POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS 2014

(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 **2014** comprising the period from **1 January 2014** to **31 December 2014**
containing the consolidated financial statements according to IFRS in PLN.

publication date: 16 March 2015

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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

SELECTED FINANCIAL DATA		in mn PLN		in mn EUR	
		year 2014 period from 1 January 2014 to 31 December 2014	**year 2013** period from 1 January 2013 to 31 December 2013	**year 2014** period from 1 January 2014 to 31 December 2014	**year 2013** period from 1 January 2013 to 31 December 2013
I.	Sales revenue	20 492	24 110	4 892	5 725
II.	Operating profit	3 676	4 372	877	1 038
III.	Profit before income tax	3 098	4 235	740	1 006
IV.	Profit for the period	2 451	3 033	585	721
V.	Profit for the period attributable to shareholders of the Parent Entity	2 450	3 035	585	721
VI.	Profit for the period attributable to non-controlling interests	1	(2)	0	(0)
VII.	Other comprehensive income	997	49	238	12
VIII.	Total comprehensive income	3 448	3 082	823	733
IX.	Total comprehensive income attributable to the shareholders of the Parent Entity	3 441	3 091	821	735
X.	Total comprehensive income attributable to non-controlling interest	7	(9)	2	(2)
XI.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII.	Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	12.25	15.18	2.92	3.60
XIII.	Net cash generated from operating activities	4 849	4 924	1 157	1 169
XIV.	Net cash used in investing activities	(5 544)	(4 730)	(1 323)	(1 123)
XV.	Net cash (used in)/generated from financing activities	248	(1 961)	59	(466)
XVI.	Total net cash flow	(447)	(1 767)	(107)	(420)
		At 31 December 2014	**At 31 December 2013**	**At 31 December 2014**	**At 31 December 2013**
XVII.	Non-current assets	33 569	26 488	7 876	6 387
XVIII.	Current assets	6 805	7 977	1 597	1 923
XIX.	Total assets	40 374	34 465	9 473	8 310
XX.	Non-current liabilities	9 993	6 714	2 345	1 619
XXI.	Current liabilities	4 851	4 687	1 138	1 130
XXII.	Equity	25 530	23 064	5 990	5 561
XXIII.	Equity attributable to shareholders of the Parent Entity	25 302	22 841	5 937	5 507
XXIV.	Non-controlling interest	228	223	53	54

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

	31 December 2014	31 December 2013
Average exchange rate for the period*	4.1893	4.2110
Exchange rate at the end of the period	4.2623	4.1472

**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 2014 and 2013*

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

KGHM POLSKA MIEDŹ S.A. GROUP

CONSOLIDATED ANNUAL REPORT RS 2014 COMPRISES:

1. PRESIDENT'S LETTER

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

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

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

5. CONSOLIDATED FINANCIAL STATEMENTS

6. THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE GROUP IN 2014

Lubin, March 2015

KGHM POLSKA MIEDŹ S.A. GROUP

PRESIDENT'S LETTER

Lubin, March 2015

Dear Shareholders,

I am pleased to present the Financial Statements of KGHM Polska Miedź S.A. for 2014. This was another year of progress in the areas of production, development of the resource base and financial security.

Despite many challenges related to the metals markets volatility, we achieved our goals. The Company reached outstanding production results: 663 thousand tonnes of payable copper. We celebrated first production at our Sierra Gorda mine in Chile as well as copper production from our Deep Głogów deposit in Poland. The stable financial position of KGHM allows us to regularly share our profits with our shareholders, and in 2014 the Company allocated PLN 1 billion as a dividend. Continuing the process of development and maximizing shareholder value, in 2015 we adopted a new strategy for the years 2015-2020 with an outlook to 2040.

Production and financial results according to plan

In 2014 payable copper production amounted to 663 thousand tonnes. Metallic silver production was higher by 95 tonnes and amounted to 1 256 tonnes. Production of precious metals, such as gold, palladium and platinum, amounted to 152.9 thousand troy ounces. The KGHM Group ended 2014 with a net profit of PLN 2.45 billion. The largest impact on the bottom line as compared to the prior year came from the low metals prices, including copper and silver. The price of silver decreased by nearly 20 percent, and copper by more than 6 percent during the year as compared to 2013. Our results were substantially impacted by the minerals extraction tax, which amounted to PLN 1.5 billion and represented 12 percent of operating costs. Delivery of such a solid net profit was due to the continuation of a stable level of production and our strict cost discipline.

Watershed year for development projects

One of the most important events in 2014 was the start of production at the Sierra Gorda mine in Chile. Completion of this project is the best testimony of our competencies and allowed us to join the ranks of the largest copper producers in the world. By commissioning production at Sierra Gorda, KGHM has not only increased its production of copper, but has also enhanced its cost efficiency and expanded its products portfolio. The mine will be in operation for 23 years, while research carried out in 2014 indicates substantial exploration potential in adjacent areas, enabling an increase to the current resource base.

Another significant event in 2014 was the start of copper production from the Deep Głogów deposit in Poland below 1200 meters. It should be noted that the mining of deep copper deposits is a natural development for KGHM in its mining operations in Poland. Extracting this ore requires investments in research and development, as this is the only way we can effectively meet the challenge of global competition.

We took a major step toward developing the resource base. Securing new concessions in areas adjacent to our mining regions was part of this. Completion of exploratory and assessment work which resulted in the documentation of 4.1 million tonnes of copper and around 7.5 thousand tonnes of silver in the Gaworzyce-Radwanice region, was another one. As a result, the estimated life of the mines in Poland is currently 30-40 years.

Securing financing for further development

The development of new projects will be possible thanks to the financing we secured in 2014 for the Group's investment program. The Company arranged syndicated credit in the amount of USD 2.5 billion and an investment loan with the European Investment Bank in the amount of PLN 2 billion. These funds will enable us to advance our future projects and grow KGHM in the coming years.

At the same time, we are following and plan to continue a policy of balanced financing, which is based on utilising internal sources of financing, as well as debt in such a way as to ensure that the ratio of net debt to EBITDA remains at a safe level.

Strategy for the years 2015-2020 with an outlook to 2040

KGHM achieved the main targets of its 2009-2018 strategy. In 2015, KGHM adopted a Strategy for the years 2015-2020 with an outlook to 2040. The main objective of the new strategic outlook is to achieve annual production capacity of over 1 million tonnes of copper equivalent and to continue work aimed at improving mine operating efficiency. According to the strategy, over the next six years, beginning from 2015, we intend to carry out the largest investment program in the history of KGHM amounting to PLN 27 billion. A significant portion of these funds – 65% – will be allocated to development-related investments, with the rest to be spent on maintenance and replacement projects. These investments will include the steady development of the resource base. Our goal is to replace every tonne of mined copper with three tonnes of the metal in newly-documented resources. Achievement of our strategic goals will be based on efficiency and innovation, which already distinguish KGHM and will become our competitive advantage in the future. For copper producers such as ourselves, the positive, long-term outlook for the copper market will provide additional support in our efforts to build shareholder value.

