of companies</b>	<b>Number of employee shares</b>	<b>Share price (PLN)</b>	<b>Amount of liability at</b>	
			<b>31 December 2012</b>	<b>31 December 2011</b>
WPEC w Legnicy S.A.	1 770 000	20.00	32	30
„Uzdrowisko Cieplice” Sp. z o.o.	13 110	256.50	3	3
ZUK S.A.	379 500	40.06	13	12
Uzdrowisko Połczyn S.A.	179 550	16.51	3	2
Uzdrowisko „Świeradów-Czerniawa” Sp. z o.o.	1 881	1 560.30	3	2
CENTROZŁOM WROCŁAW S.A.	1 650 000	18.87	31	25
<b>Put option liabilities for employee shares</b>			<b>85</b>	<b>74</b>

As at 31 December 2012, put option liabilities for employee shares presented in non-current payables in the amount of PLN 85 million (as at 31 December 2011, PLN 74 million) represented liabilities due to an irrevocable purchase offer submitted as part of a sales agreement by the State Treasury of shares of WPEC w Legnicy S.A., „Uzdrowisko Cieplice” Sp. z o.o., ZUK S.A., Uzdrowisko Połczyn S.A., Uzdrowisko „Świeradów-Czerniawa” Sp. z o.o., CENTROZŁOM WROCŁAW S.A., all other shares held by the State Treasury and not acquired by the entitled employees of these companies and shares acquired by employees (shares acquired from the State Treasury during the privatisation of these companies). The liabilities were valued at the best estimate of the discounted amount payable, based on contractual provisions respecting the purchase price of these shares; the purchase price was similar to the fair value of these shares. The put option liabilities for employee shares were discounted by applying a discount rate at the level of 4.2%. The put option liabilities for employee shares were recognised at the moment of initial recognition in 2009 and in 2010 with debit entry in retained earnings in the item of „Valuation of the employee shares put options”.

## 22. Borrowings, debt securities and finance lease liabilities

	Note	At	
		31 December 2012	31 December 2011
Bank loans		165	177
Loans		8	1
Finance lease liabilities		17	16
Debt securities*		1 593	-
<b>Total non-current borrowings, debt securities and finance lease liabilities</b>		<b>1 783</b>	<b>194</b>
Bank loans**		1 057	92
Loans		3	2
Finance lease liabilities		10	10
Debt securities - interest		5	-
<b>Total current borrowings, debt securities and finance lease liabilities</b>		<b>1 075</b>	<b>104</b>
<b>Total borrowings, debt securities and finance lease liabilities</b>	<b>34.1</b>	<b>2 858</b>	<b>298</b>

\* relate to senior notes issued by KGHM INTERNATIONAL LTD. (details in note 35.3)

\*\* of which PLN 1 013 million relates to bank loans of KGHM Polska Miedź S.A. (details in notes 22.1)

### 22.1 Borrowings

#### Bank and other loans as at 31 December 2012

Bank loan currency	Interest rate	in foreign currency [million]	The value of the bank and other loans at the end of the reporting period (in PLN million)	2013 (current)	Of which payable in:			
					2014	2015	2016-2017	2018 and beyond
EUR	Variable	64	264	197	11	7	20	29
USD	Variable	265	822	822	-	-	-	-
PLN	Variable	-	136	33	23	16	25	39
PLN	Fixed	-	11	8	1	2	-	-
<b>Total bank and other loans</b>		-	<b>1 233</b>	<b>1 060</b>	<b>35</b>	<b>25</b>	<b>45</b>	<b>68</b>

## 22. Borrowings, debt securities and finance lease liabilities (continued)

### Bank and other loans as at 31 December 2011

Bank loan currency	Interest rate	in foreign currency [million]	The value of the bank and other loans at the end of the reporting period (in PLN million)		Of which payable in:				
			in PLN [million]	2012 (current)	2013	2014	2015- 2016	2017 and beyond	
EUR	Variable	16	72	4	9	5	17	37	
PLN	Variable	-	200	90	26	16	25	43	
<b>Total bank and other loans</b>			<b>272</b>	<b>94</b>	<b>35</b>	<b>21</b>	<b>42</b>	<b>80</b>	

### 22.2 Finance lease liabilities

As at 31 December 2012, the amount of the finance lease liabilities amounted to PLN 27 million (at 31 December 2011: PLN 26 million, respectively).

At 31 December 2012, the largest item is liabilities due to agreements entered into with Fortis Lease Sp. z o.o. to finance the purchase of rolling stock. The amount of liabilities in this regard amounts to PLN 8 million (at 31 December 2011, PLN 14 million). Payment is in monthly instalments pursuant to the repayment schedule, with final payment in the first quarter of 2015. Interest on the liabilities is based on a variable interest rate of WIBOR 1M and a margin, which may change depending on the agreement, and falls within a range of 1.9-2.5%.

### Finance lease liabilities as at 31 December 2012

	2012 (current)	2014	2015	2016-2017	Total
<b>Nominal value of minimum lease payments</b>	<b>11</b>	<b>8</b>	<b>2</b>	<b>7</b>	<b>28</b>
Future finance costs due to finance leases	(1)	-	-	-	(1)
<b>Present value of minimum lease payments</b>	<b>10</b>	<b>8</b>	<b>2</b>	<b>7</b>	<b>27</b>

### Finance lease liabilities as at 31 December 2011

	2012 (current)	2013	2014	2015-2016	Total
<b>Nominal value of minimum lease payments</b>	<b>11</b>	<b>9</b>	<b>6</b>	<b>2</b>	<b>28</b>
Future finance costs due to finance leases	(1)	(1)	-	-	(2)
<b>Present value of minimum lease payments</b>	<b>10</b>	<b>8</b>	<b>6</b>	<b>2</b>	<b>26</b>

## 23. Collateral for the repayment of liabilities

In order to guarantee repayment of bank and other loans drawn, the following collateral has been pledged:

- proxy rights to all present and future bank accounts of the borrowers,
- financial registered pledge on present and future bank accounts of the borrower,
- transfer of receivables due to an existing insurance contract and future contracts,
- mortgages to the total amount of PLN 175 million,
- contractual mortgage on properties and on investment properties of PLN 108 million,
- blank promissory notes with promissory declarations,
- statement on submitting to the enforcement regime,
- assignment of rights under insurance policies,
- assignment of receivables,

### 23. Collateral for the repayment of liabilities (continued)

- registered pledge on technical equipment and machinery, with assignment of rights under insurance agreement on these machines and equipment up to PLN 15 million,
- registered pledge on motor vehicle up to PLN 24 million,
- registered pledge and agreements for ownership transfer on inventories of finished goods, half-finished products, merchandise and materials up to PLN 15 million,
- assignment of rights under movable assets insurance agreement (assignment of rights under insurance policy against fire and other accidents for PLN 16 million.

The carrying amount of Group companies net assets which are pledged as collateral for financial liabilities or contingent liabilities at the end of the reporting period:

	At	
	31 December 2012	31 December 2011
Property, plant and equipment, including:	<b>404</b>	<b>204</b>
Fixed assets under construction	10	-
Buildings	273	78
Motor vehicles <sup>1)</sup>	54	57
Technical equipment and machinery <sup>1)</sup>	67	69
Investment property	17	17
Inventories	23	41
Trade receivables <sup>2)</sup>	14	20
Other financial and non-financial receivables	9	-
Cash and cash equivalents	1	3
<b>Total carrying amount of assets which are pledged as collateral for financial liabilities</b>	<b>468</b>	<b>285</b>

<sup>1)</sup> incl. those used based on a finance lease

<sup>2)</sup> incl. those under a pledge or assignment of receivables

## 24. Deferred tax

	Note	At		
		31 December 2012	31 December 2011 restated*	1 January 2011 restated*
<b>Net deferred tax assets at the beginning of the period, of which:</b>		<b>143</b>	<b>425</b>	<b>291</b>
<b>Deferred tax assets at the beginning of the period</b>		<b>272</b>	<b>593</b>	<b>347</b>
<b>Deferred tax liabilities at the beginning of the period</b>		<b>( 129)</b>	<b>( 168)</b>	<b>( 56)</b>
(Charged)/Credited to profit	37	71	( 65)	168
(Decrease)/Increase in other comprehensive income	18	100	( 61)	( 20)
Deferred tax liabilities at the date of obtaining control of subsidiaries		(1 435)	( 9)	( 50)
Exchange differences from the translation of deferred tax of foreign operations		( 2)	-	-
Reclassification of deferred tax to assets held for sale in connection with the reclassification of an investment in a subsidiary to assets held for sale		-	( 152)	-
Discontinued operations		-	5	36
<b>Net deferred tax assets (liabilities) at the end of the period, of which:</b>		<b>(1 123)</b>	<b>143</b>	<b>425</b>
<b>Deferred tax assets at the end of the period</b>		<b>637</b>	<b>272</b>	<b>593</b>
<b>Deferred tax liabilities at the end of the period</b>		<b>(1 760)</b>	<b>( 129)</b>	<b>( 168)</b>

\* details presented in note 2.1.2

The deferred tax asset and deferred tax liability are offset in the statements of financial position at the level of subsidiaries.

The significant increase in balance of deferred tax asset and liabilities in the reporting period resulted from the acquisition of the KGHM INTERNATIONAL LTD. Group.

As at 31 December 2012, the deferred tax asset of KGHM INTERNATIONAL LTD. amounted to PLN 258 million, and the deferred tax liability to PLN 1 615 million, of which PLN 651 million represents a deferred tax liability in the books of KGHM INTERNATIONAL LTD. and PLN 964 million represented a deferred tax liability due to the fair value measurement of net assets acquired, due to provisional accounting for the acquisition of KGHM INTERNATIONAL LTD.

**24. Deferred tax (continued)**

**Realisation periods of deferred tax assets/liabilities**

<b>Deferred tax assets</b>	<b>At</b>	
	<b>31 December 2012</b>	<b>31 December 2011</b>
in the period of over 12 months from the end of the reporting period	413	119
in the period of 12 months from the end of the reporting period	224	153
<b>Total</b>	<b>637</b>	<b>272</b>

<b>Deferred tax liabilities</b>	<b>31 December 2012</b>	<b>At 31 December 2011 restated*</b>	<b>1 January 2011 restated*</b>
	in the period of over 12 months from the end of the reporting period	1 702	127
in the period of 12 months from the end of the reporting period	58	2	3
<b>Total</b>	<b>1 760</b>	<b>129</b>	<b>168</b>

\* details presented in note 2.1.2

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## 24. Deferred tax (continued)

### Deferred tax assets prior to offsetting

	At 1 January 2012 restated*	Increase due to obtaining control of a subsidiary	Credited/(Charged) to profit due to a change in the balance of temporary differences	Increase/(decrease) in other comprehensive income due to change in the balance of temporary differences	At 31 December 2012
Exchange differences	1	( 4)	-	4	1
Allowances for impairment of receivables	7	-	( 1)	-	6
Short-term accruals for salaries	60	-	8	-	68
Employee benefits (holidays)	5	-	1	-	6
Provision for decommissioning of mines and other facilities	95	-	48	-	143
Measurement of forward transactions	427	-	40	-	467
Re-measurement of hedging instruments	79	-	-	13	92
Depreciation/amortisation	33	349	( 153)	-	229
Future employee benefits liabilities	277	-	14	40	331
Unpaid remuneration with surcharges	14	-	3	-	17
Measurement of available-for-sale financial assets	14	-	-	-	14
Other	112	6	100	18	236
<b>Total</b>	<b>1 124</b>	<b>351</b>	<b>60</b>	<b>75</b>	<b>1 610</b>

\* details presented in note 2.1.2

As at 31 December 2012, the Group did not recognise a deferred tax asset on unused tax losses and tax allowances representing the amount of PLN 941 million, as it is unlikely that a taxable profit would be earned in the future against which the carryforward of unused tax losses and tax allowances can be utilised.

Expiry dates of unused tax losses and tax allowance as at 31 December 2012 by countries are presented in the following table:

	Unused tax losses	Expiry date	Unused tax allowance	Expiry date
Poland	-	-	2	2013
Canada	83	2027-2023	94	indefinite
Chile	762	indefinite	-	-
<b>Total</b>	<b>845</b>		<b>96</b>	

Tax rates binding in individual countries in 2012 are presented in note 37.



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**24. Deferred tax (continued)**

**Deferred tax assets prior to offsetting**

	At 1 January 2011 restated*	Increase due to obtaining control of a subsidiary	Credited/(Charged) to profit due to a change in the balance of temporary differences	Increase/(decrease) in other comprehensive income due to change in the balance of temporary differences	Decrease due to reclassification to assets held for sale	At 31 December 2011 restated*
Exchange differences	-	-	1	-	-	1
Allowances for impairment of receivables	10	-	1	-	( 4)	7
Short-term accruals for salaries	58	-	2	-	-	60
Employee benefits (holidays)	4	-	1	-	-	5
Provision for decommissioning of mines and other facilities	102	-	( 7)	-	-	95
Measurement of forward transactions	429	-	( 2)	-	-	427
Re-measurement of hedging instruments	-	-	-	79	-	79
Depreciation/amortisation	137	-	13	-	( 117)	33
Future employee benefits liabilities	252	3	7	16	( 1)	277
Unpaid remuneration with surcharges	14	-	-	-	-	14
Measurement of available-for-sale financial assets	-	-	-	14	-	14
Other	134	-	8	-	( 30)	112
<b>Total</b>	<b>1 140</b>	<b>3</b>	<b>24</b>	<b>109</b>	<b>( 152)</b>	<b>1 124</b>

\* details presented in note 2.1.2

Tax rates binding in individual countries in 2011 are presented in note 37.

## 24. Deferred tax (continued)

### Deferred tax liabilities prior to offsetting

	At 1 January 2012 restated*	Increase due to obtaining control of a subsidiary	(Credited)/Charged to profit due to a change in the balance of temporary differences	(Increase)/decrease in other comprehensive income due to change in the balance of temporary differences	At 31 December 2012
Exchange differences	-	( 8)	( 1)	6	( 3)
Measurement of forward transactions	181	-	72	-	253
Re-measurement of hedging instruments	214	-	-	( 54)	160
Depreciation/amortisation	440	597	( 131)	-	906
Measurement of available-for-sale financial assets	5	-	-	-	5
Provisional accounting for the acquisition of KGHM INTERNATIONAL LTD.	-	1 016	-	1	1 017
Other	137	181	53	24	395
<b>Total</b>	<b>981</b>	<b>1 786</b>	<b>( 11)</b>	<b>( 23)</b>	<b>2 733</b>

\* details presented in note 2.1.2

The Parent Entity did not recognise a deferred income tax liability on taxable temporary differences in the amount of PLN 264 million related to investments in subsidiaries, associates and shares in joint ventures, as the conditions described in IAS 12.39 were met.

Tax rates binding in individual countries in 2012 are presented in note 37.

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**24. Deferred tax (continued)**

	At 1 January 2011 restated*	Increase due to obtaining control of a subsidiary	(Credited)/Charged to profit due to a change in the balance of temporary differences	(Increase)/decrease in other comprehensive income due to change in the balance of temporary differences	Discontinued activities	At 31 December 2011 restated*
Interest	2	-	2	-	-	4
Measurement of forward transactions	67	-	114	-	-	181
Re-measurement of hedging instruments	22	-	( 1)	193	-	214
Depreciation/amortisation	420	-	22	-	( 2)	440
Measurement of available-for-sale financial assets	28	-	-	( 23)	-	5
Accounting for an associate reclassified to assets held for sale using the equity method	52	-	( 52)	-	-	-
Other	124	12	4	-	( 3)	137
<b>Total</b>	<b>715</b>	<b>12</b>	<b>89</b>	<b>170</b>	<b>( 5)</b>	<b>981</b>

\* details presented in note 2.1.2

Tax rates binding in individual countries in 2011 are presented in note 37.

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## 25. Employee benefits

A general description of the employee benefit plans is presented in note 2.2.19.

The present value of obligations due to future employee benefits equals their carrying amount.

### Change in liabilities due to future employee benefits

	<b>TOTAL liabilities</b>	<b>Jubilee awards</b>	<b>Retirement and disability benefits</b>	<b>Coal equivalent</b>	<b>Other benefits</b>
<b>At 1 January 2012</b>	<b>1 465</b>	<b>314</b>	<b>245</b>	<b>850</b>	<b>56</b>
Total costs recognised in profit or loss:	<b>173</b>	<b>76</b>	<b>25</b>	<b>67</b>	<b>5</b>
Interest costs	<b>86</b>	16	13	54	3
Current service cost	<b>50</b>	23	12	13	2
Past service cost	<b>1</b>	1	-	-	-
Actuarial losses recognised in profit or loss	<b>36</b>	36	-	-	-
Actuarial losses recognised in other comprehensive income	<b>210</b>	-	6	198	6
Benefits paid	<b>( 100)</b>	( 42)	( 18)	( 38)	( 2)
<b>At 31 December 2012</b>	<b>1 748</b>	<b>348</b>	<b>258</b>	<b>1 077</b>	<b>65</b>
of which:					
Carrying amount of non-current liabilities	<b>1 615</b>	301	219	1 036	59
Carrying amount of current liabilities	<b>133</b>	47	39	41	6

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**25. Employee benefits (continued)**

	<b>TOTAL liabilities</b>	<b>Jubilee awards</b>	<b>Retirement and disability benefits</b>	<b>Coal equivalent</b>	<b>Other benefits</b>
<b>At 1 January 2011</b>	<b>1 338</b>	<b>298</b>	<b>226</b>	<b>764</b>	<b>50</b>
Total costs recognised in profit or loss:	<b>117</b>	<b>43</b>	<b>25</b>	<b>47</b>	<b>2</b>
Interest costs	<b>67</b>	16	12	36	3
Current service cost	<b>44</b>	21	13	11	( 1)
Past service cost	<b>1</b>	1	-	-	-
Actuarial losses recognised in profit or loss	<b>5</b>	5	-	-	-
Actuarial losses recognised in other comprehensive income	<b>82</b>	-	4	73	5
Benefits paid	<b>( 89)</b>	( 39)	( 14)	( 34)	( 2)
Liabilities transferred due to business combination	<b>18</b>	13	4	-	1
Reclassification to assets held for sale	<b>( 1)</b>	( 1)	-	-	-
<b>At 31 December 2011</b>	<b>1 465</b>	<b>314</b>	<b>245</b>	<b>850</b>	<b>56</b>
of which:					
Carrying amount of non-current liabilities	<b>1 339</b>	268	205	815	51
Carrying amount of current liabilities	<b>126</b>	46	40	35	5

## 25. Employee benefits (continued)

At	Present value of employee benefits
31 December 2012	1 748
31 December 2011	1 465
31 December 2010	1 338
31 December 2009	1 298
31 December 2008	1 008

### Main actuarial assumptions at 31 December 2012

	2013	2014	2015	2016	2017 and beyond
- discount rate	4.20%	4.20%	4.20%	4.20%	4.20%
- rate of increase in coal prices	3.30%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.70%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	2.00%	2.50%	2.50%	2.50%	2.50%

### Main actuarial assumptions at 31 December 2011

	2012	2013	2014	2015	2016 and beyond
- discount rate	5.80%	5.80%	5.80%	5.80%	5.80%
- rate of increase in coal prices	8.00%	3.30%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	8.20%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	5.30%	3.80%	3.50%	3.50%	3.50%

The change in actuarial losses is caused by a change in assumptions relating to the discount rate, increases in coal prices and increases in the lowest salary.

For purposes of re-measuring the provision at the end of the current period, parameters were assumed based on available forecasts of inflation, an analysis of increases in coal prices and in the lowest salary, and also based on the anticipated profitability of non-current government bonds.

## 26. Provisions for other liabilities and charges

		<b>TOTAL</b>	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
<b>Provisions at 1 January 2012</b>	<b>Note</b>	<b>511</b>	<b>483</b>	<b>28</b>
Provisions recognised in other operating costs		38	4	34
Provisions transferred due to business combinations		301	261	40
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs		( 2)	5	( 7)
Changes in provisions arising from updating of estimates recognised in fixed assets		272	272	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	33	38	38	-
Utilisation of provisions		( 37)	( 10)	( 27)
Release of provisions, recognised in other operating income		( 15)	( 6)	( 9)
Transfer to Mine Closure Fund		( 25)	( 25)	-
Other		( 2)	( 1)	( 1)
<b>Provisions at 31 December 2012</b>		<b>1 079</b>	<b>1 021</b>	<b>58</b>
of which:				
<b>Non-current provisions</b>		<b>999</b>	<b>983</b>	<b>16</b>
<b>Current provisions</b>		<b>80</b>	<b>38</b>	<b>42</b>

		<b>TOTAL</b>	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
<b>Provisions at 1 January 2011</b>	<b>Note</b>	<b>568</b>	<b>522</b>	<b>46</b>
Provisions recognised in other operating costs		13	1	12
Provisions transferred due to business combinations		1	-	1
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs		( 2)	( 3)	1
Changes in provisions arising from updating of estimates recognised in fixed assets		( 41)	( 41)	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	33	32	31	1
Utilisation of provisions		( 9)	( 4)	( 5)
Release of provisions, recognised in other operating income		( 23)	-	( 23)
Transfer to Mine Closure Fund		( 23)	( 23)	-
Reclassification to assets held for sale		( 3)	-	( 3)
Other		( 2)	-	( 2)
<b>Provisions at 31 December 2011</b>		<b>511</b>	<b>483</b>	<b>28</b>
of which:				
<b>Non-current provisions</b>		<b>485</b>	<b>471</b>	<b>14</b>
<b>Current provisions</b>		<b>26</b>	<b>12</b>	<b>14</b>

## 26. Provisions for other liabilities and charges

As at 31 December 2012, the largest item of provisions for other liabilities is an estimate for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying amount of PLN 1 015 million (as at 31 December 2011: PLN 477 million).

A detailed description of the principles for estimating the provision may be found in note 2 point 2.2.18.

The increase in the provision in the reporting period in the amount of PLN 568 million was mainly due to:

- the acquisition in the reporting period of KGHM INTERNATIONAL LTD. and the inclusion in the consolidated data of the provision's balance at the acquisition date in the amount of PLN 301 million,
- a decrease in the forecast market yields of bonds over the long term - an increase in the provision accounted for as an increase in property, plant and equipment in the amount of PLN 272 million (of which PLN 243 million is in respect of KGHM Polska Miedź S.A. and PLN 29 million is in respect of KGHM INTERNATIONAL LTD.) as well as an increase in the provision recognised in profit or loss in the amount of PLN 60 million.

The provision was decreased by the amount released in the reporting period from the provision for mine closure costs in the amount of PLN 37 million as well as the amount of contribution to the Mine Closure Fund.

The amount of the provision is revalued by the Group at the end of each quarter by applying in the model the discounting ratios described in Note 3. At the end of the reporting period the provision was revalued, applying a discount rate as in the model for the provision for future employee benefits (note 25), which is similar to the profitability of non-current government bonds. Risk related to the provision was reflected in forecasts of cash flow through the indicator of changes in prices in the construction and assembly sector.

## 27. Impairment losses

Impairment losses on property, plant and equipment used in the manufacture of goods or in the providing of services were recognised in profit or loss as costs of sales. Impairment losses on other property, plant and equipment were recognised in administrative expenses. Details on the principles of accounting for impairment losses applied by the Group are described in point 2.2.4 of note 2.

### Impairment losses by asset class during the financial period from 1 January to 31 December 2012

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
<b>Mining and metallurgical assets, of which:</b>	6	<b>27</b>	-	<b>3</b>
Buildings and land	6	16	-	-
Technical equipment and machinery, motor vehicles and other fixed assets	6	9	-	-
Fixed assets under construction	6	2	-	3
<b>Other assets not related to mining and metallurgical activities, of which:</b>	6	<b>19</b>	-	-
Buildings and land	6	13	-	-
Technical equipment and machinery, motor vehicles and other fixed assets	6	6	-	-
Other intangible assets	7	1	2	-
Intangible assets not yet available to use	7	-	-	1
<b>Total</b>		<b>47</b>	<b>2</b>	<b>4</b>



## 27. Impairment losses (continued)

### Impairment losses by segment during the financial period from 1 January to 31 December 2012

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
KGHM Polska Miedź S.A.		27	-	3
Support of the core business		3	-	-
Other segments		17	2	1
<b>Total consolidated value</b>	<b>6, 7</b>	<b>47</b>	<b>2</b>	<b>4</b>

### Impairment losses by asset class during the financial period from 1 January to 31 December 2011

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used	Impairment loss reclassified to assets held for sale
<b>Mining and metallurgical assets, of which:</b>	6	-	-	2	-
Technical equipment and machinery, motor vehicles and other fixed assets	6	-	-	2	-
<b>Other assets not related to mining and metallurgical activities, of which:</b>	6	<b>6</b>	<b>4</b>	<b>16</b>	<b>439</b>
Buildings and land	6	-	1	1	223
Technical equipment and machinery, motor vehicles and other fixed assets	6	1	-	1	191
Fixed assets under construction	6	5	3	14	25
Software	7	-	-	-	3
Other intangible assets	7	2	-	-	-
<b>Total</b>		<b>8</b>	<b>4</b>	<b>18</b>	<b>442</b>

### Impairment losses by segment during the financial period from 1 January to 31 December 2011

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used	Impairment loss reclassified to assets held for sale
KGHM Polska Miedź S.A.		1	-	2	-
Support of the core business		-	1	-	-
Other segments		7	3	16	442
<b>Total consolidated value</b>	<b>6, 7</b>	<b>8</b>	<b>4</b>	<b>18</b>	<b>442</b>

## 28. Sales

### Net revenues from the sale of products, merchandise and materials (by type of activity)

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Copper, precious metals, smelter by-products		22 988	19 612
Salt		47	80
Energy		81	88
Services		1 402	474
Mining machinery, transport vehicles for mining and other		47	17
Electro-mechanical products		238	224
Merchandise – smelting products		549	421
Other merchandise		359	564
Scrap and materials		83	66
Other goods		911	561
<b>Total continued operations</b>	<b>5</b>	<b>26 705</b>	<b>22 107</b>
<b>Discontinued operations</b>		<b>-</b>	<b>487</b>
<b>Total</b>		<b>26 705</b>	<b>22 594</b>

### Net revenues from the sale of products, merchandise and materials (by destination)

		For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>domestic</b>		<b>5 311</b>	<b>5 358</b>
Copper, precious metals, smelter by-products		3 158	3 326
Salt		37	63
Energy		81	88
Services		467	449
Mining machinery, transport vehicles for mining and other		46	12
Electro-mechanical products		234	223
Merchandise – smelting products		211	246
Other merchandise		314	564
Wastes and materials		80	65
Other finished goods		683	322
<b>foreign</b>		<b>21 394</b>	<b>16 749</b>
Copper, precious metals, smelter by-products		19 830	16 286
Salt		10	17
Services		935	25
Mining machinery, transport vehicles for mining and other		1	5
Electro-mechanical products		4	1
Merchandise – smelting products		338	175
Other merchandise		45	-
Scrap and materials		3	1
Other finished goods		228	239
<b>Total continued operations</b>	<b>5</b>	<b>26 705</b>	<b>22 107</b>
<b>Discontinued operations</b>		<b>-</b>	<b>487</b>
<b>Total</b>		<b>26 705</b>	<b>22 594</b>

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Average copper price on LME (USD/t)	7 950	8 811
Average exchange rate (USD/PLN) per NBP	3.26	2.96

**28. Sales (continued)**

**Construction services contracts**

	<b>For the period</b>	
	<b>from 1 January 2012 to 31 December 2012</b>	<b>from 1 January 2011 to 31 December 2011</b>
Income due to realisation of contracts recognised for the period	1 027	163

Income due to realisation of contracts recognised for the period are presented in note 28 Sales in the item – Services.

**Data for contracts being realised at the end of the reporting period**

	<b>At</b>	
	<b>31 December 2012</b>	<b>31 December 2011</b>
Total income due to realisation of contracts	1 523	536
Total costs incurred so far due to realisation of contracts	1 317	478
Gains due to realisation of contracts	<b>206</b>	<b>58</b>

## 29. Expenses by nature

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Depreciation of property, plant and equipment and amortisation of intangible assets	6, 7, 9	1 453	846
Employee benefits expenses	30	4 570	3 620
Materials and energy		8 730	6 759
External services		2 754	1 367
Taxes and charges**		2 051	419
Advertising costs and representation expenses		75	64
Property and personal insurance		37	32
Research and development costs not capitalised in intangible assets		9	6
Other costs, of which:		151	82
Impairment losses on property, plant and equipment, intangible assets	6, 7	46	3
Write-down of inventories	14	8	11
Allowance for impairment of receivables		4	14
Reversal of impairment of property, plant and equipment, intangible assets	6, 7	( 2)	( 1)
Reversal of write-down of inventories	14	( 2)	( 3)
Reversal of allowance for impairment of receivables		( 7)	( 3)
Losses from the disposal of financial instruments	34.3	9	6
Other operating costs		95	55
<b>Total expenses by nature</b>		<b>19 830</b>	<b>13 195</b>
Cost of merchandise and materials sold (+)		793	583
Change in inventories of finished goods and work in progress (+/-)		( 164)	( 367)
Cost of manufacturing products for internal use (-)		( 896)	( 744)
<b>Total cost of sales, selling costs and administrative expenses from continued operations</b>		<b>19 563</b>	<b>12 667</b>
<b>Total cost of sales, selling costs and administrative expenses from discontinued operations</b>		<b>-</b>	<b>435</b>
<b>Total</b>		<b>19 563</b>	<b>13 102</b>

\* details presented in note 2.1.2

\*\* A new significant item of operating costs in the Parent Entity is the minerals extraction tax. This tax was introduced in accordance with the Act on the minerals extraction tax dated 2 March 2012, which came into force on 18 April 2012.

The amount of the tax, recognised in operating costs in the current reporting period, was PLN 1 596 million.

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

### 30. Employee benefits expenses

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Remuneration		3 388	2 694
Costs of social security		1 109	898
Costs of future employee benefits paid during the period of employment		73	28
<b>Total continued operations</b>	<b>29</b>	<b>4 570</b>	<b>3 620</b>
<b>Discontinued operations</b>		<b>-</b>	<b>82</b>
<b>Total</b>		<b>4 570</b>	<b>3 702</b>

\* details presented in note 2.1.2

### 31. Other operating income

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Income and gains from financial instruments classified under other operating activities, resulting from:	34.3	1 434	2 137
Measurement and realisation of derivatives		1 185	1 038
Interest		246	192
Foreign exchange gains		-	889
Gains on sale		2	17
Reversal of allowance for impairment of loans and receivables		1	1
Increase in fair value of investment property	8	1	-
Gain on sale of associate	9	-	2 313
Gains on a bargain purchase of subsidiaries	4	-	3
Gains from the sale of intangible assets		3	-
Interest on non-financial receivables		2	5
Dividends received		57	27
Reversal of impairment losses on fixed assets under construction	6	-	3
Reversal of allowance for impairment of other non-financial receivables		2	3
Government grants and other donations received		27	46
Release of unused provisions due to:		25	21
Decommissioning of mines		8	5
Disputed issues, pending court proceedings		3	2
Other		14	14
Surpluses identified in current assets		3	2
Penalties and compensation received		17	23
Foreign exchange gains - non-financial		-	11
Management fee for Sierra Gorda S.C.M.**		68	-
Other operating income/gains		30	11
<b>Total other operating income – continued operations</b>		<b>1 669</b>	<b>4 605</b>
<b>Discontinued operations</b>		<b>-</b>	<b>28</b>
<b>Total</b>		<b>1 669</b>	<b>4 633</b>

\* details presented in note 2.1.2

\*\* KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have signed a contract for providing services, according to which KGHM INTERNATIONAL LTD. supports the process of managing Sierra Gorda S.C.M., in particular with respect to operational and technical support throughout the life of the mine, in exchange for the annual fee specified in the contract.

### 32. Other operating costs

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Costs and losses on financial instruments classified under other operating activities, resulting from:	34.3	2 007	728
Measurement and realisation of derivatives		1 246	715
Interest		1	1
Foreign exchange losses		592	-
Losses on measurement of non-current liabilities		-	2
Allowances for impairment of receivables		8	5
Impairment losses on available-for-sale financial assets		160	5
Decrease in fair value of investment property	8	-	1
Losses on the sale of investment property		-	2
Losses on the sale of property, plant and equipment, and intangible assets		8	8
Allowances for impairment of other non-financial receivables		-	1
Impairment losses on fixed assets under construction and intangible assets not yet available for use	6	2	5
Interest on overdue non-financial liabilities		3	-
Donations granted		93	16
Provisions for:		46	15
Decommissioning of mines		11	3
Disputed issues, pending court proceedings		3	5
Other		32	7
Penalties and compensation		6	4
Non-culpable shortages in tangible current assets, cash and losses due to force majeure		1	2
Contributions to a voluntary organisation		10	11
Other operating costs/losses		41	20
<b>Total other operating costs – continued operations</b>		<b>2 217</b>	<b>813</b>
<b>Discontinued operations</b>		<b>-</b>	<b>12</b>
<b>Total</b>		<b>2 217</b>	<b>825</b>

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**33. Finance costs**

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Interest due to:	34.3	126	11
Bonds		107	-
Bank and other loans		17	9
Finance leases		2	2
Foreign exchange (gains)/losses on borrowings	34.3	(33)	5
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	26	38	32
Measurement of provisions for decommissioning of mines		38	31
Measurement of other provisions		-	1
Changes in liabilities due to measurement of put option for employee shares arising from the approach of maturity date of a liability (unwinding of discount effect)		10	3
Changes in other liabilities arising from the approach of the maturity date of liabilities (unwinding of discount effect)	34.3	1	-
Other finance costs		4	1
<b>Total finance costs – continued operations</b>		<b>146</b>	<b>52</b>
<b>Discontinued operations</b>		<b>-</b>	<b>1</b>
<b>Total</b>		<b>146</b>	<b>53</b>

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**34. Financial instruments**

**34.1 Carrying amount**

		<b>At 31 December 2012</b>							
		<b>Categories of financial instruments</b>							
<b>Classes of financial instruments</b>	<b>Note</b>	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities		Hedging instruments	<b>Total</b>
						Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Debt securities		8	-	296	-	-	-	-	<b>304</b>
Available-for-sale financial assets	10	8	-	-	-	-	-	-	<b>8</b>
Mine closure financial assets	11	-	-	296	-	-	-	-	<b>296</b>
Listed shares	10	1 022	-	-	-	-	-	-	<b>1 022</b>
Unlisted shares	10	11	-	-	-	-	-	-	<b>11</b>
Trade receivables (net)	13	-	-	2 196	-	-	-	-	<b>2 196</b>
Cash and cash equivalents and deposits		-	-	2 841	-	-	-	-	<b>2 841</b>
Mine closure financial assets	11	-	-	164	-	-	-	-	<b>164</b>
Trade and other receivables	13	-	-	48	-	-	-	-	<b>48</b>
Cash and cash equivalents	15	-	-	2 629	-	-	-	-	<b>2 629</b>
Loans granted	13	-	-	1 470	-	-	-	-	<b>1 470</b>
Other financial assets (net)	13	-	-	90	-	-	-	-	<b>90</b>
Derivatives – Currency (net)	12	-	1	-	( 17)	-	-	462	<b>446</b>
Derivatives – Commodity contracts – metals (net)	12	-	-	-	( 18)	-	-	443	<b>425</b>
Embedded derivatives	12	-	3	-	( 2)	-	-	-	<b>1</b>
Trade payables	21	-	-	-	-	(1 278)	-	-	<b>(1 278)</b>
Borrowings	22	-	-	-	-	(1 233)	-	-	<b>(1 233)</b>
Debt securities – issued bonds	22	-	-	-	-	(1 598)	-	-	<b>(1 598)</b>
Other financial liabilities		-	-	-	-	( 185)	( 27)	-	<b>( 212)</b>
Trade and other payables	21	-	-	-	-	( 185)	-	-	<b>( 185)</b>
Borrowings, debt securities and finance lease liabilities	22	-	-	-	-	-	( 27)	-	<b>( 27)</b>
<b>Total</b>		<b>1 041</b>	<b>4</b>	<b>6 893</b>	<b>( 37)</b>	<b>(4 294)</b>	<b>( 27)</b>	<b>905</b>	<b>4 485</b>

*Translation from the original Polish version*



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**34. Financial instruments (continued)**

**34.1 Carrying amount (continued)**

**At 31 December 2011 – restated\***

**Categories of financial instruments**

Classes of financial instruments	Note	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss**	Other financial liabilities		Hedging instruments	Total
						Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Debt securities	10	8	-	-	-	-	-	-	<b>8</b>
Listed shares	10	989	-	-	-	-	-	-	<b>989</b>
Unlisted shares	10	11	-	-	-	-	-	-	<b>11</b>
Participation units of investment funds	10	2	-	-	-	-	-	-	<b>2</b>
Trade receivables (net)	13	-	-	1 328	-	-	-	-	<b>1 328</b>
Cash and cash equivalents and deposits		-	-	13 313	-	-	-	-	<b>13 313</b>
Mine closure financial assets	11	-	-	114	-	-	-	-	<b>114</b>
Trade and other receivables	13	-	-	69	-	-	-	-	<b>69</b>
Cash and cash equivalents	15	-	-	13 130	-	-	-	-	<b>13 130</b>
Loans granted	13	-	-	1	-	-	-	-	<b>1</b>
Other financial assets (net)	13	-	-	92	-	-	-	-	<b>92</b>
Derivatives – Currency (net)	12	-	-	-	( 63)	-	-	59	<b>( 4)</b>
Derivatives - Commodity contracts – metals (net)	12	-	12	-	( 253)	-	-	1 135	<b>894</b>
Trade payables	21	-	-	-	-	(997)	-	-	<b>(997)</b>
Borrowings	22	-	-	-	-	( 272)	-	-	<b>( 272)</b>
Other financial liabilities		-	-	-	-	( 135)	( 26)	-	<b>( 161)</b>
Trade and other payables	21	-	-	-	-	( 135)	-	-	<b>( 135)</b>
Borrowings, debt securities and finance lease liabilities	22	-	-	-	-	-	( 26)	-	<b>( 26)</b>
<b>Total</b>		<b>1 010</b>	<b>12</b>	<b>14 734</b>	<b>( 316)</b>	<b>(1 404)</b>	<b>( 26)</b>	<b>1 194</b>	<b>15 204</b>

\* details presented in note 2.1.2

\*\* Instruments initially designated as hedging instruments, excluded from hedge accounting, were included in the categories of financial liabilities at fair value through profit or loss.

### 34. Financial instruments (continued)

#### 34.2 Fair value

Classes of financial instruments	Note	At 31 December 2012		At 31 December 2011 restated*	
		Carrying amount	Fair Value	Carrying amount	Fair Value
		34.1		34.1	
Debt securities	10	304	304	8	8
Listed shares	10	1 022	1 022	989	989
Unlisted shares	10	11	-	11	2
Participation units of investment funds	10	-	-	2	2
Trade receivables (net)	13	2 196	2 196	1 328	1 328
Cash and cash equivalents and deposits	11,13,15	2 841	2 841	13 313	13 314
Loans granted	13	1 470	1 470	1	1
Other financial assets (net)	13	90	90	92	92
Derivatives - Currency, of which:	12	446	446	( 4)	( 4)
Assets		489	489	400	400
Liabilities		( 43)	( 43)	( 404)	( 404)
Derivatives - Commodity contracts - metals, of which:	12	425	425	894	894
Assets		637	637	1 359	1 359
Liabilities		( 212)	( 212)	( 465)	( 465)
Embedded derivatives	12	1	1	-	-
Trade payables	21	(1 278)	(1 278)	(997)	(997)
Bank and other loans	22	(1 233)	(1 233)	( 272)	( 272)
Debt securities – issued bonds	22	(1 598)	(1 617)	-	-
Other financial liabilities	21, 22	( 212)	( 212)	( 161)	( 161)

The methods and assumptions used by the Group for measuring the fair values are presented in notes 2.2.8.4 Fair value and 3 Important estimates and assumption.

\* details presented in note 2.1.2

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**34. Financial instruments (continued)**

**34.3 Items of income, costs, profit and losses recognised in profit or loss by category of financial instruments**

For the period from 1 January 2012 to 31 December 2012	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available- for-sale financial assets	Loans and receivables	Other financial liabilities		Hedging instruments	Financial instruments of continued operations	Discontinued operations	Total
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39				
Interest income/(costs) recognised in:		-	-	246	( 125)	( 2)	-	119	-	119
Other operating income	31	-	-	246	-	-	-	246	-	246
Other operating costs	32	-	-	-	( 1)	-	-	( 1)	-	( 1)
Finance costs	33	-	-	-	( 124)	( 2)	-	( 126)	-	( 126)
Foreign exchange gains/(losses) recognised in:		-	-	( 377)	( 248)	-	-	( 625)	-	( 625)
Other operating costs	32	-	-	( 377)	( 215)	-	-	( 592)	-	( 592)
Finance costs	33	-	-	-	( 33)	-	-	( 33)	-	( 33)
Gains/(Losses) on measurement of non-current liabilities recognised in finance costs		-	-	-	( 11)	-	-	( 11)	-	( 11)
Impairment allowances recognised in:		-	( 160)	( 15)	-	-	-	( 175)	-	( 175)
Expenses by nature	29	-	-	( 7)	-	-	-	( 7)	-	( 7)
Other operating costs	32	-	( 160)	( 8)	-	-	-	( 168)	-	( 168)
Reversal of impairment losses recognised in:		-	-	8	-	-	-	8	-	8
Expenses by nature	29	-	-	7	-	-	-	7	-	7
Other operating income	31	-	-	1	-	-	-	1	-	1
Adjustment to sales due to hedging transactions	35	-	-	-	-	-	333	333	-	333
Gains/(losses) from disposal of financial instruments recognised in:		-	-	( 7)	-	-	-	( 7)	-	( 7)
Expenses by nature	29	-	-	( 9)	-	-	-	( 9)	-	( 9)
Other operating income	31	-	-	2	-	-	-	2	-	2
Gains on measurement and realisation of derivatives recognised in:		1 185	-	-	-	-	-	1 185	-	1 185
Other operating income	31	1 185	-	-	-	-	-	1 185	-	1 185
Losses on measurement and realisation of derivatives recognised in:		( 1 246)	-	-	-	-	-	( 1 246)	-	( 1 246)
Other operating costs	32	( 1 246)	-	-	-	-	-	( 1 246)	-	( 1 246)
<b>Total net gain/(loss) from continued operations</b>		<b>( 61)</b>	<b>( 160)</b>	<b>( 145)</b>	<b>( 384)</b>	<b>( 2)</b>	<b>333</b>	<b>( 419)</b>	<b>-</b>	<b>( 419)</b>

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**34. Financial instruments (continued)**

For the period from 1 January 2011 to 31 December 2011	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available- for-sale financial assets	Loans and receivables	Other financial liabilities		Hedging instruments	Financial instruments of continued operations	Discontinued operations	Total
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39				
Interest income/(costs) recognised in:		-	-	192	( 10)	( 2)	-	180	4	184
Other operating income	31	-	-	192	-	-	-	192	5	197
Other operating costs	32	-	-	-	( 1)	-	-	( 1)	-	( 1)
Finance costs	33	-	-	-	( 9)	( 2)	-	( 11)	( 1)	( 12)
Foreign exchange gains/(losses) recognised in:		-	-	986	( 101)	( 1)	-	884	-	884
Other operating income	32	-	-	989	( 100)	-	-	889	-	889
Finance costs	33	-	-	( 3)	( 1)	( 1)	-	( 5)	-	( 5)
Gains/(Losses) on measurement of non-current liabilities recognised in:		-	-	-	( 5)	-	-	( 5)	-	( 5)
Other operating costs	32	-	-	-	( 2)	-	-	( 2)	-	( 2)
Finance costs	33	-	-	-	( 3)	-	-	( 3)	-	( 3)
Impairment allowances recognised in:		-	( 5)	( 22)	-	-	-	( 27)	( 13)	( 40)
Expenses by nature	29	-	-	( 17)	-	-	-	( 17)	( 12)	( 29)
Other operating costs	32	-	( 5)	( 5)	-	-	-	( 10)	( 1)	( 11)
Reversal of impairment allowances recognised in:		-	-	5	-	-	-	5	8	13
Expenses by nature	29	-	-	4	-	-	-	4	8	12
Other operating income	31	-	-	1	-	-	-	1	-	1
Adjustment to sales due to hedging transactions	35	-	-	-	-	-	242	242	-	242
Gains/(losses) from disposal of financial instruments recognised in:		-	17	( 6)	-	-	-	11	-	11
Expenses by nature	29	-	-	( 6)	-	-	-	( 6)	-	( 6)
Other operating income	31	-	17	-	-	-	-	17	-	17
Gains on measurement and realisation of derivatives recognised in:		1 038	-	-	-	-	-	1 038	-	1 038
Other operating income	31	1 038	-	-	-	-	-	1 038	-	1 038
Losses on measurement and realisation of derivatives recognised in:		( 715)	-	-	-	-	-	( 715)	-	( 715)
Other operating costs	32	( 715)	-	-	-	-	-	( 715)	-	( 715)
<b>Total net gain/(loss) from continued operations</b>		<b>323</b>	<b>12</b>	<b>1 155</b>	<b>( 116)</b>	<b>( 3)</b>	<b>242</b>	<b>1 613</b>	<b>( 1)</b>	<b>1 612</b>

### 34. Financial instruments (continued)

#### 34.4 Fair value hierarchy

There was no transfer of instruments by the Group between levels 1 and 2 in either the reporting or the comparative periods.

There was no transfer in the Group to level 3 of instruments classified to levels 1 and 2 in either the reporting period or the comparative periods.