The Company will continue its dividend policy of paying out up to 1/3 of the net profit earned in the previous financial year, while taking into consideration the actual and anticipated financial situation of the Group.

Goals and priorities for 2015

In 2015 the Company will consistently work to achieve its planned targets:

- Maintaining a stable level of electrolytic copper production;
- Achieving full phase I production capacity at the Sierra Gorda mine (daily processing of 110 thousand tonnes of ore) and commencing molybdenum production;
- Maintaining the rate of progress in the Victoria and Ajax projects;
- Continuing work related to expansion of the Żelazny Most tailings storage facility;
- Continuing investment work aimed at creating modern and environmentally-friendly smelting and refining activities.

As a Group we develop our projects in a socially responsible manner, showing respect for the public good and ethical and environmental issues. Our 60-year tradition is based on values such as zero harm, teamwork and accountability. In our daily activities we are guided by values which help us to achieve more efficient and streamlined operations.

Today, KGHM is a global corporation, strongly results-oriented and courageously looking towards the future. By investing in KGHM you are investing in a stable organisation with strong values, one which cares for the natural environment and the public good, as well as in an experieced management staff which, through new mining projects, is steadily building shareholder value.

In conclusion, I would like to thank all of the employees of KGHM. Their knowledge and hard work have enabled us to achieve solid results. In particular I wish to thank our customers for choosing our company and for their many years of cooperation. My thanks also go out to our shareholders for their trust and support, and taking this opportunity I wish to assure them that we will continue to steadily enhance the value of KGHM as a stable, predictable company strengthening its position in the global marketplace.

Herbert Wirth

President of the Management Board

Lubin, 16 March 2015

KGHM POLSKA MIEDŹ S.A.
GROUP

AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR 2014

Lubin, March 2015

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"), having KGHM Polska Miedź Spółka Akcyjna, Marii Skłodowskiej- Curie 48 Street, Lubin, as its parent company (hereinafter called "the Parent Company"), which comprise the consolidated statement of financial position as at 31 December 2014, showing total assets and total equity and liabilities of PLN 40.374 million, the consolidated statement of profit and loss for the year from 1 January to 31 December 2014, showing a net profit of PLN 2.451 million, the consolidated statement of comprehensive income for the period from 1 January to 31 December 2014, showing a total comprehensive income of PLN 3.448 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 Management Board's Report on the activities of the Group in accordance with the applicable regulations, and for the correctness of the accounting records. Members of the Management Board and Members of the Supervisory Board of the Parent Company are obliged to ensure that the consolidated financial statements and the Management Board's Report on the activities of the Group comply with the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended).

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, in all material respects, a true and clear view of the Group's financial position and results.

We conducted our audit in accordance with:

a. the provisions of Chapter 7 of the Accounting Act;

b. national standards of auditing issued by the National Council of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance whether the consolidated financial statements are free from 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 assessing the Group's accounting policies and significant estimates made during the preparation of the consolidated financial statements, as well as evaluating the overall presentation thereof. We believe that our audit provides a reasonable basis for our opinion.

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Telephone +48 22 746 4000, Facsimile +48 22 746 4040, www.pwc.pl

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

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

a. give a fair and clear view of the Group's financial position as at 31 December 2014 and of the results of its operations for the year from 1 January to 31 December 2014, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union;

b. comply in terms of form and content with the applicable laws;

c. have been prepared on the basis of properly maintained consolidation documentation.

The information contained in the Management Board's Report on the activities of the Group for the year from 1 Januaryto 31 December 2014 has been presented 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 2014, item 133) and is consistent with the information presented in the audited consolidated financial statements.

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

Marcin Sawicki

Group Registered Auditor, Key Registered Auditor
No. 11393

Wrocław, 16 March 2015

Translation note:
This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2014 to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

This report contains 15 consecutively numbered pages and consists of:

Translation note:
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I. General information about the Group

a. KGHM Polska Miedź Spółka Akcyjna ("the Parent Company") with its seat in Lubin, Marii Skłodowskiej-Curie 48 Street is the parent company of the KGHM Polska Miedź Spółka Akcyjna Group ("the Group").

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 (*Journal of Laws* No. 51, item 298, with subsequent amendments). The Notarial Deed was drawn up on 9 September 1991 at the Notary Public's Office No. 18 in Warsaw and registered with Rep. no. 8648/91. On 29 June 2001, the District Court Register decided to enter the Parent Company in the Commercial Register with the reference number KRS 0000023302.

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

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

e. As at 31 December 2014 and the date of signing this Report the Parent Company's share capital amounted to PLN 2.000 million and consisted of 200.000.000 shares, with a nominal value of PLN 10,00 each.

f. As at 31 December 2014 and the date of signing this Report, the Parent Company's shareholders were:

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

g. In the audited year, the Group's operations comprised:

- 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.

I. General information about the Group (cont.)

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

- Herbert Wirth President;
- Jarosław Romanowski I Vice President (Finance);
- Jacek Kardela Vice President (Development);
- Marcin Chmielewski Vice President (Corporate);
- Wojciech Kędzia Vice President (Production).

On 18 December 2014 Wojciech Kędzia resigned from his position as Member of the Board. The resignation is valid from 31 January 2015. On 18 December 2014 the Supervisory Board appointed, with effect from 1 February 2015, Mr. Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A. acting as Vice President in Charge of Production.

I. General information about the Group (cont.)

i. As at 31 December 2014, the KGHM Polska Miedź .A. Group comprised 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. w likwidacji	indirect subsidiary (100%)	full	Not subject to audit	-
Bipromet S.A.	subsidiary (66%)	full	Ernst & Young Audyt Polska Sp. z o.o.	Unqualified
CBJ Sp. z o.o.	subsidiary (100%)	full	Grant Thornton Frąckowiak Sp. z o.o. Sp. k.	Unqualified
Centrozłom Wrocław S.A.	indirect subsidiary (99,54%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Cuprum Nieruchomości Sp. z o.o.	subsidiary (100%)	full	Not subject to audit	-
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	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Fundusz Hotele 01 Sp. z o.o. S.K.A.	indirect subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Polska Grupa Uzdrowisk Sp. z o.o.	indirect subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	With emphasis of matter concerning going concern assumption
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.	indirect subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	With emphasis of matter concerning going concern assumption
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	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Interferie Medical SPA Sp. z o.o.	indirect subsidiary (89,46%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM AJAX MINING INC.	indirect subsidiary (80%)	full	PricewaterhoseCoopers LLP, Kanada	Unqualified