	Note	At 31 December 2012			At 31 December 2011		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Classes of financial instruments</b>							
Listed shares	34.2	1 022	-	-	989	-	-
Participation units of investment funds	34.2	-	-	-	2	-	-
Other financial receivables	13	-	22	-	-	30	-
Derivatives - currency, of which:	34.2		446	-	-	( 4)	-
Assets			489	-	-	400	-
Liabilities			( 43)	-	-	( 404)	-
Derivatives financial instruments – metals, of which:	34.2		425	-	-	894	-
Assets			637	-	-	1 359	-
Liabilities			( 212)	-	-	( 465)	-
Embedded derivatives	34.2	-	1	-	-	-	-
Other financial liabilities	21	-	( 16)	-	-	( 17)	-

#### Methods and – when a valuation technique is used - assumptions applied in determining fair values of each class of financial assets or financial liabilities.

##### Level 3

In 2012, no financial instruments were measured at fair value which were classified to level III.

##### Level 2

###### Other financial receivables

Receivables due to unsettled derivatives at the end of the reporting period. Their date of settlement falls after the end of the reporting period. These instruments were measured to fair value, based on the reference price for the settlement of these transactions.

###### Other financial liabilities

Liabilities due to unsettled derivatives at the end of the reporting period. Their date of settlement falls after the end of the reporting period. These instruments were measured to fair value, based on the reference price for the settlement of these transactions.

###### Derivatives - currency

In the case of forward currency purchase or sell transactions, forward prices from the maturity dates of individual transactions are used to determine their fair value. Calculation of the forward price for currency exchange rates is based on fixing and appropriate interest rates. Interest rates for currencies and the volatility ratios for exchange rates are from Reuters. The standard German-Kohlhagen model is used to measure European options on currency markets.

###### Derivatives – metals

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

##### Level 1

###### Listed shares

The shares listed on the Warsaw Stock Exchange were measured based on the closing price from 31 December 2012. The shares listed on the TSX Venture Exchange were measured applying a share price and the average National Bank of Poland fixing for the Canadian dollar at the valuation date.

### **35. Financial risk management**

The main financial risks to which the Group is exposed in the conduct of its business are:

- market risks:
  - risk of changes in metal prices (commodity risk),
  - risk of changes in foreign exchange rates (currency risk),
  - price risk related to investments in debt securities and participation units in investment funds,
  - price risk related to investments in shares of listed companies,
  - risk of changes in interest rates,
- liquidity risk,
- credit risk.

The Parent Entity based on the Market Risk Management Principles, the Financial Liquidity Management Policy and the Credit Risk Management Policy, in a conscious and responsible manner, manages the identified types of financial risk. In the KGHM INTERNATIONAL LTD. Group (KGHM INTERNATIONAL LTD.) the financial risk management principles are described in the Investment Policy.

The Parent Entity supervises the process of managing liquidity and acquiring external financing in the Group.

The Group continuously identifies and measures financial risk, and also takes actions aimed at minimising its impact on the financial situation. Understanding those threats deriving from exposure to financial risk, having an appropriate organisational structure and procedures enable better realisation of its tasks.

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

#### **35.1 Market risk**

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

##### **35.1.1. Principles of market risk management in the Parent Entity**

The Parent Entity actively manages the market risk to which it is exposed. In accordance with applied policy, the objectives of the market risk process are:

- to limit fluctuations in financial result,
- to increase the probability of meeting budget assumptions,
- to maintain a healthy financial condition,
- to support the process of undertaking strategic decisions relating to investing activity, with attention to sources of capital for this activity.

All the market risk management objectives should be considered as a whole, and their realisation is determined mainly by the internal situation of the Parent Entity and market conditions.

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

The Parent Entity applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented, embracing an increasing share of production and sales revenues as well as an extended time horizon. Consequently, hedging is possible against unexpected changes in both copper and silver prices as well as rapid appreciation of the PLN versus the USD. Thanks to this approach, it is also possible to avoid engaging significant volumes or notionals at a single price level.

The Parent Entity continuously monitors metal and currency markets, which are the basis for decisions on implementing hedging strategies.

The primary technique for market risk management is the use of hedging strategies involving derivatives. Apart from this, natural hedging is also used.

### 35. Financial risk management (continued)

The Parent Entity considers the following factors in selecting a hedging strategy: current and forecasted market conditions, the internal situation, and the cost of hedging. The Parent Entity transacts only those derivatives for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Parent Entity makes use of information obtained from leading information services, banks, and brokers.

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

- Swaps,
- Forwards and futures,
- Options,
- Structures combining the above instruments.

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments). Primarily applied are cash flow hedging instruments meeting the requirements for effectiveness as understood by hedge accounting. The effectiveness of the financial hedging instruments applied by the Parent Entity in the reporting period is continually monitored and assessed (details in Note 2.2.8.7 Accounting policy – Hedge accounting).

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

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

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

- up to 85% of monthly volume sales of copper from own concentrates,
- up to 85% of monthly volume sales of silver from own concentrates,
- up to 85% of monthly foreign-currency revenues from the sale of products from own concentrates.

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

The maximum time horizon within which the Parent Entity makes decisions concerning the hedging of market risk is set up in accordance with the technical and economic planning process, and amounts to 5 years.

#### 35.1.2 Commodity risk

The Parent Entity is exposed to the risk of changes in market prices of copper, silver and gold. Other companies of the Group are additionally exposed to the risk of changes in market prices of nickel, lead, molybdenum, platinum and palladium.

In the Parent Entity the price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange (LME) for copper and from the London Bullion Market Association (LBMA) for silver and gold. The Parent Entity's commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month. As a result the Parent Entity is exposed to the risk of decline in metals prices from the moment of entering into a sale contract until the moment of setting the contractual average metal price from the month of dispatch.

There are also other formulas in the Group for setting metals sales prices.

The analysis of the Group's exposure to the risk of changes in metal prices should be performed on a net basis, i.e. by deducting the volume of metals contained in materials purchased from external sources, from the volume of sales.

### 35. Financial risk management (continued)

Exposure of the Group to commodity risk is presented below:

	For the period			
	from 1 January 2012 to 31 December 2012		from 1 January 2011 to 31 December 2011	
	Sales	Purchases	Sales	Purchases
Copper [tonnes]	685 408	195 112	572 941	154 881
Silver [tonnes]	1 267	35	1 180	52

Sensitivity of the Group's financial instruments to commodity risk at the end of the reporting period is presented in Note 35.1.6 Sensitivity analysis of commodity and currency risk.

#### 35.1.3. Currency risk

Some Group companies are exposed to the risk of changes in currency rates, as it is generally accepted that physical contracts are either concluded or denominated in USD, although in the companies of the Group costs are also incurred in other base currencies than the USD – mainly the Polish złoty (PLN), the Canadian dollar (CAD) and the Chilean peso (CLP). This leads to the arising of risk related to volatility in the USD/PLN, USD/CAD and USD/CLP exchange rates, from the moment a commercial contract is signed until the moment the exchange rate is set. Additionally, in a situation where a foreign customer pays in local currency for the metal they import, there also arises risk related to volatility in other exchange rates, for example: EUR/PLN and GBP/PLN.

Moreover, Group companies are exposed to the risk of changes in foreign exchange rates due to the fact of drawing loans and incurring other liabilities (for example from the import of goods and services) which are denominated in currencies other than the currencies in which these companies achieve revenues.

Sensitivity of the Group's financial instruments to currency risk at the end of the reporting period is presented in Note 35.1.6 Sensitivity analysis of commodity and currency risk.

#### 35.1.4. Commodity and currency risk management in the Parent Entity

In the Group only the Parent Entity applies hedging strategies, as understood by the hedge accounting. In order to reduce the market risk, related to changes in commodity prices and in foreign exchange rates, the Parent Entity makes use mainly of derivatives.

The nominal of copper price hedging strategies settled in 2012 represented approx. 35% (in 2011 35%) of the total<sup>1</sup> sales of this metal realised by the Parent Entity. With respect to silver sales this figure amounted to approx. 27% (in 2011 9%). In the case of the currency market, hedged revenues from sales represented approx. 16% (in 2011 19%) of total revenues from sales realised by the Parent Entity.

In 2012 the Parent Entity implemented copper price hedging strategies with a total volume of 196.5 thousand tonnes and a time horizon falling in years 2013-2015, using options (Asian options), including: option strategies: seagull and collar.

During the reporting period no silver price hedging strategies were implemented by the Parent Entity.

In the case of the forward currency market, in 2012 the Parent Entity implemented transactions hedging revenues from sales with a total nominal amount of USD 720 million and a time horizon falling in years 2014-2015. The Parent Entity made use of option strategies: collars (European options).

<sup>1</sup> Relates to the sales of products from own concentrates and from purchased copper-bearing materials.



### 35. Financial risk management (continued)

#### Condensed table of open transactions in derivatives

(by type of hedged asset and instruments used as at 31 December 2012; the hedged nominal/volume included in the presented periods is equally balanced in the months)

#### COPPER MARKET

	Instrument	Volume [tonnes]	Option execution price [USD/t]			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t]	
			Sold call option	Purchased put option	Sold put option <sup>2</sup>			Participation limited to	Hedge limited to
I half of 2013	Seagull	19 500	9 500	7 200	4 700	(383)	6 817	9 500	4 700
	Collar	10 500	12 000	8 500	-	(460)	8 040	12 000	-
	Collar	10 500	11 500	8 200	-	(333)	7 867	11 500	-
	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Collar	3 000	9 200	7 200	-	(320)	6 880	9 200	-
	Collar	9 000	9 300	7 300	-	(340)	6 960	9 300	-
	<b>Total</b>	<b>73 500</b>							
II half of 2013	Collar	10 500	12 000	8 500	-	(460)	8 040	12 000	-
	Collar	10 500	11 500	8 200	-	(333)	7 867	11 500	-
	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Collar	19 500	9 300	7 600	-	(290)	7 310	9 300	-
<b>Total</b>	<b>61 500</b>								
<b>TOTAL 2013</b>	<b>135 000</b>								
I half of 2014	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	(281)	7 419	9 300	5 000
<b>Total</b>	<b>40 500</b>								
II half of 2014	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	(281)	7 419	9 300	5 000
<b>Total</b>	<b>40 500</b>								
<b>TOTAL 2014</b>	<b>81 000</b>								
I half of 2015	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
<b>Total</b>	<b>21 000</b>								
II half of 2015	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
<b>Total</b>	<b>21 000</b>								
<b>TOTAL 2015</b>	<b>42 000</b>								

<sup>2</sup> Due to current hedge accounting laws, transactions included in the seagull structure – purchased put options and sold call options – are shown in the table containing a detailed list of derivative positions – "Hedging instruments" (Note 12), while sold put options of seagull structure are shown in the table "Trade instruments" (Note 12).

### 35. Financial risk management (continued)

#### SILVER MARKET

	Instrument	Volume [million troz]	Option execution price [USD/troz]			Average weighted premium [USD/troz]	Effective hedge price [USD/troz]	Limitations [USD/troz]	
			Sold call option	Purchased put option	Sold put option <sup>2</sup>			Participation limited to	Hedge limited to
I half of 2013	Seagull	1.80	65.00	40.00	20.00	(1.98)	38.02	65.00	20.00
	<b>Total</b>	<b>1.80</b>							
II half of 2013	Seagull	1.80	65.00	40.00	20.00	(1.98)	38.02	65.00	20.00
	<b>Total</b>	<b>1.80</b>							
<b>TOTAL 2013</b>		<b>3.60</b>							

#### CURRENCY MARKET

	Instrument	Notional [million USD]	Option execution price [USD/PLN]			Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Limitations [USD/PLN]	
			Sold call option	Purchased put option	Sold put option <sup>2</sup>			Participation limited to	Hedge limited to
I half of 2013	Seagull	240	4.0000	3.1500	2.6000	(0.0332)	3.1168	4.0000	2.6000
	Collar	240	4.2000	3.2000	-	(0.0650)	3.1350	4.2000	-
<b>Total</b>		<b>480</b>							
II half of 2013	Seagull	240	4.0000	3.1500	2.6000	(0.0230)	3.1270	4.0000	2.6000
	Collar	240	4.2000	3.2000	-	(0.0650)	3.1350	4.2000	-
<b>Total</b>		<b>480</b>							
<b>TOTAL 2013</b>		<b>960</b>							
I half of 2014	Seagull	180	4.5000	3.5000	2.7000	(0.0506)	3.4494	4.5000	2.7000
	Collar	180	4.5000	3.4000	-	(0.0093)	3.3907	4.5000	-
<b>Total</b>		<b>360</b>							
II half of 2014	Seagull	180	4.5000	3.5000	2.7000	(0.0345)	3.4655	4.5000	2.7000
	Collar	180	4.5000	3.4000	-	(0.0093)	3.3907	4.5000	-
<b>Total</b>		<b>360</b>							
<b>TOTAL 2014</b>		<b>720</b>							
I half of 2015	Collar	180	4.5000	3.4000	-	(0.0080)	3.3920	4.5000	-
	<b>Total</b>	<b>180</b>							
II half of 2015	Collar	180	4.5000	3.4000	-	(0.0080)	3.3920	4.5000	-
	<b>Total</b>	<b>180</b>							
<b>TOTAL 2015</b>		<b>360</b>							

#### 35.1.5. Impact of derivatives on the Group's financial statement

The impact of derivatives on the profit or loss items in the current and comparable periods:

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Impact on sales</b>	<b>333</b>	<b>242</b>
<b>Impact on other operating activities</b>	<b>(61)</b>	<b>323</b>
(Losses)/gains from realisation of derivatives	(267)	69
Gains from measurement of derivatives	206	254
<b>Total impact of derivatives on profit or loss:</b>	<b>272</b>	<b>565</b>

### 35. Financial risk management (continued)

The impact of derivatives on revaluation reserve from measurement of cash flow hedging instruments

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>As at the beginning of the period (excluding the deferred tax effects)</b>	<b>709</b>	<b>111</b>
Amount recognised in the reporting period due to cash flow hedging transactions	(22)	840
Amount transferred to revenues from sale – reclassification adjustment	(333)	(242)
<b>As at the end of the period (excluding the deferred tax effects)</b>	<b>354</b>	<b>709</b>
Of which: - commodity price risk hedging transactions (copper and silver) – derivatives	163	709
- currency risk hedging transactions – derivatives	191	-

The fair value of derivatives of the Group and receivables/liabilities due to unsettled derivatives:

	At 31 December 2012		At 31 December 2011	
	Derivatives	Receivables /(liabilities) due to unsettled derivatives <sup>3</sup>	Derivatives	Receivables /(liabilities) due to unsettled derivatives <sup>4</sup>
Financial assets	1 127	22	1 759	30
Financial liabilities	(255)	(16)	(869)	(17)
<b>Fair value</b>	<b>872</b>	<b>6</b>	<b>890</b>	<b>13</b>

The remaining information on derivatives was presented in note 12: Derivatives and in note 34: Financial instruments.

#### 35.1.6. Sensitivity analysis of the Group to commodity and currency risk

Sensitivity analysis for significant types of market risk to which the Group is exposed presents the estimated impact of potential changes in individual risk factors (at the end of the reporting period) on profit or loss and on other comprehensive income. Possible changes in prices and exchange rates have been presented in percentage terms to the prices and exchange rates used to measure financial instruments to fair value at the end of the reporting period:<sup>5</sup>

#### Potential exchange rates changes

	At 31 December 2012				At 31 December 2011			
	USD/PLN	EUR/PLN	GBP/PLN	CAD/PLN	USD/PLN	EUR/PLN	GBP/PLN	CAD/PLN
SPOT / FIX	3.0996	4.0882	5.0119	3.1172	3.4174	4.4168	5.2691	-
DOWN 95%	2.5687	3.6603	4.4796	2.6980	2.8094	3.8497	4.5139	-
	-17%	-10%	-11%	-13%	-18%	-13%	-14%	-
UP 95%	3.7349	4.6345	5.6764	3.6343	4.1824	5.1795	6.2085	-
	20%	13%	13%	+17%	22%	17%	18%	-

<sup>3</sup> Settlement date falls on 3 January 2013.

<sup>4</sup> Settlement date falls on 4 January 2012.

<sup>5</sup> For setting the potential scope of price/exchange rates changes for sensitivity analysis of commodity risk factors (copper and silver) the mean reverting Schwartz model (the geometrical Ornstein-Uhlenbeck process) is used, while the Black-Scholes model (the geometrical Brownian motion) is used for the USD/PLN, EUR/PLN, GBP/PLN and CAD/PLN exchange rates

### 35. Financial risk management (continued)

#### Potential metal prices changes

	At 31 December 2012		At 31 December 2011	
	Copper [USD/t]	Silver [USD/troz]	Copper [USD/t]	Silver [USD/troz]
SPOT / FIX	7 907	29.95	7 590	28.18
DOWN 95%	5 570	18.72	5 196	17.06
	-30%	-37%	-32%	-39%
UP 95%	10 435	43.44	10 254	41.89
	32%	45%	35%	49%

#### Currency structure of financial instruments exposed to commodity and currency risk

Financial instruments	Value at risk as at 31 December 2012					Value at risk as at 31 December 2011				
	Total PLN million	USD million	EUR million	GBP million	CAD million	Total PLN million	USD million	EUR million	GBP million	CAD million
Debt securities	20	-	-	-	6	-	-	-	-	-
Shares	145	-	-	-	47	-	-	-	-	-
Trade receivables (net)	1 075	187	111	8	-	949	154	95	1	-
Cash and cash equivalents	772	83	40	1	111	8 030	1 796	391	31	-
Other financial assets (net)	41	8	3	-	-	85	9	9	2	-
Derivatives – Currency	446	-	-	-	-	(4)	-	-	-	-
Derivatives – Metals	425	137	-	-	-	894	262	-	-	-
Embedded derivatives	1	-	-	-	-	-	-	-	-	-
Trade payables	(205)	(26)	(13)	-	(22)	(62)	(4)	(11)	-	-
Borrowings	(1 085)	(265)	(65)	-	-	(72)	-	(16)	-	-
Other financial liabilities	(27)	(8)	(1)	-	-	(27)	(7)	(1)	-	-

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**35. Financial risk management (continued)**

**SENSITIVITY ANALYSIS OF THE GROUP TO CURRENCY RISK as at 31 December 2012**

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK  [PLN million]	31.12.2012 CARRYING AMOUNT  [PLN million]	USD/PLN		EUR/PLN		GBP/PLN		CAD/PLN									
			3.73		2.57		4.63		3.66		5.68		4.48		3.63		2.70	
			+20%	other compreh. income	-17%	other compreh. income	+13%	other compreh. income	-10%	other compreh. income	+13%	other compreh. income	-11%	other compreh. income	+17%	other compreh. income	-13%	other compreh. income
			profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	profit or (loss)	
Debt securities	20	304												3		(2)		
Shares	145	1 022												20		(16)		
Trade receivables (net)	1 075	2 196	96	(81)	49	(38)	4	(4)										
Cash and cash equivalents	772	2 841	43	(36)	18	(14)	1	(1)						46		(38)		
Other financial assets (net)	41	90	4	(3)	1	(1)												
Derivatives – Currency contracts	446	446	(334)	(191)	(315)	1 064	(7)	6										
Derivatives – Commodity contracts - Metals	425	425	54	33	(45)	(28)												
Trade payables	(205)	(1 278)	(14)	11	(6)	5	-	-						(9)		8		
Borrowings	(1 085)	(1 233)	(136)		114		(29)	22										
Other financial liabilities	(27)	(212)	(4)	3	-	-												
<b>IMPACT ON PROFIT OR (LOSS)</b>			<b>291</b>	<b>(352)</b>	<b>26</b>	<b>(20)</b>	<b>5</b>	<b>(5)</b>						<b>60</b>		<b>(48)</b>		
<b>IMPACT ON OTHER COMPREHENSIVE INCOME</b>				<b>(158)</b>		<b>1 036</b>												

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**35. Financial risk management (continued)**

**SENSITIVITY ANALYSIS OF THE GROUP TO CURRENCY RISK as at 31 December 2011**

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2011 CARRYING AMOUNT	USD/PLN		EUR/PLN		GBP/PLN		CAD/PLN					
			4.18		2.81		5.18		3.85		6.21		4.51	
			+ 22%		- 18%		+ 17%		- 13%		+18%		-14%	
[PLN million]	[PLN million]	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	
Trade receivables (net)	949	1 328	95	(76)	59	(44)	1	(1)						
Cash and cash equivalents	8 030	13 313	1 113	(885)	242	(180)	24	(19)						
Other financial assets (net)	85	92	6	(5)	6	(4)	2	(1)						
Derivatives – Currency contracts	(4)	(4)	(548)	(334)	117	562	(6)	5						
Derivatives – Commodity contracts - Metals	894	894	39	161	(31)	(128)								
Trade payables	(62)	(997)	(3)	2	(7)	3	-	-						
Borrowings	(72)	(272)			(10)	8								
Other financial liabilities	(27)	(161)	(4)	3	(1)	1								
<b>IMPACT ON PROFIT OR (LOSS)</b>			<b>698</b>	<b>(875)</b>	<b>283</b>	<b>(211)</b>	<b>27</b>	<b>(21)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
<b>IMPACT ON OTHER COMPREHENSIVE INCOME</b>			<b>(173)</b>	<b>434</b>										

### 35. Financial risk management (continued)

#### SENSITIVITY ANALYSIS OF THE GROUP TO COMMODITY RISK as at 31 December 2012

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK  [PLN million]	31.12.2012 CARRYING AMOUNT  [PLN million]	COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			10 435 +32%		5 570 -30%		43.44 +45%		18.72 -37%	
			profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income
Derivatives – Commodity contracts - Metals	425	425	(677)	(461)	(314)	1 654	12	(110)	(11)	112
Embedded derivatives	1	1	(132)		56					
IMPACT ON PROFIT OR (LOSS)			(809)		258		12		(11)	
IMPACT ON OTHER COMPREHENSIVE INCOME					(461)		1 654		(110)	

#### SENSITIVITY ANALYSIS OF THE GROUP TO COMMODITY RISK as at 31 December 2011

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK  [PLN million]	31.12.2011 CARRYING AMOUNT  [PLN million]	COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			10 254 + 35%		5 196 - 32%		41.89 + 49%		17.06 - 39%	
			profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income
Derivatives – Commodity contracts - Metals	894	894	(625)	(758)	(216)	1 884	70	(413)	(152)	545
IMPACT ON PROFIT OR (LOSS)			(625)		(216)		70		(152)	
IMPACT ON OTHER COMPREHENSIVE INCOME					(758)		1 884		(413)	

#### 35.1.7 Price risk related to investments in debt securities

As at 31 December 2012, the Group held Treasury bonds in the amount PLN 304 million with a variable interest rate.

Group's investments in debt securities and in participation units of investment funds are slightly exposed to price risk.

#### 35.1.8 Price risk related to the purchase of shares of listed companies

Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices.

As at 31 December 2012, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange, held by the Group, was PLN 1 022 million.

#### Sensitivity analysis of listed companies shares to price changes as at 31 December 2012

	31 December 2012 CARRYING AMOUNT  [PLN million]	Percentage change of share price				31 December 2011 CARRYING AMOUNT  [PLN million]	Percentage change of share price	
		+22%		-13%			+50%	-14%
		PROFIT OR (LOSS)	OTHER COMPREH. INCOME	PROFIT OR (LOSS)	OTHER COMPREH. INCOME		OTHER COMPREHENSIVE INCOME	
Listed shares	1 022	-	288	(116)	(19)	989	494	(138)

### 35. Financial risk management (continued)

#### 35.1.9 Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the Group's results. The Group is exposed to this risk due to loans granted, deposits, zero-balance cash-pool services and borrowing.

The balance of loans granted as at 31 December 2012 amounted to PLN 1 470 million. This item is represented by a loan granted by KGHM INTERNATIONAL LTD. for the financing of a joint venture, created with companies of the Sumitomo Group to realise a mining project in Chile. This loan is based on a fixed interest rate.

The balance of cash and cash equivalents in the Group as at 31 December 2012 amounted to PLN 2 629 million.

In 2012, the Group made use of borrowing in the form of bank loans, loans granted and issued bonds.

In 2012 the Group financed its current operations using borrowing in the form of both an overdraft facility as well as a working capital facility. Open lines of credit are available in PLN, USD and EUR. Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

At 31 December 2012, the Group held liabilities due to bank loans drawn in the amount of PLN 1 222 million.

<b>BANK LOANS LIABILITIES</b>				
Bank loan currency	Balance of bank loan drawn in the currency [million]	Balance of bank loan drawn in PLN [million]	Of which bank loans:	
			Short-term	Long-term
PLN	-	136	38	98
USD	265	822	822	-
EUR	64	264	197	67
	-	<b>1 222</b>	<b>1 057</b>	<b>165</b>

As at 31 December 2012, the Group held liabilities due to long-term loans in the amount of PLN 8 million, and liabilities due to short-term loans in the amount of PLN 3 million based on fixed interest rates.

As at 31 December 2012, the Group held liabilities due to issued senior notes in the amount of PLN 1 598 million. KGHM INTERNATIONAL LTD. is the issuer of these bonds, which are based on fixed interest rate of 7.75% with a maturity falling in 2019.

The Group, both during the reporting period as well as the comparable period, did not make use of interest rate risk hedging instruments.

The impact of changes in interest rates on the Group's results is considered to be immaterial, due to the scale of the Group's operations.

#### 35.2 Credit risk

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

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging transactions are undertaken, as well as those in which unallocated cash and cash equivalents are deposited,
- the creditworthiness of companies in which equity investments are made.

In particular, the source of the exposure to credit risk is as follows:

- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- loans granted,
- debt securities and participation units of investment funds,
- guaranties granted.



### 35. Financial risk management (continued)

#### 35.2.1 Credit risk related to cash and cash equivalents and bank deposits

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

All entities with which deposit transactions are entered into by the Group operate in the financial sector. These are solely banks with the highest<sup>6</sup>, medium-high<sup>7</sup> and medium<sup>8</sup> credit ratings, an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD. credit risk in this regard is continuously monitored through the on-going review of the financial condition and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the level of concentration of 92% of the periodically unallocated cash and cash equivalents, showing the assessed creditworthiness of the financial institutions<sup>9</sup>

Rating levels	At
	31 December 2012
Highest	32%
Medium-high	51%
Medium	17%

As at 31 December 2012 the maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounted to 16% (as at 31 December 2011 – 25%).

#### 35.2.2 Credit risk related to derivative transactions

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

The following table presents the structure of ratings<sup>10</sup> of the financial institutions with whom the Group engaged in derivatives transactions, representing an exposure to credit risk<sup>11</sup>

Rating levels	At	
	31 December 2012	31 December 2011
Highest	12%	12%
Medium-high	82%	84%
Medium	6%	4%

Taking into consideration the fair value of open derivative transactions entered into by the Group and unsettled derivatives, as at 31 December 2012, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 17% (as at 31 December 2011: 24%).

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

In order to reduce cash flows as well as credit risk, the Parent Entity carries out net settlement (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.

<sup>6</sup> By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moody's.

<sup>7</sup> By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moody's.

<sup>8</sup> By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moody's.

<sup>9</sup> weighed by amount of deposits

<sup>10</sup> As at 31 December 2012 there was a change in the methodology for calculating the structure of ratings, in order to reflect the measurement of open and unsettled positions in derivatives in individual financial institutions at the end of the reporting period. The structure as at 31 December 2011 presented in the above table was calculated in accordance with the new methodology.

<sup>11</sup> weighed by positive fair value of open and unsettled derivatives

### 35. Financial risk management (continued)

#### 35.2.3 Credit risk related to trade and other financial receivables

Group companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade and other receivables. The vast majority of sales go to EU countries.

#### Geographical concentration of credit risk for trade receivables arising from sales of copper and silver (representing the majority of total receivables):

	At					
	31 December 2012			31 December 2011		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	19%	53%	28%	23%	50%	27%

The Parent Entity limits its exposure to credit risk related to trade and other receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Parent Entity is the on-going monitoring of receivables and the internal reporting system.

Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments. The Parent Entity has secured the majority of its receivables by promissory notes<sup>12</sup>, frozen funds on bank accounts, registered pledges<sup>13</sup>, bank guarantees, corporate guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain<sup>14</sup>.

To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2012 the Parent Entity had secured 82% of its trade receivables.

The total value of the Group's net trade receivables as at 31 December 2012, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 2 196 million (as at 31 December 2011: PLN 1 328 million).

The concentration of credit risk in the Group results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, as at 31 December 2012 the balance of receivables from 7 of the Group's largest clients, in terms of trade receivables at the end of the reporting period, represented 32% of the trade receivables balance (as at 31 December 2011: 42%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

The following Group companies have significant trade receivables: KGHM Polska Miedź S.A. PLN 1 082 million, the KGHM INTERNATIONAL LTD. Group PLN 792 million, KGHM Metraco S.A. PLN 76 million, CENTROZŁOM WROCŁAW S.A. PLN 70 million, WPEC w Legnicy S.A. PLN 28 million, NITROERG S.A. PLN 28 million, PHP "MERCUS" sp. z o.o. PLN 15 million, WMN "ŁABĘDY" S.A. PLN 14 million, „MIEDZIOWE CENTRUM ZDROWIA" S.A. PLN 14 million, KGHM Ecoren S.A. PLN 12 million, DFM ZANAM-LEGMET Sp. z o.o. PLN 12 million, POL-MIEDŹ TRANS Sp. z o.o. PLN 12 million.

Individual Group companies operate in various economic sectors, such as transport, construction, commerce, industrial production and energy, and consequently, in the case of most Group companies, in terms of sectors, there is no concentration of credit risk. KGHM INTERNATIONAL LTD. operates in the same economic sector as the Parent Entity. Despite operating in the same sector, the two companies are different both in terms of their portfolios of products as well as in terms of the geographic location and nature of their customers, and consequently this sector concentration of credit risk is considered to be acceptable.

<sup>12</sup> In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.

<sup>13</sup> At the end of the reporting period, the Parent Entity held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer's trade accounts.

<sup>14</sup> A confirmed notarial clause which is applied in trade contracts means that rights to ownership of merchandise are transferred to the buyer only after payment is received despite physical delivery. Application of this clause is aimed solely at hedging credit risk and simplifying any eventual legal claims with regard to deliveries. The Parent Entity transfers the substantial risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

### 35. Financial risk management (continued)

The companies of the Group, with the exception of the Parent Entity, do not enter into framework agreements of a net settlement in order to reduce exposure to credit risk, although in situations where the given entity recognises both receivables and liabilities with the same client, in practice net settlement is applied, as long as both parties accept such settlement. Due to the extensive volatility in the level of net settlement on particular days ending reporting periods, it is difficult in practice to determine a representative amount of such compensation.

#### 35.2.4 Credit risk related to loans granted

As at 31 December 2012 the carrying amount of loans granted by the Group amounted to PLN 1 470 million. This item is represented by a loan granted by KGHM INTERNATIONAL LTD. for the financing of a joint venture, created with companies of the Sumitomo Group to realise a mining project in Chile. This loan is based on a fixed interest rate and payable on demand of the lender.

Credit risk related to the loan granted is dependent on the risk connected with mine project realisation and presently is considered to be moderate.

#### 35.2.5 Credit risk related to investments in debt securities

As at 31 December 2012, the Group held Treasury bonds in the carrying amount PLN 304 million.

These investments classified as available-for-sale financial assets are slightly exposed to price risk because of the nature of the issuer. The investment policies of the Group restrict the possibility of purchasing this category of asset to investments in government securities and money market funds, depositing financial resources in money market instruments and in government securities whose time remaining to maturity does not exceed one year, or whose interest is set for a period of no longer than one year.

In terms of mine closure financial assets, KGHM INTERNATIONAL LTD. as at 31 December 2012 held government environmental bonds amounting to PLN 296 million. Due to the nature of the issuer, this investment is only slightly exposed to risk.

#### 35.2.6 Other information related to credit risk

##### Aging analysis of financial assets overdue as at the end of the reporting period, for which no impairment loss has been recognised

###### At 31 December 2012

	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
Trade receivables	200	164	15	7	8	6
Other financial receivables	3	2	-	1	-	-

###### At 31 December 2011

	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
Trade receivables	107	85	12	3	2	5

Except for trade receivables and other financial receivables, no other classes of financial instruments were identified as overdue but not impaired at the end of the reporting period.

Changes in allowances for impairment of financial assets by asset classes are presented in the tables below:

##### Trade receivables (category: loans and financial receivables)

	Note	For the period from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Impairment allowance at the beginning of the period</b>	<b>13</b>	<b>60</b>	<b>86</b>
Increase due to obtaining control of a subsidiary		-	2
Changes recognised in profit or loss		-	12
Decrease due to loss of control of a subsidiary		-	(20)
Utilisation		(4)	(27)
Other (decreases)/increase		(4)	7
<b>Impairment allowance at the end of the period</b>	<b>13</b>	<b>52</b>	<b>60</b>

### 35. Financial risk management (continued)

#### Other financial assets (category: loans and financial receivables)

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Impairment allowance at the beginning of the period</b>	<b>13</b>	<b>12</b>	<b>13</b>
Increase due to obtaining control of a subsidiary		-	1
Changes recognised in profit or loss		7	4
Decrease due to loss of control of a subsidiary		-	(2)
Other decreases		(1)	(4)
<b>Impairment allowance at the end of the period</b>	<b>13</b>	<b>18</b>	<b>12</b>

#### Shares (category: available-for-sale financial assets)

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Impairment loss at the beginning of the period</b>	<b>6</b>	<b>1</b>
Changes recognised in profit or loss	159	5
<b>Impairment loss at the end of the period</b>	<b>165</b>	<b>6</b>

### 35.3 Liquidity risk and capital management

Capital management is aimed at maintaining continuous financial liquidity in every period. The Group actively manages the risk of loss of liquidity to which it is exposed. This risk is understood as a loss of the ability to settle liabilities on time and to obtain financing for operations.

#### Contractual maturities for financial liabilities as at 31 December 2012

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	1 264	9	5	-	-	<b>1 278</b>	<b>1 278</b>
Borrowings	26	1 043	63	46	68	<b>1 246</b>	<b>1 233</b>
Debt securities	-	-	-	1 550	-	<b>1 550</b>	<b>1 598</b>
Derivatives – Currency contracts	-	-	-	-	-	-	<b>43</b>
Derivatives – Commodity contracts - metals	-	-	-	-	-	-	<b>212</b>
Embedded derivatives	-	2	-	-	-	<b>2</b>	<b>2</b>
Other financial liabilities	70	29	122	12	-	<b>233</b>	<b>212</b>
Guarantees granted	6	8	84	52	389	<b>539</b>	-
<b>Total financial liabilities by maturity</b>	<b>1 366</b>	<b>1 091</b>	<b>274</b>	<b>1 660</b>	<b>457</b>	<b>4 848</b>	

### 35. Financial risk management (continued)

#### Contractual maturities for financial liabilities as at 31 December 2011

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	982	7	8	-	-	997	997
Borrowings	72	24	55	44	86	281	272
Derivatives – Currency contracts	1	-	-	-	-	1	404
Derivatives – Commodity contracts - metals	10	46	5	-	-	61	465
Other financial liabilities	43	14	100	19	3	179	161
Guarantees granted	8	6	8	-	27	49	-
<b>Total financial liabilities by maturity</b>	<b>1 116</b>	<b>97</b>	<b>176</b>	<b>63</b>	<b>116</b>	<b>1 568</b>	

Financial liabilities arising from derivatives are calculated as their intrinsic values, excluding the effects of discounting.

In 2012, the Group held guarantees granted. These items represent contingent liabilities and do not materially affect the liquidity risk of the Group.

The management of financial liquidity in the Parent Entity is performed in accordance with the „Financial Liquidity Management Policy” adopted by the Management Board. In the KGHM INTERNATIONAL LTD. Group the financial liquidity management principles are described in the Investment Policy. These documents describe the process of managing financial liquidity, including the specific character of the Group companies, guided by best practice in terms of procedures and instruments. The basic principles resulting from these documents are:

- the depositing of financial surpluses in liquid instruments,
- limits for individual financial investment categories,
- concentration limits on monetary resources for financial institutions, and
- assuring the appropriate quality and diversification of available financial sources.

In order to minimise risk associated with loss of liquidity, in 2012 the Group made use of borrowing in the form of bank and other loans, and issued bonds. This involved the use of both investment and working capital loans, as well as current accounts.

At the end of the reporting period, the Parent Entity owned open lines of credit, whose balances were as follows:

#### CREDIT LINES as at 31 December 2012

Type of bank loan	Bank loan currency	Balance of bank loan in the currency	Balance of bank loan in PLN
Working capital facility and overdraft facility	USD	123	-
Working capital facility and overdraft facility	EUR	50	-
Working capital facility and overdraft facility	PLN	-	1 300

KGHM INTERNATIONAL LTD. engages in borrowing in the form of issued senior notes in the amount of PLN 1 598 million (of which PLN 1 593 million – long-term part, PLN 5 million – current part – interest) with maturity falling in 2019. These notes, issued in a private placement, give KGHM INTERNATIONAL LTD. the opportunity for early redemption, to 15 June 2014 up to 35% of the issue, and after this date up to 100% of the issue, at their nominal price, plus a premium if redemption is made prior to 15 June 2017. Also, in case of a change in the ownership structure of KGHM INTERNATIONAL LTD., every note holder has the right to demand their redemption. The acquisition in 2012 by KGHM Polska Miedź S.A. of the shares of KGHM INTERNATIONAL LTD. did not result in any demands for redemption by the holders of these notes.

The Group manages its capital in order to maintain the capacity to continue its operations, including the realisation of planned investments, in a manner enabling it to generate returns for the shareholders and benefits to other stakeholders.

In accordance with market practice, Group companies monitor capital, among others based on the *equity ratio* and the *ratio of Net Debt/EBITDA*. The *equity ratio* is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of *Net Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities minus unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation/amortisation).

### 35. Financial risk management (continued)

In the process of managing financial liquidity the Group makes use of financial indicators which play a supportive role in this process. To monitor the level of liquidity a broad range of liquidity indicators are applied.

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

The following table presents indicators for the Group:

<b>Ratios</b>	<b>At</b>	
	<b>31 December 2012</b>	<b>31 December 2011</b>
Net Debt/EBITDA	0.02	0.00
Equity ratio	0.58	0.75

In 2012 and 2011 there were no external equity requirements imposed on the Parent Entity, including in the credit agreements entered into by the Parent Entity.

KGHM INTERNATIONAL LTD. periodically monitors basic debt ratios and manages liquidity risk by:

- preparing and monitoring current forecasts of undiscounted cash flow at the earliest possible redemption dates,
- managing capital structure and financial leverage in order to ensure appropriate sources for the financing of its operations and development projects.

In the first half of 2012, a cash management service in the KGHM Polska Miedź S.A. Group - the zero-balance cash pool, based on the variable WIBOR rate with a credit limit on the account of PLN 229 million at 31 December 2012 was implemented.

This service enables optimisation of finance costs and effective management of current cash liquidity in the KGHM Polska Miedź S.A. Group.

The coordinator of the cash pool is the Parent Entity. This function is based on establishing the conditions for functioning of the system, particularly including the principles of interest calculation and representation of the entire Group in relations with the bank with respect to services. The Parent Entity also acts as a participant of the cash pool system, in which it deposits its financial surpluses and, in case of need, takes advantage of financing.

As at 31 December 2012, the following companies were participants of the cash pool system in the Group:

- KGHM Metraco S.A.,
- ZANAM-LEGMET Sp. z o.o.,
- INTERFERIE S.A.,
- KGHM Ecoren S.A.,
- PeBeKa S.A.,
- POL-MIEDŹ TRANS Sp. z o.o.,
- CBJ sp. z o.o.,
- WPEC w Legnicy S.A.,
- PHP „MERCUS” sp. z o.o.,
- Interferie Medical SPA Sp. z o.o.,
- „Energetyka” sp. z o.o.,
- INOVA Spółka z o.o.,
- PMT Linie Kolejowe Sp. z o.o.,
- Zagłębie Lubin S.A.

### 36. Share of profits/losses of entities accounted for using the equity method

	<b>For the period</b>	
	<b>from 1 January 2012 to 31 December 2012</b>	<b>from 1 January 2011 to 31 December 2011</b>
Share of profits of entities accounting for using the equity method	-	188
<b>Total</b>	-	<b>188</b>

### 37. Income tax

Income tax	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Current income tax		1 724	2 243
Deferred income tax	24	( 71)	65
Adjustments to income tax from prior periods		( 8)	( 8)
<b>Total continued operations</b>		<b>1 645</b>	<b>2 300</b>
<b>Discontinued operations</b>		<b>-</b>	<b>( 7)</b>
<b>Total</b>		<b>1 645</b>	<b>2 293</b>

The tax on the Group's profit before tax differs in the following manner from the amount that would arise if the theoretical tax rate was applied, as a sum of profits before tax, multiplied by the income tax rate of the home country of each company and then divided by profit before tax.

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Profit before tax	<b>6 449</b>	<b>13 371</b>
Tax calculated using the domestic rate (2012: 19%, 2011: 19%)	<b>1 269</b>	<b>2 539</b>
Effect of applying other tax rates abroad:	64	-
Canada (2012: 25%, 2011: 26.5%)	6	-
USA (2012: 35%, 2011: 35%)	64	-
Other countries	( 6)	-
Tax effect of non-taxable income	( 139)	( 64)
Tax effect of expenses not deductible for tax purposes **	417	56
Tax-deductible expenses due to reversal of an impairment loss in connection with the sale of a subsidiary	-	( 220)
Utilisation of previously-unrecognised tax losses	( 28)	( 5)
Tax losses on which deferred tax assets were not recognised	43	2
Deductible temporary differences on which deferred tax assets were not recognised	27	-
Adjustments to income tax from prior periods	( 8)	( 8)
<b>Income tax expense the average income tax rate applied was 25.5% (2011: 17.2%)</b>	<b>1 645</b>	<b>2 300</b>

\* details presented in note 2.1.2

\*\* tax effect of expenses not deductible for tax purposes in 2012 mainly related to the minerals extraction tax. Details in note 29.

Laws in respect of the tax on goods and services, corporate and personal income tax, as well as social insurance contributions, are subject to frequent change, as a result of which there have been several instances in which there has not been available reference to stable regulations or legal precedence. Prevailing laws also contain discrepancies which lead to differences of opinion as to the legal interpretation of tax laws, both between government bodies as well as between government bodies and companies. The settlement of taxation and other (for example customs or foreign exchange) may be subjected to audit by bodies who are empowered to impose penalties, while the additional liabilities imposed as a result of such audits must be paid with high interest.

In Poland, tax offices are empowered to audit tax declarations for a period of five years, although companies during this period may offset receivables with liabilities due to current income tax.

In Canada tax declarations may be audited for a period of three years without the right to offset receivables with liabilities due to current income tax.

At present, tax audits are underway in the KGHM Polska Miedź S.A. Group in respect of:

- KGHM INTERNATIONAL LTD. and Quadra FNX Holding Ltd. operating in Canada, with respect to corporate income tax and transfer prices for the years 2009 - 2011. As at the preparation of the consolidated financial statements, tax bodies had not identified any irregularities,

### 37. Income tax (continued)

- Robinson Holdings Ltd. belonging to the KGHM INTERNATIONAL LTD. Group and operating in the USA, with respect to corporate income tax for the years 2009 - 2011. As at the preparation of the consolidated financial statements, tax bodies had not identified any irregularities.

For companies of the KGHM INTERNATIONAL LTD. Group located in Chile, no tax audits were conducted in 2012.

The Management Board has determined that risk related to settlement of the minerals extraction tax obligatory in the Parent Entity is minimal. During the period from the date when the act on the minerals extraction tax came into force until the end of July 2012, this tax was subject to several ad hoc audits by customs officers who reviewed selected stages of the production process and concentrate documentation. None of these audits identified any irregularities, which confirmed the propriety of the procedures implemented in the Parent Entity.

The Parent Entity considers, that the tax liabilities of the KGHM Polska Miedź S.A. Group presented are correct for all fiscal years which are subject to audit by tax bodies. This judgment is based on the assessment of many factors, including interpretations of tax law and the experience of prior years. Nevertheless, facts and circumstances which may arise in the future may affect evaluation of the correctness of existing or past tax liabilities.

### 38. Minerals extraction tax

The table below presents all types of taxation due to extraction with which the KGHM Polska Miedź S.A. Group is charged.

	Area	Tax due to extraction in force in the given country	Basis for calculating tax	Tax rates of the given country	Tax calculation formula	Amount charged due to the tax for the period from 01.01.12 to 31.12.12 (PLN million)	Presentation in the consolidated statement of comprehensive income
1	Poland	Minerals extraction tax:					
		- copper	290 799 t	PLN 4 129.32*	Multiple of the amount of copper in concentrates, expressed in tonnes, and the tax rate set applying the applicable model	1 201	Taxes and charges in expenses by nature, presented in note 29
		- silver	774 337 kg	PLN 510.45*	Multiple of the amount of silver in concentrates, expressed in kg, and the tax rate set applying the applicable model	395	Taxes and charges in expenses by nature, presented in note 29
2	USA (Nevada)	Nevada Net proceeds tax	USD 93 003 040	5%	Multiple of the basis for calculating tax and the tax rate	15	Income tax
3	Canada (Ontario)	Ontario Mining tax	USD 49 040 225	10%	Multiple of the basis for calculating tax and the tax rate	16	Income tax

\* Average tax rate calculated for the period from the date of coming into force of the Act dated 2 March 2012 on the minerals extraction tax, i.e. from 18 April 2012 to the end of the reporting period, i.e. to 31 December 2012.