I. General information about the Group (cont.)

Entity	Type of capital relationship (% of share capital held)	Method of consolidation	Auditor of financial statements	Type of opinion (*)
KGHM CUPRUM Sp. z o.o. – CBR	subsidiary (100%)	full	4AUDYT Sp. z o.o.	With emphasis of matter concerning demerger of KGHM CUPRUM sp. z o.o.
KGHM Development Sp. z o.o.	subsidiary (100%)	full	Not subject to audit	-
KGHM Kupfer AG	subsidiary (100%)	full	Lehleiter + Partner Treuhand AG	Unqualified
KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM IV Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM V Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM LETIA S.A.	subsidiary (84,93%)	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	PricewaterhouseCoopers Sp. z o.o.	Unqualified
KGHM ZANAM Sp. z o.o. (previously DFM ZANAM – LEGMET Sp. z o.o.)	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Miedziowe Centrum Zdrowia S.A.	subsidiary (100%)	full	Audytor S.A.	Unqualified
NITROERG S.A.	subsidiary (85%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
NITROERG Serwis Sp. z o.o. (previously BAZALT-NITRON Sp. z o.o.)	indirect subsidiary (85%)	full	PKF Consult Sp. z o.o.	Unqualified
Przedsiębiorstwo Budowy Kopalń PeBeKa S.A.	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	With emphasis of matter concerning contingent liabilities for litigations

I. General information about the Group (cont.)

Entity	Type of capital relationship (% of share capital held)	Method of consolidation	Auditor of financial statements	Type of opinion (*)
Przedsiębiorstwo Budowlane Katowice S.A. w likwidacji	indirect subsidiary (58,14%)	full	PKF Consult Sp. z o.o.	Unqualified
PHP Mercus Sp. z o.o.	subsidiary (100%)	full	Grant Thornton Frąckowiak Sp. z o.o. Sp. k.	With emphasis of matter concerning accrual for litigations and concerning differences in comparatives due to the merger of Mercus and Mercus Software
PHU Lubinpex Sp. z o.o.	indirect subsidiary (100%)	full	Grant Thornton Frąckowiak Sp. z o.o. Sp. k.	Unqualified
Sugarloaf Ranches Limited	indirect subsidiary (100% - factual participation)	full	Not subject to audit	-
PMT Linie Kolejowe Sp. z o.o.	indirect subsidiary (100%)	full	Kancelaria Biegłego Rewidenta „Audyting" Zdzisław Kaczmarek	Unqualified
POL-MIEDŹ TRANS Sp. z o.o.	subsidiary (100%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Uzdrowisko Cieplice Sp. z o.o. – Grupa PGU	indirect subsidiary (97,87%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Uzdrowiska Kłodzkie S.A. – Grupa PGU	indirect subsidiary (99,31%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Uzdrowisko Połczyn Grupa PGU S.A.	indirect subsidiary (98,42%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU	indirect subsidiary (98,65%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Warszawska Fabryka Platerów Hefra S.A.	indirect subsidiary (100%)	full	Firma Audytorska INTERFIN Sp. z o.o.	With emphasis of matter concerning the timing of performing the obligatory counting of tangible assets
Walcownia Metali Nieżelaznych Łabędy S.A.	indirect subsidiary (84,96%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
WPEC w Legnicy S.A.	indirect subsidiary (85,2%)	full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Zagłębie Lubin S.A.	subsidiary (100%)	full	BDO Sp. z o.o.	With emphasis of matter concerning obligation to pass a resolution regarding going concern assumption

I. General information about the Group (cont.)

Entity	**Type of capital relationship (% of share capital held)**	**Method of consolidation**	**Auditor of financial statements**	**Type of opinion (*)**
0929260 B.C U.L.C.	indirect subsidiary (100%)	full	Not subject to audit	-
Grupa Kapitałowa KGHM INTERNATIONAL LTD.**, with its parent company KGHM INTERNATIONAL LTD.	the share percentage of Parent Company in KGHM INTERNATIONAL LTD. is 100%	full	PricewaterhouseCoopers LLP, Kanada	Unqualified

(*) Financial statements of all entities of the Group were prepared as at 31 December 2014.

(**) 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.

I. General information about the Group (cont.)

j. KGHM Polska Miedź S.A. is the Parent Company in the Group which, in the audited year, comprised 75 subsidiaries (including 74 consolidated subsidiaries). During the audited period:

- 2 subsidiaries have been established;
- the share in 12 subsidiaries has increased by the purchase of additional shares;
- 5 subsidiaries have been combined with other subsidiaries;
- 1 subsidiary has been sold;
- 2 subsidiaries have been liquidated.

Additionally at the end of the financial year there were three joint ventures, which financial data have been presented in the consolidated financial statements under the equity accounting method.

In the year prior to the audited year the Group comprised 82 subsidiaries (including 80 consolidated subsidiaries). Additionally there was one associated entity, which was not presented in the consolidated financial statements under the equity accounting method due to its' immateriality, and three joint ventures, which financial data have been presented in the consolidated financial statements under the equity accounting method. During the previous year one subsidiary has been taken under control by increasing share in associate entity, two subsidiaries have been established and the share in eight subsidiaries has increased by the purchase of additional shares.

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 an 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 as adopted by the European Union (IFRS). The Group adopted IFRS in 2005.

II. Information about the audit

a. The audit of the consolidated financial statements as at and for the year from 1 January to 31 December 2014 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor, the Group's registered auditor Marcin Sawicki (no. 11393).

b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Group by Resolution No. 17/VIII/2013 of the Supervisory Board dated 27 March 2013 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 entities belonging to the Group within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws No. 77, item 649, as amended).

d. The audit was conducted in accordance with an agreement dated 4 April 2013, in the period from 16 February to 16 March 2015.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION as at 31 December 2014 (selected lines)

	31.12.2014 PLN million	31.12.2013 PLN million	Change PLN million	Change (%)	Structure 31.12.2014 (%)	Structure 31.12.2013 (%)
ASSETS						
Non-current assets	33.569	26.488	7.081	26,7	83,1	76,9
Current assets	6.805	7.977	(1.172)	(14,7)	16,9	23,1
Total assets	**40.374**	**34.465**	**5.909**	**17,1**	**100,0**	**100,0**
LIABILITIES AND EQUITY						
Share capital	25.530	23.064	2.466	10,7	63,2	66,9
Long-term liabilities	9.292	6.714	2.578	38,4	23,0	19,5
Short-term liabilities	5.552	4.687	865	18,5	13,8	13,6
Total liabilities and equity	**40.374**	**34.465**	**5.909**	**17,1**	**100,0**	**100,0**

CONSOLIDATED STATEMENT OF PROFIT AND LOSS for the year from 1 January to 31 December 2014 (selected lines)