Ad.1. Tax rates for a given month are calculated in accordance with conditions specified by the Act dated 2 March 2012 on the minerals extraction tax (Journal of Laws dated 3 April 2012, item 362), as presented in the following table:



**38. Minerals extraction tax (continued)**

Type of mineral	Average mineral price **	Tax rate binding for the month	Additional restrictions
Copper	> PLN 15 000	$0.033 \times \text{average copper price} + (0.001 \times \text{average copper price}) ^ 2.5$	tax rate not higher than 16 000 PLN/t
	<= PLN 15 000	$(\text{average copper price} - \text{PLN } 12\,000) \times 0.44$	tax rate not lower than 0.5% of the average price of copper
Silver	> PLN 1 200	$0.125 \times \text{average silver price} + (0.001 \times \text{average silver price}) ^ 4$	tax rate not higher than 2 100 PLN/kg
	<= PLN 1 200	$(\text{average silver price} - 1000) \times 0.75$	tax rate not lower than 0.5% of the average price of silver

\*\*The Minister responsible for public finance announces, through public announcement, by the 10th day of each month, in the Journal of Laws of the Republic of Poland "Monitor Polski", the average price per tonne of copper and the average price per kilogram of silver for the previous month.

Ad.2. For calculating tax in the United States the following amounts were assumed :

- 103 409 405 – taxable income in USD set based on Nevada Administrative Code in force in the state of Nevada;
- 107 175 587 – actual production in the reporting period;
- 1/119 167 757 – the reciprocal of the planned production volume in the reporting period.

Ad.3. The basis for calculating tax in Canada is the actual pre-tax profit for the reporting period.

### 39. Earnings per share

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Profit from continued operations attributable to shareholders of the Parent Entity	4 802	11 127
Weighted average number of ordinary shares (million)	200	200
Basic/diluted earnings per share (PLN/share)	24.01	55.34
Profit from discontinued operations attributable to shareholders of the Parent Entity	-	60
Weighted average number of ordinary shares (million)	-	200
Basic/diluted earnings per share (PLN/share)	-	0.30

There are no dilutive potential ordinary shares.

\* details presented in note 2.1.2

### 40. Dividend paid

In 2012 in accordance with Resolution No. 5/2012 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 28 June 2012 regarding the appropriation of Parent Entity profit for financial year 2011, the amount of PLN 5 668 million, representing PLN 28.34 per share, was allocated as a shareholders dividend. The right to dividend date was set at 16 July 2012, and dividend payment date at 20 August 2012 – 1<sup>st</sup> instalment and 16 November 2012 – 2<sup>nd</sup> instalment. All shares of the Parent Entity are ordinary shares.

In accordance with Resolution No. 3/2012 of the Ordinary General Meeting dated 11 May 2012 of the subsidiary BIPROMET S.A., regarding the appropriation of profit for financial year 2011, the amount of PLN 527 thousand was allocated as a dividend for non-controlling shareholders. The right to dividend date was set at 16 July 2012, the dividend payment date at 31 July 2012.

In 2011 in accordance with Resolution No. 6/2011 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 15 June 2011 regarding the appropriation of the Parent Entity profit for financial year 2010, the amount of PLN 2 980 000 thousand, representing PLN 14.90 per share, was allocated as a shareholders dividend. The right to dividend date was set at 11 July 2011, and dividend payment date at 12 August 2011.

#### 41. Explanations to the consolidated statement of cash flows

##### Change in provisions

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
<b>Change in provisions for other liabilities and employee benefits from the statement of financial position</b>	<b>25, 26</b>	<b>851</b>	<b>75</b>
Adjustment:			
Provisions for decommissioning costs of mines recognised in property, plant and equipment		( 559)	41
Provisions for employee benefits recognised in other comprehensive income	18	( 210)	( 82)
Provisions in companies acquired at the date of obtaining control		( 30)	-
Exchange differences from translation of foreign operations statements		16	-
Other		-	2
<b>Change in provisions recognised in the statement of cash flows</b>		<b>68</b>	<b>36</b>

\* details presented in note 2.1.2

##### Change in inventories

	Nota	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Change in inventories from the statement of financial position</b>	<b>14</b>	<b>(1 111)</b>	<b>( 436)</b>
Adjustment:			
Inventories in companies acquired at the date of obtaining control		838	-
Exchange differences from translation of foreign operations statements		( 14)	-
<b>Change in inventories recognised in the statement of cash flows</b>		<b>( 287)</b>	<b>( 436)</b>

##### Change in receivables

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Change in trade and other receivables from the statement of financial position</b>	<b>13</b>	<b>(2 483)</b>	<b>863</b>
Adjustment:			
Long-term loans granted of the statement of financial position		1 541	-
Other current and non-current financial receivables excluding payments to subsidiaries and derivatives		( 56)	( 283)
Receivables due to sale of property, plant and equipment and intangible assets		( 1)	( 5)
Advances granted due to purchase of property, plant and equipment and intangible assets		18	( 5)
Receivables in companies acquired at the date of obtaining control		744	-
Exchange differences from translation of foreign operations statements		( 116)	-
Other		7	( 2)
<b>Change in receivables recognised in the statement of cash flows</b>		<b>( 346)</b>	<b>568</b>

#### 41. Explanations to the consolidated statement of cash flows (continued)

##### Change in payables

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
<b>Change in trade and other payables from the statement of financial position</b>	<b>21</b>	<b>1 367</b>	<b>149</b>
Adjustment:			
Payables due to purchase of property, plant and equipment and intangible assets		( 43)	( 85)
Cash subsidies for the purchase of property, plant and equipment and intangible assets in the year of inflow of cash		( 19)	-
Adjustment to liabilities accounted for through intangible assets due to recognition of CO <sub>2</sub> emissions allowances		49	48
Payables in companies acquired at the date of obtaining control		(1 092)	-
Exchange differences from translation of foreign operations statements		46	-
<b>Change in payables recognised in the statement of cash flows</b>		<b>308</b>	<b>112</b>

\* details presented in note 2.1.2

##### Change in cash and cash equivalents

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Change in cash and cash equivalents from the statement of financial position</b>	<b>15</b>	<b>(10 501)</b>	<b>10 043</b>
Adjustment:			
Exchange differences from the measurement		879	( 875)
Exchange differences from translation of foreign operations statements		( 48)	-
<b>Change in cash and cash equivalents recognised in the statement of cash flows</b>		<b>(9 670)</b>	<b>9 168</b>

##### Proceeds from sales of property, plant and equipment and intangible assets

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	46	23
Losses on sales of property, plant and equipment and intangible assets	( 6)	( 9)
Positive change in receivables due to sales	2	5
<b>Proceeds from sales of property, plant and equipment and intangible assets</b>	<b>42</b>	<b>19</b>

##### Expenditures on exploration for and evaluation of mineral resources recognised in operating activities

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Purchase recognised in profit or loss	( 3)	( 24)
(Negative)/Positive change in liabilities recognised in operating activities due to exploration for and evaluation of mineral resources	( 4)	4
<b>Total</b>	<b>( 7)</b>	<b>( 20)</b>

#### 41. Explanations to the consolidated statement of cash flows (continued)

##### Expenditures on exploration for and evaluation of mineral resources recognised in investing activities

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Purchase	7	( 130)	( 71)
(Negative)/Positive change in liabilities recognised in investing activities due to exploration for and evaluation of mineral resources		( 5)	4
<b>Total</b>		<b>( 135)</b>	<b>( 67)</b>

#### 42. Related party transactions

As the Polish State Treasury has control over KGHM Polska Miedź S.A., the State Treasury companies (in accordance with the list published by the State Treasury) as at 31 December 2012 meet the definition of related entities. Turnover and balances with these entities have been reflected in the information presented in this note, in those items respecting other related entities.

	For the period from 1 January 2012 to 31 December 2012	
	Sales of products	Other transactions
<b>Sales to related entities</b>		
- to associates	3	-
- to other related entities	-	4
<b>Total sales to related entities</b>	<b>3</b>	<b>4</b>

During the period from 1 January 2012 to 31 December 2012, there were no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group, although there was a transaction involving the providing of services with respect to support of the process of management of Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD., with revenues in this regard amounting to PLN 68 million.

	For the period from 1 January 2011 to 31 December 2011	
	Sales of products	Sales of merchandise and materials
<b>Sales to related entities</b>		
- to associates	5	-
- to other related entities	-	1
<b>Total sales to related entities</b>	<b>5</b>	<b>1</b>
<i>including from discontinued operations</i>	<i>2</i>	<i>-</i>

During the period from 1 January 2011 to 31 December 2011, there were no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group.

	For the period from 1 January 2012 to 31 December 2012		
	Purchase of services, merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
<b>Purchases from related entities</b>			
- from other related entities	26	3	7
<b>Total purchases from related entities</b>	<b>26</b>	<b>3</b>	<b>7</b>

#### 42. Related party transactions (continued)

	For the period from 1 January 2011 to 31 December 2011		
	Purchase of services, merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
<b>Purchases from related entities</b>			
- from associates	8	-	-
- from other related entities	17	5	6
<b>Total purchases from related entities</b>	<b>25</b>	<b>5</b>	<b>6</b>
<i>including from discontinued operations</i>	5	2	-

	Note	At	
		31 December 2012	31 December 2011
<b>Trade receivables from related entities</b>			
- from jointly-controlled entity Sierra Gorda S.C.M.	35.2.4	1 471	1
- from other related entities		3	2
<b>Total receivables from related entities</b>		<b>1 474</b>	<b>3</b>

	At	
	31 December 2012	31 December 2011
<b>Trade payables towards related entities</b>		
- towards other related entities	4	4
<b>Total liabilities towards related entities</b>	<b>4</b>	<b>4</b>

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

In the comparable period the following transactions with the government and entities controlled or jointly-controlled by the government were identified:

- On 2 February 2011, KGHM Polska Miedź S.A. signed an agreement with the Minister of the State Treasury for the acquisition of 5 260 820 shares of the company NITROERG S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 million. The controlling interest acquired represents 85% of the share capital of NITROERG S.A. in Bieruń.
- KGHM Polska Miedź S.A. participated in the selling process by the Ministry of the State Treasury of the shares of TAURON Polska Energia S.A., submitting a purchase order for the shares of TAURON Polska Energia S.A. As a result of this transaction, on 23 March 2011 KGHM Polska Miedź S.A. purchased 71 000 000 shares of TAURON Polska Energia S.A. at PLN 6.15 per share. The transaction was realised as part of an accelerated book building process. Following this transaction, KGHM Polska Miedź S.A. owns a total of 182 110 566 shares of TAURON Polska Energia S.A., representing 10.39% of the share capital.
- On 12 September 2011, KGHM I FIZAN, a subsidiary of KGHM Polska Miedź S.A., acquired from the State Treasury 13 459 shares of the company Uzdrowisko „Świeradów-Czerniawa” Sp. z o.o. with its registered head office in Świeradów Zdrój for the price of PLN 1 560.30 per share, i.e. the total price of PLN 21 000 thousand. Following realisation of this transaction, KGHM I FIZAN holds 87.74% of the share capital of Uzdrowisko „Świeradów-Czerniawa” Sp. z o.o.

The remaining transactions, which were collectively significant, between the Group and the government and entities controlled or jointly controlled by the 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 involved the purchase by the Group of materials and services to meet the needs of its current operating activities (fuel, energy, transport services). Turnover from these transactions in the current reporting period amounted to PLN 817 million (for the period from 1 January 2011 to 31 December 2011: PLN 1 151 million), and the unsettled balance of liabilities from these transactions as at 31 December 2012 amounted to PLN 47 million (as at 31 December 2011: PLN 81 million).

## 42. Related party transactions (continued)

### Remuneration of the key management personnel members

#### (a) Remuneration of the Management Board of the Parent Entity in PLN '000

	Period when function served in 2012	Salaries	Earnings from subsidiaries	Benefits due to termination of employment relationship	Other benefits and earnings	Total earnings in 2012
<i>Members of the Management Board serving function as at 31 December 2012</i>						
Herbert Wirth	01.01-31.12.2012	1 546	48	-	169	<b>1 763</b>
Włodzimierz Kiciński	28.06-31.12.2012	696	-	-	54	<b>750</b>
Wojciech Kędzia	01.01-31.12.2012	1 237	83	-	67	<b>1 387</b>
Adam Sawicki	01.09-31.12.2012	384	-	-	54	<b>438</b>
Dorota Włoch	28.06-31.12.2012	618	81	-	60	<b>759</b>
<i>Other Members of the Management Board</i>						
Maciej Tybura	01.01-28.06.2012	660	31	42	116	<b>849</b>
		<b>5 141</b>	<b>243</b>	<b>42</b>	<b>520</b>	<b>5 946</b>

	Period when function served in 2011	Salaries	Earnings from subsidiaries	Benefits due to termination of employment relationship	Other benefits and earnings	Total earnings in 2011
<i>Members of the Management Board serving function as at 31 December 2011</i>						
Herbert Wirth	01.01-31.12.2011	1 406	306	-	158	<b>1 870</b>
Maciej Tybura	01.01-31.12.2011	1 227	119	-	187	<b>1 533</b>
Wojciech Kędzia	01.01-31.12.2011	985	102	-	71	<b>1 158</b>
<i>Other Members of the Management Board*</i>						
Ryszard Janeczek	-	96	-	-	-	<b>96</b>
		<b>3 714</b>	<b>527</b>	<b>-</b>	<b>416</b>	<b>4 657</b>

\* the item „Salaries” includes salaries during the termination period

#### (b) remuneration of the Supervisory Board of the Parent Entity in PLN '000

	Period when function served in 2012	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts	Other benefits	Total earnings in 2012
Marcin Dyl	01.01-19.01.2012	5	-	-	<b>5</b>
Arkadiusz Kawecki	01.01-19.01.2012	5	-	2	<b>7</b>
Marzenna Weresa	01.01-19.01.2012	5	-	-	<b>5</b>
Jan Rymarczyk	01.01-19.01.2012	5	-	2	<b>7</b>
Franciszek Adamczyk	01.01-19.01.2012	5	-	1	<b>6</b>
Jacek Kuciński	01.01-25.04.2012	38	-	13	<b>51</b>
Marek Panfil	01.01-25.04.2012	32	-	6	<b>38</b>
Lech Jaroń	01.01-28.06.2012	46	84	17	<b>147</b>
Maciej Łaganowski	01.01-28.06.2012	46	73	19	<b>138</b>
Paweł Markowski	01.01-28.06.2012	46	107	16	<b>169</b>
Mariusz Kolwas	19.01-24.04.2012	25	-	4	<b>29</b>
Krzysztof Kaczmarczyk	19.01-31.12.2012	91	-	9	<b>100</b>
Aleksandra Magaczewska	19.01-31.12.2012	101	-	10	<b>111</b>
Robert Oliwa	19.01-30.09.2012	58	-	6	<b>64</b>
Jacek Poświata	19.01-31.12.2012	86	-	13	<b>99</b>
Paweł Białek	25.04-31.12.2012	61	-	6	<b>67</b>
Dariusz Krawczyk	25.04-31.12.2012	61	-	4	<b>65</b>
Ireneusz Piecuch	25.04-31.12.2012	61	-	3	<b>64</b>
Krzysztof Opawski	03.09-31.12.2012	29	-	5	<b>34</b>
Bogusław Szarek	21.11-31.12.2012	10	17	-	<b>27</b>
		<b>816</b>	<b>281</b>	<b>136</b>	<b>1 233</b>

#### 42. Related party transactions (continued)

	Period when function served in 2011	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts	Other benefits	Total earnings in 2011
Marcin Dyl	01.01-31.12.2011	96	-	17	113
Arkadiusz Kawecki	01.01-31.12.2011	88	-	22	110
Jacek Kuciński	01.01-31.12.2011	110	-	24	134
Marek Panfil	01.01-31.12.2011	88	-	20	108
Marzenna Weresa	01.01-31.12.2011	88	-	9	97
Jan Rymarczyk	01.01-31.12.2011	88	-	21	109
Franciszek Adamczyk	15.06-31.12.2011	47	-	10	57
Lech Jaroń	20.10-31.12.2011	17	51	3	71
Maciej Łaganowski	20.10-31.12.2011	17	28	-	45
Paweł Markowski	20.10-31.12.2011	18	70	-	88
Józef Czyczerski	01.01-15.06.2011	41	72	-	113
Leszek Hajdacki	01.01-15.06.2011	41	90	4	135
Ryszard Kurek	01.01-15.06.2011	41	125	5	171
		<b>780</b>	<b>436</b>	<b>135</b>	<b>1 351</b>

#### (c) remuneration of other key management personnel in PLN '000

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Remuneration and other benefits of other key management personnel</b>		
Salaries and other short-term employee benefits	7 271	-
Remuneration resulting from the agreement/contract due to owner change of KGHM INTERNATIONAL LTD.	11 192	-
<b>Total</b>	<b>18 463</b>	<b>-</b>

As a result of the acquisition of KGHM INTERNATIONAL LTD. and significant changes in the structure of the Group, it was necessary to review the duties of management bodies of the Group. Based on the definition of key management personnel according to IAS 24 and based on an analysis of the rights and scope of responsibilities of management personnel of the Group arising from corporate documents and from management contracts, the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD. were recognised as other key management personnel of the Group.

#### 43. Remuneration of entity entitled to audit the financial statements and of entities related to it (in PLN '000)

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>PricewaterhouseCoopers Sp. z o.o./PricewaterhouseCoopers LLP</b>	<b>5 622</b>	<b>2 446</b>
From contract for the review and audit of financial statements of which:	4 402	1 786
- audit of annual financial statements	3 719	1 384
- review of financial statements	683	402
From other contracts	1 220	660
<b>Other companies of the PricewaterhouseCoopers Group due to other contracts</b>	<b>1 906</b>	<b>139</b>



#### 44. Assets and liabilities not recognised in the statement of financial position

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

	At	
	31 December 2012	31 December 2011
<b>Contingent assets</b>	<b>448</b>	<b>426</b>
-disputed State Budget issues	29	29
-guarantees received	211	186
-promissory note receivables	81	89
-real estate tax on mining facilities	87	85
-inventions, implementation of projects	40	37
<b>Contingent liabilities</b>	<b>732</b>	<b>210</b>
-guarantees of which:	539	49
guarantees granted under a contract for the supply of electricity within the Sierra Gorda S.C.M. project	519	-
-promissory note liabilities	13	24
-disputed issues, pending court proceedings	26	14
-preventive measures in respect of mine-related damages	-	8
-liabilities due to implementation of projects, inventions	128	114
-real estate tax on mining facilities	18	-
-other	8	1
<b>Liabilities not recognised in the statement of financial position</b>		
-liabilities towards local government entities due to expansion of the tailings pond	193	-
-liabilities due to operating leases	136	23

#### Assets not recognised in the consolidated statement of financial position

The most important items in contingent assets were the following:

- bid securities and security deposits received by the Group in the form of bank and insurance guarantees related to the economic activities conducted by the Group - PLN 211 million,
- overpayment of the real estate tax on mining facilities. The appeals process is underway at the Local Government Appeal Court for the return of overpayment due to a judgement of the Constitutional Tribunal dated 13 September 2011 - PLN 87 million.

#### Liabilities not recognised in the consolidated statement of financial position

KGHM Polska Miedź S.A., in compensation for the negative impact of the Parent Entity's activities on some surrounding municipalities, signed agreements in which it committed to the payment of funds to these municipalities for the purposes and under the conditions stipulated in the agreements.

Based on the specific stipulations of these agreements, at 31 December 2012, the Parent Entity recognised in the statement of financial position liabilities in the amount of PLN 48 million, a provision in the amount of PLN 6 million, as well as contractual liabilities which were not recognised in the statement of financial position in the amount of PLN 193 million.

The liabilities recognised in the statement of financial position (in the non-current part in the amount of PLN 27 million, in the current part in the amount of PLN 21 million) represent liabilities of the Parent Entity to make cash payments to municipalities to 2014 in the amounts and schedules specified in agreements. The non-current part of these liabilities is recognised at a discounted amount.

The provision recognised by the Parent Entity (in the non-current part in the amount of PLN 4 million, in the current part in the amount of PLN 2 million) represents liabilities of KGHM Polska Miedź S.A. made by the Parent Entity to the payment of funds to these municipalities equivalent to 4% of the amount of investment expenditures realised in a given year for development and formation of the „Żelazny Most” tailings pond to the capacity of 700 million m<sup>3</sup> and a dam crown height of 180 m a.s.l., though not less than EUR 375 thousand. The amount of the non-current part of the provision is recognised at its discounted rate.

Liabilities not recognised in the statement of financial position in the amount of PLN 193 million represent commitments of KGHM Polska Miedź S.A. stipulated in agreements with municipalities to the payment of funds to these municipalities in a specified amount. In respect of this, the dates for making the initial payments are tied to the date on which the waste stored in the tailings pond exceeds the dam's crown height as defined in the agreement. This event will be the signal to recognise in the statement of financial position these liabilities.

As at 31 December 2012, the amount of liabilities not recognised in the statement of financial position is shown at their present value.

#### 44. Assets and liabilities not recognised in the statement of financial position (continued)

##### Liabilities due to operating leases - total value of future minimum payments due to leases

	At	
	<u>31 December 2012</u>	<u>31 December 2011</u>
Up to one year	36	9
From one to five years	59	12
Over five years	41	2
<b>Total</b>	<b>136</b>	<b>23</b>

	For the period	
	<u>from 1 January 2012 to 31 December 2012</u>	<u>from 1 January 2011 to 31 December 2011</u>
<b>Lease payments recognised in profit or loss</b>	29	10

Total value of future minimum payments due to perpetual usufruct of land was presented in note 7.

#### 45. Employment structure

	For the period	
	<u>from 1 January 2012 to 31 December 2012</u>	<u>from 1 January 2011 to 31 December 2011</u>
White-collar employees (number of persons)	9 768	9 149
Blue-collar employees (number of persons)	24 277	22 034
<b>Total:</b>	<b>34 045</b>	<b>31 183</b>

#### 46. Social Fund assets and liabilities

The net balance - liabilities of the Social Fund after offsetting as at 31 December 2012 amounted to PLN 2 million, and as at 31 December 2011 - the same amount.

Details on assets, liabilities and costs related to the Social Fund are presented in the table below.

	At	
	<u>31 December 2012</u>	<u>31 December 2011</u>
<b>Social Fund assets and liabilities</b>		
Housing loans granted to employees	129	123
Other receivables	-	1
Cash and cash equivalents	28	23
Liabilities towards Social Fund	( 159)	( 149)
<b>Net balance</b>	<b>( 2)</b>	<b>( 2)</b>

The balance is settled in the following periods after refunding.

<b>Charged to operating costs of the financial period due to contributions made to the Social Fund</b>	135	131
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#### 47. Government grants

The balance of government grants recognised in deferred income at 31 December 2012 is PLN 32 million (at 31 December 2011: PLN 13 million). These are cash grants received for the acquisition of property, plant and equipment, for the financing of development work expenditure, and for the subsidising the costs of employee training.

The companies of the Group also receive government grants from the Voivodeship Fund for Environmental Protection and Water Management (Fundusz Ochrony Środowiska i Gospodarki Wodnej) in the form of preferential interest rates on loans, or loan redemption.

#### 48. Discontinued operations

Discontinued operations in the comparable period were in respect of the assets and liabilities of the Dialog S.A. Group, which were reclassified to assets held for sale in 2011. Realisation of the sales of these assets was also performed in 2011.

#### Main assets and liabilities groups classified to a disposal group

	At	
	31 December 2012	31 December 2011
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment and intangible assets	-	717
Deferred tax assets	-	139
Other non-current assets	-	45
	-	<b>901</b>
<b>Current assets</b>		
Inventories		
Trade and other receivables	-	95
Cash and cash equivalents	-	90
Other current assets	-	5
	-	<b>190</b>
<b>Total assets included in a disposal group</b>	-	<b>1 091</b>
<b>LIABILITIES</b>		
Non-current liabilities	-	6
Current liabilities	-	71
<b>Total liabilities included in a disposal group</b>	-	<b>77</b>
<b>Net assets</b>	-	<b>1 014</b>

#### 48. Discontinued operations (continued)

##### Profit for the period from discontinued operations

	Note	At	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Sales	28, 31	-	515
Cost of sales	29, 32	-	( 447)
<b>Operating profit</b>		-	<b>68</b>
Finance costs	33	-	( 1)
<b>Profit before income tax from discontinued operations</b>		-	<b>67</b>
Income tax expense	37	-	( 7)
<b>Profit from discontinued operations</b>		-	<b>60</b>

##### Cash flow from discontinued operations

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Net cash generated from operating activities	-	140
Net cash used in investing activities	-	( 79)
Net cash used in financing activities	-	( 58)
<b>Cash flow from discontinued operations</b>	-	<b>3</b>

#### 49. Subsequent events

##### Significant contracts

- (a) On 21 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch for silver sales in 2013. The estimated value of the contract is PLN 1 672 million.  
As a result of entering into this contract, the total estimated value of contracts entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch over the last 12 months exceeded 10% of the equity of the Company and amounts to PLN 3 654 million. The highest-value contract signed during this period with HSBC Bank USA N.A. is the above-mentioned contract.
- (b) On 28 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2013. The estimated value of this contract is PLN 1 524 million. As a result of entering into this contract, the total estimated value of contracts entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH over the last 12 months exceeded 10% of the equity of the Company and amounts to PLN 3 497 million. The highest-value contract entered into with MKM Mansfelder Kupfer und Messing GmbH during this period is the contract for the sale of copper cathodes in 2012 entered into on 30 January 2012. The value of this contract is PLN 1 824 million.
- (c) On 31 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and Prysmian Metals Limited for the sale of copper wire rod in 2013 and 2014. The estimated value of this contract is from PLN 2 382 million to PLN 2 865 million, depending on the amount of tonnage under option and on the relocation of tonnage between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH. This amount was calculated based on the forward copper curve from 30 January 2013 and the USD/PLN exchange rate per the NBP from 30 January 2013. The contract with Prysmian Metals Limited provides for the relocation of materials between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH.

##### Signing of an Annex to the Framework Agreement on the Joint Exploration for and Extraction of Shale Gas

On 21 February 2013, the Management Board of the Parent Entity signed an annex to the Framework Agreement on the Joint Exploration for and Extraction of Shale Gas of 4 July 2012. The parties of the Annex are all parties of the Agreement, i.e. KGHM Polska Miedź S.A., Polskie Górnictwo Naftowe i Gazownictwo SA, PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. The Parties have decided to prolong the period for determination of details regarding the terms of cooperation until 4 May 2013.

#### **49. Subsequent events (continued)**

##### **Forecast of results for 2013**

On 14 February 2013, the Supervisory Board of the Parent Entity approved the Budget of KGHM Polska Miedź S.A. for 2013 submitted by the Management Board. The bases for preparation of the Budget were the preliminary results for 2012 and the assumptions of individual operating plans (detailed data on the approved budget is presented in the Report on the activities of the Group, point 7.10).

##### **Sierra Gorda CAPEX definitive cost estimate**

On 1 March 2013 the Management Board of the Parent Entity announced the definitive cost estimate and scheduled startup for the Company's flagship Sierra Gorda copper-molybdenum-gold project in Chile, 55% owned by KGHM INTERNATIONAL Ltd. (100% subsidiary of KGHM Polska Miedź S.A.), 31.5% owned by Sumitomo Metal Mining and 13.5 % owned by Sumitomo Corporation. Detailed information is presented in the Report on the activities of the Group, point 9.

##### **Elections by employees of persons to the Supervisory Board of the Parent Entity**

As a result of elections carried out on 12-13 March 2013, the employees of the Parent Entity chose the following two persons to the Supervisory Board: Józef Czczyński and Leszek Hajdacki. The persons elected by the employees of the Parent Entity become members of the Eighth Term Supervisory Board from the moment of adoption of appropriate resolutions by the General Meeting of KGHM Polska Miedź S.A.

##### **Borrowing agreements entered into by the Parent Entity**

- On 2 January 2013, an overdraft facility agreement was signed for the amount of PLN 200 million, available for the period from 3 January 2013 to 2 January 2014,
- On 2 January 2013, an overdraft facility agreement was signed for the amount of PLN 100 million, available for the period from 7 January 2013 to 19 December 2013,
- On 7 January 2013, a working capital facility agreement was signed for the amount of PLN 200 million, available for the period from 7 January 2013 to 7 January 2014,
- On 17 January 2013, an agreement was signed for an overdraft facility and a working capital facility for the amount of PLN 500 million, available for the period from 4 February 2013 to 3 February 2016.

Interest on the amounts drawn will be based on WIBOR + a bank margin.

<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Herbert Wirth	President of the Management Board	
27 March 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
27 March 2013	Wojciech Kędzia	Vice President of the Management Board	
27 March 2013	Adam Sawicki	Vice President of the Management Board	
27 March 2013	Dorota Włoch	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

**KGHM** POLSKA MIEDŹ S.A.  
**GROUP**

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**REPORT ON THE ACTIVITIES  
OF THE GROUP  
IN 2012**

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Lubin, March 2013

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## 1. Introduction

The Parent Entity of the Group is KGHM Polska Miedź S.A, which has been conducting its business, as a joint stock company, since 12 September 1991. The legal antecedent of KGHM Polska Miedź S.A. was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin, transformed into a State-owned joint stock company in the manner set forth in the law dated 13 July 1990 on the privatisation of State-owned enterprises.

The Parent Entity is an issuer of securities which have been admitted to trading on the Warsaw Stock Exchange. It is a company with great traditions, rich experience and substantial achievements.

KGHM Polska Miedź S.A. is one of the world leaders in the production of electrolytic copper and metallic silver. Apart from copper and silver, KGHM Polska Miedź S.A. also produces gold, lead, sulphuric acid and rock salt. KGHM Polska Miedź S.A. is one of the largest Polish exporters. The position of KGHM Polska Miedź S.A. in terms of copper production strengthened following the acquisition of the KGHM INTERNATIONAL LTD. Group (formerly Quadra FNX Mining Ltd.), whose core business is also the production of mined metals, such as copper, nickel, gold, platinum and palladium.

The remaining companies of the Group are diversified in terms of types of activity. They mainly offer products and services related to the basic activities and core business of KGHM Polska Miedź S.A., including: exploring for and mining deposits of copper ore and other metals, mine construction, generation of electricity and heat production, the production of mining machinery and equipment, the production of explosives, and research and development. The remaining activities, unrelated to the core business, include the providing of services in areas such as transportation, tourism, health and cash investing. A significant portion of the domestically-based companies, provide services to the Parent Entity.

The entire Group employs over 34 thousand people, while the Parent Entity employs 18.6 thousand people, making it the largest employer in Lower Silesia.

The KGHM Polska Miedź S.A. Group has developed over the last 20 years. During the initial phase, most entities arose as a result of the separation of specific operational areas of KGHM Polska Miedź S.A. In this manner, in 1993 the Group's first companies arose. In subsequent years there were changes to the composition of the Group and the number of entities it contained. The events which occurred in 2012 had a major impact on the shape of the Group. The purchase of 100% of the shares of the mid-sized miner Quadra FNX Mining Ltd with its registered head office in Vancouver (with its own Group), increased the number of companies comprising the KGHM Polska Miedź S.A. Group by 34 entities. At the end of 2012 the Group numbered 85 entities.

The acquisition of Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.) was the largest equity investment in the history of the KGHM Polska Miedź S.A. Group, and is a critical event in terms of realisation of its strategy, aimed mainly at expanding the resource base in order to increase copper production. As a result of the acquisition of this company, KGHM Polska Miedź S.A. has become a global mining corporation.

Amongst the activities realised in 2012 which may also be considered as in realisation of the strategy of expanding the resource base is the exercise by KGHM Polska Miedź S.A. of a call option for an additional 29% of the shares of KGHM AJAX MINING INC. with its registered head office in Vancouver, which will operate a copper and gold mine on the Afton – Ajax deposit in Canada. As a result of this transaction, the Group's share of this company increased from 51% to 80%.

Currently the KGHM Polska Miedź S.A. Group holds geographically diversified mining assets located in low-risk countries. The copper ore mines operated by the Parent Entity and its projects in the pre-production stage are located in south-west Poland. Exploration projects (such as Weisswasser in Germany) are also under way in this region. The copper, nickel and precious metals mines belonging to the KGHM INTERNATIONAL LTD. Group are located in the USA, Chile and Canada. In addition, in Chile, Canada and Greenland are mine projects at the preproduction stage at varied stages of development, as well as exploration projects.

The KGHM Polska Miedź S.A. Group is also engaged in the energy sector, which enables partial neutralisation of the impact of rises in the prices of energy and its carriers – a significant element in the costs of copper production – on the results of the Parent Entity. With respect to this area, in 2012 KGHM Polska Miedź S.A., as part of a joint venture, founded a special purpose company „Elektrownia Blachownia Nowa” sp. z o.o. with its registered head office in Kędzierzyn Koźle, whose goal will be to build a gas-steam block, and entered into a framework agreement to explore for and extract shale gas.

Following is a list of the major events which occurred in the Group in 2012.

## 1. Introduction (continued)

**Table 1.** Major events in the Group in 2012\*

MAJOR EVENTS IN 2012		page
05.03.2012	Acquisition by the company 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver (an indirect subsidiary of KGHM Polska Miedź S.A.) of 100% of the shares of Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.)	154
27.03.2012	Supervisory Board approval of the KGHM Polska Miedź S.A. Budget for 2012 (sales of PLN 19 418 million, profit for the period of PLN 3 804 million)	211
29.10.2012	Publication of adjusted forecast of financial results of KGHM Polska Miedź S.A. for 2012 (sales of PLN 20 633 million, profit for the period of PLN 4 744 million)	211
14.02.2013	Supervisory Board approval of the KGHM Polska Miedź S.A. Budget for 2013 (sales of PLN 18 930 million, profit for the period of PLN 3 204 million)	212
02.04.2012	Execution by KGHM Polska Miedź S.A. of option to acquire an additional 29% of the shares of KGHM AJAX MINING INC.	154
18.04.2012	The Act on the minerals extraction tax comes into force	205
19.01.2012 25.04.2012 28.06.2012 03.09.2012 21.11.2012	General Meetings of KGHM Polska Miedź S.A. – changes in composition of Supervisory Board	165
27.06.2012	Appointment of Management Board of KGHM Polska Miedź S.A. for the 8th term	164
28.06.2012	Adoption by the Ordinary General Meeting of KGHM Polska Miedź S.A. of resolutions on the payment of a dividend for 2011 (PLN 5 668 million, i.e. 28.34 PLN/share)	-
20.08.2012	Payment of I instalment of shareholder dividend (PLN 3 400 million, i.e. 17.00 PLN/share)	
16.11.2012	Payment of II instalment of shareholder dividend (PLN 2 268 million, i.e. 11.34 PLN/share)	
04.07.2012	Framework agreement signed by KGHM Polska Miedź S.A., Polskie Górnictwo Naftowe i Gazownictwo S.A., ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A., on the exploration for and extraction of shale gas	162
12.11.2012	Annex signed to framework agreement on the exploration for and extraction of shale gas	
21.02.2013	Annex no. 2 signed to framework agreement on the exploration for and extraction of shale gas	
05.09.2012	Founding by KGHM Polska Miedź S.A. i TAURON Wytwarzanie S.A., of special purpose company „Elektrownia Błachownia Nowa” sp. z o.o. with its registered head office in Kędzierzyn Koźle, realising a project to build and operate a gas-steam block	162
05.09.2012	Letter of intent signed by KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A., regarding participation in the construction and operation of a nuclear power plant	163
28.12.2012	Prolongation of the term of validity of the Letter of intent signed regarding participation in the construction and operation of a nuclear power plant	
20.09.2012	Publication of a report by KGHM Polska Miedź S.A. on its mining assets - „Report on the mining assets of KGHM Polska Miedź S.A. located within the Legnica-Głogów Copper Belt Area”	-
11.02.2013	Publication of a report by KGHM Polska Miedź S.A. on its mining resources and production operations, prepared by Micon International Limited - „Technical Report on the Copper-Silver Production Operations of KGHM Polska Miedź S.A. in the Legnica-Głogów Copper Belt Area of Southwestern Poland”	
03.12.2012	Decision of the Regional Directorate for Environmental Protection in Wrocław on environmental conditions – realisation of the CONCESSIONS 2013 project	189
02.01.2012 07.01.2012 17.01.2012	Signing of bank loan agreements by KGHM Polska Miedź S.A.	223
01.03.2013	Sierra Gorda CAPEX definitive cost estimate	223
14.03.2013	Elections by employees of persons to the Supervisory Board of KGHM Polska Miedź S.A.	224

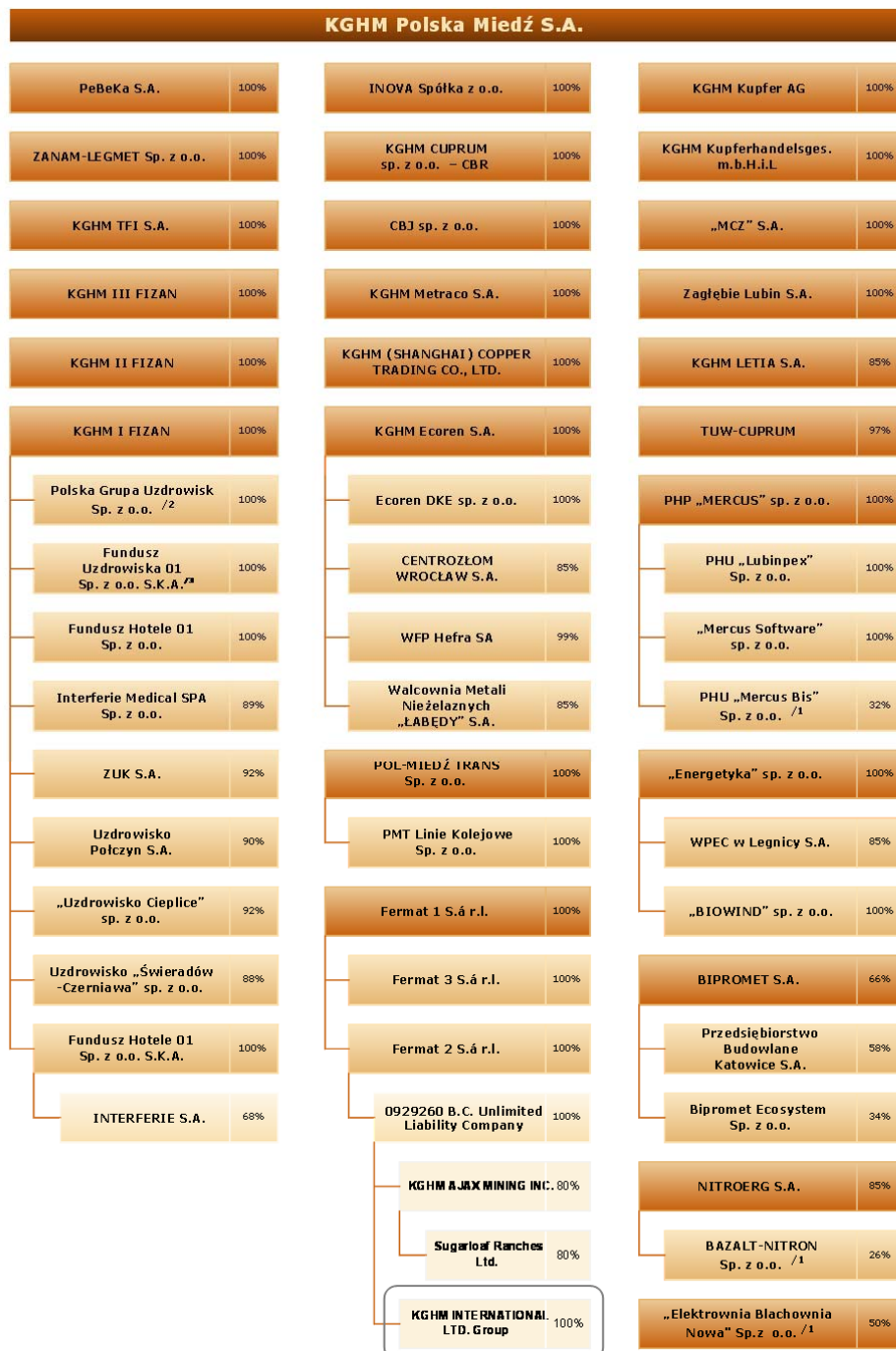
\* reflecting events after the end of the reporting year – to the date of preparation of the report

## 2. Organisation of the KGHM Polska Miedź S.A. Group

### 2.1 Composition of the Group

The diagram below shows the composition of the Group at 31 December 2012. The percentage ownership shown represents the total share of the Group in the share capital of the given company. In each of the Group's companies, the share capital owned is equal to the share of the total number of votes.

Diagram 1. KGHM Polska Miedź S.A. Group structure as at 31 December 2012



1/ unconsolidated entities

2/ change in name - formerly Fundusz Uzdrowiska O1 Sp. z o.o.

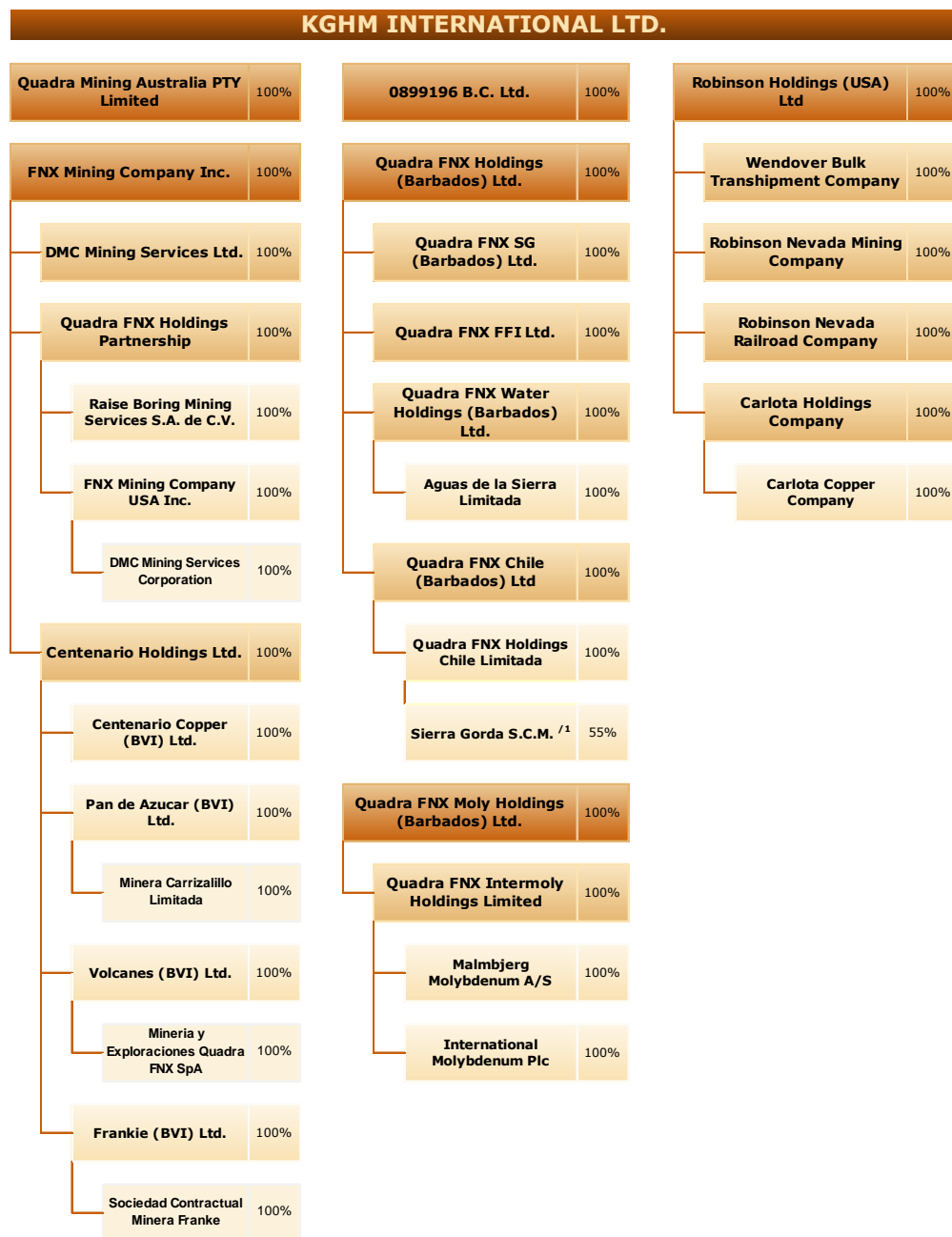
3/ since 9 January 2013 – Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.

Group Structure presented in Diagram: 2

## 2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 2.1. Composition of the Group (continued)

Diagram 2. KGHM INTERNATIONAL LTD. Group structure (formerly Quadra FNX Mining Ltd.) at 31 December 2012



1/ unconsolidated entity

## **2. Organisation of the KGHM Polska Miedź S.A. Group (continued)**

### **2.1. Composition of the Group (continued)**

At 31 December 2012 the Group was composed of KGHM Polska Miedź S.A. - the Parent Entity, and 84 subsidiaries (including three closed-end non-public investment funds). Some of these subsidiaries formed their own groups. The largest of these is KGHM INTERNATIONAL LTD. (formerly Quadra FNX Mining Ltd.), which comprised 34 subsidiaries. At the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in two associates and in two joint ventures. Considering management, efficiency and taxation aspects, actions are planned aimed at optimising the structure of the Group.

During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of the Group, consolidated 82 subsidiaries and used the equity method to account for the shares of an associate – BAZALT-NITRON Sp. z o.o., a co-jointly entity – „Elektrownia Blachownia Nowa” sp. z o.o., and of a joint venture – Sierra Gorda S.C.M. Two subsidiaries – TUW-CUPRUM and „Mercus Software” sp. z o.o. – were not consolidated, and the shares of one associate – PHU „Mercus Bis” Sp. z o.o. – were not accounted for using the equity method, as the assets, revenues and financial results of these entities do not materially impact the consolidated statement of financial position and the consolidated statement of comprehensive income.