	2014 PLN million	2013 PLN million	Change PLN million	Change (%)	(%) of revenue 2014 (%)	(%) of revenue 2013 (%)
Revenue	20.492	24.110	(3.618)	(15,0)	100,0	100,0
Costs of sales	(15.751)	(18.101)	2.350	(13,0)	(76,9)	(75,1)
Gross profit on sales	**4.741**	**6.009**	**(1.268)**	**(21,1)**	**23,1**	**24,9**
Net profit	**2.451**	**3.033**	**(582)**	**(19,2)**	**12,0**	**12,6**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME for the year from 1 January to 31 December 2014 (selected lines)

	2014 PLN million	2013 PLN million	Change PLN million	Change (%)	(%) of revenue 2014 (%)	(%) of revenue 2013 (%)
Net profit/(loss)	2.451	3.033	(582)	(19,2)	12,0	12,6
Other net comprehensive income	997	49	948	>100,0	4,9	0,2
Total net comprehensive income	**3.448**	**3.082**	**366**	**11,9**	**16,8**	**12,8**

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

Selected ratios characterizing the Group's financial position and results

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

	2014	**2013**	**2012**
Asset ratios			
- receivables turnover	36 days	33 days	24 days
- inventory turnover	77 days	71 days	63 days
Profitability ratios			
- net profit margin	12%	13%	18%
- gross margin	16%	19%	26%
- return on capital employed	10%	13%	21%
Liability ratios			
- gearing	37%	33%	35%
- payables turnover	25 days	21 days	19 days

	31.12.2014	**31.12.2013**	**31.12.2012**
Liquidity ratios			
- current ratio	1,4	1,7	2,1
- quick ratio	0,7	1,0	1,3
Other ratios			
- effective tax rate	20,9%	28,4%	24,9%

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.

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

The consolidated financial statements do not take into account the effects of deflation. The consumer price index (on a December to December basis) amounted to -1,0% in the audited year (inflation of 0,7% in 2013).

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 results of operations and on its financial position as at the balance sheet date:

- At the end of the financial year, the Group's total assets amounted to PLN 40.374 million. During the year total assets increased by PLN 5.909 million (i.e. by 17,1%). This increase was financed mainly by net profit of PLN 2.451 million, an increase in liabilities due to credits, loans, debt securities and obligations under finance lease of PLN 1.881 million as compared to the previous year and an increase in balance of exchange differences from the translation of foreign subsidiaries financial statements by PLN 1.438 million. The Parent Company paid out dividend of PLN 1.000 million to its shareholders.

- Liability ratios and the structure of liabilities have changed. The gearing ratio increased from 33% at the end of the previous year to 37% at the end of the current year. The payables turnover ratio increased from 21 days to 25 days.

- Total revenues amounted to PLN 20.492 million and decreased by PLN 3.618 million (i.e. by 15,0%) compared with the previous year. In 2014 the Group's core activities consisted of production and sale of copper, precious metals and smelter by-products which accounted for 88,6% of total sales revenue (86,4% in previous year). The main factor for the decrease of revenue was average price of copper and silver which decreased by 6% and 20% respectively when compared to 2013. During that time also the average exchange rate of US Dollar decreased compared with the prior year by 0,6%.

- Profitability measured with gross profit amounted to 16% and was 3 percentage points lower than in the previous year. The change in the Group's profitability was primarily due to decrease of average price of copper and silver compared with the previous year.

- At the end of the financial year the amount of tangible assets of the Group equaled to PLN 17.621 million and increased as compared to the previous year by PLN 2.493 million mainly as a result of capital investments' projects in the Parent Company and KGHM INTERNATIONAL LTD. Group. Within the liabilities and equity side there was an increase of external debt in the amount of PLN 1.881 million as compared to the previous year due to the signing by the Parent Company and KGHM INTERNATIONAL LTD. Group the new debt agreements. Due to the lower amount of current assets of the Group and the increase in the amount of total assets there was a change in the liquidity ratios (current and quick) which equaled to respectively 1,4 and 0,7 in the audited period (in the previous year respectively 1,7 and 1,0).

IV. The independent registered auditor's statements

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 a representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.

b. The scope of the audit was not limited.

c. The 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. There were no changes to the accounting policies compared with the previous year.

d. The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.

e. The elimination of mutual balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out, in all material respects, in accordance with IFRS as adopted by the European Union.

f. The elimination of unrealized gains/losses of consolidated entities included in the book value of assets and in respect of dividend payments was carried out, in all material respects, in accordance with IFRS as adopted by the European Union.

g. The impact of the disposal or partial disposal of shares in subordinated entities was accounted for properly in all material respects, in accordance with IFRS as adopted by the European Union.

h. The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.

i. The consolidated financial statements of the Group as at and for the year ended 31 December 2013 were approved by Resolution No. 26/2014 passed by the Shareholders' Meeting of the Parent Company on 23 June 2014 and filed with the National Court Register in Wrocław on 30 June 2014.

j. The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.

k. The notes to the consolidated financial statements present all the significant information in accordance with IFRS as adopted by the European Union.

IV. The independent registered auditor's statements (cont.)

l. The information in the Group Directors' Report for the year from 1 January to 31 December 2014 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 on current and periodic information to be provided by issuers of securities and conditions for recognizing as equivalent the information required by the provisions of law of a country not being a member state (Journal of Laws of 2014, item 133) and is consistent with that presented in the consolidated financial statements.

V. Final information

This report has been prepared in connection with our audit of the consolidated financial statements of the KGHM Polska Miedź Spółka Akcyjna Group having KGHM Polska Miedź Spółka Akcyjna, Marii Skłodowskiej - Curie 48 Street, Lubin, as its 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 16 March 2015.

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 16 March 2015, 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 financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements.

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

Marcin Sawicki

Group Registered Auditor, Key Registered Auditor
No. 11393

Wrocław, 16 March 2015

Translation note:
This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

KGHM POLSKA MIEDŹ S.A.
GROUP

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

Lubin, March 2015

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 for 2014 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 for 2014 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.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Herbert Wirth	President of the Management Board	
16 March 2015	Jarosław Romanowski	First Vice President of the Management Board	
16 March 2015	Marcin Chmielewski	Vice President of the Management Board	
16 March 2015	Jacek Kardela	Vice President of the Management Board	
16 March 2015	Mirosław Laskowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.
GROUP

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

Lubin, March 2015

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 for 2014, was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this audit, have met the conditions for issuing an impartial and independent audit opinion, in compliance with appropriate legal provisions and professional standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Herbert Wirth	President of the Management Board	
16 March 2015	Jarosław Romanowski	First Vice President of the Management Board	
16 March 2015	Marcin Chmielewski	Vice President of the Management Board	
16 March 2015	Jacek Kardela	Vice President of the Management Board	
16 March 2015	Mirosław Laskowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.
GROUP

CONSOLIDATED
FINANCIAL STATEMENTS
FOR 2014

Lubin, March 2015

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(amounts in tables in PLN millions, unless otherwise stated)

Consolidated statement of financial position

	Note	At 31 December 2014	At 31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	17 621	15 128
Intangible assets	7	2 918	2 175
Investment property	8	60	65
Investments accounted for using the equity method	9	4 363	3 720
Deferred tax assets	23	535	451
Available-for-sale financial assets	10	931	810
Financial assets for mine closure and restoration of tailing storage facilities	11	358	323
Derivatives	12	214	357
Trade and other receivables	13	6 569	3 459
		33 569	**26 488**
Current assets			
Inventories	14	3 362	3 397
Trade and other receivables	13	2 537	3 119
Current corporate tax receivables		87	54
Available-for-sale financial assets	10	57	58
Financial assets for mine closure	11	2	1
Derivatives	12	277	476
Cash and cash equivalents	15	475	864
Non-current assets held for sale		8	8
		6 805	**7 977**
TOTAL ASSETS		**40 374**	**34 465**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Parent Entity			
Share capital	16	2 000	2 000
Revaluation reserve from measurement of financial instruments	17	377	522
Exchange differences from the translation of foreign operations statements	17	1 171	(267)
Actuarial gains/losses on post-employment benefits	17	(430)	(132)
Retained earnings	18	22 184	20 718
		25 302	**22 841**
Non-controlling interest	19	**228**	**223**
TOTAL EQUITY		**25 530**	**23 064**
LIABILITIES			
Non-current liabilities			
Trade and other payables	20	1 002	774
Borrowings, debt instruments and finance lease liabilities	21	2 997	1 714
Derivatives	12	123	17
Deferred tax liabilities	23	1 676	1 726
Employee benefits liabilities	24	2 011	1 563
Provisions for other liabilities and charges	25	1 483	920
		9 292	**6 714**
Current liabilities			
Trade and other payables	20	3 236	3 094
Borrowings, debt instruments and finance lease liabilities	21	1 813	1 215
Current corporate tax liabilities		164	128
Derivatives	12	37	7
Employee benefits liabilities	24	135	131
Provisions for other liabilities and charges	25	167	112
		5 552	**4 687**
TOTAL LIABILITIES		**14 844**	**11 401**
TOTAL EQUITY AND LIABILITIES		**40 374**	**34 465**

The accounting policies and other explanatory information presented on pages 9 to 149 represent an integral part of these consolidated financial statements.

(amounts in tables in PLN millions, unless otherwise stated)

Consolidated statement of profit or loss

	Note	For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Continued operations			
Sales revenue	27	20 492	24 110
Cost of sales	28	(15 751)	(18 101)
Gross profit		**4 741**	**6 009**
Selling costs	28	(390)	(426)
Administrative expenses	28	(998)	(989)
Other operating income	30	922	847
Other operating costs	31	(599)	(1 069)
Operating profit		**3 676**	**4 372**
Finance costs	32	(326)	(137)
Share in losses of investments accounted for using the equity method	35, 9	(252)	-
Profit before income tax	36	**3 098**	**4 235**
Income tax expense	36	(647)	(1 202)
Profit for the period		**2 451**	**3 033**
(Loss)/Profit for the period attributable to:			
shareholders of the Parent Entity		2 450	3 035
non-controlling interest		1	(2)
Earnings per share attributable to the shareholders of the Parent Entity for the period (in PLN per share)	38		
- basic		12.25	15.18
- diluted		12.25	15.18

The accounting policies and other explanatory information presented on pages 9 to 149 represent an integral part of these consolidated financial statements.

(amounts in tables in PLN millions, unless otherwise stated)

Consolidated statement of comprehensive income

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Profit for the period		**2 451**	**3 033**
Other comprehensive income:			
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met:			
Available-for-sale financial assets		124	79
Income tax related to available-for-sale financial assets		(23)	(5)
Cash flow hedging instruments		(304)	263
Income tax related to cash flow hedging instruments		58	(50)
Total other comprehensive income from measurement of financial instruments		**(145)**	**287**
Exchange differences from the translation of foreign operations statements		1 444	(293)
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met		**1 299**	**(6)**
Actuarial gains/(losses)		(372)	68
Income tax related to actuarial gains/losses		70	(13)
Total other comprehensive income which will not be reclassified to profit or loss	17	**(302)**	**55**
Other comprehensive net income for the financial period		**997**	**49**
TOTAL COMPREHENSIVE INCOME		**3 448**	**3 082**
Total comprehensive income attributable to:			
shareholders of the Parent Entity		3 441	3 091
non-controlling interest		7	(9)

The accounting policies and other explanatory information presented on pages 9 to 149 represent an integral part of these consolidated financial statements.

(amounts in tables in PLN millions, unless otherwise stated)

Consolidated statement of changes in equity

		Equity attributable to shareholders of the Parent Entity							
	Note	**Share capital**	**Revaluation reserve from measurement of financial instruments**	**Exchange differences from the translation of foreign operations statements**	**Actuarial gains/losses on post-employment benefits**	**Retained earnings**	**Total**	**Equity attributable to non-controlling interest**	**Total equity**
At 1 January 2014		**2 000**	**522**	**(267)**	**(132)**	**20 718**	**22 841**	**223**	**23 064**
Dividends from profit for 2013 - paid	38	-	-	-	-	(1 000)	(1 000)	-	**(1 000)**
Offsetting of profit from prior years with actuarial gains and losses		-	-	-	4	(4)	-	-	**-**
Total comprehensive income		**-**	**(145)**	**1 438**	**(302)**	**2 450**	**3 441**	**7**	**3 448**
Profit for the period		**-**	-	-	-	2 450	2 450	1	**2 451**
Other comprehensive income	17	-	(145)	1 438	(302)	-	991	6	**997**
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19.1	-	-	-	-	20	20	(2)	**18**
At 31 December 2014		**2 000**	**377**	**1 171**	**(430)**	**22 184**	**25 302**	**228**	**25 530**
At 1 January 2013		**2 000**	**235**	**19**	**(543)**	**19 971**	**21 682**	**232**	**21 914**
Dividends from profit for 2012 paid	38	-	-	-	-	(1 960)	**(1 960)**	-	**(1 960)**
Offsetting of profit from prior years with actuarial gains and losses		-	-	-	356	(356)	**-**	-	**-**
Total comprehensive income		**-**	**287**	**(286)**	**55**	**3 035**	**3 091**	**(9)**	**3 082**
Profit for the period		-	-	-	-	3 035	**3 035**	(2)	**3 033**
Other comprehensive income	17	-	287	(286)	55	-	**56**	(7)	**49**
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19.1	-	-	-	-	28	**28**	-	**28**
At 31 December 2013		**2 000**	**522**	**(267)**	**(132)**	**20 718**	**22 841**	**223**	**23 064**

The accounting policies and other explanatory information presented on pages 9 to 149 represent an integral part of these consolidated financial statements.