### **2.2 Management principles of the Group**

Management of the KGHM Polska Miedź S.A. Group was defined under the management Model introduced in 2011. This model assumes the Group will be managed based on separate business units. The changes which occurred in the structure of the Group in 2012, mainly including acquisition of the shares of Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.), required the introduction of new organisational solutions in the way the Group is managed.

Five main business segments were identified which are subject to detailed analysis by management bodies. The identified business segments are also reporting segments.

#### **KGHM Polska Miedź S.A.**

- segment comprised of KGHM Polska Miedź S.A.,

#### **KGHM INTERNATIONAL LTD. Group**

- segment comprised of companies of the KGHM INTERNATIONAL LTD. Group,

#### **Sierra Gorda Project**

- segment comprised of Sierra Gorda S.C.M.,

#### **Development of the resource base**

- segment comprised of companies involved in the exploration for and evaluation of mineral resources, whose purpose is to conduct mining operations,

#### **Support of the core business**

- segment comprised of companies related to the core business of the Parent Entity,

#### **Other segments**

- all remaining Group companies, unrelated to the mining industry.

In order to improve the process of management in the Group following such a major acquisition such as was that of KGHM INTERNATIONAL LTD., new organisational solutions were introduced in 2012. A „Policy of coordination, support and integration with KGHM INTERNATIONAL LTD.” was adopted, which outlines new internal structures and operating tools in terms of the supervision of and integration with KGHM INTERNATIONAL LTD. The new structures comprise bodies such as the Coordination and Integration Board (composed among others of Members of the Management Board of KGHM Polska Miedź S.A. and Members of the Management Board of KGHM INTERNATIONAL LTD.) and its supporting Functional Committees (finance, budgeting, commerce, corporate governance, production and a knowledge exchange center, resource projects, auditing, balanced development and environmental protection). The goal of the „Policy of coordination, support and integration with KGHM INTERNATIONAL LTD.” is the efficient implementation of the strategy of KGHM Polska Miedź S.A., maximisation of the company's shareholder value and risk management.

## 2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 2.3 Changes in Group structure, other equity investments

Changes in the structure of the Group in 2012 are presented in table below.

**Table 2.** Changes in the Group's structure in 2012

Event	Description
<p><b>Founding of 0929260 B.C. UNLIMITED LIABILITY COMPANY</b></p>	<p>On 3 January 2012, the company Fermat 2 S.à r.l. (a 100% indirect subsidiary of KGHM Polska Miedź S.A.) founded the company 0929260 B.C. UNLIMITED LIABILITY COMPANY with its registered head office in Vancouver, Canada through a cash contribution in the amount of CAD 100, representing the share capital of the founded company.</p> <p>This company was founded in relation to the establishing a holding structure for the purpose of purchasing the shares of KGHM INTERNATIONAL LTD. (formerly Quadra FNX Mining Ltd.)</p>
<p><b>Founding of Fermat 3 S.à r.l.</b></p>	<p>On 15 February 2012, Fermat 1 S.à r.l. (a 100% subsidiary of KGHM Polska Miedź S.A.) founded the company Fermat 3 S.à r.l. with its registered head office in Luxembourg, in which, through a cash contribution in the amount of USD 20 000, it acquired 20 000 shares with a nominal value of 1 USD/share, representing 100% of the share capital of Fermat 3 S.à r.l.</p> <p>This company was founded in relation to the establishing a holding structure for the purpose of purchasing the shares of KGHM INTERNATIONAL LTD. (formerly Quadra FNX Mining Ltd.)</p>
<p><b>Purchase of the shares of KGHM INTERNATIONAL LTD.</b> <i>(formerly Quadra FNX Mining Ltd)</i></p>	<p>On 5 March 2012, the company 0929260 B.C. UNLIMITED LIABILITY COMPANY with its registered head office in Vancouver purchased from the former shareholders of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") 100% of the shares of Quadra FNX, representing 100% of the votes at the General Meeting. The consideration transferred, recognised in the consolidated financial statements for the purpose of accounting for the acquisition, amounts to PLN 9 707 million and comprises:</p> <ul style="list-style-type: none"> <li>- the purchase of ordinary shares for the amount of PLN 9 363 million,</li> <li>- the purchase of warrants for the amount of PLN 39 million,</li> <li>- the realisation of purchased warrants in the amount of PLN 305 million.</li> </ul> <p>The shares were purchased in execution of the agreement dated 6 December 2011 signed by KGHM Polska Miedź S.A. and Quadra FNX under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX (Plan of Arrangement).</p> <p>Details of this transaction may be found on page 160 of this report.</p>
<p><b>Exercise of the option to purchase an additional 29% of the shares of KGHM AJAX MINING INC.</b></p>	<p>On 2 April 2012 KGHM Polska Miedź S.A. exercised the option to purchase an additional 29% of the shares of KGHM AJAX MINING INC. with its registered head office in Vancouver from Abacus Mining &amp; Exploration Corp., based on the shareholders agreement dated 12 October 2010, and increased its share in KGHM AJAX MINING INC. from 51% to 80%. The shares were acquired for the amount of USD 30 million (the equivalent of PLN 93 million, according to the USD/PLN exchange rate of the NBP for 2 April 2012).</p> <p>The decision to exercise this option was taken following analysis of the Bankable Feasibility Study for the Afton-Ajax project, received in December 2011, prepared in accordance with the Canadian standard NI 43-101 by a consortium of independent consultants under the direction of Tetra Tech WEI (Wardrop). This document describes the specific technical and economic conditions related to the construction and operation of the future copper and gold mine located in the vicinity of the town of Kamloops, in British Columbia, Canada. KGHM AJAX MINING INC. will realise the copper and gold mine project on the Afton-Ajax deposit in Canada.</p> <p>Details of this transaction may be found on page 159 of this report.</p>

## 2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 2.3. Changes in Group structure, other equity investments (continued)

<p><b>Acquisition of shares of KGHM AJAX MINING INC. by 0929260 B.C. UNLIMITED LIABILITY COMPANY</b></p>	<p>On 26 April 2012, changes in ownership were carried out within the KGHM Polska Miedź S.A. Group, as a result of which:</p> <ul style="list-style-type: none"> <li>- KGHM AJAX MINING INC. – until this date a direct subsidiary of KGHM Polska Miedź S.A. – became an indirect subsidiary of the Parent Entity and a direct subsidiary of 0929260 B.C. UNLIMITED LIABILITY COMPANY. This transaction occurred through the acquisition by 0929260 B.C. UNLIMITED LIABILITY COMPANY of shares of KGHM AJAX MINING INC. in exchange for the issuance of its own shares in the amount of PLN 203 million, acquired by KGHM Polska Miedź S.A.,</li> <li>- KGHM Polska Miedź S.A. contributed the shares of 0929260 B.C. UNLIMITED LIABILITY COMPANY to Fermat 2 S.à r.l. in exchange for the acquisition of additional shares issued by Fermat 2 S.à r.l.,</li> <li>- KGHM Polska MIEDŹ S.A. contributed the shares of Fermat 2 S.à r.l. to Fermat 1 S.à r.l. in exchange for the acquisition of shares in the increased share capital of Fermat 1 S.à r.l. in the amount of PLN 203 million.</li> </ul> <p>Execution of this transaction was one of the stages in the process of reorganising the structure of the Group.</p>
<p><b>Acquisition of shares of Sugarloaf Ranches Ltd.</b></p>	<p>On 31 July 2012, the subsidiary KGHM AJAX MINING INC. acquired 100% of the shares of Sugarloaf Ranches Ltd. with its registered head office in Vancouver for the amount of CAD 12 million (the equivalent of PLN 40 million, according to the CAD/PLN exchange rate of the NBP for 31 July 2012).</p> <p>The company was purchased in order to realise the construction project assumptions for the Afton-Ajax mine. The sales and profit of Sugarloaf Ranches Ltd., recognised in the consolidated statement of comprehensive income of the KGHM Polska Miedź S.A. Group from the moment of acquisition to 31 December 2012, represent immaterial amounts for the KGHM Polska Miedź S.A. Group.</p>

#### Other equity investments

##### Founding of „Elektrownia Blachownia Nowa” sp. z o.o.

On 5 September 2012, KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. founded a special purpose company called „Elektrownia Blachownia Nowa” sp. z o.o. with its registered head office in Kędzierzyn Koźle. KGHM Polska Miedź S.A. acquired 50% of the shares in the share capital of the special purpose company, covered by cash in the amount of PLN 32.6 million. The share capital of the company amounts to PLN 65.2 million.

„Elektrownia Blachownia Nowa” sp. z o.o. was founded in realisation of an agreement entered into on 20 January 2010 by KGHM Polska Miedź S.A. with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. Founding of the company was preceded by permission received from the European Commission (the applicable antimonopoly body), which was issued on 23 July 2012.

This special purpose company was founded in order to fully realise an investment, comprising the preparation, construction and operation of an 850 MWe gas–steam block on grounds belonging to TAURON Wytwarzanie S.A. - Blachownia Power Plant Division.

The founding of „Elektrownia Blachownia Nowa” sp. z o.o. is in accordance with the Strategy of KGHM Polska Miedź S.A., assuming the diversification of revenues by gradual engagement in the energy sector.

Details of this project may be found on page 162 of this report.

##### Increase in the share capital of subsidiaries

In 2012, the Parent Entity acquired shares in the increased share capital of three subsidiaries. The funds acquired were used for the partial financing of investments.

## 2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

### 2.3. Changes in Group structure, other equity investments (continued)

Table 3. Increases of share capital in 2012

company	amount of increase	Description
„Energetyka” sp. z o.o.	PLN 67.3 million	KGHM Polska Miedź S.A. acquired all of the shares in the increased share capital of the company and covered them by cash at their nominal amount. The share capital of the company following the increase amounts to PLN 469.6 million. The increase was court registered.  The proceeds will be used for the partial financing of investment projects, mainly modernisation of producing assets and distribution networks.
„MCZ” S.A.	PLN 17.3 million	During 2012 the share capital of the company was increased twice. KGHM Polska Miedź S.A. acquired all of the shares in the increased share capital of the company and covered them with cash at their nominal amount. The share capital of the company following the increase amounts to PLN 75.5 million. The increase was court registered.  The proceeds from this capital increase were used for the partial financing of investment projects aimed at expanding the medical activities of the company.
KGHM Metraco S.A.	PLN 5 million	KGHM Polska Miedź S.A. acquired all of the shares in the increased share capital of the company and covered them with cash at their nominal amount. The share capital of the company following the increase amounts to PLN 22.5 million. The increase was court registered.  The proceeds were used for the partial financing of an investment, „Construction and operation of a Sulphuric Acid Commercial Base”.

All of the equity investments were financed from the internal funds of KGHM Polska Miedź S.A.

## 3. Strategy of KGHM Polska Miedź S.A.

### 3.1 Strategic assumptions for the years 2009-2018

On 23 February 2009, the Supervisory Board of KGHM Polska Miedź S.A. approved the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018. In realising the Strategy, KGHM Polska Miedź S.A. intends to become a major, global copper producer and to increase copper production in the Group to approx. 700 thousand tonnes annually. The accepted strategic assumptions are derived from the specific nature of the mining sector in which KGHM Polska Miedź S.A. operates. In developing the Strategy, total expenditures of around PLN 20 billion were assumed for the realisation of strategic projects.

Due to the sale by KGHM Polska Miedź S.A. of its telecom assets in 2011 (100% of the shares of DIALOG S.A., 24.4% of the shares of Polkomtel S.A.), the Supervisory Board of the Parent Entity, on 10 October 2011, approved the updated Strategy of KGHM Polska Miedź S.A. for the years 2009-2018 with respect to Pillar III – Diversification of revenue sources and independence from energy prices – by removing the strategic goal „Continued investment in the telecommunications sector”. The strategic assumptions for the remaining pillars of the Strategy remained unchanged.

The Strategy for the years 2009-2018 is based on five pillars:





### 3. Strategy of KGHM Polska Miedź S.A. (continued)

#### 3.1. Strategic assumptions for the years 2009-2018 (continued)

 <b>PILLAR III</b>	<b>Diversifying sources of revenues and gaining independence from energy prices</b> assumes that by 2018 approx. 30% of the revenues of KGHM Polska Miedź S.A. will be generated from outside the core business, through entrance into the power sector.
 <b>PILLAR IV</b>	<b>Regional support</b> the creation of 750 new jobs and development of social activities through: <ul style="list-style-type: none"><li>- the creation of jobs using the infrastructure of KGHM LETIA S.A., supporting regional sport, health, arts, education and the regional environment.</li></ul>
 <b>PILLAR V</b>	<b>Developing organisational know-how and capabilities</b> through: <ul style="list-style-type: none"><li>- management through goals,</li><li>- transparent information and data,</li><li>- development of the employees of KGHM Polska Miedź S.A., and</li><li>- building a holding structure.</li></ul>

Taking into consideration the long term challenges faced by the global mining sector, assumptions have been developed for an update to the Strategy and comprehensive work has begun on updating the existing Strategy and on a multi-directional strategic analysis of the outlook for the further growth and development of the value of KGHM Polska Miedź S.A.

#### 3.2 Realisation of the Strategy in the years 2009-2012

In 2012, KGHM Polska Miedź S.A. consistently implemented the approved development Strategy. The process of implementing the company Strategy was executed by investing in a continuously updated portfolio of strategic projects fulfilling the intended goals at the level of each pillar's strategic initiatives.

### **PILLAR I – IMPROVING PRODUCTIVITY**

Of fundamental importance to building the value of KGHM Polska Miedź S.A. in the long term was the continuation of activities in the copper sector as the basic source of company revenues. The company carried out investments aimed at improving the productivity of the core business. Strategic tasks of significance for the development of the Parent Entity in this regard were as follows:

- 1/ Research into the use of mechanical mining in the conditions prevalent in the mines of KGHM Polska Miedź S.A.** in terms of developing and implementing mining combine technology, as an alternative to the currently used room-and-pillar systems, in which mining is conducted through blasting. From the technical point of view, this new technology is expected to provide greater efficiency (less rock), accelerated advances through the orebody, lower employment and improved workplace safety. In economic terms, it is expected that extraction costs will be lower and the execution of production plans easier. The main projects being executed in this respect are:
  - „Development of mining technology using the ACT mining complex by KGHM Polska Miedź S.A.” This project is being carried out in cooperation with Caterpillar Global Mining Europe GmbH (formerly Bucyrus Europe GmbH), for which in 2009 the company gained the possibility of receiving subsidies from the PARP fund in the amount of approx. PLN 39 million, representing 32% of the project budget. In the years 2009-2013 research and industrial testing will be performed in a pilot section opened in the Polkowice-Sieroszowice mine. The results of this work will be implemented following positive results of profitability analysis in the years 2014-2015.
  - „Drilling of drifts using combines” Work was begun on the preparation of the technical and organisational structure of a mining complex section in the Polkowice-Sieroszowice mine. In the years 2013-2017 technical and economic evaluation will involve mechanical mining technology based on the use of mining combines in the mechanical drilling of multi-face drifts by several machines simultaneously. Due to the watershed nature of this project for the development of the copper mines of KGHM Polska Miedź S.A. it is expected that the drilling of drifts will commence with a team of two combines in the so-called TW 357 combine group as part of the work to access the Deep Głogów (Głogów Głęboki-Przemysłowy) area in the Polkowice-Sieroszowice mine. The project is being performed in cooperation with the subsidiary PeBeKa S.A.

### 3. Strategy of KGHM Polska Miedź S.A. (continued)

#### 3.2 Realisation of the Strategy in the years 2009-2012 (continued)

- 2/ The **„Pyrometallurgy Modernisation Program”**, whose goal is to create a functionally integrated, cost effective and environmentally friendly smelting structure for KGHM Polska Miedź S.A. This program is a multi-year venture, begun in 2008. Completion of the project is expected by the end of 2015. Major modifications and improvements will be achieved by the Głogów Smelter through the construction and operation of a flash smelter complex at Głogów I and through the intensification of smelting at Głogów II. The company expects long term economic benefits from execution of this program, including among others a decrease in the total unit processing cost and increased revenues from the sale of additional amounts of silver, rhenium and refined lead. In addition, there will be a clear decrease in the smelter's environmental impact, and therefore an improvement in the company's international competitive position.
- 3/ The **„Ore Extraction IT Management System”** aimed at unifying and improving business processes in the mining operations of KGHM Polska Miedź S.A., both in terms of the main production-related processes as well as in management processes and their efficient and effective support with the aid of a flexible IT system.
- 4/ **„Construction of the SW-4 shaft”** for accessing ore below 1 000 m in the Polkowice-Sieroszowice mine, assuming balanced extraction of the ore resources.
- 5/ **Continued implementation of IT systems** enabling improved efficiency and improved machinery operating safety, including among others a „System for the operation and servicing of underground machinery”, „System for locating machinery in the mining areas”.
- 6/ **Project „Effectiveness”**, under which, since 2009, 38 programs have been realised: 22 involving TOP cost reduction programs and 16 process transformation programs (based on Lean Management) aimed at improving production efficiency.
- 7/ **Multi-year programs involving the automation and modernisation of the ore concentration process** involving the replacement of floatation equipment and milling power units, modernisation of classifiers and a program to improve the energy efficiency of the existing machinery park, as well as implementation of a comprehensive production maintenance program in the Concentrator Divisions.
- 8/ **Reorganisation of the procurement process in the KGHM Polska Miedź S.A. Group** – a Central Procurement Office was opened (2009) and a unified procurement policy was instituted for the Divisions and for the KGHM Polska Miedź S.A. Group, thanks to which the company gained substantial added value and savings in the area of procurement, mainly investments.

## **PILLAR II – DEVELOPING THE RESOURCE BASE**

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To achieve an increase in copper production to 700 thousand tonnes and to improve the company's competitiveness amongst the world's copper and silver producers, a key role was played by actions to secure and increase access to the resource base. KGHM Polska Miedź S.A. continued to realise its adopted strategy of acquiring foreign assets and expanding its mining-related activities mainly through development of the resource base in the region, i.e. in south-west Poland and in Lusatia, a region in German Saxony. Such an approach provides the Parent Entity with the opportunity to geographically diversify its core activities, and over the long term enables an increase in the production of copper and other metals at lower unit costs.

### **DEVELOPING THE RESOURCE BASE IN THE REGION**

The main resource projects being pursued in the region are:

- 1/ **CONCESSIONS 2013**, based on obtaining new concessions for the extraction of copper ore from deposits currently being worked by KGHM Polska Miedź S.A. by the end of 2013. Detailed information on the realisation of this project may be found on page 189 of this report.
- 2/ **Accessing the Deep Głogów concession area** continued since 2006, work on which includes construction of the GG-1 shaft and the execution of primary drifts to access the Deep Głogów area along with development of technical infrastructure.
- 3/ **Exploration and documentation of resources in the Gaworzyce-Radwanice deposit**, which borders on the west the areas currently being worked by the Polkowice-Sieroszowice mine. In 2011, stage I of a drilling program was carried out (5 drillholes were executed), based on which the scope of further geological work was defined, aimed at designing a mining plan. In December 2012, administrative procedures were commenced to obtain a change in the concession to explore the aforementioned ore resources. Realisation of this work will enable an extension to the period of operations of this mine.

### 3. Strategy of KGHM Polska Miedź S.A. (continued)

#### 3.2 Realisation of the Strategy in the years 2009-2012 (continued)

- 4/ **Exploration of the concession area Synklina Grodziecka**, located in the vicinity of the so-called Old Copper Belt near Bolesławiec. The first stage of work was performed: 9 drillholes were executed, and an extension was granted for the concession to continue geological exploration. The drillholes executed to date show a high copper and silver content at shallower depths than those currently being worked. The goal of the drilling program is to document new resources and more precisely define existing documentation. The information gained will enable the preparation of new ore balance estimates reflecting the new drilling data. Until the end of the 1980s the Konrad copper mine had been in operation in this region, which was closed due to economic reasons. It is estimated that, apart from the copper ore deposit of the current Legnica-Głogów Copper Belt, this is the most promising region in the country, due to the possibility of documenting copper ore resources which could in future be mined.
- 5/ **Exploration and documentation of a copper ore deposit in areas situated to the north and east of the currently concession areas**. In 2012, the company applied to the Minister of the Environment for a concession to explore such areas as Retków-Ścinawa, Głogów, Bytom Odrzański and Kulów-Luboszyce. The Ministry commenced concession proceedings for all four applications.
- 6/ **Project for exploration of the Weisswasser copper deposit in Germany**, for which KGHM Kupfer AG, a 100%-owned subsidiary of KGHM Polska Miedź S.A. registered in Germany, holds a concession for the exploration and evaluation of copper deposits. In the years 2011-2012 the first stage of the drilling project in the Weisswasser region was performed, under which four boreholes were drilled and geophysical research was conducted. The results of this research enabled determination of the form of the second stage of exploration work. In February 2013 the Supervisory Board of KGHM Polska Miedź S.A. expressed consent for the financing of the second stage of this project. The timeframe for realisation of further work is 2013-2014.
- 7/ Apart from work aimed at documenting copper ore deposits, the Parent Entity conducted **geological documentation work on the concession nickel ore deposit Szklary**, to the north of Żąbkowice Śląskie. In 2011 a program of drilling was conducted in this region, under which 54 boreholes were drilled. Pilot testing was completed on developing tailings-free technology for processing the nickel ore from the Szklary deposit. Technical and economic analysis was begun which will determine the project's economic feasibility and further steps.
- 8/ Technological and organisational requirements were determined as well as **work related to the design and construction of a salt processing plant for the project to increase salt production by KGHM Polska Miedź S.A.** from 425 thousand tonnes to do 1 million tonnes/year. The successful realisation of this project will establish a solid technical and economic basis for the subsequent realisation initiatives related to the deposition of smelter waste in the worked-out areas of the salt deposit, as well as to the production of table salt.

#### ACQUISITION OF FOREIGN ASSETS

With respect to the development of foreign mining projects in the years 2010-2012, KGHM Polska Miedź S.A. made acquisitions which enabled the company to achieve the status of a global mining company:

##### 1/ Acquisition of shares in the Afton-Ajax copper and gold project located in British Columbia, Canada

In 2010 KGHM Polska Miedź S.A. signed an Investment Agreement with Abacus Mining & Exploration Corp. regarding the joint realisation of the Afton-Ajax copper and gold project, based on which the Parent Entity acquired 51% of the shares of KGHM AJAX MINING INC., a company founded jointly with the Canadian company Abacus Mining & Exploration Corp., along with options to acquire a further 29% of the shares following publication of the Bankable Feasibility Study as well as the obligation to organise project financing. At the same time, 8.75 % of the shares of Abacus Mining & Exploration Corp. were purchased (at the end of 2012 this interest fell to 7%, due to a new issuance of shares aimed at another shareholder).

In 2011, work was completed on the Bankable Feasibility Study for the Afton-Ajax project, which describes the specific technical and economic conditions related to the construction and operation of the future copper and gold mine located in the vicinity of the town of Kamloops in Canada. The Study confirmed the chief geologic and mining parameters of the Afton-Ajax project, which until then had been estimated in a preliminary report from 2009. It assumes annual copper production of 50 thousand tonnes and gold production of 100 thousand ounces over a mine life of 23 years. The cost of producing one tonne of copper was calculated in the range of USD 1 740 – USD 2 800. Mine construction will last two years.

### 3. Strategy of KGHM Polska Miedź S.A. (continued)

#### 3.2 Realisation of the Strategy in the years 2009-2012 (continued)

Measured & Indicated mineral resources amount to 512 million tonnes of ore containing 0.31% copper and 0.19 g/t of gold. Proven & Probable mineral reserves were calculated at 1.34 million tonnes of copper and 2.75 million ounces of gold. Mine life was calculated at 23 years.

Under the base scenario, the investment payback period is approx. 8 years, while at current metals prices this period is less than 3 years.

In April 2012, KGHM Polska Miedź S.A. exercised the option to increase its share in KGHM AJAX MINING INC. from 51% to 80%. The shares were purchased for the amount of USD 30 million (the equivalent of PLN 93 million, according to the average rate of the National Bank of Poland for USD/PLN of 2 April 2012). Under the shareholders agreement respecting the company KGHM AJAX MINING INC., when KGHM Polska Miedź S.A. exercised its option to purchase an additional 29% of the company's shares, the commitment arose by KGHM Polska Miedź S.A. to arrange financing for the project. Capital expenditure for the project is estimated at USD 795 million (the equivalent of PLN 2 466 million, according to the average USD/PLN exchange rate of the National Bank of Poland of 2 April 2012).

In September 2012, management of the project was acquired by KGHM INTERNATIONAL LTD.

In 2012, KGHM AJAX MINING INC. continued activities aimed at obtaining environmental permit to construct the mine. While the timeframe for obtaining this permit is not under the company's control, it assumes that the permits which will allow construction of the mine to begin will be obtained in 2014, which in consequence will enable construction of the Afton-Ajax mine and the commencement of Cu-Au concentrate production in 2016. This deferral of the schedule versus prior plans is mainly due to the need to perform additional analyses related to environmental permitting which were not previously foreseen. Detailed engineering work is being simultaneously performed which is required to receive permit for mining and for construction of the future mine.

#### 2/ Acquisition of 100% of the shares of the mid-sized mining company Quadra FNX Mining Ltd with its registered head office in Vancouver, Canada (currently KGHM INTERNATIONAL LTD.)

In March 2012, KGHM Polska Miedź S.A., through the subsidiary 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver, performed a friendly takeover of the Canadian mining company Quadra FNX Mining Ltd for the total price of CAD 2 900 million (representing the equivalent of PLN 9 147 million at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012). The transaction was financed using the internal funds of KGHM Polska Miedź S.A.

The shares were purchased in execution of the agreement dated 6 December 2011 signed by KGHM Polska Miedź S.A. and Quadra FNX Mining Ltd under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX Mining Ltd ("Plan of Arrangement").

Following the obtaining of control, the decision was taken to delist the shares of Quadra FNX Mining Ltd from the trade on the Toronto Stock Exchange and to change the company's name to KGHM INTERNATIONAL LTD.

The focus of operations of the KGHM INTERNATIONAL LTD. Group is the mined production of metals, including copper, nickel, gold, platinum, palladium.

As a result of this transaction, KGHM Polska Miedź S.A. Group became the owner of:

- world class deposits and operating copper mines located in Canada (McCreedy West, Levack with the Morrison deposit and Podolsky), USA (Robinson and Carlota) and Chile (Franke),
- pre-operational mining projects at various stages of development, including Sierra Gorda\* in Chile (the most important development project, involving one of the largest new copper and molybdenum deposits in the world), Victoria in Canada and Malmbjerg in Greenland, and
- exploration projects Kirkwood, Falconbridge and Foy in the Sudbury region of Canada.

\* *Sierra Gorda is a joint venture (under the JV Sierra Gorda SCM) of KGHM INTERNATIONAL LTD. (55%) and of companies of the Sumitomo Group: Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%).*

As a result of the acquisition of Quadra FNX Mining Ltd, total ore resources of the KGHM Polska Miedź S.A. Group increased by over 8 million tonnes of copper, i.e. by 28%.

KGHM gained an increase in copper production in 2012 of nearly 25%, and in 2018, once production begins at the Sierra Gorda project in Chile and the Victoria project in Canada, the planned increase will be nearly 50%. The start-up of new projects reduces the average cost of copper production in the Group and has a positive impact on the diversification of revenues from metals produced.

The Sierra Gorda project comprises the construction of an open pit mine on one of the largest new deposits of copper and molybdenum in the world. The start of production at Sierra Gorda is planned for 2014. Planned annual production: approx. 220 thousand tonnes of copper, 11 thousand tonnes of molybdenum and 2 tonnes of gold for over 20 years.

### **3. Strategy of KGHM Polska Miedź S.A. (continued)**

#### **3.2 Realisation of the Strategy in the years 2009-2012 (continued)**

Since the first quarter of 2012 work has continued on stripping the overburden, while in the third quarter of 2012 construction of the processing plant commenced. At 31 December 2012, 92% of the engineering was completed, and 33% of the project construction. Assembly of the machine park continues.

In the first quarter of 2013, the project's definitive capital expenditure estimate was updated. Total estimated initial capital expenditure amounts to around USD 3.9 billion versus USD 2.9 billion forecast in February 2011. Detailed information on the realisation of this project may be found on page 194 of this report.

With respect to the exploration projects being realised by the KGHM INTERNATIONAL LTD. Group, the most important project is Victoria (the subsidiary FNX Mining Company Inc. owns 100% of the project). The company continues technical and economic analyses into the feasibility of mining the deposit of copper, nickel and precious metals located in the Sudbury Basin in Canada. In 2012, discussions continued with Vale regarding ownership of the future project (Vale holds a back-in right to the Victoria project). Activities were also continued aimed at obtaining required permits, including discussions with First Nations. In the fourth quarter of 2012 the company completed exploratory drilling and is now concentrating on engineering work and developing project documentation needed to obtain all required permits.

The acquisition of KGHM INTERNATIONAL LTD. will increase annual mined copper production in the KGHM Polska Miedź S.A. Group by over 100 thousand tonnes beginning from 2012. The target increase by 2018 is over 180 thousand tonnes annually. In addition, following the start-up of production in Sierra Gorda in Chile in 2014 and Victoria in Canada, the transaction will lead to a substantial decrease in average unit copper production costs in the entities directly and indirectly managed by KGHM Polska Miedź S.A. As a result of the acquisition of KGHM INTERNATIONAL LTD., the KGHM Polska Miedź S.A. Group advanced to fourth place in the world in terms of documented copper resources.

#### ***OTHER INITIATIVES - intensification of scrap processing***

Another important initiative aimed at increasing copper production by KGHM Polska Miedź S.A. is the intensification of scrap processing. In 2011, feasibility studies were performed related to the preparation of technical and economic assumptions for an investment comprising the construction of a unit for the processing of scrap and other secondary copper-bearing materials at the Legnica Smelter. In December 2012, an overall concept and area plan was developed with estimated construction costs for building a new production line for the processing of secondary copper-bearing materials. This line will consist of a unit for the melting and processing of scrap and secondary copper-bearing materials based on modern technology in current use applying BAT (Best Available Technology), which ensures the production of copper blister as a feed material used in cathode production. Realisation of this investment is planned for the years 2013-2015.

### **PILLAR III – DIVERSIFYING SOURCES OF REVENUES AND GAINING INDEPENDENCE FROM ENERGY PRICES**

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The purpose of diversifying revenues and gaining independence from energy prices, crucial from the point of view of business opportunities for KGHM Polska Miedź S.A., were investments in the energy sector, mainly in the energy generation segment. From the point of view of KGHM Polska Miedź S.A., power generation is one of the most attractive sectors, as it is not correlated with conditions on the metals markets and represents a stable source of revenues. In respect to increasing energy production to meet the company's own energy needs, projects were continued whose realisation will ensure approx. 30% of the energy needs of KGHM Polska Miedź S.A. (at present, energy production by the subsidiary "Energetyka" Sp. z o.o. represents around 10% of the Parent Entity's total energy needs) and will also lead to diversification of the energy generation portfolio and will significantly reduce the company's exposure to the risk represented by the EU's climate policy and to changes in fuel and electricity prices. The most important projects in this regard are:

- 1/ „Construction of gas-steam blocks at the Głogów and Polkowice power plants”** with installed capacity of 90 MWe and planned power generation of 560 GWh, all of which will be used to meet the power needs of KGHM Polska Miedź S.A. In the years 2010-2012 work was performed in respect of construction, assembly of key equipment, installation and electrical work, as well as equipment related to control and measurement and automation based on actual execution projects. Key equipment from the electrical and installation sectors was delivered. Commencement of operations of these blocks is planned in the second quarter of 2013.

### 3. Strategy of KGHM Polska Miedź S.A. (continued)

#### 3.2 Realisation of the Strategy in the years 2009-2012 (continued)

2/ **„Construction of a research installation for the underground gasification of brown coal in the Legnica-Głogów Copper Belt”.** Under the concession obtained in 2012 for exploration of the brown coal deposit in the Głogów region, in a selected area located in the Legnica-Głogów Copper Belt, a program of geological work was begun (6 boreholes were drilled) aimed at exploring and evaluating the brown coal resources in the years 2012-2015. Positive results from this geological work will enable a decision to be taken on whether to apply for a mining concession for this deposit using an underground brown coal gasification research installation.

In 2012, KGHM Polska Miedź S.A. took an active part in the realisation of the most important energy projects of a national scope. These projects are being considered on a purely commercial basis, and their realisation will enable diversification of the structure of revenues and an increase in the market value of KGHM Polska Miedź S.A. The long term investments in the energy sector are aimed at ensuring 30% of revenues. The main projects in this regard are:

1/ **„Construction of a power generation source based on the utilisation of natural gas as the raw material for its generation, on the grounds of the existing Blachownia Power Plant”.**

In respect of realisation of the agreement entered into on 20 January 2010 with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., and on the basis of the permits received on 23 July 2012 of the European Commission (the applicable antimonopoly body) with respect to concentration, on 5 September 2012, KGHM Polska Miedź S.A. founded a special purpose company with TAURON Wytwarzanie S.A. called „Elektrownia Blachownia Nowa” sp. z o.o. KGHM Polska Miedź S.A. acquired 50% of the shares in the share capital of the special purpose company. The share capital of this company is PLN 65 million.

Together with the founding of this company, a Shareholders Agreement was signed describing the detailed principles of cooperation between the parties regarding realisation of the enterprise, comprising the preparation, construction and operation of the approx. 850 MW gas-steam block on the grounds of the Blachownia power plant in Kędzierzyn-Koźle belonging to the TAURON Group. In accordance with this Agreement, the Partners anticipate that the total estimated expenditure on this investment in the years 2012-2017 will amount to around PLN 3.5 billion. The project will be realised using the project finance formula – at least 50% of its budget will be financed from outside sources.

In 2012, the special purpose company performed work related to preparing the investment, involving the acquisition of required documentation comprising among others sector projects, construction permits, connection conditions and the commencement of tender procedures to select advisors and a contractor to build the block.

2/ **„Exploration for and extraction of shale gas in Poland (KCT Project)”.**

On 4 July 2012, KGHM Polska Miedź S.A. signed a Framework Agreement with the following companies: Polskie Górnictwo Naftowe i Gazownictwo S.A. (“PGNiG”), ENEA S.A., PGE Polska Grupa Energetyczna S.A., and TAURON Polska Energia S.A. on the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted to PGNiG for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo area with respect to the Kochanowo, Częstkowo and Tępcz pads of total area of 160 km<sup>2</sup> (KCT Project).

Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones within the area of cooperation determined in the agreement are estimated at PLN 1 720 million.

In accordance with Annex No. 1 to the Framework Agreement signed on 12 November 2012, the parties agreed that the date for determining the details regarding the terms of cooperation, including the budget and project schedule, participation of the parties in financing expenditures resulting from the agreed budget, participation in profit and on the principles of responsibility, among others contractual penalties, would be prolonged from 4 November 2012 to 4 February 2013.

Due to on-going negotiations regarding the detailed terms of cooperation under which among others the project documentation is being developed, on 21 February 2013 the parties decided to prolong the period for determination of details regarding the terms of cooperation until 4 May 2013 by signing Annex no. 2 to the Framework Agreement. Should such specific arrangements not be determined by 4 May 2013, the Agreement may be terminated by each of the parties. Moreover, if within three months after reaching such arrangements the parties have not received all of the required corporate approvals, or if by 31 December 2013 the required antimonopoly clearances have not been received, the Agreement will expire.

### 3. Strategy of KGHM Polska Miedź S.A. (continued)

#### 3.2 Realisation of the Strategy in the years 2009-2012 (continued)

##### 3/ „Preparation for the construction and operation of the first Polish nuclear power plant”.

On 5 September 2012, KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. signed a Letter of Intent regarding the purchase of shares of a special purpose company founded in order to build and operate the first Polish nuclear power plant. In accordance with the Letter of Intent, the above-mentioned companies will work together to develop a draft agreement which will describe their rights and obligations in executing the project, with the assumption that PGE Polska Grupa Energetyczna S.A. will play the leading role.

On 28 December 2012 the Parties to the Letter of Intent prolonged the effective period of the Letter of Intent to 31 March 2013.

## PILLAR IV – REGIONAL SUPPORT

KGHM Polska Miedź S.A., assuming responsibility for its impact on the social and natural environments in which it operates, commenced work on implementation of the CSR (Corporate Social Responsibility) strategy adopted in 2012. The CSR strategy comprises the company's principles of corporate social responsibility and balanced growth in accordance with international CSR guidelines for the mining sector and with ISO 26000 defining standards in this area. The CSR strategy assumes the achievement by the company over the period to the year 2018 a position as a stable, professional, global leader, which takes into consideration the common good and a balanced management of its resources through:

- creating innovative solutions minimising the environmental impact of the operations KGHM Polska Miedź S.A.,
- building a position as a „good neighbour” and trusted investor,
- ethics and transparency in managing relations with stakeholders, and
- care for its employees.

In 2012, the first CSR report was published for the years 2010-2011 along with a historical profile of the company's actions in regards to corporate social responsibility in the years 1961- 2011.

## PILLAR V – DEVELOPING ORGANISATIONAL KNOW-HOW AND CAPABILITIES

Realisation of the strategic development of KGHM Polska Miedź S.A. is supported by activities aimed at continuous improvement of skills and organisational know-how. Key initiatives in this regard involve development of employees and the company's management potential, amongst which the following should be noted:

- development of educational systems and employee training programs,
- career planning and management of skills and knowledge,
- optimising the process of recruitment and professional adaptation, programs to develop young talent,
- planning the employee evaluation system and appropriate employee motivation,
- development of internal communication systems and shaping the organisational culture,
- continuation of projects adjusting organisational standards and management systems (such as an integrated management system, a system to management projects, programs and portfolios, and a corporate risk management system), and
- improvement in the management and supervision of investments carried out by the Group.

### 4. Parent Entity

#### 4.1 Composition of Parent Entity bodies

##### Management Board of the Parent Entity

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Management Board are appointed and dismissed by the Supervisory Board.

**Table 4.** Changes in the Management Board of the Parent Entity in 2012

Date	Description of event
01.01.2012	The 7th-term Management Board of KGHM Polska Miedź S.A. began its work in 2012 in the following composition: <ul style="list-style-type: none"><li>- Herbert Wirth - President of the Management Board,</li><li>- Maciej Tybura - I Vice President of the Management Board (Finance),</li><li>- Wojciech Kędzia - Vice President of the Management Board (Production).</li></ul>

#### 4. Parent Entity (continued)

##### 4.1. Composition of Parent Entity bodies (continued)

Date	Description of event
27.06.2012	<p>Due to the expiry of the 7th-term Management Board, the Supervisory Board appointed the 8th-term Management Board in the following composition:</p> <ul style="list-style-type: none"> <li>- Herbert Wirth - President of the Management Board,</li> <li>- Włodzimierz Kiciński,</li> <li>- Wojciech Kędzia,</li> <li>- Dorota Włoch,</li> <li>- Adam Sawicki (from 1 September 2012).</li> </ul> <p>The 7th-term Management Board expired on 28 June 2012.</p>
25.07.2012	<p>The Supervisory Board appointed Włodzimierz Kiciński to the function of I Vice President of the Management Board.</p>
31.12.2012	<p>To the end of 2012, the Management Board of KGHM Polska Miedź S.A. functioned in the following composition:</p> <ul style="list-style-type: none"> <li>- Herbert Wirth - President of the Management Board,</li> <li>- Włodzimierz Kiciński - I Vice President of the Management Board (Finance),</li> <li>- Wojciech Kędzia - Vice President of the Management Board (Production),</li> <li>- Adam Sawicki - Vice President of the Management Board (Corporate Affairs),</li> <li>- Dorota Włoch - Vice President of the Management Board (Development).</li> </ul> <p>To the date of authorisation of the Financial Statements for issuance, the composition of the Management Board of KGHM Polska Miedź S.A. did not change.</p>

The Supervisory Board, in appointing the 8th-term Management Board of the company, segregated the duties of individual members of the Management Board in the following manner:

The President of the Management Board coordinates the work of the Management Board. He directs the shaping of company personnel policy, including the direct supervision of activities with respect to management staff (their retention and development). Also amongst the duties of the President of the Management Board are supervision of the planning, implementation and updating of the company Strategy, within the scope required to accomplish the informational obligations towards the Supervisory Board, the supervision of designing, planning and conducting strategic studies in the current and future areas of company activities, as well as supervision of activities with respect to comprehensive risk management at the corporate level. The President of the Management Board also supervises activities with respect to building relations with institutions of public administration, government agencies and business partners, as well as with external financial and sector investors. He directs the conduct of community communication programs, with particular regard to the principles of corporate social responsibility.

The I Vice President of the Management Board (Finance) manages activities with respect to finance management, financial controlling, realisation of the function through the Chief Accountant, as well as the delivery of products and services to their final customers, combining in this activities related to post-sale servicing.

The Vice President of the Management Board (Production) manages activities with respect to the manufacture of company products and services, including primary production: mining and metallurgy, excluding IT products and services, as well as with respect to the acquisition, construction and readiness of production and non-production assets, with particular regard to the issues of workplace safety and control of environmental risks.

The Vice President of the Management Board (Corporate Affairs) manages business relations and issues related to the creation and conduct of the Group with respect to the implementation of and adherence to corporate governance principles and of best business practice; manages or coordinates activities related to the appropriate shaping of relations with the external business environment of the company; develops, implements and monitors corporate communications standards as well as standards with respect to comprehensive personnel management with respect to their retention and development in the international entities of the Group.

The Vice President of the Management Board (Development) manages activities with respect to updating the mission, vision and long-term strategy of the company in all areas of its activities in response to changing external and internal conditions, and also coordinates the implementation of company strategy.

#### Supervisory Board

Under the company's Statutes of KGHM Polska Miedź S.A., the Members of the Supervisory Board are appointed and dismissed by the General Meeting. Changes in the composition of the Supervisory Board in 2012 are shown in the following table.



#### 4. Parent Entity (continued)

##### 4.1. Composition of Parent Entity bodies (continued)

Table 5. Changes in the composition of the Supervisory Board of the Parent Entity in 2012

Date	Description of event
<b>01.01.2012</b>	<p>The 8th-term Supervisory Board of KGHM Polska Miedź S.A. began its work in 2012 in the following composition:</p> <ul style="list-style-type: none"> <li>- Jacek Kuciński - Chairman,</li> <li>- Marcin Dyl - Deputy Chairman,</li> <li>- Marek Panfil - Secretary,</li> <li>- Franciszek Adamczyk,</li> <li>- Arkadiusz Kawecki,</li> <li>- Marzenna Weresa,</li> <li>- Jan Rymarczyk</li> </ul> <p>as well as the following employee-elected members:</p> <ul style="list-style-type: none"> <li>- Lech Jaroń,</li> <li>- Maciej Łaganowski,</li> <li>- Paweł Markowski.</li> </ul>
<b>19.01.2012</b>	<p>The Extraordinary General Meeting resolved to:</p> <ul style="list-style-type: none"> <li>- dismiss from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa,</li> <li>- appoint to the Supervisory Board: Aleksandra Magaczewska, Krzysztof Kaczmarczyk, Mariusz Kolwas, Robert Oliwa and Jacek Poświata.</li> </ul>
<b>13.02.2012</b>	<p>The Supervisory Board selected to serve in the function of:</p> <ul style="list-style-type: none"> <li>- Deputy Chairman - Marek Panfil,</li> <li>- Secretary - Mariusz Kolwas.</li> </ul>
<b>17.04.2012</b>	<p>Marek Panfil resigned from the function of Deputy Chairman. The Supervisory Board selected Aleksandra Magaczewska to serve in the function of Deputy Chairman.</p>
<b>24.04.2012</b>	<p>Mariusz Kolwas submitted his resignation from serving as a Member of the Supervisory Board.</p>
<b>25.04.2012</b>	<p>The Extraordinary General Meeting resolved to:</p> <ul style="list-style-type: none"> <li>- dismiss from the Supervisory Board: Jacek Kuciński and Marek Panfil,</li> <li>- appoint to the Supervisory Board: Paweł Białek, Dariusz Krawczyk, Ireneusz Piecuch.</li> </ul>
<b>21.05.2012</b>	<p>The Supervisory Board selected to serve in the function of:</p> <ul style="list-style-type: none"> <li>- Chairwoman - Aleksandra Magaczewska,</li> <li>- Deputy Chairman - Krzysztof Kaczmarczyk,</li> <li>- Secretary - Dariusz Krawczyk.</li> </ul>
<b>28.06.2012</b>	<p>As a result of a request of company employees regarding the dismissal of members of the Supervisory Board elected by the company's employees and the results of voting on this request, the Ordinary General Meeting resolved to dismiss Lech Jaroń, Maciej Łaganowski and Paweł Markowski from the Supervisory Board.</p>
<b>03.07.2012</b>	<p>Robert Oliwa submitted his resignation from serving as a Member of the Supervisory Board effective as of the date of the General Meeting of KGHM Polska Miedź S.A. The General Meeting was convened on 3 September 2012.</p>
<b>03.09.2012</b>	<p>The Extraordinary General Meeting appointed Krzysztof Opawski to the Supervisory Board.</p>
<b>21.11.2012</b>	<p>The Extraordinary General Meeting appointed Bogusław Szarek to the Supervisory Board, member of the Supervisory Board elected by the employees of KGHM Polska Miedź S.A.</p>
<b>31.12.2012</b>	<p>The composition of the Supervisory Board at the end of 2012 was as follows:</p> <ul style="list-style-type: none"> <li>- Aleksandra Magaczewska - Chairwoman,</li> <li>- Krzysztof Kaczmarczyk - Deputy Chairman,</li> <li>- Dariusz Krawczyk - Secretary,</li> <li>- Paweł Białek,</li> <li>- Krzysztof Opawski,</li> <li>- Ireneusz Piecuch,</li> <li>- Jacek Poświata</li> </ul> <p>as well as the following employee-elected members:</p> <ul style="list-style-type: none"> <li>- Bogusław Szarek.</li> </ul> <p>To the date of authorisation of the Report for issue, the composition of the Supervisory Board of KGHM Polska Miedź S.A. did not change.</p>

#### 4. Parent Entity (continued)

##### 4.2 Remuneration of members of bodies of the Parent Entity and of other key personnel of the Group

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, composed of the basic monthly salary and variable salary. The basic monthly salary is set as a multiple of the average monthly salary in the corporate sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Chief Statistical Office. Payment of the variable salary is contingent on the fulfilment of criteria set for the Management Board by the Supervisory Board, and amounts up to 40% of the annual basic salary. Additionally, the Supervisory Board, based on assessment of the work of the Management Board, may grant the Members of the Management Board up to 10% of the annual basic salary.

Potentially-due remuneration with respect to variable salary for 2012, the payment of which will be decided by the Supervisory Board, is presented in the following table.

**Table 6.** Potentially-due remuneration for Members of the Management Board of the Parent Entity for 2012 ('000 PLN)

Name	Position	Potentially-due remuneration for 2012
Herbert Wirth	President of the Management Board	311
Włodzimierz Kiciński	I Vice President of the Management Board	199
Wojciech Kędzia	Vice President of the Management Board	249
Adam Sawicki	Vice President of the Management Board	138
Dorota Włoch	Vice President of the Management Board	177
Maciej Tybura	I Vice President of the Management Board*	105

\* for the period from 1 January 2012 to 28 June 2012

Presented below is information on the amount of remuneration, bonuses or benefits of Members of the Management Board of the Parent Entity, as well as information on the amount of remuneration and bonuses received by them due to fulfilling a function in the bodies of subordinated entities.

**Table 7.** Remuneration of the Parent Entity Management Board for 2012 ('000 PLN)

Members of the Management Board	Period when function served in 2012	Salaries	Earnings from subsidiaries and associates	Termination benefits	Benefits, other earnings	Total earnings in 2012
<i>Members of the Management Board as at 31 December 2012</i>						
Herbert Wirth	from 01.01.2012 to 31.12.2012	1 546	48	-	169	<b>1 763</b>
Włodzimierz Kiciński	from 28.06.2012 to 31.12.2012	696	-	-	54	<b>750</b>
Wojciech Kędzia	from 01.01.2012 to 31.12.2012	1 237	83	-	67	<b>1 387</b>
Adam Sawicki	from 01.09.2012 to 31.12.2012	384	-	-	54	<b>438</b>
Dorota Włoch	from 28.06.2012 to 31.12.2012	618	81	-	60	<b>759</b>
<i>Other members of the Management Board</i>						
Maciej Tybura	from 01.01.2012 to 28.06.2012	660	31	42	116	<b>849</b>
<b>Total</b>		<b>5 141</b>	<b>243</b>	<b>42</b>	<b>520</b>	<b>5 946</b>

#### 4. Parent Entity (continued)

##### 4.2. Remuneration of members of bodies of the Parent Entity and of other key personnel of the Group (continued)

**Table 8.** Remuneration of the Parent Entity Management Board for 2011 ('000 PLN)

Members of the Management Board	Period when function served in 2011	Salaries	Earnings from subsidiaries and associates	Benefits, other earnings	Total earnings in 2011
<i>Members of the Management Board as at 31 December 2011</i>					
Herbert Wirth	from 01.01.2011 to 31.12.2011	1 406	306	158	<b>1 870</b>
Maciej Tybura	from 01.01.2011 to 31.12.2011	1 227	119	187	<b>1 533</b>
Wojciech Kędzia	from 01.01.2011 to 31.12.2011	985	102	71	<b>1 158</b>
<i>Other members of the Management Board *</i>					
Ryszard Janeczek**	-	96	-	-	<b>96</b>
<b>Total</b>		<b>3 714</b>	<b>527</b>	<b>416</b>	<b>4 657</b>

\* - the item „Salaries” includes salaries during the termination period

\*\* - was not a member of the Management Board in 2011 (variable remuneration for 2010)

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

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

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

#### Remuneration of the Supervisory Board

The question of remuneration of the Supervisory Board Members is regulated by Resolution No. 15/2003 of the Ordinary General Meeting of KGHM Polska Miedź S.A. regarding: changes in the principles of remuneration of the Supervisory Board members adopted on 29 May 2003. The amount of monthly remuneration of individual members of the Supervisory Board depends on the function served on the Board and is set as a multiple of the average monthly gross wage in the industrial sector excluding payment from profit, for the last month of the past quarter.

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

#### 4. Parent Entity (continued)

##### 4.2. Remuneration of members of bodies of the Parent Entity and of other key personnel of the Group (continued)

**Table 9.** Remuneration of the Parent Entity Supervisory Board for 2012 ('000 PLN)

Members of the Supervisory Board	Period when function served in 2012	Remuneration for function served on SB	Earnings from other contracts	Other benefits	Total earnings in 2012
Marcin Dyl	01.01-19.01.2012	5	-	-	<b>5</b>
Arkadiusz Kawecki	01.01-19.01.2012	5	-	2	<b>7</b>
Marzenna Weresa	01.01-19.01.2012	5	-	-	<b>5</b>
Jan Rymarczyk	01.01-19.01.2012	5	-	2	<b>7</b>
Franciszek Adamczyk	01.01-19.01.2012	5	-	1	<b>6</b>
Jacek Kuciński	01.01-25.04.2012	38	-	13	<b>51</b>
Marek Panfil	01.01-25.04.2012	32	-	6	<b>38</b>
Lech Jaroń	01.01-28.06.2012	46	84	17	<b>147</b>
Maciej Łaganowski	01.01-28.06.2012	46	73	19	<b>138</b>
Paweł Markowski	01.01-28.06.2012	46	107	16	<b>169</b>
Mariusz Kolwas	19.01-24.04.2012	25	-	4	<b>29</b>
Krzysztof Kaczmarczyk	19.01-31.12.2012	91	-	9	<b>100</b>
Aleksandra Magaczewska	19.01-31.12.2012	101	-	10	<b>111</b>
Robert Oliwa	19.01-30.09.2012	58	-	6	<b>64</b>
Jacek Poświata	19.01-31.12.2012	86	-	13	<b>99</b>
Paweł Białek	25.04-31.12.2012	61	-	6	<b>67</b>
Dariusz Krawczyk	25.04-31.12.2012	61	-	4	<b>65</b>
Ireneusz Piecuch	25.04-31.12.2012	61	-	3	<b>64</b>
Krzysztof Opawski	03.09-31.12.2012	29	-	5	<b>34</b>
Bogusław Szarek	21.11-31.12.2012	10	17	-	<b>27</b>
<b>Total</b>		<b>816</b>	<b>281</b>	<b>136</b>	<b>1 233</b>

**Table 10.** Remuneration of the Parent Entity Supervisory Board for 2011 ('000 PLN)

Members of the Supervisory Board	Period when function served in 2011	Remuneration for function served on SB	Earnings from other contracts	Other benefits	Total earnings in 2011
Marcin Dyl	01.01-31.12.2011	96	-	17	<b>113</b>
Arkadiusz Kawecki	01.01-31.12.2011	88	-	22	<b>110</b>
Jacek Kuciński	01.01-31.12.2011	110	-	24	<b>134</b>
Marek Panfil	01.01-31.12.2011	88	-	20	<b>108</b>
Marzenna Weresa	01.01-31.12.2011	88	-	9	<b>97</b>
Jan Rymarczyk	01.01-31.12.2011	88	-	21	<b>109</b>
Franciszek Adamczyk	15.06-31.12.2011	47	-	10	<b>57</b>
Lech Jaroń	20.10-31.12.2011	17	51	3	<b>71</b>
Maciej Łaganowski	20.10-31.12.2011	17	28	-	<b>45</b>
Paweł Markowski	20.10-31.12.2011	18	70	-	<b>88</b>
Józef Czyczerski	01.01-15.06.2011	41	72	-	<b>113</b>
Leszek Hajdacki	01.01-15.06.2011	41	90	4	<b>135</b>
Ryszard Kurek	01.01-15.06.2011	41	125	5	<b>171</b>
<b>Total</b>		<b>780</b>	<b>436</b>	<b>135</b>	<b>1 351</b>

#### 4. Parent Entity (continued)

##### 4.2. Remuneration of members of bodies of the Parent Entity and of other key personnel of the Group (continued)

###### Remuneration of other key management personnel of the Group

**Table 11.** Remuneration and other benefits of other key management personnel ('000 PLN)\*

	2011	2012
Salaries and other short-term employee benefits	-	7 271
Remuneration resulting from the agreement/contract due to owner change of KGHM INTERNATIONAL LTD.	-	11 192
<b>Total</b>	-	18 463

\* other key management personnel of the Group is understood as being members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD.

##### 4.3 Share capital and ownership structure of the Parent Entity

As at 31 December 2012, the share capital of KGHM Polska Miedź S.A., in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 000 and was divided into 200 000 000 shares, series A, having a face value of PLN 10 each. All shares are bearer shares. KGHM Polska Miedź S.A. has not issued preference shares. Each share grants the right to one vote at the General Meeting.

In 2012 there was no change either in registered share capital or in the number of issued shares.

As far as the Management Board of the Parent Entity is aware, during this same time there was also no change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The only shareholder who in 2012 held 5% or more of the total number of votes at the General Meeting of the Parent Entity was the Polish State Treasury. This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A., granting the same number of votes, representing 31.79% of the share capital of the company and of the total number of votes at the General Meeting of the company (based on an announcement dated 12 January 2010).

The Management Board of KGHM Polska Miedź S.A. is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Based on information held by the Parent Entity, at 31 December 2012, members of the company's Supervisory Board and Management Board were not in the possession of shares of KGHM Polska Miedź S.A. or of related entities.

In 2012, KGHM Polska Miedź S.A. did not have an employee share incentive program.

##### 4.4 The Parent Entity on the stock exchange

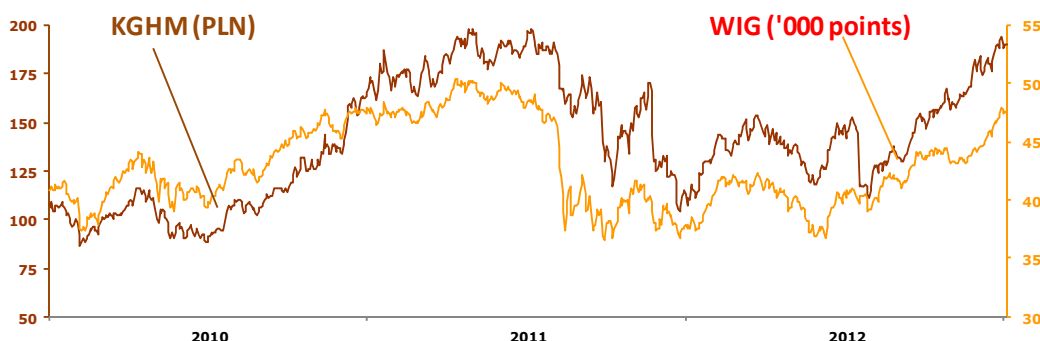
In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Parent Entity are traded on the primary market in a continuous trading system, and are a component of the WIG and WIG20 indices. Since 19 November 2009, KGHM Polska Miedź S.A. has been amongst a prestigious group of socially responsible companies, listed in the RESPECT Index. The Parent Entity's shares are also included in the WIG-SUROWCE index of companies classified in the „basic materials” sector, and in the WIGdiv index of companies with the highest dividend yields, and which regularly pay dividends to their shareholders.

The year 2012 was very successful for the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange. From the start of the year the company's shares rose steadily, reaching their first half-year maximum of PLN 154.00 on 14 March 2012. Following this date the shares of the Parent Entity entered a falling trend, which lasted until May 2012. From that moment the shares of KGHM Polska Miedź S.A. increased in value – the substantial drop on 12 July was due to a technical correction by the dividend amount. The company's shares reached their annual maximum of PLN 194.50 on 19 December 2012. Over the course of 2012 the shares of KGHM Polska Miedź S.A. increased by 72%, from PLN 110.60 on the last trading day in 2011 to PLN 190.00 on the last trading day in 2012. During this same period the WIG index rose by 26%, and the WIG20 index by 20%.

#### 4. Parent Entity (continued)

##### 4.4. The Parent Entity on the stock exchange (continued)

**Chart 1.** Share price of KGHM Polska Miedź S.A. versus the WIG index.



In 2012 the shares of KGHM Polska Miedź S.A. were amongst the most liquid on the Warsaw Stock Exchange. The company's share of turnover in 2012 in value terms amounted to 18%. The average per-session trading volume of the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in 2012 amounted to 945 thousand.

Key data on the share performance of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2010-2012 are presented in the following table.

**Table 12.** Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange

	Unit	2010	2011	2012
Number of shares issued	million	200	200	200
Closing price from the last day of trading in the year	PLN	173.00	110.60	190.00
Market capitalisation of the company at year's end	PLN million	34 600	22 120	38 000
Highest closing price in the year	PLN	173.00	198.40	194.50
Lowest closing price in the year	PLN	86.50	104.60	111.10
Average trading volume per session	'000	966	1 070	945
Dividend paid in the financial year from appropriation of profit for the prior year	PLN/share	3.00	14.90	28.34

##### 4.5 Capital market ratios

The activities of KGHM Polska Miedź S.A. in the last three years are described by the following ratios:

**Table 13.** Capital market ratios

		2010	2011	2012
EPS (PLN)	Profit for the period / number of shares	22.85	56.97	24.34
P/CE	Price per share / financial surplus per share *	6.7	1.8	6.7
P/E	Price per share / earnings per share	7.6	1.9	7.8
MC/S	Market capitalisation**/ revenues from sales	2.2	1.1	1.8
P/BV	Price per share / book value per share ***	2.4	1.0	1.7

\* Financial surplus = profit for the period + depreciation/amortisation

\*\* Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares × PLN 173.00 in 2010; PLN 110.60 in 2011; PLN 190.00 in 2012)

\*\*\* Carrying amount of equity at the end of the reporting period

The capital market ratios were substantially impacted in 2012 by the increase in the KGHM Polska Miedź S.A. share price, from PLN 110.60 at the end of 2011 to PLN 190.00 at the end of 2012. The lower profit for the period had a negative impact.

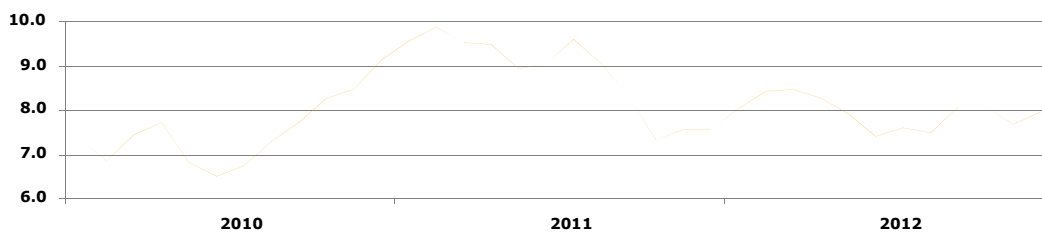
## 5. Macroeconomic sales conditions

After the record year of 2011 on the industrial and precious metals market, 2012 brought a correction to prices. The average annual price of electrolytic copper in 2012 on the London Metal Exchange was 7 950 USD/t and was 10% lower than in 2011, when it amounted to 8 811 USD/t.

The start of 2012 brought a clear increase on the base metals market, mainly due to positive information out of China, which is the largest metals consumer in the world. Declarations by government ministers suggesting the possible easing of monetary policy and the stimulation of demand in China resulted in a leap in copper prices.

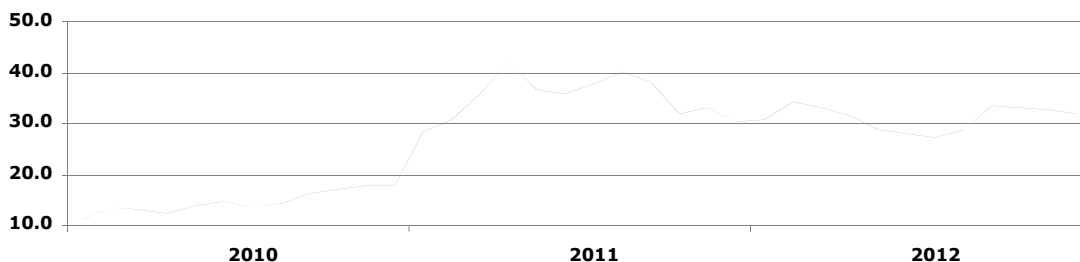
The best month for copper producers was March, when the average price was around 8 457 USD/t. The end of the first half of 2012 saw falls in prices, caused by escalating problems in the Eurozone. This period recorded the minimum average monthly price, which in June 2012 amounted to 7 420 USD/t. In the second half of 2012 basic materials prices were positively impacted by the expansionist policies of the world's central banks, although the increases were limited by information on growing copper inventories in China.

**Chart 2.** Copper prices on the LME (thousand USD/t)



The average annual silver price on the London Bullion Market in 2012 amounted to 31.15 USD/troz (1 002 USD/kg). This means a decrease by 11% versus the price in 2011 – 35.12 USD/troz (1 129 USD/kg). The minimum average monthly silver price was recorded in July 2012 at 27.43 USD/troz (882 USD/kg), while the highest average monthly silver price was recorded in February 2012 – 34.14 USD/troz (1 098 USD/kg). The price of silver in 2012 followed that of gold. Precious metals prices in the recent period were mainly impacted by the policies of the world's central banks to keep interest rates low and by monetary easing programs. This was especially apparent in the second half of 2012, when information about increased asset buybacks by the FED and the European Central Bank led to increases in the prices of gold and silver.

**Chart 3.** Silver prices on the LBMA (USD/troz)

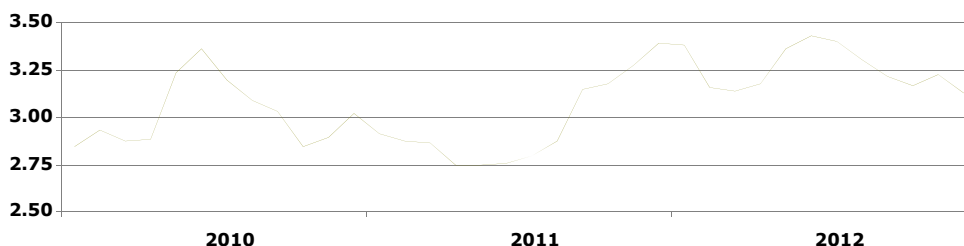


From the start of the year until April 2012 the Polish zloty appreciated versus the USD and the Euro. However, in May 2012 the situation on the financial market diametrically changed. As a result of information coming from Greece, investors became more and more resigned to the exit of this country from the Eurozone. Unease in the European market was additionally strengthened by fears about the condition of the financial system in Spain and by the increased profitability of Italian and Spanish bonds. Due to risk aversion, the Polish zloty began to depreciate against the currencies of other countries, and this trend continued to the end of July 2012. From August to the end of the year the zloty again began to appreciate, when the domestic economy performed better than those of European countries and foreign capital gradually flowed into the Polish bond market.

## 5. Macroeconomic sales conditions (continued)

The USD/PLN exchange rate (per the NBP) in 2012 amounted to 3.26 USD/PLN and was higher versus the prior year by 10% (2.96 USD/PLN). In 2012 the minimum USD/PLN exchange rate was recorded in the second half of December 2012 at the level of 3.07 USD/PLN, while the maximum was reached at the beginning of June 2012 – 3.58 USD/PLN.

**Chart 4.** USD/PLN exchange rate per the NBP



The macroeconomic factors of greatest importance for the operations of KGHM Polska Miedź S.A. are presented in the following table.

**Table 14.** Macroeconomic factors of importance for the operations of KGHM Polska Miedź S.A.

	Unit	2010	2011	2012	Change 2011=100
Average copper prices on the LME	USD/t	7 539	8 811	7 950	90.2
Average silver prices on the LBM	USD/troz	20.19	35.12	31.15	88.7
Average NBP USD/PLN exchange rate	USD/PLN	3.02	2.96	3.26	110.1

### Position of KGHM Polska Miedź S.A. on the copper and silver markets

According to preliminary estimates by the CRU, in 2012 the refined copper market recorded a supply surplus over demand of 187 kt. Global production of refined copper in 2012 amounted to 19 826 kt, which means an increase versus 2011 of around 1.8%. Demand for refined copper in 2012 amounted to 19 639 kt, which means an increase of 2.4% versus 2011.

According to preliminary estimates by CRU International, global copper mine production in 2012 amounted to 16 463 kt. During this same period KGHM Polska Miedź S.A. produced 427.1 kt of copper in concentrate, representing 2.6% of global copper mine production.

Global production of refined copper, according to preliminary estimates of the CRU, amounted to 19 826 kt. Refined copper production in KGHM Polska Miedź S.A. amounted to 565.8 kt, representing 2.9% of global refined copper production.

In 2012, global silver mine production amounted to 783 million ounces (estimated data from CRU International). During this period the company produced 36.9 million ounces of silver in concentrate, representing 4.7% of global production of this metal.

## 6. Activities of the KGHM Polska Miedź S.A. Group

### 6.1 Scope of activities of Group companies

While the scope of activities of the Group is quite broad, the dominant ones are those of the Parent Entity and the KGHM INTERNATIONAL LTD. Group, i.e. the production of mined metal, mainly copper. This is the main source of the sales generated.

The detailed scope of individual Group companies is presented in the following table.



## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.1. Scope of activities of Group companies (continued)

Table 15. Scope of activities of Group companies

Entity	Head Office Country	Activities
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka” sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy, water-sewage management; this company secures part of the energy supply for KGHM Polska Miedź S.A.
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction; this company is the main performer of mining work for KGHM Polska Miedź S.A.
ZANAM-LEGMET Sp. z o.o.	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; execution of steel constructions; this company is a significant supplier and service provider for KGHM Polska Miedź S.A., and also provides production maintenance services in selected areas
KGHM CUPRUM sp. z o.o. - CBR	Poland	R&D activities; this company performs a substantial part of the design-related work for KGHM Polska Miedź S.A.
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research; this company mainly provides industrial research services for KGHM Polska Miedź S.A.
INOVA Spółka z o.o.	Poland	design and production – innovative solutions in electronics, automated and communication systems; certification and attestation of machinery and equipment; this company is a supplier and service provider for the underground radio communication system for the mines of KGHM Polska Miedź S.A.
KGHM Metraco S.A.	Poland	wholesale of scrap and waste, lead, non-ferrous metals, chemicals and salt; this company secures supplies of copper scrap for KGHM Polska Miedź S.A., and sells to external markets the by-products of the Parent Entity's core business production
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport, passenger and cargo road transport; trade in fuels; this company is a leading railway and roadway carrier and supplier of fuels to KGHM Polska Miedź S.A.
NITROERG S.A.	Poland	production of explosives and Nitroacet 50, production of detonation agents; this company supplies most of the explosives needed by the mines of KGHM Polska Miedź S.A.
PHP „MERCUS” sp. z o.o.	Poland	trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables; this company serves to coordinate supplies for the core business of KGHM Polska Miedź S.A. in materials and spare parts
KGHM Ecoren S.A.	Poland	processing of industrial acid waste for rhenium products (metallic rhenium and ammonium perrhenate), production of road-building material; the processing and recovery of metals and the processing of electrical/electronic waste; this company manages and processes the industrial waste of KGHM Polska Miedź S.A.
CENTROŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminium and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY” S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
WFP Hefra SA	Poland	production and sale of rust-proof, silver-plated and semi-silver-plated table settings
Ecoren DKE sp. z o.o.	Poland	utilisation of used batteries and small-scale storage cells; the collection and processing of used electrical and electronic equipment
PHU „Lubinpex” Sp. z o.o.	Poland	gastronomic, commercial, vending and catering services
PMT Linie Kolejowe Sp. z o.o.	Poland	management of railway infrastructure, maintenance of railway infrastructure, repair services
KGHM TFI S.A.	Poland	creation and management of investment funds; the company manages closed-end investment funds, in which KGHM Polska Miedź S.A. participates

## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.1. Scope of activities of Group companies (continued)

Entity	Head Office Country	Activities
INTERFERIE S.A.	Poland	sale of tourism services, including tourism-recreation, sanatorium-healing and hotel services
Interferie Medical SPA Sp. z o.o.	Poland	services respecting hotels, recreation, rehabilitation, health tourism and wellness
„BIOWIND” sp. z o.o.	Poland	generation, transmission and distribution of electricity
WPEC w Legnicy S.A.	Poland	production of heat from its own sources, transmission and distribution of heat, servicing
ZUK S.A.	Poland	spa-healing, sanatorium and tourism-recreation services; these companies are participating in the project to build a Polish Spa Group, realised by KGHM I FIZAN
Uzdrowisko Połczyn S.A.	Poland	
„Uzdrowisko Cieplice” sp. z o.o.	Poland	
Uzdrowisko „Świeradow-Czerniawa” sp. z o.o.	Poland	
Fundusz Hotele 01 Sp. z o.o.	Poland	
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Poland	varied scope of activities, including: acting as holding companies, management of special purpose companies, whose subject of activities is the providing of holiday, sanatorium and spa services as well as others related to improving fitness; these companies operate within the structures of KGHM I FIZAN
Polska Group Uzdrowisk Sp. z o.o.	Poland	
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.	Poland	
KGHM I FIZAN	Poland	
KGHM II FIZAN	Poland	cash depositing; these funds are aimed at diversifying the investment risk of KGHM Polska Miedź S.A.
KGHM III FIZAN	Poland	
„MCZ” S.A.	Poland	hospital services; physician practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events
KGHM LETIA S.A.	Poland	operation of a technology park; promotion of scientific achievement; technology transfer; property sale and leasing
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work; general realisation of investments; company executes technical documentation for the pyrometallurgy modernisation program of KGHM Polska Miedź S.A.
Przedsiębiorstwo Budowlane Katowice S.A.	Poland	comprehensive construction work, incl. specialist
Bipromet Ecosystem Sp. z o.o.	Poland	production, design, servicing and commercial activities; R&D and popularisation respecting heating, water-plumbing and other installations
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	China	commercial activities involving copper/silicon merchandise, mine products (copper/silicon) etc., and related services; this company is a commercial intermediary for KGHM Polska Miedź S.A. on the Chinese market
KGHM Kupferhandelsges. m.b.H.i.L	Austria	copper trade company in liquidation
KGHM Kupfer AG	Germany	exploration for and evaluation of deposits of copper and other metals; this company is realising a resource project – exploring/assessing the Weisswasser copper deposit in Germany
Fermat 1 S.à r.l.	Luxembourg	holding structure companies, founded in order to acquire the shares of Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.)
Fermat 2 S.à r.l.		
Fermat 3 S.à r.l.		
<b>KGHM INTERNATIONAL LTD. Group</b>		
KGHM INTERNATIONAL LTD.	Canada	the founding, development, management or control of other companies
KGHM AJAX MINING INC.	Canada	the exploration for and evaluation of mineral deposits; this company is realising the Afton-Ajax copper and gold resource project in British Columbia, Canada

## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.1. Scope of activities of Group companies (continued)

Entity	Head Office Country	Activities
0929260 B.C. U.L.C.	Canada	the management and control of other companies
FNX Mining Company Inc.	Canada	mining of copper and nickel ore, production and sale of copper and nickel, development of the Victoria project this company owns underground mines: Levack/Morrison, Podolsky and McCreedy West in Ontario, Canada
DMC Mining Services Ltd.	Canada	contractual mining services
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 BC Ltd.	Canada	the management and control of other companies
Sugarloaf Ranches Ltd.	Canada	cattle raising; this company owns assets in the form of land designated for future mining activities related to the Afton – Ajax project
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Minera Carrizalillo Limitada	Chile	the management and control of other companies
Mineria y Exploraciones KGHM International SpA	Chile	the management and control of other companies, exploration services for the Sierra Gorda project
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper; this company owns the open pit mine Franke in Chile,
Robinson Holdings (USA) Ltd	USA	technical and management services – for subsidiaries in the USA
Wendover Bulk Transshipment Company	USA	shipment services this company provides shipping services for the Robinson mines
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper, this company owns the open pit mine Robinson in Nevada
Robinson Nevada Railroad Company	USA	railway transport services this company provides railway transport services for the Robinson mine
Carlota Holdings Company	USA	the management and control of other companies
Carlota Copper Company	USA	copper ore leaching, production and sale of copper this company owns the open pit mine Carlota in Arizona
FNX Mining Company USA Inc.	USA	the management and control of other companies; this company is realising the Victoria project
DMC Mining Services Corporation	USA	contractual mining services
Quadra FNX Moly Holdings (Barbados) Ltd.	Barbados	the management and control of other companies
Quadra FNX Intermoly Holdings Limited		
Quadra FNX Holdings (Barbados) Ltd.		
Quadra FNX Chile (Barbados) Ltd		
Quadra FNX SG (Barbados) Ltd.		
Quadra FNX Water Holdings (Barbados) Ltd.		
Quadra FNX FFI Ltd.		finance services
Raise Boring Mining Services S.A. de C.V	Mexico	mine drilling services
Centenario Holdings Ltd.	British Virgin Islands	the management and control of other companies
Pan de Azucar (BVI) Ltd.		
Volcanes (BVI) Ltd.		
Frankie (BVI) Ltd.		
Centenario Copper (BVI) Ltd.		
Malmbjerg Molybdenum A/S	Greenland	operation and development of the Malmbjerg project involving molybdenum extraction (the company holds permits and a mining concession for the project)

## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.1. Scope of activities of Group companies (continued)

Entity	Head Office Country	Activities
International Molybdenum Plc	United Kingdom	finance activities
Quadra Mining Australia PTY Limited	Australia	activities related to the acquisition of a subsidiary in Australia

### 6.2 Employment in the Group

The level and structure of employment in the KGHM Polska Miedź S.A. Group is presented below.

**Table 16.** Average employment by period (positions)

Description	2010	2011	2012	Change 2011=100
White collar employees	10 051	9 149	9 768	106.8
Blue collar employees	20 877	22 034	24 277	110.2
<b>Total</b>	<b>30 928</b>	<b>31 183</b>	<b>34 045</b>	<b>109.2</b>

The highest employment is in the Parent Entity. In 2012 the average level of employment was 18 566 positions. Among the remaining Group companies the highest average number of employees in 2012 was recorded in the following entities (in positions):

- KGHM INTERNATIONAL LTD. Group (formerly Quadra FNX Mining Ltd.)	2 370,
- ZANAM – LEGMET Sp. z o.o.	2 263,
- PeBeKa S.A.	1 611,
- POL – MIEDŹ TRANS Sp. z o.o.	1 050,
- NITROERG S.A.	994.

In 2012 average employment in the KGHM Polska Miedź S.A. Group increased in comparison to 2011 by 2 862 positions, mainly due to the inclusion of companies belonging to the KGHM INTERNATIONAL LTD. Group. In addition, there was an increase in average employment in the company ZANAM – LEGMET Sp. z o.o. by 541 positions due to the development of new areas of activities.

### Relations with the trade unions in the Group

#### KGHM Polska Miedź S.A.

On 21 March 2012, the Management Board of KGHM Polska Miedź S.A. and the trade unions being a party to the Collective Labour Agreement signed Additional Protocol No. 13 to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. increasing the table of basic wages from 1 January 2012 due to an increase in the minimum wage. As a result, KGHM Polska Miedź S.A. paid its employees adjustments for the months of January and February.

On 3 September 2012, appendices were signed to the agreements increasing the contribution to the Employee Retirement Plan (PPE), based on which the basic contribution to the PPE increased by 1 percentage point. From the date of approval of the aforementioned appendices by the Polish Financial Supervision Authority, i.e. from 10 October 2012, this contribution amounts to 6% of an employee's wages.

#### Sierra Gorda S.C.M.

In March 2012, the Sierra Gorda Trade Union was established in the company. As a result of the conclusion in August 2012 of so-called amiable negotiations (i.e. without the necessity of regulating their course under Chilean law), the company and the trade unions functioning in it signed a Collective Labour Agreement, which is in force from 1 September 2012 to 31 October 2015. This agreement introduces a 2% increase in base salaries for blue collar positions and a cost of living adjustment, night shift bonuses and among others housing loans, bonuses for lack of absenteeism and for completing the project.

## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.2. Employment in the Group (continued)

#### „MCZ” S.A.

„MCZ” S.A. remains in four collective disputes announced in 2007 mainly involving the question of wage raises in the company. Every year agreement protocols are entered into between the Management Board of this company and the trade unions, representing the basis for increasing funds for remuneration (of varied form and scope) and refrainment, by all of the trade unions active in „MCZ” S.A., from actions specified in Chapter 4 – Strikes – of the Act dated 23 May 1991 on resolving collective disputes. In accordance with the „Agreement protocols dated 3 January 2013”, the trade unions committed to refrain from the actions mentioned above (with respect to the question of remuneration for the company's employees) until 31 December 2013.

#### PeBeKa S.A.

In May 2012, the company entered a collective dispute with the trade union NSZZ „Solidarność” (their demands involved among others an increase in the employee salary category and an increase in contributions to the Social Fund). Mediation was held, which led to the signing on 18 September 2012 of an agreement ending the dispute.

Since March 2010, PeBeKa S.A. remains in a collective dispute with the trade union Związek Zawodowy Pracowników Dołowych, which is demanding an increase in the employee salary category, the payment of a one-off bonus and an increase in contributions to the Social Fund. Since 12 August 2010 this dispute has been suspended for an indefinite time.

#### NITROERG S.A.

Due to the decision taken by the company's Management Board to concentrate the production of dynamite and fuses in certain locations, in December 2012 the trade unions active in the company initiated a collective dispute. The following demands were made: employment guarantees, reclassification and training – at the company's cost – of employees involved in concentrating production, maintaining the level of workplace safety and hygiene during the process of concentrating production, and increased wages. Negotiations are continuing between the Management Board of this company and the trade unions regarding these demands.

The company remains in a collective dispute with the trade unions, commenced in 2010 (lack of agreement on the demand for a wage increase).

#### ZUK S.A.

In October 2012, the company entered a collective dispute with the trade unions. The dispute involved an increase in wages for all company employees. On 6 November 2012, the dispute was concluded with the signing of a protocol of dispute. On 6 December 2012, the parties signed a protocol of agreement. At the request of the parties, a mediator was selected from the list of the Minister of Labour and Social Policy. Two mediation meetings were held. This mediation has been suspended until 30 June 2013.

### 6.3 Basic products

The largest share in the sales of the KGHM Polska Miedź S.A. Group (85%) is from sales of the basic products produced by the Parent Entity and companies of the KGHM INTERNATIONAL LTD. Group.

The value and volume of the sales of the basic products of the KGHM Polska Miedź S.A. Group are presented in the following table.

**Table 17.** Revenues from sales of the basic products of the KGHM Polska Miedź S.A. Group (M PLN)

	2010	2011	2012	Change 2011=100
<b>KGHM Polska Miedź S.A.</b>				
Copper and copper products *	12 837	15 179	15 525	102.3
Silver	2 468	4 067	4 301	105.8
Gold	102	112	156	139.3
<b>KGHM INTERNATIONAL LTD. Group**</b>				
Copper ***	-	-	3 056	-
Nickel	-	-	261	-
Precious metals (gold, platinum, palladium)	-	-	350	-

\* copper in the form of copper cathodes, copper products: wire rod, OFE and CuAg rod, round billets

\*\* This company joined the KGHM Polska Miedź S.A. Group in the 1st quarter of 2012, financial data for all of 2012,

\*\*\* copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore

## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.4. Basic products (continued)

**Table 18.** Volume of sales of the basic products of the KGHM Polska Miedź S.A. Group

	Unit	2010	2011	2012	Change 2011=100
<b>KGHM Polska Miedź S.A.</b>					
Copper and copper products *	kt	545.3	566.9	580.3	102.4
Silver	t	1 247	1 179	1 267	107.5
Gold	kg	840	660	908	137.6
<b>KGHM INTERNATIONAL LTD. Group**</b>					
Copper ***	kt	-	-	118.6	-
Nickel	kt	-	-	4.6	-
Precious metals (gold, platinum, palladium)	kg	-	-	2 961	-

\* copper in the form of copper cathodes, copper products: wire rod, OFE and CuAg rod, round billets

\*\* This company joined the KGHM Polska Miedź S.A. Group in the 1st quarter of 2012, financial data for all of 2012,

\*\*\* copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore

In 2012, versus the prior year, the Parent Entity recorded an increase in the volume of copper sales by 13 kt (2%). The volume of precious metals sales was higher versus 2011 – silver sales amounted to 1 267 t and were higher by 7% (88 t), while gold sales amounted to 908 kg and were higher by 38% (248 kg).

As a result of the increase in the sales volume of copper and precious metals, sales revenues increased in KGHM Polska Miedź S.A. Revenues from the sale of copper and copper products were higher by 2%. Revenues from silver and gold sales versus their level in 2011 were higher respectively by 6% and 39%. Revenues from sales in 2012 reflect the positive result from the settlement of hedging instruments in the amount of PLN 333 million (in the prior year PLN 242 million).

Revenues from the sales of basic products of companies belonging to the KGHM INTERNATIONAL LTD. Group, such as copper, nickel, precious metals (gold, platinum, palladium), represent 12.6% of the metals sales revenues of the KGHM Polska Miedź S.A. Group.

In addition, the KGHM INTERNATIONAL LTD. Group earned revenues from the sale of mining services. In 2012 these sales amounted to PLN 1 010.2 million.

A large portion of the remaining domestic Group companies provide services and supply products, merchandise and materials to the Parent Entity. The largest sales outside the Group in 2012 were earned by CENTROZŁOM WROCŁAW S.A. (3.6% of Group sales) and KGHM Metraco S.A. (2.3% of Group sales). A large portion of the merchandise sold by KGHM Metraco S.A. were by-products produced by the core business of KGHM Polska Miedź S.A.

### 6.4 Sales markets

56.0% of the non-current assets of the Group are located in the country where the Parent Entity is situated. The remaining 44.0% of the non-current assets are located in the following countries: Chile – 19.6%, Canada – 18.4%, the USA – 5.7%, other countries – 0.3%.

#### Geographical structure of sales markets

The largest part, i.e. 19.9% of the revenues from sales earned by the Group in 2012, was from the domestic market. The largest foreign recipients of the products, merchandise and services offered by Group companies were Germany (17.1%), the United Kingdom (14.8%) and China (11.4%). The largest increase in sales was on the British market (44.5%).

Revenues from sales of the Group to external customers by geographic region are presented in the following table.

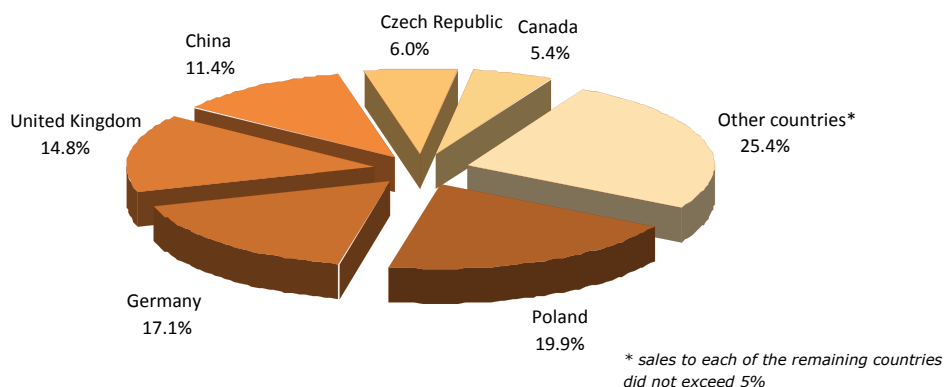
## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.4. Sales markets (continued)

**Table 19.** Group revenues from sales by market (M PLN)

	2011	2012	Change 2011=100
Poland	5 845	5 309	90.8
Germany	4 479	4 564	101.9
United Kingdom	2 734	3 950	144.5
China	2 425	3 047	125.6
The Czech Republic	1 347	1 604	119.1
Canada	2	1 431	x716
Other countries	5 762	6 800	118.0
<b>Total</b>	<b>22 594</b>	<b>26 705</b>	<b>118.2</b>

**Chart 5.** Structure of revenues by sales market in 2012



#### Sales on the Polish market

Around 60% of revenues from Group sales in 2012 on the Polish market were realised by the Parent Entity. The sales volume of copper and copper products by KGHM Polska Miedź S.A. on the Polish market accounted for 20% of total copper sales. Silver sales on the Polish market accounted for 2% of the total volume of silver sales.

Revenues of other companies which are significant in the revenues of the KGHM Polska Miedź S.A. Group on the domestic market:

- CENTROZŁOM WROCŁAW S.A. (share around 11%) – trade in scrap and smelter products,
- KGHM Metraco S.A. (share around 7%) – trade in merchandise and materials.

#### Sales to other countries

Around 78% of revenues from sales of the KGHM Polska Miedź S.A. Group to other countries in 2012 were realised by the Parent Entity. The sales volume of copper and copper products accounted for 80% of total copper sales. During the analysed period, the largest recipients of the copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and Italy. Silver sales accounted for 98% of the total volume of silver sales. The largest recipients of the silver produced by KGHM Polska Miedź S.A. were the United Kingdom, Belgium and Switzerland.

Companies belonging to the KGHM INTERNATIONAL LTD. Group realised altogether approx. 18% of revenues from sales of the KGHM Polska Miedź S.A. Group to other countries. The main recipients of the products produced by these entities were Canada, China and the USA.

## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.5 Suppliers to and customers of Group companies

In 2012 there was no recorded dependence on a single or multiple customers or suppliers - revenues from no single contracting party exceeded 10% of the Group's revenues.

There was no instance in 2012 of dependence by KGHM Polska Miedź S.A., as the entity realising the largest sales of the Group, on a single or multiple customers or suppliers. In 2012 there was no single customer whose share in the revenues from sales of the Parent Entity exceeds 10%.

The only supplier whose share of supply exceeds 10% of the sales revenues of KGHM Polska Miedź S.A. is the subsidiary KGHM Metraco S.A., whose sales to the Parent Entity represent 18% of the value of purchases. The high share of supply from KGHM Metraco S.A. is due to the operating model of the Group, according to which the goal of the operations of KGHM Metraco S.A. is to provide comprehensive services to the Parent Entity with respect to the supply of specific raw materials and products to ensure continuity of production by KGHM Polska Miedź S.A., based on its own logistical-shipment activities.

### 6.6 Contracts of significance for the Group

In 2012 the companies of the Group entered into the following significant trade contracts, whose value exceeded 10% of the equity of KGHM Polska Miedź S.A.

**Table 20.** *Contracts of significance for the Group's activities entered into in 2012*

Date	Value	Description of contract
05.03.2012	CAD 2 900 million (PLN 9 147 million)*	Agreement for the acquisition by 0929260 B.C. UNLIMITED LIABILITY COMPANY with its registered head office in Vancouver (an indirect subsidiary of KGHM Polska Miedź S.A.) 100% of the shares of KGHM INTERNATIONAL LTD. (formerly Quadra FNX Mining Ltd).  Details of this transaction may be found in Table 2 of this report.
05.03.2012	USD 2 937 million (PLN 9 208 million)*	Interest-bearing loan agreement entered into between KGHM Polska Miedź S.A. (as lender) and Fermat 1 S.à r.l. (as borrower). Loan designated for conversion into the capital of Fermat 1 S.à r.l. on the date granted.  (Fermat 1 S.à r.l. is a 100% subsidiary of KGHM Polska Miedź S.A.)
05.03.2012	USD 1 064 million (PLN 3 335 million)*	Interest-bearing loan agreement entered into between Fermat 1 S.à r.l. (as lender) and Fermat 2 S.à r.l. (as borrower). Loan designated for conversion into the capital of Fermat 2 S.à r.l. on the date granted.  (Fermat 2 S.à r.l. is a 100% subsidiary of Fermat 1 S.à r.l.)
05.03.2012	USD 1 873 million (PLN 5 873 million)*	Interest-free loan agreement entered into between Fermat 1 S.à r.l. (as lender) and Fermat 3 S.à r.l. (as borrower).  (Fermat 3 S.à r.l. is a 100% subsidiary of Fermat 1 S.à r.l.)
05.03.2012	USD 1 873 million (PLN 5 873 million)*	Interest-bearing loan agreement entered into between Fermat 3 S.à r.l. (as lender) and Fermat 2 S.à r.l. (as borrower). Loan designated for conversion into the shares of Fermat 2 S.à r.l.
05.03.2012	USD 1 873 million (PLN 5 873 million)*	Forward agreement for the acquisition by Fermat 1 S.à r.l. from Fermat 3 S.à r.l. of shares of Fermat 2 S.à r.l., which Fermat 3 S.à r.l. will acquire from conversion of the aforementioned loan into capital of Fermat 2 S.à r.l.
05.03.2012	USD 1 873 million (PLN 5 873 million)*	Interest-bearing loan agreement entered into between Fermat 2 S.à r.l. (as lender) and 0929260 B.C. Unlimited Liability Company (as borrower).  (0929260 B.C. Unlimited Liability Company is a 100% subsidiary of Fermat 2 S.à r.l.)

\* estimated value per the exchange rate at the date agreement signed



## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.6. Contracts of significance for the Group (continued)

#### Information on significant transactions entered into between related entities, under other than arm's length conditions

In 2012, there was one significant transaction entered into between related entities of the KGHM Polska Miedź S.A. Group under other than arm's length conditions. This transaction is described in table 20 (item four).

#### Information on a contract and remuneration for the entity entitled to audit the financial statements

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

On 25 May 2010 KGHM Polska Miedź S.A. signed a contract with PricewaterhouseCoopers Sp. z o.o. which comprises the review of the interim financial statements and the audit of the annual financial statements for the years 2010, 2011 and 2012.