(amounts in tables in PLN millions, unless otherwise stated)

Consolidated statement of cash flows

	Note	For the period from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Cash flow from operating activities			
Profit for the period		2 451	3 033
Adjustments to profit for the period:		**3 266**	**3 347**
Income tax recognised in profit or loss		647	1 202
Amortisation/Depreciation	28	1 635	1 580
Impairment losses on goodwill		25	27
Losses on the sale of property, plant and equipment and intangible assets		14	46
Gains on the sale of available-for-sale financial assets		-	(24)
Impairment loss on property, plant and equipment, intangible assets, investments accounted for using the equity method and available-for-sale financial assets		61	444
Reversal of impairment loss on property, plant and equipment, intangible assets and available-for-sale financial assets		(5)	(36)
Share in losses of investments accounted for using the equity method		252	-
Interest and share in profits (dividends)	40	(175)	(116)
Foreign exchange (gains)losses	40	(27)	4
Change in provisions	40	98	(19)
Change in assets/liabilities due to derivatives		723	774
Reclassification of other comprehensive income to profit or loss as a result of the realisation of hedging derivatives		(531)	(450)
Exchange differences between investment activities and financing activities in the statement of cash flows		(73)	(8)
Other adjustments		26	29
Changes in working capital:		596	(106)
Inventories	40	118	357
Trade and other receivables	40	408	(242)
Trade and other payables	40	70	(221)
Income tax paid	40	(868)	(1 456)
Net cash generated from operating activities		**4 849**	**4 924**
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents		-	(1)
Acquisition of newly issued shares in the increased share capital of investments accounted for using the equity method	9	(502)	(9)
Purchase of property, plant and equipment and intangible assets	40	(3 434)	(3 189)
Advances granted for purchase of property, plant and equipment and intangible assets		(24)	(84)
Proceeds from the sale of property, plant and equipment and intangible assets	40	22	56
Purchase of available-for-sale financial assets		-	(42)
Proceeds from the sale of available-for-sale financial assets		1	139
Purchase of financial assets from the mine closure fund and tailing storage facilities restoration fund		(32)	(63)
Proceeds from the sale of financial assets purchased from the mine closure fund		17	197
Termination of deposits		7	40
Loans granted		(1 628)	(1 798)
Dividends received		35	37
Other investment expenses		(6)	(13)
Net cash used in investing activities		**(5 544)**	**(4 730)**

The accounting policies and other explanatory information presented on pages 9 to 149 represent an integral part of these consolidated financial statements.

(amounts in tables in PLN millions, unless otherwise stated)

Consolidated statement of cash flows (continued)

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Cash flow from financing activities			
Proceeds from payment to capital of a subsidiary from holders of non-controlling interest		20	29
Acquisition of shares from holders of non-controlling interest		(15)	(30)
Proceeds from bank and other loans		2 641	1 597
Repayments of bank and other loans		(1 222)	(1 446)
Payments of liabilities due to finance leases		(18)	(16)
Interest paid		(136)	(144)
Dividends paid to shareholders of the Parent Entity	17, 39	(1 000)	(1 960)
Donations received		17	10
Other financial expenses		(39)	(1)
Net cash used in financing activities		**248**	**(1 961)**
Total net cash flow		**(447)**	**(1 767)**
Exchange gains on cash and cash equivalents and on translation of foreign operations statements		58	2
Movements in cash and cash equivalents		**(389)**	**(1 765)**
Cash and cash equivalents at beginning of the period	15	**864**	**2 629**
Cash and cash equivalents at end of the period	15	**475**	**864**
Including restricted cash and cash equivalents		27	108

The accounting policies and other explanatory information presented on pages 9 to 149 represent an integral part of these consolidated financial statements.

Accounting policies and other explanatory information

1. Corporate information

Details of the audited Parent Entity

KGHM Polska Miedź S.A. ("the Parent Entity") with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a joint stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, operating on the territory of the Republic of Poland. The Parent Entity was assigned a tax identification number (NIP) 692-000-00-13 and a 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/Refinery Division, Legnica Smelter/Refinery 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 mains;
- scheduled and non-scheduled air transport; and
- telecommunication and IT services.

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. As at the date of signing of the annual consolidated financial statements the Management Board of the Parent Entity was 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 concessions held by KGHM Polska Miedź S.A. to mine deposits in Poland and 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.

The activities of the Parent Entity involving the mining of the copper ore deposit are based on concessions held by the Company, which were issued by the Minister of the Environment in 2013, mining usufruct agreements and mining operating plans for the five basic deposits. The concessions and mining usufruct agreements for the five basic deposits are in force to 31 December 2063 and the mining operating plans for three mines are approved for the years from 2014 to 2016 (to 31 December 2016).

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.

(amounts in tables in PLN millions, unless otherwise stated)

1. Corporate information (continued)

KGHM Kupfer AG held a concession to explore for minerals in the „Weisswasser" area, issued by the Saxon Mining Office (SOBA) in October 2013. The concession is valid to 31 December 2016.

KGHM AJAX MINING INC. conducts its operations based on granted surface rights and mineral claims, based on which permits were received which are required in the process of preparing environmental assessment applications and identifying additional ore potential.

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

As at 1 January 2014 the composition of the 8th-term Management Board of KGHM Polska Miedź S.A. was as follows:

- Herbert Wirth	President of the Management Board
- Jarosław Romanowski	1st Vice President of the Management Board (Finance)
- Marcin Chmielewski	Vice President of the Management Board (Corporate Affairs)
- Jacek Kardela	Vice President of the Management Board (Development)
- Wojciech Kędzia	Vice President of the Management Board (Production)

On 18 December 2014 Wojciech Kędzia submitted his resignation from the function of Member of the Management Board, effective as of 31 January 2015. On 18 December 2014, the Supervisory Board appointed Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A., appointing him as a Vice President of the Management Board (Production), effective as of 1 February 2015.