PricewaterhouseCoopers Sp. z o.o. was also selected to audit the financial statements of several subsidiaries of KGHM Polska Miedź S.A. For 2012 this entity audited the financial statements of the following companies: KGHM Ecoren S.A., „Energetyka” sp. z o.o., ZANAM-LEGMET Sp. z o.o., WPEC w Legnicy S.A., CENTROZŁOM WROCŁAW S.A., KGHM Metraco S.A., PeBeKa S.A., NITROERG S.A. and POL-MIEDŹ TRANS Sp. z o.o. In addition, a company from the PwC group, PricewaterhouseCoopers LLP, audited the financial statements of the KGHM INTERNATIONAL LTD. Group.

Remuneration for the review and audit of financial statements and remuneration for other reasons, of the entity entitled to provide the auditing services described above for the years 2010, 2011 and 2012 is shown in the following table.

**Table 21.** Remuneration of the entity entitled to audit the financial statements of KGHM Polska Miedź S.A. and selected subsidiaries ('000 PLN)

	2010	2011	2012
<b>PricewaterhouseCoopers Sp. z o.o. and PricewaterhouseCoopers LLP</b>	<b>1 738</b>	<b>2 446</b>	<b>5 622</b>
From contract for the review and audit of financial statements, of which:			
- audit of annual financial statements	1 079	1 384	3 719
- review of interim financial statements	402	402	683
From realisation of other contracts	257	660	1 220
<b>Other companies of the PwC Group due to realisation of other contracts</b>	<b>598</b>	<b>139</b>	<b>1 906</b>

### 6.7 Capital expenditure

In 2012 the highest capital expenditures in the Group were incurred by the Parent Entity. The amount and structure of capital expenditures by KGHM Polska Miedź S.A. is presented in the following table.

**Table 22.** Capital expenditures by KGHM Polska Miedź S.A. (M PLN)

	2010	2011	2012	Change 2011=100
Mining	985	1 057	1 292	122.2
Metallurgy	231	218	274	125.7
Other activities, of which:	47	239	192	80.3
- Uncompleted development work	-	5	9	180.0
<b>Total</b>	<b>1 263</b>	<b>1 519</b>	<b>1 766</b>	<b>116.3</b>

In 2012, expenditures on development-related investments amounted to PLN 1 040 million, meaning an increase by 22% versus 2011.

Following are the major investment projects realised by the Parent Entity in 2012.

## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.7. Capital expenditure (continued)

**Table 23.** Major projects and facilities realised by KGHM Polska Miedź S.A. in 2012

Mining
Construction of the SW-4 shaft – work continued on sinking the shaft – since work started the depth of the shaft has reached 1.0 km (in 2012, 0.2 km) and major drift work was continued – in 2012, 1.6 km of major drift work was executed (from the beginning, 11.8 km).
Deep Głogów - work continued on realisation of temporary and permanent facilities, and on major drift work with infrastructure – in 2012, 2.9 km of drifts were excavated (since 2005 a total of 43.2 km of drifts of the planned 129.9 km, representing 33%). Work begun on the handover of freezing units stations and Contractor support at the GG-1 construction site.
With respect to modernisation and replacement of the machinery park in the mines, 214 mining machines were purchased, representing 100% of the amount planned for purchase in 2012.
In the mining divisions, work was carried out on investments related to development of the mining sections infrastructure, ventilation and cooling equipment and investments in the conveyor belts and pipelines.
With respect to the replacement of floatation machinery, 87 of the 113 machines planned for replacement since 2009 were replaced (35 in the reporting period).
Work began on realisation of the project „Modernisation of classification units” involving modernisation of the over 30-year-old hydrocyclone batteries with new-generation equipment. The project foresees the exchange of a total of 78 hydrocyclone batteries throughout the Concentrators Division: <ul style="list-style-type: none"><li>– a hydrocyclones supplier was selected and a contract was signed for stage I,</li><li>– a hydrocyclones plan for stage I of the modernisation of the classification units was designed and delivered,</li><li>– hydrocyclones and pumps for installation in part 1 of stage I of the modernisation of the classification units were delivered,</li><li>– installation of the hydrocyclones commenced.</li></ul>
As part of the exploration project Investigation and documentation of the Synklina Grodziecka region of the „Niecka Grodziecka” deposit, 9 boreholes were drilled. On 8 October 2012, KGHM Polska Miedź S.A. received a decision changing the concession for the exploration for and research into copper ore deposits in the Synklina Grodziecka region. A tender procedure is currently underway to select drilling contractors for the realisation of a further 6 boreholes.
As part of the project CONCESSIONS 2013, whose goal is to obtain concessions for the extraction of copper ore from the deposits currently being worked, of crucial significance in 2012 was the issuance on 3 December 2012, by the Regional Directorate for Environmental Protection in Wrocław of a decision on the environmental impact of a project titled „The extraction of copper ore from the following deposits: „Polkowice”, „Sieroszowice”, „Radwanice-Wschód”, „Rudna” and „Lubin-Malomice”, with an order of immediate enforceability. This decision became final on 16 January 2013. More detailed information on the aforementioned project may be found on page 189 of this report.
Realisation was continued on the project „Development of the Źelazny Most mining tailings treatment pond to ensure the ability to store floatation tailings after 2016”. Facilities were realised related to improving and maintaining the operational safety of the Źelazny Most mining tailings treatment pond and to eliminate its environmental impact.
Realisation was continued on the project „Achieving rock salt production of 1 million tonnes/year”: <ul style="list-style-type: none"><li>– construction of a salt processing unit was realised,</li><li>– handover of an MB-770 dedicated combine made in a factory in Austria prior to its planned delivery to the underground mine and start-up,</li><li>– with respect to adaptation of equipment for the SW-1 shaft, work was completed in support shaft ZR-2,</li><li>– purchase was completed of all associated machinery planned in 2012,</li><li>– Geological Documentation and the Deposit Development Plan was prepared. Following receipt of Environmental Decisions, in June 2013 – a Concession Application will be submitted to the Ministry. Based on this concession, an Agreement will be signed for mining usufruct rights.</li></ul>
Metallurgy
As part of the Pyrometallurgy Modernisation Program - in the reporting period design, construction and assembly work continued with respect to preparing infrastructure for the construction of the Flash Furnace, and tender procedures were carried out for the purchase of key equipment for operation of the flash furnace – a contract was signed for the purchase of strategic equipment for the new technology (Steam Drier, Flash Furnace charging unit, Recovery Boiler, Electrofilters, Electric Furnace power unit).
Realisation commenced of the project „Intensification of smelting by the Głogów II Smelter”: <ul style="list-style-type: none"><li>– the design process was completed for most of the installations to be modernised. Other areas to be realised during the maintenance shutdown of Głogów II Smelter are in the final stage of design work.</li><li>– contracts were signed or are in the process of being prepared for the supply of materials, machines and equipment, and for construction and assembly work, with respect to key production units.</li></ul>
Realisation commenced of the project „Construction of a scrap melting unit at the Legnica Smelter” with respect to developing a Project Concept Plan.

## 6. Activities of the KGHM Polska Miedź S.A. Group (continued)

### 6.7. Capital expenditure (continued)

#### Other

With respect to the Construction of Gas-Steam Blocks at the power plants in Głogów and Polkowice, in the reporting period construction, assembly, installation and electrical work was performed based on updated execution projects. The General Contractor delivered key equipment from the electrical and installation sectors.

- Assembly was completed on the gas turbounits for Polkowice and Głogów.
- Delivery was completed on the steam turbounits for Polkowice and Głogów.
- Technical handover was performed for the gas reduction-measurement stations in Polkowice and Głogów.
- An agreement was signed for connection to the power grid of TAURON Dystrybucja for the gas-steam blocks at Polkowice and Głogów.
- Work was begun on building the high-pressure gas network in Polkowice and Głogów.
- Assembly continues of the auxiliary installation and on insulation of the recovery boilers.
- With respect to construction of the gas-steam block at the Głogów power plant, work continues on switching over to a 110kV current.

In 2012, the KGHM INTERNATIONAL LTD. Group incurred capital expenditures in the total amount of PLN 348 million (expenditures incurred by subsidiaries). However, the most important project realised by the Group was the Sierra Gorda project in Chile, operated as a joint venture between KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group (45%). The share of KGHM INTERNATIONAL LTD. in the capital expenditures incurred to realise the project in 2012 amounted to PLN 2 371 million. The project comprises the construction of an open pit mine and processing plant on one of the largest new deposits of copper and molybdenum in the world. At 31 December 2012, 92% of the engineering was completed, and 33% of the project construction. Currently, work is focused on construction of the processing plant and on stripping the overburden. Assembly of the machine park continues. Detailed information on the realisation of this project may be found on page 194 of this report.

In addition, amongst the important investment projects realised in 2012 by the Group are the following exploration projects:

- **Afton-Ajax** - project to mine a copper and gold deposit in Canada, realised by KGHM AJAX MINING INC.; in 2012, PLN 63 million was spent towards realisation of this project,
- **Victoria** - project to explore an orebody of copper, nickel and precious metals in the Sudbury region of Canada, realised by FNX Mining Company Inc.; in 2012 PLN 43 million was spent towards realisation of this project,
- **Weisswasser** - project to explore the Weisswasser concession in Germany; realised by KGHM Kupfer AG; in 2012 PLN 23 million was spent towards realisation of this project.

#### Capital commitments entered into during the reporting period, but not yet recognised in statement of financial position

As at 31 December 2012, total capital commitments amounted to PLN 9 300 million, including a 55% share by the Group in the investment liabilities of the Sierra Gorda Joint Venture in the amount of PLN 7 093 million related to the phases I and II of the project, of which PLN 751 million involves orders for mining equipment, while PLN 6 342 million is due to the creation of infrastructure and mine construction.

## 6.8 Environmental protection

### Parent Entity

#### Activities of KGHM Polska Miedź S.A. in respect of environmental protection

KGHM Polska Miedź S.A. as one of the most important and socially responsible companies in Lower Silesia, treats the idea of balanced growth, and in particular respect for the environment, as an important element of the strategy of the company.

The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations serving the environment, both those built in the past as well as new investments in this area. In 2012, the Parent Entity spent PLN 179 million on the realisation of investments related to environmental protection. The largest expenditure, in the amount of PLN 166 million, was incurred on continuation of the construction of two gas-steam blocks, one in Głogów and one in Polkowice.

## **6. Activities of the KGHM Polska Miedź S.A. Group (continued)**

### **6.8. Environmental protection (continued)**

In addition, KGHM Polska Miedź S.A., taking into consideration its corporate social responsibility, continued in 2012 a Program to Promote Health and Prevent Environmental Threats. This program is aimed mainly at children from ages 1 to 16 who live in the vicinity of the metallurgical facilities of KGHM Polska Miedź S.A., comprised among others of blood testing for lead content, trips to „Green schools”, pool-related activities and education related to ecology and health. In 2012, this program covered 253 children.

#### Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2012 amounted to PLN 27 million. The amount of fees paid was higher by PLN 1.5 million than in 2011, mainly due to the annual increase in environmental fee rates.

In 2012 the largest fees paid by the Parent Entity were for waste discharge: PLN 16 million, nearly all of which was for the drainoff of excess water from the Żelazny Most waste treatment tailings pond.

#### Legal aspect and intentions

KGHM Polska Miedź S.A. operates eight installations whose functioning, in accordance with the Act on Environmental Protection, requires the possession of integrated permits. These include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the Smelter which do not require integrated permits at the Głogów Smelter,
- an installation titled The Biechów industrial waste storage facility at the Głogów Smelter,
- an installation titled The Biechów II industrial waste storage facility at the Głogów Smelter,
- an installation for the production of refined lead at the Legnica Smelter,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electronic processes, the tailings waste facility „Polowice”, a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the Legnica Smelter,
- an installation for the melting, continuous casting and drawing of copper rod at the Cedynia Wire Rod Division,
- an installation for the storage of tailings from the floatation of copper ore at the Tailings Division, and
- an installation for the neutralisation of sulphuric acid waste at the Concentrators Division.

The remaining Divisions of the company possess environmental sector administrative decisions.

In addition, the Głogów and Legnica smelters obtained permits to participate in the CO<sub>2</sub> emissions trading system.

In 2012, KGHM Polska Miedź S.A. completed administrative procedures and obtained decisions on the environmental impact of a project involving the extraction of ore from the mining areas currently being worked. This decision is a necessary annex to obtaining a concession for the underground extraction of copper ore after 2013. Administrative procedures were also concluded related to obtaining permits for the operation of the tailings facility, to which the company attached the confirmed program for the management of mine tailings together with the decision on environmental impact. This work was required by the Law on mining waste.

The company continuously monitors current administrative decisions permitting the company to operate its installations, in terms of their conformity to changes in environmental law, and the resulting requirement to adapt these installations to current law. In 2012, procedures continued related to changes in decisions for the mines, smelters and concentrators.

#### Intentions

- continuation of a program to promote health and prevent environmental threats – aimed at the inhabitants of former protective zones,
- continuation of work related to the modernisation of pyrometallurgy at the Głogów Smelter,
- adaptation of administrative decisions held to legal changes,
- introduction in the company of a system for trading CO<sub>2</sub>,
- work related to ensuring the security of the Żelazny Most tailings pond, such as strengthening the containment dam,
- development of the Żelazny Most tailings pond by the so-called Southern quarter,
- work on the building of an Integrated Management System for the entire company,
- registration by 1 June 2018 with respect to REACH: selenium and gold as end substances and silver chloride and copper chloride as indirect substances,
- detailed analysis of new ECHA guidelines, which tighten permissible conditions for indirect products.

## **6. Activities of the KGHM Polska Miedź S.A. Group (continued)**

### **6.8. Environmental protection (continued)**

#### **Other Group companies**

The remaining companies of the KGHM Polska Miedź S.A. Group operate while maintaining a balanced impact on the natural environment. They continually update the required permits, including integrated permits, incur those expenses required by law for use of the environment, and undertake actions aimed at restricting their environmental impact.

In 2012, entities of the KGHM INTERNATIONAL LTD. Group incurred the following expenditures on activities related to environmental protection:

- The Robinson mine in the USA spent PLN 2.8 million on the management of a mine dewatering system and on other environmental monitoring programs, and PLN 1.5 million on rights and permitting related to its operations,
- The Carlota mine in the USA spent PLN 5.1 million on activities related to environmental protection involving closure of the mine,
- The Franke mine in Chile spent PLN 3.9 million on dust control and other programs on behalf of environmental protection.

The KGHM INTERNATIONAL LTD. Group purchases environmental bonds in an amount specified based on annual updates of the plan and estimation of the costs of mine closure in Canada and the USA. As at 31 December 2012, the mine closure financial assets of KGHM INTERNATIONAL LTD. amounted to PLN 296 million and increased versus 2011 by PLN 66 million.

Amongst the remaining domestic companies of the Group, actions undertaken in respect of environmental protection include the growing of biofuel willows by „Energetyka” sp. z o.o. In 2012, this company planted 76 ha of willows. The total area planted by this company as at the end of 2012 amounted to 223 ha. In 2012, „Energetyka” sp. z o.o. incurred the highest environmental fees amongst all domestic companies. They amounted to PLN 3.5 million and were mainly in respect of fees for the intake of water and waste discharge (PLN 1.9 million) and for atmospheric emissions (PLN 1.4 million).

## **7. Current and projected financial position**

### **7.1 Business segments**

The acquisition in the first quarter of 2012 of the shares of KGHM INTERNATIONAL LTD., aimed at increasing the resource base and increasing copper production, caused a significant change in the assets structure and in the generation of revenues by the KGHM Polska Miedź S.A. Group, in which the most important role is held by KGHM Polska Miedź S.A. and the business segments of the KGHM INTERNATIONAL LTD. Group.

As a result of a significant change in the structure of the KGHM Polska Miedź S.A. Group and the new way of looking at areas of activities by bodies making operating decisions, new solutions were introduced in the way the Group is managed.

In the process of identifying business segments and developing a new model for managing the Group's structure, and also taking into account the principles of IFRS 8, as well as the usefulness of the information to users of the financial statements, five business segments were temporarily identified which are analysed in detail by management bodies. The identified business segments are simultaneously reporting segments:

#### **KGHM Polska Miedź S.A.**

- segment comprised of KGHM Polska Miedź S.A.,

#### **KGHM INTERNATIONAL LTD. Group**

- segment comprised of companies of the KGHM INTERNATIONAL LTD. Group,

#### **Sierra Gorda Project**

- segment comprised of Sierra Gorda S.C.M. joint venture,

#### **Development of the resource base**

- segment comprised of companies involved in the exploration for and evaluation of mineral resources, whose purpose is to conduct mining operations,

#### **Support of the core business**

- segment comprised of companies directly related to the core business of the Parent Entity, KGHM Metraco S.A. was classified to this segment in the reporting period due to its significant share in securing supplies of copper scrap for KGHM Polska Miedź S.A. (comparable data restated respectively to presentation in the current period),

#### **Other segments**

- all remaining Group companies, unrelated to the mining industry.

## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

Table 24. Results of business segments for 2012 – (M PLN)

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda project ***	Resource base development	Support of core business	Other segments	Adjustment restating to measurement/ principles under IFRS	Consolidation adjustments	Total
<b>Sales</b>	<b>20 737</b>	<b>3 836</b>	-	<b>1</b>	<b>6 195</b>	<b>2 859</b>	-	<b>(6 923)</b>	<b>26 705</b>
Inter-segment sales	626	-	-	-	5 132	1 024	-	(6 782)	-
External sales	20 111	3 836	-	1	1 063	1 835	-	(141)	26 705
Operating costs	(13 602)	(3 535)	-	(9)	(6 191)	(2 827)	(290)	6 891	(19 563)
Depreciation/amortisation	(772)	(394)	-	-	(107)	(67)	(150)	37	(1 453)
<b>Operating profit/(loss)</b>	<b>6 426</b>	<b>448*</b>	-	<b>(10)</b>	<b>81*</b>	<b>91*</b>	<b>(290)</b>	<b>(152)</b>	<b>6 594</b>
Profit/(loss) before tax	6 417	328	-	(9)	68	88	(290)	(154)	6 448
Income tax	(1 549)	(97)	-	-	(21)	(13)	55	(20)	(1 645)
<b>Profit/(loss) for the period</b>	<b>4 868*</b>	<b>231*</b>	-	<b>(9)</b>	<b>47</b>	<b>75*</b>	<b>(235)</b>	<b>(174)</b>	<b>4 803</b>
<b>Segment assets</b>	<b>28 177</b>	<b>11 416</b>	<b>4 689</b>	<b>375</b>	<b>2 341</b>	<b>2 290</b>	<b>(2 351)</b>	<b>(13 321)</b>	<b>33 616</b>
<b>Liabilities</b>	<b>6 254</b>	<b>3 674</b>	<b>3 092</b>	<b>17</b>	<b>1 080</b>	<b>628</b>	<b>(2 446)</b>	<b>(393)</b>	<b>11 906</b>
<b>Other information</b>									
Investments accounted for using the equity method	33	1 615**	-	-	-	-	1 430	-	3 078
Capital expenditure	1 766	348	2 371	86	253	125	-	(2 433)	2 516
EBITDA (operating profit plus depreciation/amortisation)	7 198	842			188				
% of sales to KGHM Polska Miedź S.A.					79%				

\* result analysed in given segment

\*\* Sierra Gorda S.C.M. accounted for using the equity method

\*\*\* 55% share of Group in Sierra Gorda S.C.M.

„Adjustment restating to measurement/principles under IFRS” – respecting adjustment due to provisional accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidated level, reflecting adjustments from the acquisition date to 31 December 2012

## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

Table 25. Results of business segments for 2011 – restated (M PLN)

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda project ***	Resource base development	Support of core business	Other segments	Discontinued activities	Consolidation adjustments	Total continued activities
<b>Sales</b>	<b>20 097</b>	-	-	-	<b>5 120</b>	<b>2 493</b>	<b>506</b>	<b>(6 109)</b>	<b>22 107</b>
Inter-segment sales	748	-	-	-	3 997	846	19	(5 610)	-
External sales	19 349	-	-	-	1 123	1 647	487	(499)	22 107
Operating costs	(10 660)	-	-	(7)	(5 071)	(2 929)	(447)	6 447	(12 667)
Depreciation/amortisation	(672)	-	-	-	(92)	(68)	(65)	51	(846)
<b>Operating profit/(loss)</b>	<b>13 761</b>	-	-	<b>(1)</b>	<b>90*</b>	<b>5*</b>	<b>68</b>	<b>(691)</b>	<b>13 232</b>
Profit/(loss) before tax	13 727	-	-	-	80	(3)	67	(503)	13 368
Income tax	(2 333)	-	-	-	(19)	(3)	(7)	62	(2 300)
<b>Profit/(loss) for the period</b>	<b>11 394*</b>	-	-	-	<b>61</b>	<b>(6)*</b>	<b>60</b>	<b>(441)</b>	<b>11 068</b>
<b>Segment assets</b>	<b>29 252</b>	-	-	<b>324</b>	<b>2 074</b>	<b>2 215</b>	-	<b>(3 215)</b>	<b>30 650</b>
<b>Liabilities</b>	<b>6 117</b>	-	-	<b>21</b>	<b>971</b>	<b>642</b>	-	<b>(492)</b>	<b>7 259</b>
<b>Other information</b>									
Capital expenditure	1 519	-	-	58	197	206	66	(89)	1 957
EBITDA (operating profit plus depreciation/amortisation)	14 433				182				
% of sales to KGHM Polska Miedź S.A.					75%				

\* result analysed in a given segment

## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

#### KGHM POLSKA MIEDŹ S.A.

The Parent Entity represents the most important production segment in the Group. At the end of 2012 the assets of KGHM Polska Miedź S.A. represented 84% of the assets of the Group.

The mining assets of KGHM Polska Miedź S.A. are comprised of underground mines currently engaged in extracting copper ore: Lubin, Polkowice-Sieroszowice and Rudna, as well as a pre-production project: Deep Głogów and exploration projects: Radwanice-Gaworzyce (copper ore), Synklina Grodziecka (copper ore), Szklary (nickel ore). The production of electrolytic copper, silver and other copper products takes place at two smelters: Głogów Smelter, Legnica Smelter and at the Cedynia Wire Rod Division.

The Segment KGHM Polska Miedź S.A. generates the highest results in the Group.

The production results of the Parent Entity for the last two years are presented in the following table.

**Table 26.** Production results (smelter production) of KGHM Polska Miedź S.A.

	Unit	2011	2012	Change 2011=100
Payable copper	kt	571.0	565.8	99.1
- incl. from purchased copper-bearing materials	kt	124.6	146.7	117.7
Wire rod, OFE and CuAg rod	kt	242.7	242.9	100.1
Round billets	kt	20.3	18.0	88.7
Silver	t	1 259.6	1 273.8	101.1
Gold	kg	703.8	916.4	130.2

The production of electrolytic copper in 2012 in KGHM Polska Miedź S.A. was slightly (1%) lower than the level in 2011, when it was the highest in the company's history. Maintaining a similar level of production despite a higher level of production from inventories in the prior year was possible thanks to an increased share of production from purchased copper-bearing materials in the form of scrap, copper blister and imported concentrates. Supplementing own concentrates with purchased copper-bearing materials enabled the efficient utilisation of existing production capacity.

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

In relation to 2011, the production of metallic gold in KGHM Polska Miedź S.A. increased by 212 kg, i.e. 30%, mainly due to a higher gold content in purchased copper-bearing materials.

Copper production costs have a decisive impact on the operating costs of the Parent Entity.

**Table 27.** Cost of production of copper in concentrate – C1 in KGHM Polska Miedź S.A.

	Unit	2011	2012	Change 2011=100
Cash cost of producing copper in concentrate – C1*	USD/lb	0.63	1.34	x2.1
Production of copper in concentrate	kt	426.7	427.1	100.1

\* C1 cost - cash cost of concentrate production plus administrative and smelting and refining (TC/RC) costs, less depreciation/amortisation and by-product premiums, calculated for payable copper in concentrate

The increase in the C1 cost was mainly due to the introduction from April 2012 of the minerals extraction tax and the lower value of silver in by-products, whose price in 2012 was 11% lower than in 2011.

KGHM Polska Miedź S.A. earned a profit for 2012 of PLN 4 868 million, meaning a decrease by PLN 6 526 million (by 57%) versus the profit for 2011.

The following factors had an impact on a decrease in the financial result of the Parent Entity:

- higher costs, mainly due to the minerals extraction tax in the amount of PLN 1 327 million from April 2012, and to higher costs of consumption of purchased copper-bearing materials by PLN 762 million / a decrease in the result by PLN 2 942 million/,
- a decrease in the prices of basic products (Cu, Ag): a decrease in the copper price by 10% and silver by 11% / a decrease in revenues by PLN 2 129 million/,
- exchange differences - in 2011 the result on exchange differences amounted to +PLN 895 million, while in 2012 it amounted to PLN (566) million / a decrease in the result by PLN 1 461 million/,



## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

- impact of hedging transactions – a change in the result due to the measurement and realisation of derivatives (PLN (405) million) and a change in the amount of the adjustment of sales due to hedging (+PLN 91 million) /a decrease in the result by PLN 314 million/,
- impairment losses on available-for-sale assets – as at 31 December 2012, an impairment loss was recognised for the following investments: TAURON Polska Energia S.A. – PLN 151 million, Abacus Mining & Exploration Corp. – PLN 7 million /a decrease in the result by PLN 158 million/.

The following factors had an impact on an increase in the financial result of the Parent Entity:

- change in exchange rate – an increase from 2.96 USD/PLN to 3.26 USD/PLN /an increase in revenues by PLN 1 968 million/,
- lower income tax – due to a lower taxable base in 2012 /an increase in the result by PLN 784 million/,
- change in the volume of sales of basic products (Cu, Ag, Au) – a higher volume of copper sales by 13.4 kt, silver by 88 t and gold by 247 kg /an increase in revenues by PLN 693 million/.

In addition, in 2011 there was a disposal of subsidiaries and associates – the Parent Entity earned a profit on the sale of shares of Polkomtel S.A. and DIALOG S.A. In 2012, there were no sales of shares of subsidiaries and associates (a decrease in the result by PLN 2 662 million).

### **Process of obtaining concessions for mining regions currently being worked by KGHM Polska Miedź S.A.**

KGHM Polska Miedź S.A. activities involving the exploitation of copper ores are carried out based on concessions held by Parent Entity, which were issued by the Minister of Environmental Protection, Natural Resources and Forestry and the Ministry of the Environment in the years 1993-2004, most of which expire by December 2013. The concessions which expire on 31 December 2013 cover the following deposits: „Polkowice”, „Sieroszowice”, „Lubin-Małomice”, „Rudna”. The concession covering „Radwanice-Wschód” deposit expires in 2015.

In view of the above, in 2010 KGHM Polska Miedź S.A. commenced the project CONCESSIONS 2013, whose goal is to obtain concessions for the extraction of copper ore from the aforementioned mining areas for the maximum possible period provided for by law, which is 50 years. As part of the work related to this project, the Parent Entity in the years 2010-2012 carried out work related directly to the process of obtaining concessions, i.e.

- the preparation and approval of supplementary information to the geological documentation,
- the preparation of deposit development plans (DDPs),
- submission to the Regional Directorate for Environmental Protection (RDEP) of environmental impact reports,
- the signing of an agreement with the State Treasury for the paid use of the right to geological information,
- the signing of agreements with the municipalities (Gminas) of Rudna and Lubin Miasto referring to the scope of required changes to the planning documents of the Gminas.

All of these actions were aimed at preparing the appropriate documentation and obtaining the appropriate permits required for submission of the concession applications to the concessioning body, i.e. the Ministry of the Environment.

### Status at the date of signing the financial statements

The most recent decision, which enabled KGHM Polska Miedź S.A. to submit concession applications, issued on 3 December 2012, by the Regional Directorate for Environmental Protection in Wrocław, was a decision on the environmental impact of a project titled „The extraction of copper ore from the following deposits: „Polkowice”, „Sieroszowice”, „Radwanice-Wschód”, „Rudna” and „Lubin-Małomice”, with an order of immediate enforceability. This decision obtained the status of final decision on 16 January 2013. Following receipt of this decision, KGHM Polska Miedź S.A. immediately submitted concession applications to the concessioning body for the aforementioned 5 deposits. From information available to the Parent Entity it appears that the concessioning body, after preliminary review of the applications, has no concerns as to their content or form.

The concessioning body has forwarded the DDPs, being the fundamental element in concession applications, to the forum of the Minerals Resources Commission (MRC), being the application assessing and advisory body of the Ministry of the Environment. To accelerate the process of assessing the applications up to four joint report reviewers were selected. The Parent Entity has received joint reports for review. The review of the relevant deposit development projects (with the participation of KGHM Polska Miedź S.A. representatives) took place on 1 March 2013. The comments of the reviewers involved minor corrections and clarification of the material, while the committee voiced no concerns negating the propriety of the DDPs. The Parent Entity declared it would make the corrections and supplement the material and would arrange with the reviewers the final version of the DDPs by 29 March 2013. This process will conclude with the receipt by the concessioning body of the opinion of the MRC. The DDPs, corrected in accordance with the suggestions of the reviewers, were sent to the MRC on 12 March 2013.

## **7. Current and projected financial position (continued)**

### **7.1. Business segments (continued)**

#### Planned actions following the date of signing of the financial statements

Following receipt of the opinion of the MRC, the concessioning body will forward the concession applications to the 9 relevant mining municipalities (Gmina Lubin, Lubin Miasto, Polkowice, Radwanice, Jerzmanowa, Rudna, Sierszowice, Chocianów and Grębocice), which should take a position. During this time KGHM Polska Miedź S.A., as was done to date, will organise in March and April of 2013 working meetings and seminars with the aforementioned municipalities, at which all questions regarding the contents of the concession applications will be answered. In this manner, the Parent Entity intends to deal with all possible concerns and doubts which may be voiced in the municipalities before they arise.

In subsequent steps, (expected timeframe May-June 2013) in accordance with regulatory procedure, the Ministry of the Environment will prepare draft concession decisions which will be forwarded to the Minister in charge of the economy and to the municipalities within whose territory the deposits for which concessions are being sought are located for the purpose of agreement. As part of this process, representatives of these municipalities may voice their opinions and concerns regarding the draft concession decisions in a justified scope (e.g. by committing the company to undertake additional measurements and observations with respect to protection of the surface terrain and mining-related damage, additional analyses or expert opinions on these matters).

In the opinion of KGHM Polska Miedź S.A., the process of submitting concerns should last no longer than 30 days. Following this procedural stage, the Ministry of the Environment will send to the municipalities the draft concession decisions, and if within 14 days from the date of their receipt the municipalities do not voice any concerns, the body will treat the decisions as agreed.

Based on art. 106 of the Administrative Proceedings Code (APC) the taking of a position by a body (the relevant municipality), including refusal to agree the applications and concession decisions, will occur in the form of a decision.

If however agreement on the concession decisions is not reached, the Parent Entity has the right to submit a complaint. The timeframe for submitting a complaint begins from the date the aforementioned decisions are delivered/handed over to the parties and lasts 7 days from the receipt or announcement of a decision. The complaint, in accordance with art. 17 of the APC, is forwarded to the Government Appeals Collegium – being the higher level administrative body with respect to a mayor. The appeals body will also be able to maintain in force the appealed decisions, as well as make a decision in reference to the essence of the matter. Under current law, this should occur within a month of the date of receipt of a complaint.

Another legal tool available to the parties is to appeal the decisions of the Government Appeals Collegium to the Regional Administrative Court (RAC). An appeal, based on art. 53 §1 of the Law on Proceedings before Administrative Courts must be submitted within 30 days of delivery/handing over to the appealing party. Parties are allowed to appeal the judgement of the RAC, under art. 173 of the Law on Proceedings before Administrative Courts, in the form of a cassation appeal to the Supreme Administrative Court (SAC) in Warsaw, submitted within 30 days of delivery/handing over to the party an official copy of the judgement with justification. A judgement issued as a result of a cassation appeal by the SAC is legally binding.

Due to the awareness of the importance attached to the continuation of the operations of KGHM Polska Miedź S.A. in the region as the main employer and taxpayer to the municipalities, the Management Board of the Parent Entity does not foresee the possibility of a failure to agree the concession decisions. This is confirmed by the previous stage of agreement by the RDEP with the municipalities of environmental decisions, when none of the municipalities raised any concerns.

As a result of the close and open cooperation of the KGHM Polska Miedź S.A. with the municipalities and the good atmosphere between the parties, no concerns whatsoever have been raised during the process of obtaining environmental decisions. In the Parent Entity opinion, this is a clear signal confirming the declarations of acceptance for the actions of KGHM Polska Miedź S.A. which were submitted many times by the municipal bodies, and justifies minimisation of the assessed actual threat of not obtaining these mining concessions. We assume that any eventual concerns which are raised will be of a substantive nature and will not threaten the successful realisation of the project CONCESSIONS 2013.

An inseparable element of the process of obtaining mining concessions is the signing with the State Treasury of an agreement on setting mining usufruct rights, granting a company the exclusive right to conduct the activities covered by a concession. Normally the concessioning body takes the initiative, directing the entity applying for a concession to sign the relevant agreement.

The final task of the project CONCESSIONS 2013 is the development of Mine Operating Plans for the 3 mines and their submission for approval by the District Mining Office, following the receipt of concessions for each of the deposits covered by the operating plans. The Management Board of the Parent Entity expects this will occur by 31 October 2013.

Considering the current progress of the concessioning process and the positive social conditions of this process, the Management Board of KGHM Polska Miedź S.A. estimates the timeframe for receiving the concessions as the end of June-early July 2013. Additionally, the Management Board believes that the probability of not receiving these concessions and having the District Mining Office not approve the Mine Operating Plans by 31 December 2013 is minimal and does not represent a threat for the going concern assumption of KGHM Polska Miedź S.A.

## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

#### KGHM INTERNATIONAL LTD. GROUP

This segment comprises the company KGHM INTERNATIONAL LTD. and 34 subsidiaries (presented in diagram 2 of this report). In this group, apart from companies fulfilling an operational role, are also companies created to optimise functionality.

The KGHM INTERNATIONAL LTD. Group represents the second-largest, after KGHM Polska Miedź S.A., production segment in the Group. It also owns the second-largest asset in the Group.

This segment comprises the operation of functioning mines extracting copper (and other metals) located in Canada (McCreedy West, Levack – with the Morrison deposit, Podolsky), in the USA (Robinson and Carlota) and in Chile (Franke), pre-operational mining projects at various stages of development (Victoria in Canada and Malmbjerg in Greenland) as well as exploration projects (Kirkwood, Falconbridge and Foy in the Sudbury region of Canada).

Under the segment KGHM INTERNATIONAL LTD., as an investment accounted for using the equity method, was shown the share of the Group (55%) in the Sierra Gorda project. This project, due to its importance, represents a separate business segment.

Entities of this segment of significance in terms of production:

- Robinson Nevada Mining Company – this company owns the open pit mine Robinson in the state of Nevada in the USA,
- Carlota Copper Company – this company owns the open pit mine Carlota in the state of Arizona in the USA,
- Sociedad Contractual Minera Franke – this company owns the open pit mine Franke in Chile,
- FNX Mining Company Inc. – this company owns underground mines: Levack/Morrison, Podolsky and McCreedy West in Ontario, Canada

Group of companies generating income due to the providing of mining services under the brand DMC Mining Services:

- FNX Mining Company Inc.,
- Raise Boring Mining Services S.A. de C.V.,
- DMC Mining Services Corporation.

Financial data of the segment (amounts before fair value measurement) are the following

Segment assets at the end of 2012 amounted to PLN 11 416 million, including non-current assets of PLN 8 064 million. The most important assets in this item are:

- property, plant and equipment in the amount of PLN 2 909 million,
- intangible assets in the amount of PLN 1 138 million – including expenditures related to exploratory work, mainly as part of the Victoria project in the amount of PLN 233 million (PLN 979 million after fair value measurement; from the date of acquisition of KGHM INTERNATIONAL LTD., 5 March 2012 to 31 December 2012, capital expenditure of PLN 43 million has been incurred on this project) and water rights in Chile in the amount of PLN 180 million,
- investments in a joint venture, Sierra Gorda, in the amount of PLN 1 615 million,
- non-current receivables on a loan of PLN 1 470 million, granted to finance the Sierra Gorda project,
- cash and cash equivalents at the end of 2012 in the amount of PLN 1 752 million.

Non-current and current liabilities at the end of 2012, amounted to PLN 3 674 million. The largest item in liabilities is represented by liabilities due to the issuance of debt securities – senior notes in the amount of PLN 1 522 million (issued mainly for the purpose of gaining funds to realise the Sierra Gorda project), with maturity falling in 2019.

In 2012, this segment achieved sales of PLN 3 836 million and operating profit of PLN 448 million.

The main source of revenues for this segment is the production and sale of metals, such as copper, nickel, gold, platinum and palladium. Revenues in this regard for 2012 amounted to PLN 2 922 million.

The second-largest source of revenues in the KGHM INTERNATIONAL LTD. Group are mining services. In 2012 they amounted to PLN 914 million.

## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

**Table 28.** Production results of KGHM INTERNATIONAL LTD.

	Unit	2011	2012	Change 2011=100
<b>Robinson mine</b>				
Payable copper	kt	43.1	54.2	125.8
Gold	kg	924.0	1 178.8	127.6
<b>Carlota mine</b>				
Payable copper	kt	17.1	10.4	60.8
<b>Franke mine</b>				
Payable copper	kt	15.1	17.9	118.5
<b>Levack/Morrison mine</b>				
Payable copper	kt	17.1	18.5	108.2
Nickel	kt	2.7	2.8	103.7
Gold	kg	174.2	205.3	117.9
Platinum	kg	245.7	314.1	127.8
Palladium	kg	528.8	640.7	121.2
<b>McCreedy mine</b>				
Payable copper	kt	2.3	1.3	56.5
Nickel	kt	1.3	1.6	123.1
Gold	kg	74.6	12.4	16.6
Platinum	kg	208.4	18.7	9.0
Palladium	kg	267.5	31.1	11.6
<b>Podolsky mine</b>				
Payable copper	kt	10.7	8.3	77.6
Nickel	kt	0.5	0.4	80.0
Gold	kg	130.6	93.3	71.4
Platinum	kg	307.9	205.3	66.7
Palladium	kg	357.7	261.3	73.1
<b>Total mines</b>				
Payable copper	kt	105.5	110.5	104.7
Nickel	kt	4.5	4.8	106.7
Gold	kg	1 303.5	1 489.8	114.3
Platinum	kg	762.0	538.1	70.6
Palladium	kg	1 153.9	933.1	80.9

**Table 29.** Cost of payable copper production of KGHM INTERNATIONAL LTD.

	Unit	2011	2012	Change 2011=100
Cash cost of payable copper production - C1	USD/lb	2.18	2.43	111.5
Production of payable copper sold	kt	96.0	118.6	123.5

The most important producing assets of the KGHM INTERNATIONAL LTD. Group are the Robinson, Levack/Morrison and Franke mines.

#### **Robinson mine**

The Robinson mine is an open pit mine extracting copper ore deposit from a porphyry/skarn-type deposit located near the city of Ely, Nevada, United States. The mine has three large operating pits 3: Liberty (planned re-opening), Tripp-Veteran (closed) and Ruth, under production. The ore extracted is concentrated through floatation. The end product is a copper and gold concentrate.

Copper production in 2012 was over 26% higher than in 2011 mainly due to the higher mineralisation of the Ruth ore and higher recoveries. Gold production in 2012 was also higher than in 2011 due to higher gold content in ore, partially offset by slightly lower recovery.

Capital expenditure incurred in 2012 by the Robinson mine in the amount of USD 29.4 million was mainly related to construction of an access road to the Liberty pit, exploration of the pit and geotechnical activities and dewatering of the Ruth pit, as well as to an equipment leasing program.

## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

#### Levack/Morrison mine

The Levack/Morrison mine is located at the edge of the town of Sudbury, in Ontario, Canada. It is linked on the east with the McCreedy West mine. This is an underground mine, whose end product is copper and nickel ore. Associated metals are gold, platinum and palladium. Since 2012 the mine's operations have been based on infrastructure leased from the neighbouring Craig mine belonging to Xstrata Nickel.

Sales in 2012 were higher than in 2011, thanks to utilisation of the Craig shaft and due to higher copper content in ore.

Capital expenditure in the amount of USD 25.1 million were mainly incurred on accessing work and drilling to improve definition of the lower portion of the Morrison ore body.

#### Franke mine

Franke mine is located in the city of TalTal, Region II in Chile. Extraction from the Franke mine is by conventional open pit methods in two pits: China and Franke. Ore processing, due to the ore's nature, is by the heap leach, solvent extraction and electrowinning (SX-EW) process. The end product is copper cathode.

In 2012, the mine produced 18% more copper cathode than in 2011, despite a lower average content of copper in ore.

Capital expenditure in 2012 amounted to USD 18.8 million and were mainly incurred on stripping the overburden at the China pit, the purchase of new leaching equipment and the installation of additional dust controls in the crushing circuit.

Other operating assets of this segment:

- **Carlota mine** - located near the town of Miami, in Arizona, USA; mine scheduled for closure. In 2012 the mine developed a closure plan.
- **McCreedy West mine** - The McCreedy West mine is located on the northern edge of the Sudbury basin, in Ontario, Canada.
- **Podolsky mine** - the mine is located near the town of Sudbury, in the northern part of the Sudbury basin, in Ontario, Canada. Mining is scheduled to end at the mine in 2013.
- **DMC – mining services** - Under the DMC Mining Services brand, companies in this segment provide services in shaft sinking, development work, above-ground and underground mine facilities, drilling, civil underground construction, and feasibility analyses and design work.

FNX Mining Company Inc., a company belonging to the KGHM INTERNATIONAL LTD. Group, is advancing the Victoria exploration project.

**The Victoria Project** is located in the Sudbury Basin (Ontario, Canada). Estimated project resources: 14.5 million t of ore with average grades of 2.5% Cu and 2.5% Ni. In addition, the ore is also rich in precious metals (gold, platinum), whose grade is estimated at 7.6 g/t. Planned mine type - underground. The project is at the stage of developing a feasibility study.

The Victoria Project is the most important exploration project realised by the KGHM INTERNATIONAL LTD. Group (100% of the shares of the project are owned by the subsidiary FNX Mining Company Inc.). In 2012, the company continued work, including exploratory drilling, on improving definition of the ore aimed at preparing an analysis of the technical and economic possibilities of mining this ore deposit of copper, nickel and precious metals. The results of this work will indicate the course of further exploration work and the shape of the future mine. In 2012, discussions continued with Vale regarding the ownership structure of the future project (Vale holds a back-in right to the Victoria project). Actions also continued aimed at obtaining permits required by law, as well as discussions with First Nations. In this period, the company concluded exploratory drilling and is currently concentrating on engineering work and developing project documentation (including the development of environmental permits), which will continue throughout 2013. Financing for the Victoria project will be through the use of internal funds.

## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

#### SIERRA GORDA PROJECT, CHILE

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Sierra Gorda is a joint venture (under the JV company Sierra Gorda SCM) of KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group: Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%). The project is located in northern Chile. Estimated mineral reserves are 1.3 billion tonnes of ore with an average grade of 0.39% Cu and 0.024% Mo.

The Sierra Gorda project comprises the construction of an open pit mine and a processing plant on one of the largest new deposits of copper and molybdenum in the world. Start-up of production at Sierra Gorda is foreseen in 2014. Planned average annual production is approx. 220 thousand tonnes of copper, 11 thousand tonnes of molybdenum and 2 tonnes of gold for over 20 years.

The project is at an advanced stage of construction and is on schedule.

Since the first quarter of 2012 work has continued on stripping the overburden, while in the third quarter of 2012 construction of the processing plant commenced. The main work on the construction of basic infrastructure, i.e. social buildings, fresh water supplies etc., was completed. Work is continuing on the assembly of mining machinery and other equipment. At the end of 2012, over 393 tenders were completed for the delivery of machinery and equipment and of services, including design services. 16 tenders remain in progress.

Key long term contracts (20 – 22 years) were signed for the construction of a pipeline and supply of salt water, railway transport services, the construction of an electrical power line and the supply of electricity, as well as for port-related services. A collective agreement was negotiated and signed with employees. Progress on construction and assembly work at 1 March 2013 was 33%, while 92% of the engineering was completed. Recruitment continued for management and operating positions in the future mine.

In the first quarter of 2013, the project's final capital expenditure estimate was updated. Total initial capital expenditure amounts to USD 3.9 billion versus USD 2.9 billion forecast in February 2011. The main factors responsible for increasing expenditures are beyond the scope of the investor to control: rising costs of labour, services and materials in Chile, inflation, appreciation of the Chilean peso, changes in legal requirements regarding buildings and environmental protection and changes in the project's scope. The total amount of verified investment expenditures does not include potential savings, including the impact of applied hedging policies and the possible implementation of mine machinery leasing program for the project.

The share of the segment KGHM INTERNATIONAL LTD. in capital expenditure incurred on realisation of the project in 2012 amounted to PLN 2 371 million.

The Sierra Gorda project is financed from three sources – by the investors (KGHM INTERNATIONAL LTD. and companies of the Sumitomo Group) and through borrowing. A USD 1 000 million bank loan was granted for a period of 9.5 years by a consortium of financial institutions: Japan Bank for International Cooperation and four private banks: Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Sumitomo Trust & Banking Co., Ltd. This is a project finance bank loan without recourse to KGHM INTERNATIONAL LTD.

#### DEVELOPMENT OF THE RESOURCE BASE

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This segment comprises companies engaged in exploration-evaluation activities, i.e.:

- **KGHM AJAX MINING INC.** – this company is realising the Afton-Ajax copper and gold resource project in British Columbia, Canada,
- **KGHM Kupfer AG** – this company is realising a resource project – exploration for a copper deposit in Weisswasser in Germany,
- **Sugarloaf Ranches Ltd.** – this company owns land designated for future mining activities related to the Afton-Ajax project.

Due to the current stages of work by the aforementioned projects, this segment does not generate operating profits, and the companies are of a cost-generating nature.

Capital expenditure on the realisation of the projects in this segment in 2012 amounted to PLN 86 million, meaning an increase by PLN 28 million, i.e. by 48% versus 2011. For realisation of exploratory work on the Weisswasser concession, expenditures were incurred in the amount of PLN 23 million, and on the Afton-Ajax project, PLN 63 million.

## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

**The Afton-Ajax Project** is located in Kamloops (British Columbia, Canada). Estimated project resources: 512 million tonnes of ore with an average grade of 0.31 % Cu and 0.19 g/t Au. Ownership structure of the project: 80% KGHM AJAX MINING INC., 20% Abacus Mining & Exploration Corp. Planned mine type: open pit mine.

On 2 April 2012, KGHM Polska Miedź S.A. exercised an option to acquire a further 29% of the shares of KGHM AJAX MINING INC. with its registered head office in Vancouver from Abacus Mining & Exploration Corp. and increased its share of KGHM AJAX MINING INC. from 51% to 80%. Detailed information on this transaction may be found on page 159 of this report.

In 2012, KGHM AJAX MINING INC. continued activities aimed at obtaining environmental permit to construct the mine. While the timeframe for obtaining these permits is not under the company's control, it assumes that the permits which will allow construction of the mine to begin will be received in 2014, which in consequence will enable construction of the Afton-Ajax mine and the commencement of Cu-Au concentrate production in 2016. This deferral of the schedule versus prior plans is mainly due to the need to perform additional analyses related to environmental permitting which were not previously foreseen. Detailed engineering work is being simultaneously performed which is required to receive permission for mining and construction of the future mine.

On 31 July 2012, KGHM AJAX MINING INC. acquired from the companies Teck and Afton the company **Sugarloaf Ranches Ltd.**, whose main asset is land, in order to operate on this land the planned and future mining activities related to commencing the Afton-Ajax project. The utilising the purchased terrain for mining purposes is expected to begin at the construction stage of the mine, after receiving the required permits.

**The Weisswasser Project** is located on the German side of the Nysa Łużycka river, in the vicinity of the town of Weisswasser (Saxony, Germany). The concession has a surface area of 362 km<sup>2</sup>. Ownership structure of the project: 100% KGHM Kupfer AG. Planned mine type: underground mine.

In 2012, the first stage of exploratory work on the Weisswasser concession was completed. Four drillholes were executed as well as geophysical research and chemical analysis of the bore samples. Copper and silver mineralisation was identified which is similar in nature to the ore currently being mined by KGHM Polska Miedź S.A. in the Polish Copper Belt. In the fourth quarter of 2012, the Management Board of KGHM Kupfer AG requested the sole shareholder of the company, KGHM Polska Miedź S.A., to increase the share capital of the company, and the request was accepted. The funds will be transferred for the realisation of stage 2 of the Weisswasser Project. It is assumed that this stage will involve the realisation of geophysical measurements.

This company is performing specialised tasks related to exploring areas of potential copper mineralisation.

### SUPPORT OF THE CORE BUSINESS

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This segment is comprised of companies related directly to the core business of KGHM Polska Miedź S.A., i.e.:

- **KGHM Metraco S.A.** – this company secures supplies of copper scrap for KGHM Polska Miedź S.A., and sells to external markets the by-products of the Parent Entity's core business production,
- **POL-MIEDŹ TRANS Sp. z o.o.** – this company is a leading railway and roadway carrier and supplier of fuels to KGHM Polska Miedź S.A.,
- **PeBeKa S.A.** – this company is the main performer of mining work for KGHM Polska Miedź S.A.,
- **ZANAM-LEGMET Sp. z o.o.** – this company is a significant supplier and service provider for KGHM Polska Miedź S.A., and also provides production maintenance services in selected areas,
- **KGHM CUPRUM sp. z o.o. - CBR** – this company performs a substantial part of the design-related work for KGHM Polska Miedź S.A.,
- **INOVA Spółka z o.o.** – this company is a supplier and service provider for the underground radio communication system for the mines of KGHM Polska Miedź S.A.,
- **BIPROMET S.A.** – this company executes technical documentation for the pyrometallurgy modernisation program of KGHM Polska Miedź S.A.,
- **CBJ sp. z o.o.** – this company mainly provides industrial research services for KGHM Polska Miedź S.A.,

## 7. Current and projected financial position (continued)

### 7.1. Business segments (continued)

- „Energetyka” sp. z o.o.,  
and subsidiaries:  
WPEC w Legnicy S.A.,  
„BIOWIND” sp. z o.o.
- this company secures part of the energy supply for KGHM Polska Miedź S.A.

The above companies are mainly aimed at ensuring uninterrupted production by the Parent Entity. These companies maintain their resources at levels required to accomplish the tasks assigned to them.

The assets of this segment at the end of 2012 amounted to PLN 2 341 million and increased versus the prior year by PLN 267 million, i.e. by 13%. Investments realised in 2012 were a major cause of the increase in assets. The amount of capital expenditure in this segment amounted in 2012 to PLN 253 million. The highest capital expenditure was incurred by PeBeKa S.A. – PLN 77 million (mainly the purchase of mining machinery) and „Energetyka” sp. z o.o. – PLN 73 million (mainly the modernisation of boilers).

Average employment in this segment in 2012 was more than 7 thousand positions, representing approx. 20% of total Group employment. Most were employed by the company ZANAM-LEGMET Sp. z o.o. (approx. 2.3 thousand).

Segment revenues from sales for 2012 amounted to PLN 6 195 million and increased versus the prior year by PLN 1 075 million, i.e. 21 %. In 2012 79% of segment revenues were from sales to the Parent Entity. The total of approx. 83% of segment revenues for 2012 relates to the sales to other Group’s segments. Consequently they do not have a material impact on the consolidated results of the KGHM Polska Miedź S.A. Group.

In this segment, the largest sales outside the Group in 2012 were earned by KGHM Metraco S.A. (sales of merchandise and materials), although they only represent 2.3% of the Group's sales in 2012.

### OTHER SEGMENTS

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This segment is comprised of all other companies of the KGHM Polska Miedź S.A. Group (30 entities), unrelated to the mining industry. This group of entities are very diversified in their operations. Among others they are of an equity investment nature, as well as fulfilling corporate social responsibility. This group includes among others closed-end investment funds and their portfolio companies (including those forming the Polish Spa Group).

A large part of the assets of this segment are significant from the point of view of possible benefits to be gained at the moment of exit from these investments.



## 7. Current and projected financial position (continued)

### 7.2 Assets

At the end of 2012, total assets in the consolidated statement of financial position increased versus the end of the prior year by PLN 2 966 million (i.e. by 10%), mainly due to the acquisition of the KGHM INTERNATIONAL LTD. Group (formerly Quadra FNX Mining Ltd.).

Table 30. Assets (M PLN)

	31.12.2010 restated	31.12.2011 restated	31.12.2012	Structure %	Change 31.12.11=100
<b>Non-current assets</b>	<b>12 614</b>	<b>12 133</b>	<b>23 762</b>	<b>70.7</b>	<b>195.8</b>
Property plant and equipment	8 671	9 093	14 116	42.0	155.2
Intangible assets	605	663	2 259	6.7	x3.4
Investment property	60	60	59	0.2	98.3
Investments accounted for using the equity method	1 431	-	3 078	9.2	-
Deferred tax asset	593	272	637	1.9	x2.3
Available-for-sale financial assets	752	994	892	2.7	89.7
Mine closure financial assets	84	112	460	1.4	x4.1
Derivatives	404	899	745	2.2	82.9
Trade and other receivables	14	40	1 516	4.5	x37.9
<b>Current assets</b>	<b>8 760</b>	<b>18 517</b>	<b>9 854</b>	<b>29.3</b>	<b>53.2</b>
Inventories	2 222	2 658	3 769	11.2	141.8
Trade and other receivables	2 728	1 839	2 846	8.5	154.8
Current corporate tax receivables	4	8	77	0.2	x15.8
Available-for-sale financial assets	416	16	149	0.4	x9.3
Mine closure financial assets	4	2	-	-	-
Derivatives	298	860	382	1.1	44.4
Cash and cash equivalents	3 087	13 130	2 629	7.8	20.0
Non-current assets held for sale	1	4	2	0.0	50.0
<b>TOTAL ASSETS</b>	<b>21 374</b>	<b>30 650</b>	<b>33 616</b>	<b>100.0</b>	<b>109.7</b>

The most important changes in the value of assets was mainly due to the inclusion of the KGHM INTERNATIONAL LTD. Group in the consolidated financial statements, including an increase in: property, plant and equipment by PLN 3 590 million, intangible assets by PLN 1 598 million, and non-current and current receivables by PLN 2 352 million.

The intangible assets of KGHM INTERNATIONAL LTD. comprise expenditures related to exploratory work mainly in respect of the Victoria project in the amount of PLN 979 million. In terms of non-current receivables, the largest item is a loan in the amount of PLN 1 470 million, granted to finance the Sierra Gorda project realised by Sierra Gorda S.C.M. This is a joint venture between KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group (45%). The value of this investment amounts to PLN 3 047 million, and was recognised under investments accounted for using the equity method.

Investments accounted for using the equity method also include the interest of KGHM Polska Miedź S.A. in the joint venture with TAURON Wytwarzanie S.A. – the company „Elektrownia Blachownia Nowa” sp. z o.o. created in 2012. The value of this investment is PLN 33 million.

The large decrease in cash and cash equivalents in 2012 was due to the acquisition of KGHM INTERNATIONAL LTD. (formerly Quadra FNX Mining Ltd.) and the payment of a shareholder dividend by the Parent Entity in the amount of PLN 5 668 million.

Apart from the aforementioned factors, the change in the assets of the Group was also significantly impacted by the following changes in the assets of the Parent Entity, i.e.:

- an increase in property, plant and equipment by PLN 1 166 million, mainly due to realisation of an investment – expenditures in this regard amounted to PLN 1 766 million, of which development-related investments amounted to PLN 1 040 million,

## 7. Current and projected financial position (continued)

### 7.2. Assets (continued)

- an increase in inventories by PLN 636 million, being the result of a planned increase in the volume of inventories due to the planned three month maintenance shutdown of the flash furnace of the Głogów Smelter in the second half of 2013; also of significance was the unit cost of copper production, representing the basis for inventory valuation. Introduction of the minerals extraction tax had the greatest impact on its increase, which in annual terms amounted to 29%,
- an increase in receivables by PLN 185 million, mainly due to trade receivables, which were higher by PLN 98 million (higher sales) and non-financial receivables, higher by PLN 103 million, mainly in respect of receivables involving taxation, customs and insurance as well as non-financial prepayments,
- a decrease by PLN 635 million in the value of derivatives – due to a change in the forward prices of metals and the settlement of derivatives,
- a decrease by PLN 110 million in the value of non-current available-for-sale financial assets – mainly due to valuation of the shares of TAURON Polska Energia S.A. at prices lower than at the end of 2011 (in yearly terms the value of these shares listed on the WSE decreased by 11%). In addition, according to the requirements of International Financial Reporting Standards, due to the fact that the decrease in the fair value of the shares of this company versus their acquisition cost has lasted over 12 months, an impairment loss was accounted. The amount of this impairment loss decreased the financial result and amounts to PLN 151 million.

The value of current available-for-sale financial assets in the Group in 2012 increased due to the acquisition of the KGHM INTERNATIONAL LTD. Group, which at the end of 2012 held shares in listed companies in the amount of PLN 145 million.

**Table 31.** *Assets effectiveness ratios\**

	2010	2011	2012
Assets turnover ratio	0.8	0.7	0.8
Non-current assets turnover ratio	1.4	1.8	1.1
Current assets turnover ratio	2.0	1.2	2.7
Liquid assets turnover ratio	3.0	1.5	4.8

\* Ratios calculated based on end-of-year balances, pursuant to methodology described in Appendix A

The decrease in the non-current assets turnover ratio was due to the significant increase in non-current assets due to the inclusion in the consolidated financial statements of the KGHM INTERNATIONAL LTD. Group and the capital expenditures incurred by the Parent Entity.

The increase in the current assets turnover ratio was due to a decrease in cash and cash equivalents due to the purchase of the shares of KGHM INTERNATIONAL LTD. (formerly Quadra FNX Mining Ltd.) and the payment of a shareholder dividend by the Parent Entity.

## 7. Current and projected financial position (continued)

### 7.3 Equity and liabilities

The share of equity in total equity and liabilities at the end of 2012 amounted to 64.6%.

**Table 32.** *Equity and liabilities (M PLN)*

	31.12.2010 restated	31.12.2011 restated	31.12.2012	Structure %	Change 30.12.11=100
<b>Equity</b>	<b>14 927</b>	<b>23 391</b>	<b>21 710</b>	<b>64.6</b>	<b>92.8</b>
Share capital	2 000	2 000	2 000	5.9	100.0
Revaluation reserve from the measurement of available-for-sale financial assets	120	(38)	(51)	(0.2)	134.2
Revaluation reserve from the measurement of cash flow hedging instruments	90	574	286	0.9	49.8
Exchange differences from the translation of foreign operations	-	19	(235)	(0.7)	x
Retained earnings	12 461	20 547	19 478	57.9	94.8
<b>Equity attributable to shareholders of the Parent Entity</b>	<b>14 671</b>	<b>23 102</b>	<b>21 478</b>	<b>63.9</b>	<b>93.0</b>
<b>Non-controlling interest</b>	<b>256</b>	<b>289</b>	<b>232</b>	<b>0.7</b>	<b>80.3</b>
<b>Non-current liabilities</b>	<b>2 933</b>	<b>2 827</b>	<b>7 120</b>	<b>21.2</b>	<b>x2.5</b>
Trade and other payables	136	142	733	2.2	x5.2
Borrowings, debt securities and finance lease liabilities	174	194	1 783	5.3	x9.2
Derivatives	712	538	230	0.7	42.8
Deferred tax liabilities	168	129	1 760	5.2	x13.6
Liabilities due to employee benefits	1 222	1 339	1 615	4.8	120.6
Provisions for other liabilities and charges	521	485	999	3.0	x2.1
<b>Current liabilities</b>	<b>3 514</b>	<b>4 432</b>	<b>4 786</b>	<b>14.2</b>	<b>108.0</b>
Trade and other payables	2 106	2 249	3 025	9.0	134.5
Borrowings, debt securities and finance lease liabilities	96	104	1 075	3.2	x10.3
Current corporate tax liability	672	1 596	448	1.3	28.1
Derivatives	482	331	25	0.1	7.6
Liabilities due to employee benefits	111	126	133	0.4	105.6
Provisions for other liabilities and charges	47	26	80	0.2	x3.1
<b>TOTAL LIABILITIES</b>	<b>6 447</b>	<b>7 259</b>	<b>11 906</b>	<b>35.4</b>	<b>164.0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>21 374</b>	<b>30 650</b>	<b>33 616</b>	<b>100.0</b>	<b>109.7</b>

A substantial portion of the significant changes with respect to liabilities is mainly due to inclusion in the consolidated financial statements of the KGHM INTERNATIONAL LTD. Group. The most important changes in this regard are an increase in liabilities:

- due to deferred tax by PLN 1 615 million (of which PLN 651 million represents deferred income tax arising from the books of KGHM INTERNATIONAL LTD. and PLN 964 million represents a deferred income tax liability due to the fair value measurement of the net acquired assets, due to provisional accounting for the acquisition of KGHM INTERNATIONAL LTD.),
- due to the issuance of non-current debt securities – senior notes by PLN 1 598 million (issued mainly to acquire funds to realise the Sierra Gorda project),
- due to trade and other payables by PLN 1 069 million.

The remaining significant changes with respect to equity and liabilities are mainly due to events which occurred in the Parent Entity, i.e.:

- a decrease by PLN 1 212 million in equity, due to the dividend paid to shareholders of the Parent Entity for 2011 in the amount of PLN 5 668 million, with profit earned in 2012 in the amount of PLN 4 868 million,
- borrowing incurred in the amount of PLN 1 013 million (at the end of 2011 there were no liabilities in this regard),

## 7. Current and projected financial position (continued)

### 7.3. Equity and liabilities (continued)

- a decrease by PLN 1 198 million in liabilities due to current corporate income tax, due to the settlement of tax paid for 2011, which in 2011 was paid in the form of fixed prepayments calculated on the basis of the tax result for 2009; the amount of these prepayments was lower than the actual tax liability resulting from the CIT 8 tax declaration for 2011 by PLN 1 588 million; the tax paid in the form of prepayments for 2012 was lower in relation to the actual amount for fiscal year 2012 by PLN 390 million.
- a decrease by PLN 615 million in the value of derivatives due to a change in forward metals prices, the forward USD/PLN exchange rate, the settlement of instruments during the year and the opening of new transactions on the copper and currency markets; in the case of the currency market there was a decrease in liabilities by PLN 361 million, while for the copper and silver markets there was a decrease in liabilities respectively of PLN 220 million and PLN 34 million.

**Table 33.** *Assets financing ratios\**

	2010	2011	2012
Coverage of assets by equity	0.7	0.8	0.6
Coverage of non-current assets by equity	1.2	1.9	0.9
Coverage of non-current assets by long-term capital	1.4	2.2	1.2
Coverage of current assets by current liabilities	0.4	0.2	0.5

\* Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A

The decrease in the assets financing ratios was due to a decrease in equity (the payment in 2012 of a dividend for 2011 in an amount higher than profit earned in 2012), alongside an increase in non-current assets (inclusion in the consolidated financial statements of the assets of the KGHM INTERNATIONAL LTD. Group).

### 7.4 Borrowings

Total debt of the Group due to borrowings at the end of 2012 amounted to PLN 1 233 million, and was more than four times higher versus 2011. This increase was mainly due to borrowings by the Parent Entity. The balance of liabilities held by KGHM Polska Miedź S.A. at the end of 2012 due to bank loans amounted to PLN 1 013 million. The company made use of bank loans, using both an overdraft facility as well as a working capital facility. Open lines of credit are available in PLN, USD and EUR. In prior years KGHM Polska Miedź S.A. did not make use of borrowings in the form of bank loans.

**Table 34.** *Borrowings in the Group (M PLN)*

	31.12.2010	31.12.2011	31.12.2012	Change 2011=100
<b>Non-current borrowings</b>	<b>144</b>	<b>178</b>	<b>173</b>	<b>97.2</b>
of which:				
- bank loans	142	177	165	93.2
- other loans	2	1	8	x8
<b>Current borrowings</b>	<b>84</b>	<b>94</b>	<b>1 060</b>	<b>x11.3</b>
of which:				
- bank loans	82	92	1 057	x11.5
- other loans	2	2	3	162.6
<b>Total</b>	<b>228</b>	<b>272</b>	<b>1 233</b>	<b>x4.5</b>

## 7. Current and projected financial position (continued)

### 7.4. Borrowings (continued)

Table 35. Borrowings in the Group as at 31 December 2012

company	Currency	Type of bank and other loans	Maturity	Balance at 31.12.2012
<b>KGHM Polska Miedź S.A.</b>	USD	Working capital facility	31.08.2013	USD 90 M PLN 279 M
	USD	Overdraft facility	14.10.2013	USD 142 M PLN 441 M
	EUR	Overdraft facility	21.10.2013	EUR 47 M PLN 191 M
	USD	Overdraft facility	25.09.2013	USD 33 M PLN 102 M
<b>Interferie Medical SPA Sp. z o.o.</b>	EUR	Investment bank loan	31.12.2021	EUR 14 M PLN 57 M
<b>„Energetyka” sp. z o.o.</b>	PLN	Investment bank loan	31.08.2018	PLN 33 M
<b>KGHM LETIA S.A.</b>	PLN	Investment bank loan	30.06.2026	PLN 14 M
<b>KGHM CUPRUM sp. z o.o. - CBR</b>	PLN	Investment bank loan	30.09.2021	PLN 17 M
<b>KGHM Ecoren S.A.</b>	PLN	loan from NFOŚiGW	31.03.2016	PLN 9 M
	PLN	Investment bank loan	30.09.2014	PLN 8 M
	PLN	Investment bank loan	18.10.2016	PLN 8 M
<b>INTERFERIE S.A.</b>	PLN	Investment bank loan	30.11.2021	PLN 12 M
	PLN	Investment bank loan	28.12.2017	PLN 3 M
<b>POL-MIEDŹ TRANS Sp. z o.o.</b>	PLN	Investment bank loan	31.07.2021	PLN 17 M
	PLN	loan from WFOŚiGW	16.11.2014	PLN 0.2 M
<b>ZUK S.A.</b>	PLN	Investment bank loan	25.12.2019	PLN 11 M
	PLN	Investment bank loan	28.12.2018	PLN 2 M
<b>WMN „ŁABĘDY” S.A.</b>	PLN	Overdraft facility	24.08.2014	PLN 8 M
	PLN	loan from WFOŚiGW	05.03.2018	PLN 1 M
<b>PHP „MERCUS” sp. z o.o.</b>	PLN	Overdraft facility	30.06.2013	PLN 4 M
<b>Uzdrowisko Polczyn S.A.</b>	PLN	Overdraft facility	31.12.2013	PLN 2 M
	PLN	Investment bank loan	31.03.2023	PLN 1 M
	PLN	Working capital facility	30.04.2014	PLN 0.5 M
	PLN	Investment bank loan	25.05.2022	PLN 2 M
<b>„Uzdrowisko Cieplice” sp. z o.o.</b>	PLN	Investment bank loan	26.09.2026	PLN 2 M
	PLN	loan from WFOŚiGW	16.12.2015	PLN 0.2 M
	PLN	loan from WFOŚiGW	16.10.2019	PLN 0.2 M
	PLN	loan from WFOŚiGW	16.10.2019	PLN 0.2 M

## 7. Current and projected financial position (continued)

### 7.4. Borrowings (continued)

company	Currency	Type of bank and other loans	Maturity	Balance at 31.12.2012
Uzdrowisko „Świeradów-Czerniawa” sp. z o.o.	PLN	Investment bank loan	30.11.2020	PLN 2 M
	PLN	Investment bank loan	14.10.2017	PLN 1 M
	PLN	Overdraft facility	05.12.2013	PLN 1 M
	PLN	Overdraft facility	31.01.2014	PLN 0.4 M
	PLN	Overdraft facility	30.09.2013	PLN 0.1 M
PHU „Lubinpex” Sp. z o.o.	PLN	Overdraft facility	30.06.2013	PLN 1 M
	PLN	Overdraft facility	10.06.2013	PLN 1 M

### Loans granted within the Group

Table 36. Loans granted between Group companies as at 31 December 2012

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2012	Maturity
<b>Loans granted by KGHM Polska Miedź S.A.</b>				
„Energetyka” sp. z o.o.	2009	PLN 50 M	PLN 35 M	31.12.2019
KGHM LETIA S.A.	2012	PLN 8 M	PLN 8 M	30.06.2013
<b>Loans granted by KGHM INTERNATIONAL LTD.</b>				
Robinson Holdings (USA) Ltd.	2007	USD 200 M	USD109 M PLN338 M	on demand, no later than to 01.10.2016
Robinson Holdings (USA) Ltd.	2008	USD 100 M	USD100 M PLN310 M	on demand, no later than to 30.06.2013
Sociedad Contractual Minera Franke	2010	USD 100 M	USD99 M PLN307 M	on demand
Sociedad Contractual Minera Franke	2012	USD 30 M	USD14 M PLN43 M	on demand
Malmbjerget Molybdenum A/S	2011	USD 20 M	USD3 M PLN9 M	on demand, no later than to 31.12.2014
Quadra FNX FFI Ltd.	2012	USD 483 M	USD209 M PLN648 M	on demand
0929260 BC Unlimited Liability Company	2012	USD 111 M	USD111 M PLN 344 M	31.12.2018
0929260 BC Unlimited Liability Company	2012	CAD 21 M	CAD21 M PLN 65 M	indefinite (paid in 2013)
<b>Loans granted by KGHM AJAX MINING INC.</b>				
Sugarloaf Ranches Ltd.*	2012	CAD 6 M	CAD3 M PLN 9 M	indefinite
<b>Loans granted by KGHM Ecoren S.A.</b>				
Walcownia Metali Nieżelaznych „ŁABĘDY” S.A.	2012	PLN 4 M	PLN 4 M	28.02.2018
Ecoren DKE Sp. z o.o.	2011 2012 - Annex	PLN 1 M	PLN 1 M	30.06.2013

\* loan acquired together with the acquisition of Sugarloaf Ranches Ltd.

## 7. Current and projected financial position (continued)

### 7.4. Borrowings (continued)

Apart from the loans shown in the previous table, in 2012, between entities of the KGHM Polska Miedź S.A. Group, loans were granted as shown in Table 20, whose aim was to acquire the shares of KGHM INTERNATIONAL LTD. (formerly Quadra FNX Mining Ltd.).

**Table 37.** Loans granted to other entities as at 31 December 2012

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2012	Maturity
<b>Loan granted by KGHM INTERNATIONAL LTD.</b>				
Sierra Gorda SCM	2012	USD 770 M	USD 474 M PLN 1 470 M	indefinite

### CASH POOL

In 2012, the Parent Entity implemented cash management services in the KGHM Polska Miedź S.A. Group – zero balance cash pooling, with interest based on variable WIBOR with a borrowing limit of PLN 229 million as at 31 December 2012. This service enables optimisation of costs and effective management of current financial liquidity in the KGHM Polska Miedź S.A. Group.

The Parent Entity is the coordinator of this service. This function is based on establishing the conditions for functioning of the system, including in particular the principles for calculating interest and representation of the entire Group in bank relations with respect to services. KGHM Polska Miedź S.A. is also a participant in the cash pool system, into which it deposits its financial surpluses and, in case of need, takes advantage of financing possibilities.

Liquidity risk related to the implemented cash management services in the Group is immaterial due to the amount of cash committed by KGHM Polska Miedź S.A., which at the end of the reporting period amounted to PLN 4 million.

The daily limit of cash available in the cash pool for individual companies and the amount of liabilities and receivables under the cash pool system as at 31 December 2012 is shown in the following table.

**Table 38.** Limits and cash balances due to cash pooling as at 31 December 2012 ('000 PLN)

company	Daily cash limit	Liabilities as at 31 Dec 2012	Receivables as at 31 Dec 2012
KGHM Metraco S.A.	75 000	11 826.3	-
ZANAM-LEGMET Sp. z o.o.	70 000	57 116.4	-
POL-MIEDŹ TRANS Sp. z o.o.	20 000	1 738.3	-
„Energetyka” sp. z o.o.	15 000	0.6	-
KGHM Ecoren S.A.	10 000	-	3 356.1
PHP „MERCUS” sp. z o.o.	10 000	-	-
WPEC w Legnicy S.A.	10 000	5.8	3 233.4
INTERFERIE S.A.	10 000	1 120.0	-
INOVA Spółka z o.o.	5 000	-	424.0
CBJ sp. z o.o.	3 000	-	2 450.4
PMT LK Sp. z o.o.	1 000	-	-
PeBeKa S.A.	-	-	56 867.6
Zagłębie Lubin S.A.	-	-	0.3
Interferie Medical SPA Sp. z o.o.	-	-	1 907.5
<b>TOTAL</b>		<b>71 807.4</b>	<b>68 239.3</b>

### Guarantees granted

In 2012, the companies of the KGHM Polska Miedź S.A. Group did not grant any guarantees on bank and other loans, and did not grant any guarantees to a single entity or to a subsidiary of said entity, whose total amount would represent at least 10% of the equity of KGHM Polska Miedź S.A.

## 7. Current and projected financial position (continued)

### 7.5 Contingent assets and liabilities

As at 31 December 2012, contingent liabilities amounted to PLN 732 million, and related mainly to:

- guarantee granted – PLN 539 million (mainly a guarantee granted under a contract for the supply of electricity to the Sierra Gorda S.C.M. project in the amount of PLN 519 million),
- contracts on the implementation of projects and inventions - PLN 128 million.

In addition, liabilities to municipalities due to the signing of an agreement related to development of the Żelazny Most tailings pond which were not recognised in the statement of financial position amounted to PLN 193 million.

Contingent assets as at 31 December 2012, amounted to PLN 448 million and related mainly to:

- bid securities and security deposits received by the Group in the form of bank and insurance guarantees related to the economic activities conducted by the Group - PLN 211 million,
- overpayment of the real estate tax on underground mines - PLN 87 million (the appeals process is underway at the Local Government Appeal Court for the return of overpayment due to a judgment of the Constitutional Tribunal dated 13 September 2011),
- promissory note receivables – PLN 81 million.

Other contingent assets primarily involve disputed State budget issues and projects and inventions.

### 7.6 Statement of profit or loss

**Table 39.** Consolidated statement of profit or loss (M PLN)

	31.12.2010 restated	31.12.2011 restated	31.12.2012	Change 31.12.11=100
<b>Continued operations</b>				
Sales	16 767	22 107	26 705	120.8
Cost of sales	(9 292)	(11 631)	(18 079)	155.4
<b>Gross profit</b>	<b>7 475</b>	<b>10 476</b>	<b>8 626</b>	<b>82.3</b>
Selling costs	(133)	(187)	(402)	215.0
Administrative expenses	(700)	(849)	(1 082)	127.4
Other operating income	649	4 605	1 669	36.2
Other operating costs	(1 788)	(813)	(2 217)	x2.7
<b>Operating profit</b>	<b>5 503</b>	<b>13 232</b>	<b>6 594</b>	<b>49.8</b>
Finance costs	(44)	(52)	(146)	x2.8
Share of profits of associates accounted for using the equity method	281	188	-	-
<b>Profit before income tax</b>	<b>5 740</b>	<b>13 368</b>	<b>6 448</b>	<b>48.2</b>
Income tax expense	(1 096)	(2 300)	(1 645)	71.5
<b>Profit for the period from continued operations</b>	<b>4 644</b>	<b>11 068</b>	<b>4 803</b>	43.4
<b>Discontinued operations</b>				
<b>Profit for the period from discontinued operations</b>	-	60	-	-
<b>Profit for the period</b>	<b>4 644</b>	<b>11 128</b>	<b>4 803</b>	<b>43.2</b>

As a result of inclusion of the KGHM INTERNATIONAL LTD. Group in the consolidated financial statements in 2012, there was:

- an increase in sales by PLN 3 704 million,
- an increase in operating profit by PLN 134 million,
- an increase in profit for the period by PLN 28 million.

In addition, the financial result of the Group in 2012 was significantly impacted by the financial result of the Parent Entity.

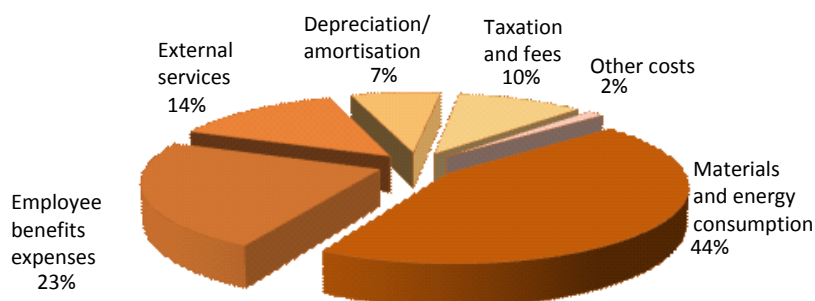
KGHM Polska Miedź S.A. realised a profit for 2012 in the amount of PLN 4 868 million, meaning a decrease by PLN 6 526 million (57%) versus profit earned in 2011. A detailed description of the factors which resulted in this situation may be found on page 188 of this report.



## 7. Current and projected financial position (continued)

### 7.6. Statement of profit or loss (continued)

**Chart 6.** Structure of expenses by nature in the Group in 2012



A significant new element in operating costs in the Parent Entity is the minerals extraction tax. This tax was introduced in accordance with the Act on the minerals extraction tax dated 2 March 2012, which came into force on 18 April 2012. The amount of this tax recognised under operating costs in the current reporting period amounted to PLN 1 596 million. The mineral extraction tax is calculated from the amount of copper and silver contained in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax increase the manufacturing cost and is not deductible for corporate tax purposes.

**Table 40.** Structure of the profit for the period (M PLN)

Details	Profit for 2012
<b>KGHM Polska Miedź S.A.</b>	<b>4 868</b>
<b>Subsidiaries</b>	<b>107</b>
<i>of which:</i>	
KGHM INTERNATIONAL LTD. Group (from 05.03.2012-31.12.2012)	231*
Other companies of the KGHM Polska Miedź S.A. Group	(124)
<b>Total profit of Group entities</b>	<b>4 975</b>
Consolidation adjustment	(173)
<b>Group profit attributable to shareholders of the Parent Entity</b>	<b>4 802</b>
Profit attributable to non-controlling interest	1
<b>Total profit for the period</b>	<b>4 803</b>

\*amount before fair value measurement

**Table 41.** Economic activities ratios \*

	2010	2011	2012
Current liquidity	2.5	4.2	2.1
Quick liquidity	1.9	3.6	1.3
ROA - return on assets (%)	21.7	36.2	14.3
ROE - return on equity (%)	31.1	47.3	22.1
Debt ratio (%)	30.2	23.5	35.4
Durability of financing structure (%)	83.6	85.7	85.8

\* Ratios calculated according to methodology in Appendix A

## **7. Current and projected financial position (continued)**

### **7.6. Statement of profit or loss (continued)**

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The deterioration in these ratios is mainly due to a lower level of cash – at the end of 2011, the company maintained a high level of cash and cash equivalents to acquire the shares of Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.). Apart from realisation of this transaction, the decrease in the level of cash and cash equivalents was also due to the payment of a shareholder dividend in an amount higher than in the prior year (PLN 5 668 million in 2012; PLN 2 980 million in 2011).

The decrease in profit in 2012 versus 2011 resulted in a deterioration in the ratios describing the return on assets (ROA) and the return on equity (ROE).

The increase in the debt ratio was due to the inclusion in the consolidated financial statements of the liabilities of the KGHM INTERNATIONAL LTD. Group (mainly due to the issuance of senior notes) and to borrowing by the Parent Entity.

### **7.7 Risk management**

The Group continuously identifies and measures financial risk, and also takes actions aimed at minimising its impact on the financial situation. Understanding those threats deriving from exposure to financial risk, having an appropriate organisational structure and adopted procedures enables better realisation of its tasks.

The main types of risk to which the Group is exposed are:

- 1) market risk:
  - the risk of changes in metals prices,
  - the risk of changes in exchange rates,
  - the risk of changes in interest rates,
  - price risk related to investments in debt securities, in participation units in investment funds and in shares of listed companies,
- 2) liquidity risk,
- 3) credit risk.

The Parent Entity, based on the adopted Market Risk Management Principles, Financial Liquidity Management Policy and the Credit Risk Management Policy in a conscientious and responsible manner manages the identified types of financial risk. In the KGHM INTERNATIONAL LTD. Group the principles of financial risk management were defined in an Investment Policy.

The Parent Entity supervises the process of managing liquidity and acquiring external financing in the Group.

The process of financial risk management in the Parent Entity is supported by a Market Risk Committee and a Credit Risk Committee.

#### **Market risk**

The Group actively manages that market risk to which it is exposed. Amongst the companies of the Group only the Parent Entity applies hedging strategies (under hedge accounting). To restrict market risk, the Parent Entity mainly utilises derivatives. It also uses natural hedging.

KGHM Polska Miedź S.A. permits the use of derivatives such as swaps, options, forward contracts, futures and structures combining the above instruments. The Parent Entity applies a consistent and step-by-step approach to market risk management.

#### Risk of changes in metals prices

The Parent Entity is exposed to the risk of changes in the prices of copper, silver and gold. The remaining Group companies are additionally exposed to the risk of volatility in the prices of nickel, lead, molybdenum, platinum and palladium.

In the Parent Entity, the formulas for setting prices contained in physical sales contracts are mainly based on the average monthly prices set on the London Metal Exchange in the case of copper, and on the London Bullion Market in the case of silver and gold.

To hedge against falls in metals prices, KGHM Polska Miedź S.A. uses derivatives.

The nominal volume for strategies hedging the copper price which were settled in 2012 was approx. 35% (in 2011, 35%) of the total sales of this metal realised by the Parent Entity. With respect to silver this figure amounted to approx. 27% (in 2011, 9%). In the case of the currency market, hedged revenues from sales represented approx. 16% (in 2011, 19%) of total revenues from sales realised by the Parent Entity.

## **7. Current and projected financial position (continued)**

### **7.7. Risk management (continued)**

In 2012, the Parent Entity implemented copper price hedging strategies with a total volume of 196.5 thousand tonnes and a time horizon falling in the years 2013-2015, using options (Asian options), including seagulls and collars.

During the reporting period the Parent Entity did not implement any strategies hedging the silver price.

#### Risk of changes in exchange rates

Some Group companies are exposed to the risk of changes in exchange rates, as it is generally accepted that physical contracts for the supply of metals are either concluded or denominated in USD, although in the companies of the Group costs are also incurred in other base currencies than the USD – mainly the Polish złoty (PLN), the Canadian dollar (CAD) and the Chilean peso (CLP). This leads to the arising of risk related to volatility in the USD/PLN, USD/CAD and USD/CLP exchange rates, from the moment a commercial contract is signed until the moment the exchange rate is set. Additionally, in a situation where a foreign customer pays in local currency for the metal they import, there also arises risk related to volatility in other exchange rates, for example: EUR/PLN and GBP/PLN.

Group companies are also exposed to the risk of changes in exchange rates whose sources are loans and other liabilities (e.g. arising from the import of goods and services) denominated in currencies other than currencies in which these companies achieve revenues.

In the case of the forward currency market, in 2012 the Parent Entity implemented transactions hedging revenues from sales with a total nominal amount of USD 720 million and a time horizon falling in the years 2014-2015. The Parent Entity made use of collar options (European options).

#### Risk of changes in interest rates

Interest rate risk is the danger of the negative impact of changes in interest rates on the results of the Group. The Group is exposed to this risk due to loans granted, cash deposits, participation in zero balance cash pooling and borrowing.

The balance of loans granted as at 31 December 2012 amounted to PLN 1 470 million. This item comprised a loan granted by KGHM INTERNATIONAL LTD. in respect of the financing of a joint venture, created with entities of the Sumitomo Group to realise a mining project in Chile. Interest on this loan is based on a fixed interest rate.

The balance of cash and cash equivalents in the Group as at 31 December 2012 amounted to PLN 2 629 million. In 2012, the Group engaged in borrowing in the form of bank loans, other loans and issued senior notes.

In 2012, the Group financed its current activities through of borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility. Open lines of credit are available in PLN, USD and EUR. Interest is based on variable WIBOR, LIBOR and EURIBOR plus a margin.

As at 31 December 2012, the Group held liabilities due to borrowing in the amount of PLN 1 222 million.

As at 31 December 2012, the Group held liabilities due to non-current loans received in the amount of PLN 8 million and liabilities due to current loans received in the amount of PLN 3 million, with interest based on a fixed interest rate.

As at 31 December 2012, the Group held liabilities due to issued senior notes in the amount of PLN 1 598 million. The issuer of these notes is KGHM INTERNATIONAL LTD., with interest based on a fixed interest rate and a maturity falling in 2019.

During the reporting period the Group, as in the comparable prior period, did not use interest rate risk hedging instruments.

The impact of changes in interest rates on the Group's results is considered as immaterial, due to the scale of the Group's operations.

#### Price risk related to investments in debt securities and in shares of listed companies

As at 31 December 2012, the Group held government bonds in the amount of PLN 304 million with a variable interest rate.

Investments by the Group in debt securities and in participation units in investment funds are only slightly exposed to price risk.

Price risk related to shares of listed companies held by the Group, is understood as a change in their fair value due to a change in their share price. The carrying amount of the shares of companies held by the Group which are listed on the Warsaw Stock Exchange and on the TSX Venture Exchange as at 31 December 2012 amounted to PLN 1 022 million.

## **7. Current and projected financial position (continued)**

### **7.7. Risk management (continued)**

#### **Liquidity risk and capital management**

Capital management is aimed at maintaining financial liquidity in a continuous manner, in each period. The Group actively manages the risk of loss of liquidity to which it is exposed. This risk is understood as a loss of the ability to pay financial liabilities on time and to gain resources to finance its activities.

Financial liabilities due to derivatives are calculated as the intrinsic value of these instruments, excluding the discount factor.

In 2012, the Group held guarantees granted. These items represent contingent liabilities and do not materially affect the liquidity risk of the Group.

Financial liquidity management in the Parent Entity is carried out in accordance with the Financial Liquidity Management Policy adopted by the Management Board.

In KGHM INTERNATIONAL LTD., liquidity management principles are regulated by its Investment Policy. These documents describe the process of managing financial liquidity, taking into consideration the specific nature of Group companies, guided by best practice in procedures and instruments. The basic principles resulting from these documents are:

- the deposition of financial surpluses in liquid instruments,
- limits for individual categories of financial investments,
- limits on the concentration of funds for financial institutions, and
- ensuring the appropriate quality and variety of available financing sources.

In order to minimise the risk of loss of liquidity, in 2012 the Group engaged in a significant degree of borrowing in the form of bank and other loans as well as issued senior notes. This involved the use of investment bank loans, working capital facilities and overdraft facilities.

KGHM INTERNATIONAL LTD. engages in borrowing in the form of long-term notes in the amount of PLN 1 598 million with maturity falling in 2019. These notes, issued in a private placement, give KGHM INTERNATIONAL LTD. the opportunity for early redemption, to 15 June 2014 up to 35% of the issue, and after this date up to 100% of the issue, at their nominal price, plus a premium if redemption is made prior to 15 June 2017. Also, in case of a change in the ownership structure of KGHM INTERNATIONAL LTD., every note holder has the right to demand their redemption. The acquisition in 2012 by KGHM Polska Miedź S.A. of the shares of KGHM INTERNATIONAL LTD. did not result in demands by the holders for redemption of these notes.

In accordance with approved market practice, the companies of the Group monitor their capital levels, based among others on the equity and debt/EBITDA ratios. The equity ratio is calculated as the ratio of net assets (equity less intangible assets) to total assets. The debt/EBITDA ratio is calculated as the ratio of liabilities due to bank and other loans and finance leases less unallocated cash and short-term investments with maturity up to 1 year, to EBITDA (operating profit plus depreciation/amortisation).

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

Due to the servicing of debt by the Group, as at 31 December 2012, the ratio of debt/EBITDA amounted to 0.02. The equity ratio was above the assumed minimum level and at 31 December 2012 amounted to 0.58.

In the first half of 2012, cash management services were implemented in the KGHM Polska Miedź S.A. Group – zero balance cash pooling – with interest based on variable WIBOR with a borrowing limit of PLN 229 million as at 31 December 2012.

This service enables optimisation of costs and effective management of current financial liquidity in the KGHM Polska Miedź S.A. Group.

#### **Credit risk**

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

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging transactions are undertaken, and also of those in whom unallocated cash resources are deposited, and
- the creditworthiness of companies in which equity investments are made.

## **7. Current and projected financial position (continued)**

### **7.7. Risk management (continued)**

The Group allocates periodically unallocated cash resources in accordance with requirements to maintain financial liquidity and limit risk as well as in order to preserve capital and maximise interest income.

All entities with which deposit transactions are entered into by the Group operate in the financial sector. These are solely banks with the highest, medium-high and medium ratings, and which also have an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD., credit risk of this type is constantly monitored by on-going review of their financial condition and by maintaining an appropriately low level of concentration in individual financial institutions.

As at 31 December 2012, the maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounted to 16% (as at 31 December 2011, 25%).

All entities with which derivative transactions are entered into by the Group operate in the financial sector. Taking into consideration the fair value of open positions in derivatives entered into by the Group, as well as unsettled derivatives, as at 31 December 2012 the maximum share of a single entity with respect to credit risk arising from these transactions amounted to 17% (as at 31 December 2011, 24%).

Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as to cooperation with highly-rated financial institutions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.

In order to reduce cash flows as well as credit risk, the Parent Entity carries out net settlement (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.

To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2012 the Parent Entity had secured 82% of its trade receivables.

The total value of the Group's net trade receivables as at 31 December 2012, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 2 199 million (as at 31 December 2011, PLN 1 328 million).

The concentration of credit risk in the Group results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 31 December 2012 the balance of receivables from 7 of the Group's largest clients, in terms of trade receivables at the end of the reporting period, represented 32% of the trade receivables balance (as at 31 December 2011, 42% respectively). Despite the concentration of this type of risk, it is believed that, due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

There are substantial trade receivables in the following Group companies: KGHM Polska Miedź S.A., PLN 1 082 million; the KGHM INTERNATIONAL LTD. Group, PLN 792 million.

Individual Group companies operate in various economic sectors, such as transport, construction, commerce, industrial production and energy. Consequently, in the case of most Group companies, in terms of sectors, there is no concentration of credit risk. KGHM INTERNATIONAL Ltd. operates in the same economic sector as the Parent Entity. Despite operating in the same sector, the two companies are different both in terms of their portfolios of products as well as in terms of the geographic location and nature of their customers, and consequently this sector concentration of credit risk is considered to be acceptable.

As at 31 December 2012, the balance of loans granted by the Group amounted to PLN 1 470 million. This item is represented by a loan granted by KGHM INTERNATIONAL LTD. for the financing of a joint venture, created with companies of the Sumitomo Group to realise a mining project in Chile. Interest on this loan is based on a fixed interest rate and payable on demand of the lender. Credit risk related to the loan granted is dependent on the risk connected with mine project realisation and presently is considered to be moderate.

As at 31 December 2012, the Group held government bonds with a carrying amount of PLN 304 million.