As at the date of signing these financial statements the composition of the Management Board was as follows:

- Herbert Wirth	President of the Management Board
- Jarosław Romanowski	1st Vice President of the Management Board (Finance)
- Marcin Chmielewski	Vice President of the Management Board (Corporate Affairs)
- Jacek Kardela	Vice President of the Management Board (Development)
- Mirosław Laskowski	Vice President of the Management Board (Production)

Composition of the Supervisory Board of the Parent Entity

As at 1 January 2014 the composition of the 8th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows:

- Aleksandra Magaczewska	Chairwoman
- Krzysztof Kaczmarczyk	Deputy Chairman
- Marek Panfil	Secretary
- Andrzej Kidyba	
- Iwona Zatorska – Pańtak	
- Jacek Poświata	

as well as the following employee-elected member:

- Bogusław Szarek

On 23 June 2014, following the expiry of the 8th-term Supervisory Board, the General Meeting resolved to appoint the following persons to the 9th-term Supervisory Board: Tomasz Cyran, Bogusław Stanisław Fiedor, Marcin Moryń, Jacek Poświata, Andrzej Kidyba, Barbara Wertelecka – Kwater and elected by the employees: Józef Czyczerski, Leszek Hajdacki and Bogusław Szarek.
As at 31 December 2014 the composition of the 9th-term Supervisory Board was as follows:

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

as well as the following employee-elected members:

- Bogusław Szarek	Secretary
- Józef Czyczerski	
- Leszek Hajdacki.	

1. Corporate information (continued)

To the date of signing of these consolidated financial statements there were no changes in the composition of the Supervisory Board.

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 16 March 2015.

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, derivatives and investment properties measured at fair value.

The carrying amount of recognised hedged assets and financial 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.

2.1.1 New standards

From 1 January 2014 the following new and changed standards and interpretations are binding for the Group:

- **IFRS 10 Consolidated Financial Statements,** which superseded the existing IAS 27 Consolidated and Separate Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The standard specifies the principles of determining control, presentation and preparation of consolidated financial statements for entities which control one or more entities. The application of this standard did not change the judgment as to the existence of control and therefore did not change the scope of recognition of consolidated entities.
- **IFRS 11 Joint Arrangements,** the new standard supersedes the existing IAS 31 Interests In Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. The new standard 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 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. However, if 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, which the parties account for in their respective financial statements using the equity method. This standard is effective in the European Union for annual periods beginning on or after 1 January 2014. The Group classified its jointly-controlled entities as joint ventures. This classification did not cause changes in its recognition in the consolidated financial statements.
- **IFRS 12 Disclosure of Interests in Other Entities,** this standard concerns the financial statements 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 uniformity and completeness in disclosures, and also expands 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, financial result and cash flows. The standard sets forth the minimum scope of disclosures which may be expanded by the entity if it decides that additional disclosures are necessary in order to meet the objectives set by the standard. Application of this standard resulted in a broader scope of obligatory disclosures in these consolidated financial statements with respect to interest in entities accounted for using the equity method and subsidiaries in which there is a significant, non-controlling interest. Additional information may be found in **notes 9** and **19.2**.
- **Amended IAS 27 Separate Financial Statements,** superseded the existing IAS 27 Consolidated and Separate Financial Statements in that part involving separate financial statements. The existing scope of IAS 27 was divided between IFRS 10 Consolidated Financial Statements and IAS 27 - which deals with separate financial statements. The requirements regarding separate financial statements set forth in IAS 28 and IAS 31 were transferred to the amended IAS 27.

2. Main accounting policies (continued)

- **Amended IAS 28 Investments in Associates and Joint Ventures,**
- **Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities**
- **Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance,**
- **Investment Entities – changes to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements,**
- **Amended IAS 36 Impairment of Assets,**
- **Amended IAS 39 Financial Instruments: Recognition and Measurement titled Novation of Derivatives and Continuation of Hedge Accounting.**

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. Besides the impact described above, application of these standards and amendments to standards did not have a material impact on the Group's accounting policy or on these consolidated financial statements.

For the purposes of preparing the financial statements for the financial year ending 31 December 2014, the Group applied IFRIC 21 Levies prior to its effective date. These Interpretations are effective for annual periods beginning on or after 1 January 2014. The Group applies IFRIC 21 in the recognition of fees due to mining usufruct, which were set for a period of 50 years, i.e. from 1 January 2014 to 31 December 2063 with respect to recognition of the fixed and variable parts of fees payable to the Polish State Treasury.

According to the terms of the signed agreement, beginning from 1 January 2014 the Parent Entity recognised liabilities in the amount of PLN 144 million, at the discounted amount of the fixed fee for the life of the agreement, and simultaneously recognised intangible assets due to the acquired right to extract ore.

Liabilities due to the variable part of the fee are computed at the amount of 30% of the mining fee and charged to costs of the current period, reflecting the current update of the mining fee respectively to the amount extracted. As the obligating event for recognising the liability due to the variable fee to the State Treasury is actual extraction, the liability will be recognised progressively over subsequent reporting periods, respectively to the amount extracted. The application of IFRIC 21 does not affect the application of existing principles for recognising other levies.

Non-obligatory standards and interpretations approved for use by the European Union which the Group did not apply prior to their effective date:

- **Amendments to IAS 19 *Employee benefits* titled *Defined Benefit Plans: Employee Contributions*.** The purpose of the amendment is to explain that contributions related to work performed by employees or third parties under specific benefits programs reduce employee costs (a) in specific periods of employment, if the amount of the contribution is linked to the number of years worked, or (b) in the attributable period of work, if the amount of the contribution is not linked to the number of years worked.
  The amendments are effective for annual periods beginning on or after 1 July 2014, although under the Regulation of the European Commission the above amendments are effective for annual periods beginning on or after 1 February 2015. The Group will apply them starting with the annual period beginning on 1 January 2016, although they will not affect the consolidated financial statements.

- **Annual Improvements to IFRS, 2010-2012 cycle.** As a result of a review of IFRS the following minor amendments were made to seven standards:
  - in IFRS 2 *Share-based Payment* the definitions of „vesting condition" and „market condition" were adjusted and two new definitions were introduced: „performance condition" and „service condition,
  - in IFRS 3 *Business Combinations* it was clarified that recognition of a contingent consideration which meets the definition of a financial liability shall be measured to fair value at the end of the reporting period, and the result of measurement shall be recognised in the statement of profit or loss,
  - IFRS 8 *Operating Segments* introduces among others requirements to disclose the judgements made by management in applying aggregation criteria to operating segments, as mentioned in para. 12 of IFRS 8, along with a brief description of these segments and the measures used to indicate the common economic traits of the segments aggregated on this basis,

2. Main accounting policies (continued)

- in IFRS 13 *Fair Value Measurement* amendments are introduced to the Basis of Conclusions for IFRS 13, clarifying that the removal of paragraph B5.4.12 from IFRS 9 and OS79 from IAS 39 should not be intrepreted as an intention by the IASB to remove the ability to measure non-interest bearing short-term trade receivables and payables measured at their nominal invoiced amounts, if the impact of the discount on these items is immaterial,
- in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* information is clarified on the manner of adjusting carrying amount and the depreciation of revalued property, plant and equipment measured at the date of the revaluation,
- in IAS 24 *Related Party Disclosures* a clause was added clarifying the definition of relations between entities.