These investments, classified as available-for-sale financial assets, are only slightly exposed to price risk due to the nature of the issuer. The investment policies of the Group restrict the possibility of purchasing this category of asset to investments in government securities and money market funds, depositing financial resources in money market instruments and in government securities whose time remaining to maturity does not exceed one year, or whose interest is set for a period of no longer than one year.

## 7. Current and projected financial position (continued)

### 7.7. Risk management (continued)

In terms of mine closure financial assets, as at 31 December 2012 KGHM INTERNATIONAL LTD. held government environmental bonds amounting to PLN 296 million. Due to the nature of the issuer, this investment is only slightly exposed to risk.

### 7.8 Disputed issues

At 31 December 2012, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 353 million, including receivables of PLN 131 million and liabilities of PLN 223 million. The total value of the above disputed issues does not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables in 2012:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 74 million,
- proceedings by subsidiaries amounted to PLN 57 million.

Value of proceedings involving liabilities in 2012:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 179 million,
- proceedings against subsidiaries amounted to PLN 44 million.

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

**Table 42.** *Largest on-going proceedings by and against KGHM Polska Miedź S.A. and its subsidiaries at the end of 2012*

#### Proceedings involving liabilities

##### **Setting additional royalties for the extraction of copper ore for the period from the start of 2006 to the end of the 3rd quarter of 2011**

The municipalities (Gminas) of Polkowice, Lubin, the City of Lubin, Radwanice and Jerzmanowa submitted requests to the Minister of the Environment to open administrative proceedings to set royalties for the extraction by KGHM Polska Miedź S.A., for the period from the start of 2006 to the end of the 3rd quarter of 2011, of copper ore from deposits located in these municipalities and to allow them to participate as parties in these proceedings.

The municipalities have charged that KGHM Polska Miedź S.A. lowered the amount of royalties paid on extracted non-balance copper ore in the total amount of PLN 90 million, including that portion payable to the municipalities in the amount of PLN 54 million, with the remainder representing payments to the National Fund for Environmental Protection and Water Management.

The Minister of the Environment, in decisions dated 11 April 2012, discontinued the proceedings on the grounds that they were unfounded. The municipalities submitted appeals dated 26 April 2012 to the Minister of the Environment to reopen these proceedings.

In decisions dated 11 August 2012, the Minister of the Environment upheld the validity of the decisions. The municipalities submitted appeals to the decisions of the Minister of the Environment to the Regional Administrative Court, which in judgment dated 31 January 2013 dismissed the charges of the municipalities. These judgment are not legally valid. Individual municipalities have the right to submit cassation appeals to the Supreme Administrative Court.

In the company's opinion any cassation appeals by the municipalities should be dismissed.

##### **Royalties for use of invention project no. 1/97/KGHM**

Value of amount under dispute: PLN 42 million. The claim was filed with the Regional Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received a summons on 14 January 2008. Each of the plaintiffs in this suit is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8th period of the project's application (calendar year 2006).

In accordance with a judgment of the Regional Court in Legnica, in June 2012 a court expert issued a further opinion regarding the methodology for calculating the economic effects by the plaintiffs and the company for 2006, being the basis for setting potential royalties. The Parent Entity questioned the opinion, and requested that a supplementary opinion be prepared calculating the economic effects.

At a hearing on 13 November 2012, the court admitted evidence from the supplementary opinion. This opinion is being prepared.

In the Parent Entity's opinion the royalties being pursued by the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project.

## 7. Current and projected financial position (continued)

### 7.8. Disputed issues (continued)

#### Proceedings involving liabilities

##### Payment of remuneration or contractual penalties

Value of amount under dispute: PLN 20 million. In a claim from April 2012, filed against „Energetyka” sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.), liquidation receiver Gross-Pol Sp. z o. o. is demanding payment of remuneration or contractual penalties due to the execution of five contracts entered into in the years 2007, 2008 and 2009.

„Energetyka” sp. z o. o., in a response to the claim dated 10 September 2012, requested the dismissal of the claim in its entirety, citing their claim and evidence for its support. Proceedings are in progress.

#### Proceedings involving receivables

##### Return of costs of protecting against mining damage

Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the Regional Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of work to protect against mine damages incurred during construction of the Centrum Handlowo-Uslugowe „CUPRUM ARENA” in Lubin. Proceedings are in progress.

In the Parent Entity's opinion the claim is unfounded and should be dismissed.

##### Return of undue royalties for use of invention project no. 1/97/KGHM

In January 2008 KGHM Polska Miedź S.A. filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 million for use of invention project no. 1/97/KGHM in the 6th and 7th periods (calendar years 2004 – 2005). The court has combined both these matters – the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, with the claims of KGHM Polska Miedź S.A. for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 million, for joint hearing. Proceedings are in progress.

In the Parent Entity's opinion the payment of royalties to the project's authors was unfounded.

##### Return of excise tax

Value of amount under dispute: PLN 18 million. „Energetyka” sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Voivodeship Administrative Court against a decision of the Director of the Customs Office setting excise taxation from January 2006 to February 2009. The Voivodeship Administrative Court, in a judgment from October 2011, overturned the decision opposed by the subsidiary, and ordered compensation to be paid to the subsidiary in the amount of PLN 107 thousand.

„Energetyka” sp. z o. o., in December 2011, filed a cassation appeal against the judgment of the Voivodeship Administrative Court to the Supreme Administrative Court. Proceedings are in progress.

##### Return of excise tax

Amount under dispute: PLN 13 million. POL-MIEDŹ TRANS Sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Voivodeship Administrative Court against a decision of the Director of the Customs Office setting excise taxation for individual months from March to December 2003.

The Voivodeship Administrative Court, in judgments from April, May and June 2011, dismissed the claims. POL-MIEDŹ TRANS Sp. z o. o. filed cassation appeals against the judgments to the Supreme Administrative Court. Proceedings are in progress.

## 7.9 Realisation of projected financial results for 2012

Forecasts of the consolidated results of the KGHM Polska Miedź S.A. Group are not prepared. Each company prepares its own projections of its results.

The Parent Entity publishes its projections of results. In a current report dated 27 March 2012 the company published its Budget assumptions for 2012 as accepted by the Supervisory Board on the same day. The Budget assumed the achievement in 2012 of revenues from sales in the amount of PLN 19 418 million and profit of PLN 3 804 million.

Along with the improvement in macroeconomic conditions (weakening of the PLN versus the USD), during 2012, the Parent Entity updated its forecast. The final projection of financial results was published in a current report dated 29 October 2012.

Basic assumptions, projected results and their realisation are shown in Table 43.

## 7. Current and projected financial position (continued)

### 7.9. Realisation of projected financial results for 2012 (continued)

**Table 43.** Realisation of projected financial results of KGHM Polska Miedź S.A. for 2012

		Forecast (27.03.2012)	Forecast update (29.10.2012)	Execution 2012	Realisation of forecast (%)**
<b>Sales</b>	<b>M PLN</b>	<b>19 418</b>	<b>20 633</b>	<b>20 737</b>	<b>100.5</b>
<b>Profit for the period</b>	<b>M PLN</b>	<b>3 804</b>	<b>4 744</b>	<b>4 868</b>	<b>102.6</b>
Average annual copper price	USD/t	8 000	7 850	7 950	101.3
Average annual silver price	USD/troz	30.00	30.50	31.15	102.1
USD/PLN exchange rate	USD/PLN	3.09	3.28	3.26	99.4
Electrolytic copper production	kt	562.0	564.2	565.8	100.3
- of which from purchased copper-bearing materials	kt	147.3	145.9	146.7	100.5
Silver production	t	1 098	1 199	1 274	106.3
Total unit cost of electrolytic copper production from own concentrate	PLN/t	15 729	15 077	14 590	96.8
Capital expenditure	M PLN	2 100	1 930	1 766	91.5
Equity investments *	M PLN	10 671	9 833	9 637	98.0

\* Purchase of shares and investment certificates, increases of share capital and owner loans and payments to subsidiaries

\*\* For forecast dated 29 October 2012

Due to on-going updating of the forecast during 2012, the final realisation of financial results did not substantially differ from the planned amounts.

### 7.10 Projected Group financial situation

As mentioned above, forecasts of the consolidated results of the Group are not prepared. Each company develops its own budget and multi-year plans. The subsidiaries of the Group follow unified principles for budgeting and planning. The structure of annual budgets and five-year plans is based on separate centres of responsibility. The plans of Group entities are evaluated based on their conformance with the Strategy of the Parent Entity and Group, from which in turn arise basic questions associated with the directions of equity investment, the development of specific areas of activities and with the dividend policy. Due to the introduction in 2011 of a new management model for the Group, the managers of the separate business units appointed by the Management Board of KGHM Polska Miedź S.A. participate in the process of setting the strategic goals (long- and medium-term) and budgetary goals of individual companies in areas appropriate for each business unit. A significant role in Group planning is played by the effective management of cash flow, the optimal financing of current activities, risk management and control of costs.

Execution of these plans by the subsidiaries is continuously monitored by the supervisory boards of these entities as well as by the equity supervision unit of the Parent Entity. The KGHM Polska Miedź S.A. Group also applies unified reporting principles. The financial and economic condition of Group entities is evaluated in detail on a quarterly basis, with monthly monitoring. Planning and budgeting in Group entities is supported by the integrated IT systems which have been implemented in these companies.

The budgets of the subsidiaries for 2012 were correlated with the Budget of the Parent Entity, mainly with respect to the directions of development of the Group. They reflect the results of realisation of projects included in the equity investment plan of KGHM Polska Miedź S.A. and of the cash flow between entities within the Group.

On 14 February 2013, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2013. The basis for preparing the Budget were the results of 2012 and the assumptions of operating plans. The basic assumptions of the Budget for 2013 are presented in the following table.



## 7. Current and projected financial position (continued)

### 7.10. Projected Group financial situation (continued)

**Table 44.** Budget assumptions of KGHM Polska Miedź S.A. for 2013

	Unit	Execution 2012	Budget 2013	Change 2012=100
<b>Sales</b>	<b>M PLN</b>	<b>20 737</b>	<b>18 930</b>	<b>91.3</b>
<b>Profit for the period</b>	<b>M PLN</b>	<b>4 868</b>	<b>3 204</b>	<b>65.8</b>
<b>EBITDA</b>	<b>M PLN</b>	<b>7 198</b>	<b>5 337</b>	<b>74.1</b>
Average annual copper price	USD/t	7 950	7 800	98.1
Average annual silver price	USD/troz	31.15	32.00	102.7
Exchange rate	USD/PLN	3.26	3.10	95.1
Total unit cost of electrolytic copper production from own concentrate	PLN/t	14 590	17 087	117.1
C1 cash cost of concentrate production	USD/lb	1.34	1.76	131.3
Production of copper in concentrate	kt	427.1	425.1	99.5
Electrolytic copper production	kt	565.8	548.0	96.9
- of which from purchased copper-bearing materials	kt	146.7	146.6	99.9
Silver production	t	1 274	1 075	84.4
Capital expenditure	M PLN	1 766	2 470	139.8
Equity investments limit *	M PLN	9 637	523	5.4

\* Purchase of shares and investment certificates, increases of share capital and owner loans and payments to subsidiaries

The decrease in profit versus 2012 is mainly due to:

- a change in the level of the USD/PLN exchange rate,
- lower production volume of basic products due to the planned maintenance shutdown in the Głogów Smelter, and
- recognition of the full impact of the minerals extraction tax (in the previous year the company incurred this tax from 18 April 2012).

The above factors are also the main reason for the increase in costs of electrolytic copper production from own concentrate and the cash cost of copper in concentrate production – C1.

The assumed decrease in the level of production, and consequently in the sales of basic products, is due to the necessity of carrying out a planned three-month maintenance-modernisation shutdown at the Głogów II Smelter.

Realisation of this forecast will be monitored by the company on an on-going basis. Should there occur significant deviation from the amounts forecasted, the company will perform an adjustment to the forecast and immediately will publish it in the form of a current report.

### 7.11 Intentions as regards equity investments

The intentions of KGHM Polska Miedź S.A. as regards equity investments are mainly aimed at:

- development of the resource base- increase and geographical diversification of the resource base in the Group, increased copper production from own resources,
- realisation of investments in enterprises/entities which directly support the core business and in the energy sector.

Development of the resource base is one of the main goals of the operating strategy realised by KGHM Polska Miedź S.A.. Equity investments in this area enable the conduct of exploration projects and geological-assessment work, the realisation of development projects, including the construction of mines and the acquisition of entities which own mining assets.

On 5 March 2012, KGHM Polska Miedź S.A. completed the acquisition of a Canadian mining company listed in Toronto - Quadra FNX Mining Ltd (currently KGHM INTERNATIONAL LTD.). In 2013 and in subsequent years, work will be continued on development and exploration projects acquired as part of the acquisition of Quadra FNX – including the Sierra Gorda project in Chile, Victoria in Canada, exploration work in Canada and Chile, and also on optimising the operations of existing producing assets.

In addition, work will be conducted aimed at commencing the construction of a mine as part of the Afton-Ajax project in British Columbia, Canada and continuation of the exploration project in Saxony.

KGHM Polska Miedź S.A. provides capital support to those Group entities whose strategies and scopes of operation are closely connected with the Core Business in the Legnica-Głogów Copper Belt.

## **7. Current and projected financial position (continued)**

### **7.11. Intentions as regards equity investments (continued)**

With respect to investments in the energy sector, on 4 July 2012, KGHM Polska Miedź S.A. signed a framework agreement with the following companies: Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"), ENEA S.A., PGE Polska Grupa Energetyczna S.A., and TAURON Polska Energia S.A. on the exploration and extraction of shale gas („Agreement”). Under the Agreement the subject of cooperation will be the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG ("Wejherowo concession"). With respect to the Wejherowo concession, there will be close cooperation involving a total area of around 160 km<sup>2</sup> („Area of Cooperation”). Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones (the Kochanowo, Częstkowo and Tępcz pads) within the Area of Cooperation are projected to be in the amount of PLN 1 720 million.

In accordance with the annexes to the Agreement signed on 12 November 2012 and on 20 February 2013, the period for determination of details regarding the terms of cooperation was extended to 4 February 2013, and then to 4 May 2013. Should such specific arrangements not be determined by 4 May 2013, the Agreement may be terminated by each of the Parties. The annex also stipulated that if within three months after reaching such arrangements the Parties have not received all of the required corporate approvals, or if by 31 December 2013 the required antimonopoly clearances have not been received, the Agreement will expire.

In addition, KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. are jointly realising an investment based on the construction of a power plant. Towards this end, on 5 September 2012 both entities founded a special purpose company called „Elektrownia Blachownia Nowa” sp. z o.o. with its registered head office in Kędzierzyn Koźle. Detailed information on this project may be found on page 162 of this report.

Realising the strategy related to corporate social responsibility (CSR), KGHM Polska Miedź S.A. intends to continue to support selected investments in pursuit of this strategy.

In addition, activities will be continued aimed at optimising the structure of KGHM Group Polska Miedź S.A., including among others through the liquidation process. At present the liquidation process is continuing for the companies KGHM CONGO S.P.R.L. with its registered head office in Lubumbashi in the Democratic Republic of Congo and KGHM Kupferhandelsges. m.b.H.i.L in Vienna. The commencement of other proceedings is being considered, among others within the KGHM INTERNATIONAL LTD. Group.

### **Possibility of realising investment intentions in terms of the amount of funds possessed, reflecting potential changes in the structure of financing these activities**

The cash possessed by the Parent Entity at the present moment and the external financing obtained guarantee the possibility of realisation of its investment intentions, both in terms of equity investments as well as expenditures on the purchase and construction of property, plant and equipment.

## **8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A.**

This report on the application of corporate governance principles in KGHM Polska Miedź S.A. fulfils the requirements set forth in §91 sec. 5 point 4 of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of recognising information as equivalent as required by the laws of a non-member state (Journal of Laws from 2009, No. 33, item 259 with subsequent amendments). The publication of this report is also equivalent to providing the Warsaw Stock Exchange with the report on the application of corporate governance principles in KGHM Polska Miedź S.A., as provided for by §29 sec. 5 of the Bylaws of the WSE.

In 2012 the corporate governance principles applied were in the form of the „Code of Best Practice for WSE Listed Companies” representing an appendix to resolution no. 20/1287/2011 dated 19 October 2011. These principles are available on the official website of the Warsaw Stock Exchange on this subject ([www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl)), as well as on the website of KGHM Polska Miedź S.A. ([www.kghm.pl](http://www.kghm.pl)) under the section on corporate governance.

## **8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, applied the corporate governance principles described in the document „Code of Best Practice for WSE Listed Companies” (chapters II, III and IV). The company has endeavoured at every stage of its operations to carry out all of the recommendations respecting best practice for listed companies (chapter I). Comments on these recommendations are discussed below.

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, KGHM Polska Miedź S.A. made the broadest possible use of both traditional as well as modern technology for the distribution of information about the company (recommendation I.1 of the Code of Best Practice for WSE Listed Companies).

In 2012 the Parent Entity decided not to comply only with the recommended on-line transmission of General Meetings, but has registered these meetings and immediately made them available on the company website in both Polish and English, accessible under the section Investors/Webcasts. KGHM Polska Miedź S.A. at present is preparing to provide direct transmissions of General Meetings.

Due to changes in the Code of Best Practice for WSE Listed Companies from 1 January 2013, published in an Appendix to Resolution No. 19/1307/2012 of the Exchange Supervisory Board dated 21 November 2012, KGHM Polska Miedź S.A. announced that it foresees an exemption from application of the principle set out in Section IV point 10 of the Code, regarding providing for the participation of shareholders in General Meetings using electronic means of communication with respect to real-time bilateral communication, based on which shareholders may take the floor during a General Meeting from a location other than that of the Meeting.

The company does not preclude the possibility of providing shareholders with real-time bilateral communication during General Meetings in the future.

### **8.1 General Meeting**

The General Meeting of KGHM Polska Miedź S.A. is the company's highest body. It meets in either an ordinary or an extraordinary form, based on prevailing law, the Statutes of the company and the Bylaws of the General Meeting. The corporate documents are available on the Parent Entity's website.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the company's activity and the financial statements, including the consolidated financial statements of the KGHM Polska Miedź S.A. Group, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the company,
- changing the subject of the company's activity,
- changes in the company Statutes,
- increasing or decreasing the share capital,
- setting the manner and conditions for retiring shares,
- merging, splitting and transforming the company,
- dissolving and liquidating the company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the foundation of the company, or from management or supervisory activities,
- purchase of the company's own shares, which are to be offered to employees or persons who were employed by the company or by related companies for a period of at least three years,
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to execute their rights.

In accordance with the Statutes of KGHM Polska Miedź S.A., the State Treasury may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted.

The introduction of changes to the company Statutes requires a resolution by the General Meeting and an entry in the National Court Register of a constitutive nature. Changes in the company Statutes are made by the General Meeting in conformance with prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, KGHM Polska Miedź S.A. applies only those regulations which are obligatory, i.e. those which require the publication of announcements and materials for the general meetings on websites and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in general meetings using electronic means of communication are not applied.

## **8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **8.2 Shareholders and their rights**

The only shareholder of the Parent Entity holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting on both 1 January 2012 and 31 December 2012 was the Polish State Treasury.

This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A., representing 31.79% of the share capital and of the total number of votes at the general meeting.

The shareholders of KGHM Polska Miedź S.A. exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the company and the Bylaws of the General Meeting.

Shareholders are entitled to exercise their voting during General Meetings either personally or through a proxy. All of the shares are bearer shares. Each share grants the right to one vote. There is no limitation to the transferral of ownership rights to the shares of KGHM Polska Miedź S.A. or with respect to the execution of voting rights on the shares of the company, other than those generally prescribed by laws in force. The Parent Entity has not issued securities which would grant special control rights in respect of the company.

### **8.3 Supervisory Board**

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A., in all of the company's functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 members are elected by the company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board operates on the basis of prevailing law, the Statutes of the company and the Bylaws of the Supervisory Board.

The composition of the 8th-term Supervisory Board at 1 January 2012 was as follows:

- Jacek Kuciński - Chairman,
- Marcin Dyl - Deputy Chairman,
- Marek Panfil - Secretary,
- Franciszek Adamczyk,
- Arkadiusz Kawecki,
- Jan Rymarczyk,
- Marzenna Weresa

as well as the following employee-elected members:

- Lech Jaroń,
- Maciej Łaganowski,
- Paweł Markowski.

During 2012 the following changes occurred in the composition of the Supervisory Board:

- on 19 January 2012 the Extraordinary General Meeting resolved to:
  - dismiss from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa,
  - appoint to the Supervisory Board: Aleksandra Magaczewska, Krzysztof Kaczmarczyk, Mariusz Kolwas, Robert Oliwa and Jacek Poświata;
- on 13 February 2012, the Supervisory Board selected Marek Panfil to serve in the function of Deputy Chairman, and Mariusz Kolwas in the function of Secretary;
- on 17 April 2012, Marek Panfil resigned from the function of Deputy Chairman and on the same day the Supervisory Board selected Aleksandra Magaczewska to serve in this function;
- on 24 April 2012, Mariusz Kolwas resigned from serving as a Member of the Supervisory Board;
- on 25 April 2012, the Extraordinary General Meeting resolved to:
  - dismiss from the Supervisory Board: Jacek Kuciński and Marek Panfil,
  - appoint to the Supervisory Board: Paweł Białek, Dariusz Krawczyk and Ireneusz Piecuch;
- on 21 May 2012, the Supervisory Board selected to serve in the function of:
  - Chairwoman - Aleksandra Magaczewska,
  - Deputy Chairman - Krzysztof Kaczmarczyk,
  - Secretary - Dariusz Krawczyk;
- on 28 June 2012, the Ordinary General Meeting resolved to dismiss Lech Jaroń, Maciej Łaganowski and Paweł Markowski from the Supervisory Board, related to a request of the company's employees regarding the dismissal of members of the Supervisory Board elected by the company's employees and the results of voting on this request;

## **8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **8.3. Supervisory Board (continued)**

- on 3 July 2012, Robert Oliwa submitted his resignation from serving as a Member of the Supervisory Board effective as of the date of the General Meeting of KGHM Polska Miedź S.A., the subject of which was changes in the composition of the Supervisory Board;
- on 3 September 2012, the Extraordinary General Meeting resolved to appoint Krzysztof Opawski to the composition of the Supervisory Board;
- on 21 November 2012, the Extraordinary General Meeting resolved to appoint Bogusław Szarek, elected by the employees of KGHM Polska Miedź S.A., to the composition of the Supervisory Board.

Following the aforementioned changes, the composition of the 8th-term Supervisory Board as at 31 December 2012 was as follows:

- Aleksandra Magaczewska - Chairwoman,
- Krzysztof Kaczmarczyk - Deputy Chairman,
- Dariusz Krawczyk - Secretary,
- Paweł Białek,
- Ireneusz Piecuch,
- Krzysztof Opawski,
- Jacek Poświata

as well as the following employee-elected member:

- Bogusław Szarek.

Krzysztof Kaczmarczyk, Dariusz Krawczyk, Krzysztof Opawski and Jacek Poświata have submitted declarations on the fulfilment of independence criteria described in III.6 of the „Code of Best Practice for WSE Listed Companies”.

#### **Supervisory Board Committees**

Under the auspices of the Supervisory Board are the Audit Committee, the Remuneration Committee and the Strategy Committee. These committees assist the Supervisory Board with respect to preparing evaluations and opinions and the taking of other actions aimed at decision-making by the Supervisory Board.

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits.

The Remuneration Committee is responsible for supervising the realisation of contracts signed with the Management Board, the remuneration system and benefits paid out in the Parent Entity and Group, training and other benefits provided by the company, as well as audits performed by the Supervisory Board in this regard.

The Strategy Committee supervises the realisation of strategy of KGHM Polska Miedź S.A., the annual and multi-year operating plans of company, supervising the uniformity of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the Parent Entity and any changes thereto, as well as on the company's annual and multi-year operating plans.

The rights, scope of activities and manner of work of these Committees are described by regulations approved by the Supervisory Board. On 10 October 2012, the Supervisory Board introduced changes in the scope of tasks of individual Committees.

#### Audit Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Audit Committee are as follows:

- supervision on behalf of the Supervisory Board of the process of financial reporting in the company, including the process of reporting to the Supervisory Board,
- analysis and/or assessment of the accounting principles adopted by the company,
- review of the transactions conducted by the company, which are regarded as material for the company by the Audit Committee,
- analysis and monitoring of the conclusions resulting from the control of the risk management processes in the company,
- execution of the process of selection of independent auditors to audit the financial statements of the company in order to recommend the choice made to the Supervisory Board, and participation in the negotiations before the conclusion of the agreement with the auditor by the company,
- on-going cooperation with the independent auditor of the company during the audit, performance of analysis and the drawing of conclusions from the audit and opinion of the auditor regarding the financial statements, auditor's letter to the Management Board and/or the Supervisory Board, and the preparation of draft reports and assessments required under the regulations by the company's authorities or other official institutions,
- issuing an opinion on the company's internal audit plan and on the rules of the internal audit, and on any changes in the position of the internal audit director,
- analysis of the conclusions and recommendations of the company's internal audit including the monitoring of the degree of implementation of recommendations by the company's Management Board,
- monitoring of the rules applied in the company in the areas of accounting, finances and hedging against the commercial and financial risks and the risk of exposing the company to major loss, and other tasks ordered by the Supervisory Board.

## **8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **8.3. Supervisory Board (continued)**

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. at 1 January 2012:

- Marek Panfil,
- Marcin Dyl,
- Marzenna Weresa.

Following changes in the Supervisory Board, from 31 January 2012 the composition of the Audit Committee was as follows:

- Lech Jaroń (to 28 June 2012),
- Krzysztof Kaczmarczyk,
- Mariusz Kolwas (to 24 April 2012),
- Robert Oliwa (to 3 September 2012).

On 21 May 2012, Paweł Białek was appointed to the Audit Committee, and on 1 October 2012, Krzysztof Opawski.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board at 31 December 2012:

- Paweł Białek,
- Krzysztof Kaczmarczyk,
- Krzysztof Opawski.

#### Remuneration Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

- management of the affairs associated with the recruitment and employment of the management board members by preparing and arranging the draft documents and processes to be submitted for the acceptance of the Supervisory Board,
- preparation of the draft agreements and other model documents in relation to the establishment of an employment relationship with the management board members and supervision of the execution of contractual obligations of the parties,
- supervision of the execution of the management board remuneration system, specifically preparation of the settlement documents in the area of variable elements and bonus-based remuneration in order to submit the recommendations to the Supervisory Board,
- monitoring and periodic analyses of the remuneration system of senior management of the company and, if necessary, the preparation of recommendations for the Supervisory Board,
- supervision of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, apartments, etc.,

and other tasks ordered by the Supervisory Board.

As at 1 January 2012 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:

- Arkadiusz Kawecki (to 19 January 2012),
- Franciszek Adamczyk (to 19 January 2012),
- Jacek Kuciński (to 25 April 2012).

Following changes in the Supervisory Board, from 31 January 2012 the composition of the Remuneration Committee was as follows:

- Maciej Łaganowski (to 28 June 2012),
- Paweł Markowski (to 28 June 2012),
- Jacek Kuciński (to 25 April 2012).

On 21 May 2012 the following persons were appointed to the Remuneration Committee: Paweł Białek, Dariusz Krawczyk and Robert Oliwa (a member of the Committee to 3 September 2012). Ireneusz Piecuch became a member of this Committee on 1 October 2012.

As at 31 December 2012 the composition of the Remuneration Committee was as follows:

- Paweł Białek,
- Dariusz Krawczyk,
- Ireneusz Piecuch.

#### Strategy Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

- execution on behalf of the company's Supervisory Board of the tasks in the area of supervision of the issues associated with the company's strategy and annual and long-term operating plans of the company,

## **8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **8.3. Supervisory Board (continued)**

- monitoring the execution of the company's strategy by the Management Board of the company and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
- monitoring the execution of annual and long-term operating plans of the company by the Management Board, and assessment of whether these plans need to be modified,
- assessment of the consistency of the annual and long-term operating plans of the company with the company's strategy executed by the Management Board, and the presentation of any proposed changes in all such company documents,
- submission to the company's Supervisory Board of its opinions regarding the draft strategies of the company and any changes thereto and annual and long-term operating plans of the company, presented by the company's Management Board,

and other tasks ordered by the Supervisory Board.

As at 1 January 2012 the following Members of the Supervisory Board served on the Strategy Committee of the Supervisory Board of KGHM Polska Miedź S.A.:

- Franciszek Adamczyk,
- Jacek Kuciński,
- Jan Rymarczyk.

Following changes in the Supervisory Board, from 31 January 2012 the composition of the Strategy Committee was as follows:

- Krzysztof Kaczmarczyk,
- Jacek Kuciński (to 25 April 2012),
- Aleksandra Magaczewska,
- Jacek Poświata.

On 21 May 2012, Paweł Białek and Ireneusz Piecuch were appointed to the Strategy Committee, and on 1 October 2012, Dariusz Krawczyk.

As at 31 December 2012 the composition of the Strategy Committee was as follows:

- Paweł Białek,
- Krzysztof Kaczmarczyk,
- Dariusz Krawczyk,
- Aleksandra Magaczewska,
- Krzysztof Opawski,
- Ireneusz Piecuch,
- Jacek Poświata.

After the end of the year the Audit, Remuneration and Strategy Committees submit a report of their activities to the Supervisory Board.

### **8.4 Management Board**

The Management Board conducts the business of the company and represents it externally. The duties of the Management Board include all those matters pertaining to the functioning of the company which have not otherwise been assigned by law or the Statutes to the duties of other company bodies. The Management Board operates based on prevailing law, the Statutes of the company and the Regulations of the Management Board. The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. In accordance with §29 sec. 1 point 6 of the Statutes of the company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the company). The Management Board of KGHM Polska Miedź S.A. does not have the authority to increase the share capital or issue the shares of the company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The Management Board of KGHM Polska Miedź S.A. is comprised of 1 to 7 persons appointed for a mutual term of office. The term of office of the Management Board lasts three years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board. The Supervisory Board appoints and dismisses any employee-elected member of the Management Board.

The composition of the 7th-term Management Board and the segregation of duties amongst its Members from 1 January to 28 June 2012 was as follows:

- |                   |  |
|-------------------|--|
| - Herbert Wirth   | - President of the Management Board,                   |
| - Maciej Tybura   | - I Vice President of the Management Board (Finance),  |
| - Wojciech Kędzia | - Vice President of the Management Board (Production). |

## **8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **8.4. Management Board (continued)**

On 27 June 2012, the Supervisory Board of KGHM Polska Miedź S.A. decided that the 8th-term Management Board of KGHM Polska Miedź S.A. would be composed of five members of the Management Board.

On 28 June 2012, the date the Ordinary General Meeting was convened to approve the financial statements for financial year 2011, the Supervisory Board appointed the 8th-term Management Board, including Herbert Wirth as President of the Management Board as well as the following Members of the Management Board: Wojciech Kędzia, Włodzimierz Kiciński, Dorota Włoch and, from 1 September 2012, Adam Sawicki.

On 25 July 2012, the Supervisory Board assigned Włodzimierz Kiciński the function of I Vice President of the Management Board.

On 10 October 2012, the Supervisory Board assigned the following functions to the Members of the Management Board:

- Herbert Wirth - President of the Management Board,
- Włodzimierz Kiciński - I Vice President of the Management Board (Finance),
- Wojciech Kędzia - Vice President of the Management Board (Production),
- Adam Sawicki - Vice President of the Management Board (Corporate Affairs),
- Dorota Włoch - Vice President of the Management Board (Development).

To the end of 2012 there were no changes in the composition of the Management Board.

### **8.5 Description of the basic characteristics of internal control and risk management systems applied in the company with respect to the process of preparing financial statements and consolidated financial statements**

KGHM Polska Miedź S.A. has an internal control and risk management system, for whose proper and effective functioning in the process of preparing the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the Group the Management Board of KGHM Polska Miedź S.A. is responsible. The system of internal control and risk management in this regard is based on the identification and assessment of areas of risk, with the simultaneous defining and undertaking of actions aimed at its minimisation or total elimination.

#### Supervision of the application of a uniform accounting policy

In order to ensure truth and accuracy in the keeping of the accounting books of KGHM Polska Miedź S.A. and the uniformity of applied accounting principles in preparing the financial statements of Group subsidiaries, the following has been introduced for continuous use:

- an Accounting Policy for KGHM Polska Miedź S.A. and the Group, in accordance with International Financial Reporting Standards, continuously updated based on new regulations,

and in addition, for KGHM Polska Miedź S.A.

- Principles for Financial Management and for an Economic System,
- Documentation for an IT Accounting Data Processing System,
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets, and
- Sector Chart of Accounts in accordance with IFRS,

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of KGHM Polska Miedź S.A. and the Group, along with the established uniform scope and principles of financial reporting.

The Accounting Policy approved by KGHM Polska Miedź S.A., based on International Financial Reporting Standards, is obligatory for the entities of the Group, mainly with respect to the preparation of data packets for the preparation of the Consolidated financial statements. Each subsidiary company prepares its own principles of economic and financial management and chart of accounts.

Some subsidiaries prepare their separate statements according to the Accounting Act, although a plan is currently being implemented for them to gradually adopt IFRS.

#### IT Systems

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, uniformity of accounting records and control between ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. KGHM Polska Miedź S.A. continuously adapts the IT information system to changing accounting principles or other legal standards, thanks to the high operational flexibility available to the IT system modules. In accordance with art. 10 of the Accounting Act, documentation of the IT accounting system is periodically verified and updated, and confirmed each time by the heads of the units, i.e. the Management Board of KGHM Polska Miedź S.A. and the management boards of subsidiaries.



## **8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **8.5. Description of the basic characteristics of internal control and risk management systems applied in the company with respect to the process of preparing financial statements and consolidated financial statements (continued)**

Access to the resources of the financial and accounting system and financial reporting – separate and consolidated – is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

The subsidiaries implement organisational solutions and systems and to ensure the proper use and protection of their systems, and secure access to data and computer equipment. The entities develop their own protection policies in the form of internal regulations for access to resources, granting entitlements and control at each stage of the preparation of financial statements.

#### Audit Committee

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of KGHM Polska Miedź S.A. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the company and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- recommends to the Supervisory Board an entity entitled to audit financial statements.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the truth and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A.

#### Internal Audit

A fundamental element of risk management with respect to the process of preparing financial statements of KGHM Polska Miedź S.A. is examining the functioning of control mechanisms and the existence of risk in the operations of the Parent Entity, carried out by internal audit. The tasks realised by internal audit are based on the "Integrated Audit Plan of KGHM Polska Miedź S.A." for the given calendar year approved by the Management Board of KGHM Polska Miedź S.A. The goal of internal audit is to provide the Management Board and Supervisory Board of KGHM Polska Miedź S.A. with independent and objective information on and evaluations of the risk management and internal control systems, and analyses of business processes in KGHM Polska Miedź S.A., selected companies based in Poland from the KGHM Polska Miedź S.A. Group, and also, from 2013, in Group companies based outside of Poland. In 2012 the following processes were analysed: management of deliveries of materials, raw materials and services, management of maintenance and repairs, management of information technology, and management of consumables. Remedial actions (recommendations) are continuously implemented by the Management Board of KGHM Polska Miedź S.A. and monitored by the Management Board in conjunction with the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A.

#### Internal Control

The internal control system in KGHM Polska Miedź S.A. encompasses all of the processes functioning in the company, including those areas which directly or indirectly affect the correctness of the financial statements. Internal (institutional) control is performed by a separate department in the organisational structure, which is focused on diagnosing and clarifying situations which could indicate the existence of improprieties and abuse. Apart from institutional control, the obligation fully remains for every level of management staff to perform their control – within supervisory-related duties.

With respect to systems of control and assessment of risk arising from activities, the subsidiaries have their own internal procedures.

Internal control in Group entities functions based on regulations adopted by the managements of these companies. In most companies, internal control has an institutional nature – realised by separate organisational units. The companies regulate their own internal control systems independently, depending on the scale of their operations and the needs of the Management Board. Internal control activities have a direct or indirect impact on the accuracy of the financial statements.

## **8. Report on the application of corporate governance principles by KGHM Polska Miedź S.A. (continued)**

### **8.5. Description of the basic characteristics of internal control and risk management systems applied in the company with respect to the process of preparing financial statements and consolidated financial statements (continued)**

#### Audit and review of the separate and consolidated financial statements by a certified auditor

The annual financial statements of KGHM Polska Miedź S.A. and the annual consolidated financial statements of the KGHM Polska Miedź S.A. Group are audited by an independent certified auditor. The half-year financial statements of KGHM Polska Miedź S.A. and the half-year consolidated financial statements of the KGHM Polska Miedź S.A. Group are subject to review by the certified auditor. The financial statements of key companies of the KGHM Polska Miedź S.A. Group are audited and reviewed by the same entity which audits and reviews the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group.

#### Process of approving and providing an opinion on the separate and consolidated financial statements

The Management Board of KGHM Polska Miedź S.A. approves prior to publication the quarterly, half-year and annual financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group. The half-year and annual financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group, prior to publication, are also subject to the process of providing an opinion by the Supervisory Board in terms of their compliance with IFRS based on the duties set forth in the act on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision. Preparation of the financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group are subject to supervision by the I Vice President (Finance) of KGHM Polska Miedź S.A., while responsibility for the preparation of data packets for the consolidated financial statements of the KGHM Polska Miedź S.A. Group lies with the management boards of companies subject to consolidation.

Most of the Group's companies have Supervisory Boards, which under art. 4a of the Accounting Act, are responsible for ensuring compliance of the financial statements and management reports with prevailing law.

Many years of experience in the identification, documentation, record maintenance and control of economic operations and established audit and inspection procedures supported by modern information technology used in the registration, processing and presentation of economic and financial data have become the basis for the effective systems of internal control and risk management in the process of preparing financial statements in KGHM Polska Miedź S.A., which due to the quality of the information they contain have for many years been awarded the highest assessment in the competition „The Best Annual Report“.

#### KGHM INTERNATIONAL LTD.

KGHM INTERNATIONAL LTD. maintains appropriate mechanisms for the internal control of financial reporting. This process is compliant with the Canadian standard National Instrument 52-109 for the disclosure of annual and periodic information obligatory for issuers who submit financial statements to the Canadian Securities Commission. Internal control exercised by the Management Board is based on COSO standards, which ensures sufficient confidence in terms of achieving goals with respect to the efficiency and effectiveness of operations and the accuracy of financial reporting (independent opinion, review and confirmation by company bodies).

The Audit Committee of the Board of Directors of KGHM INTERNATIONAL LTD. supervises the compliance of the financial statements and management discussion and analysis reports of KGHM INTERNATIONAL LTD. with Canadian law in this regard.

## **9. Significant subsequent events**

### **Significant commercial contracts**

- 1) On 21 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch for silver sales in 2013. The estimated value of the contract is PLN 1 672 million.

As a result of entering into this contract, the total estimated value of contracts entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch over the last 12 months exceeded 10% of the equity of the Parent Entity and amounts to PLN 3 654 million. The highest-value contract signed during this period is the above-mentioned contract.

## 9. Significant subsequent events (continued)

- 2) On 28 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2013. The estimated value of this contract is PLN 1 524 million. As a result of entering into this contract, the total estimated value of contracts entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH over the last 12 months exceeded 10% of the equity of the Parent Entity and amounts to PLN 3 497 million. The highest-value contract entered into during this period is the contract for the sale of copper cathodes in 2012 entered into on 30 January 2012. The value of this contract is PLN 1 824 million.
- 3) On 31 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and Prysmian Metals Limited for the sale of copper wire rod in 2013 and 2014. The estimated value of this contract is from PLN 2 382 million to PLN 2 865 million, depending on the amount of tonnage under option and on the relocation of tonnage between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH. This amount was calculated based on the forward copper curve from 30 January 2013 and the USD/PLN exchange rate per the NBP from 30 January 2013. The contract with Prysmian Metals Limited provides for the relocation of materials between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH.

### Signing of an Annex to the Framework Agreement on the Joint Exploration for and Extraction of Shale Gas

On 21 February 2013, the Management Board of the Parent Entity signed an Annex to the Framework Agreement on the Joint Exploration for and Extraction of Shale Gas of 4 July 2012. The parties of the Annex are all parties of the Agreement, i.e. KGHM Polska Miedź S.A., Polskie Górnictwo Naftowe i Gazownictwo SA, PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. The Parties have decided to prolong the period for determination of details regarding the terms of cooperation until 4 May 2013. Details of the Framework Agreement and the annexes signed is presented on page 162 of this report.

### Forecast of results for 2013

On 14 February 2013, the Supervisory Board of the Parent Entity approved the Budget of KGHM Polska Miedź S.A. for 2013 submitted by the Management Board. The bases for preparation of the Budget were the preliminary results for 2012 and the assumptions of individual operating plans.

The forecast results, which is based on the assumptions used in the approved Budget, assumes the achievement in 2013 of revenues from sales of PLN 18 930 million, profit for the period of PLN 3 204 million and EBITDA at the level of PLN 5 337 million.

Information regarding the detail assumptions of this forecast of results are presented in table 44.

### Borrowing agreements entered into by the Parent Entity

- On 2 January 2013, an overdraft facility agreement was signed for the amount of PLN 200 million, available for the period from 3 January 2013 to 2 January 2014,
- On 2 January 2013, an overdraft facility agreement was signed for the amount of PLN 100 million, available for the period from 7 January 2013 to 19 December 2013,
- On 7 January 2013, a working capital facility agreement was signed for the amount of PLN 200 million, available for the period from 7 January 2013 to 7 January 2014,
- On 17 January 2013, an agreement was signed for an overdraft facility and a working capital facility for the amount of PLN 500 million, available for the period from 4 February 2013 to 3 February 2016.

Interest on the amounts drawn will be based on WIBOR + a bank margin.

### Sierra Gorda CAPEX definitive cost estimate

On 1 March 2013 the Management Board of KGHM Polska Miedź S.A. announced the definitive cost estimate and scheduled start-up for the company's flagship Sierra Gorda copper-molybdenum-gold project in Chile, 55% owned by KGHM INTERNATIONAL LTD. (100% subsidiary of KGHM Polska Miedź S.A.), 31.5% owned by Sumitomo Metal Mining and 13.5 % owned by Sumitomo Corporation.

The estimated total initial capex is projected at approximately USD 3.9 billion compared with the February 2011 estimate of USD 2.9 billion. The start of commercial production in Sierra Gorda mine is still scheduled to be in 2014.

## **9. Significant subsequent events (continued)**

The Management Board of KGHM Polska Miedź S.A. also announced that the Board of Directors of KGHM INTERNATIONAL LTD. has approved the 2013 budget. The key assumptions of the budget are: copper production at the level of 93.7 thousand t (207 million lbs), nickel production at the level of 5 thousand t (11 million lbs) and total precious metal production at the level of 2 t (64 kozs). The estimated C1 cash cost is projected at the level of 2.3 USD/lb. Total capital expenditures for 2013, including the capital expenditures on the Sierra Gorda project, are projected to reach USD 733 million.

### **Elections by employees of persons to the Supervisory Board of the company**

On 14 March 2013, the Management Board of KGHM Polska Miedź S.A. announced that as a result of elections carried out on 12-13 March 2013, the employees of KGHM Polska Miedź S.A. chose the following two persons to the Supervisory Board: Józef Czyczerski and Leszek Hajdacki. The persons elected by the employees become members of the Eighth Term Supervisory Board from the moment of adoption of appropriate resolutions by the General Meeting of KGHM Polska Miedź S.A.

**APPENDIX A: Methodology of calculating ratios used in the report**

**Assets effectiveness ratios**

$$\begin{aligned} \text{Assets turnover ratio} &= \frac{\text{sales}}{\text{total assets}} \\ \text{Non-current assets turnover ratio} &= \frac{\text{sales}}{\text{non-current assets}} \\ \text{Current assets turnover ratio} &= \frac{\text{sales}}{\text{current assets}} \\ \text{Liquid assets turnover ratio} &= \frac{\text{sales}}{\text{current receivables} + \text{cash and cash equivalents}} \end{aligned}$$

**Assets financing ratios**

$$\begin{aligned} \text{Coverage of assets by equity} &= \frac{\text{equity}}{\text{total assets}} \\ \text{Coverage of non-current assets by equity} &= \frac{\text{equity}}{\text{non-current assets}} \\ \text{Coverage of non-current assets by long-term capital} &= \frac{\text{equity} + \text{non-current liabilities}}{\text{non-current assets}} \\ \text{Coverage of current assets by current liabilities} &= \frac{\text{current liabilities}}{\text{current assets}} \end{aligned}$$

**Economic activity ratios**

$$\begin{aligned} \text{Current liquidity} &= \frac{\text{current assets}}{\text{current liabilities}} \\ \text{Quick liquidity} &= \frac{\text{current assets} - \text{inventories}}{\text{current liabilities}} \\ \text{ROA (return on assets)} &= \frac{\text{profit for the period}}{\text{total assets}} \times 100 \\ \text{ROE (return on equity)} &= \frac{\text{profit for the period}}{\text{equity}} \times 100 \\ \text{Debt ratio} &= \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100 \\ \text{Durability of financing structure} &= \frac{\text{equity} + \text{non-current liabilities}}{\text{equity and liabilities}} \times 100 \end{aligned}$$

**APPENDIX B: List of tables, diagrams and charts**

**TABLES**

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<b>Date</b>	<b>First, last name</b>	<b>Position /Function</b>	<b>Signature</b>
27 March 2013	Herbert Wirth	President of the Management Board	
27 March 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
27 March 2013	Wojciech Kędzia	Vice President of the Management Board	
27 March 2013	Adam Sawicki	Vice President of the Management Board	
27 March 2013	Dorota Włoch	Vice President of the Management Board	