These amendments are effective for annual periods beginning on or after 1 July 2014, although in the EU they will be effective for annual periods beginning on or after 1 February 2015. The Group will apply them starting with the annual period beginning on 1 January 2016.

- **Annual Improvements to IFRSs, 2011-2013 Cycle.** As a result of a review, minor amendments were made to the following standards:
  - IFRS 1 *First-time Adoption of International Financial Reporting Standards,*
  - IFRS 3 *Business Combinations,*
  - IFRS 13 *Fair Value Measurement,*
  - IAS 40 *Investment Property.*

The above amendments are effective for annual periods beginning on or after 1 July 2014, although in the EU they will be effective for annual periods beginning on or after 1 January 2015 and will not affect the consolidated financial statements of the Group.

Standards and interpretations which are not in force and have not been adopted by the European Union up to the date of publication of these financial statements.

- **IFRS 9 *Financial instruments*.** As a result of many years of work by the International Accounting Standards Board (IASB) on the project to supersede IAS 39 *Financial instruments: Recognition and Measurement*, in 2014 a new standard was published, IFRS 9 *Financial instruments*, which entirely replaces IAS 39. The document published in 2014 represents a complete version of the standard, comprising all of the elements of IFRS 9 published in prior years. The new standard contains amended and simplified principles in the following scope:
  - the classification and measurement of financial assets, introducing the category of financial assets measured at fair value and at amortised cost based on the assets management business model applied by the entity,
  - the classification and measurement of financial liabilities, retaining most of the principles formerly applied by IAS 39. The new standard requires however that any change in the fair value of a financial liability which is initially recognised at fair value through profit or loss, in that part arising from its own credit risk, be presented in other comprehensive income,
  - hedge accounting, which makes hedge accounting more similar to the manner of risk management applied by an entity, introducing a more principle-based approach to hedge accounting,
  - the model for recognising impairment to financial assets. The Board replaced the previously-applied model of „incurred loss" with the „expected loss" model, which is based on estimating expected credit losses arising from a given asset at initial recognition of the asset, and then at each subsequent reporting date.

  Due to the broad scope of amendments to IFRS 9 as compared to IAS 39, the significant value of financial instruments in the consolidated financial statements and the application by the Group of hedge accounting, it is crucial that a cautious and in-depth approach be taken when evaluating the impact of IFRS 9 on the Group's financial statements. As a result, an estimation of the impact of the new standard on the consolidated financial statements is not currently possible.

  IFRS 9 will be effective for annual periods beginning on or after 1 January 2018 and the period beginning on 1 January 2018 is the latest period in which the Group will apply the standard.

- **IFRS 14 *Regulatory Deferral Accounts*.** In IFRS 14 the IASB introduced the requirement to make a separate presentation in the financial statements of amounts that arise when an entity provides goods or services at a price or rate that is subject to rate regulation as well as deferred recognition.

  The new standard will be effective for annual periods beginning on or after 1 January 2016, and as it will only effect first-time adopters of IFRS it will not affect the consolidated financial statements of the Group.

- **Amendments to IFRS 11 *Joint arrangements* titled *Accounting for Acquisitions of Interests in Joint Operations*.** In IFRS 11 the IASB added the requirement to account for the acquisition of interests in joint operations, which is an arrangement as defined by IFRS 3, in accordance with the principles regarding accounting for joint arrangements described in this standard.

2. Main accounting policies (continued)

These amendments will be effective for annual periods beginning on or after 1 January 2016.

- **Amendments to IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets titled Clarification of Acceptable Methods of Depreciation and Amortisation*.** The amendment prohibits the application of a revenue-based depreciation method. The use of this type of depreciation method is only permissable under specific circumstances for intangible assets.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not affect the consolidated financial statements of the Group.

- **IFRS 15 *Revenue from contracts with customers*.** The new standard supersedes IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, and SIC-31 *Revenue - Barter Transactions Involving Advertising Services.*

  IFRS 15 unifies the principles for recognising revenue from various types of agreements and from various sources. The core principle for recognising revenue will be to accurately reflect the obligation to provide promised goods, merchandise or services to customers. The estimated revenue should reflect the amount of the agreed consideration to which an entity is entitled in exchange for goods or merchandise delivered or services rendered. Revenue is recognised at the moment when a given merchandise or good is delivered or service rendered to a customer, while an asset will be deemed as delivered when control over the asset is passed to the customer. The new standard contains a broader scope of guidelines for recognising revenue arising from complex contracts with multiple elements, and also contains a cohesive list of requirements regarding informational requirements.
  IFRS 15 will be effective for annual periods beginning on or after 1 January 2017. Due to the type of sales contracts signed by the Group, it is expected that the standard will not have a significant impact on the consolidated financial statements of the Group.

- **Amendments to IAS 16 *Property, plant and equipment* and IAS 41 *Agriculture* titled *Agriculture: Bearer Plants*.** In accordance with the amendments introduced, bearer plants related to agricultural activities will be recognised and measured based on the principles of IAS 16, and agricultural products obtained from the bearer plants will remain in the scope of IAS 41.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not affect the consolidated financial statements of the Group.

- **Amendments to IAS 27 *Separate Financial Statements* titled *Equity Method in Separate Financial Statements*.** The amendments allow entities to apply the equity method as one of the optional methods for recognising investments in subsidiaries, joint ventures and associates.

  These amendments will be effective for annual periods beginning on or after 1 January 2016 and will not affect the consolidated financial statements of the Group.

- **Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.** The IASB introduced an amendment to remove inconsistencies between IFRS 10 and IAS 28 with respect to the accounting recognition of the loss of control over a subsidiary. An amendment was also introduced regarding the limitations on the recognition of profit or loss resulting from the transfer of non-financial assets to an associate or joint venture. Under IFRS 10, if a parent entity loses control over a subsidiary which is not a business as defined in IFRS 3 as the result of a transaction with its associate or joint venture accounted for using the equity method, the parent entity recognises a gain or loss on the transaction only up to the percentage held by investors not related with the given associate or joint venture. The remaining amount of gain or loss and the relevant amount of the carrying amount of the existing investment in the associate or joint venture is excluded.

  For these reasons IAS 28 clarifies that when a non-financial asset is sold or transferred to an associate or joint venture it constitutes a business as defined in IFRS 3, as the investor then recognises the full profit or loss from the transaction; in the opposite case the investor recognises profit or loss from the transaction only in an amount proportional to the interests of other investors in this associate or joint venture.

  These amendments will be effective for annual periods beginning on or after 1 January 2016.

2. Main accounting policies (continued)

- **Annual Improvements to IFRS, 2012-2014 Cycle.** As a result of a review of IFRS minor amendments were made to the following standards:
  - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, shows how to account for a change in the manner of disposal of assets previously designated as held for sale or for distribution to owners,
  - IFRS 7 *Financial Instruments: Disclosures*, specifies the criteria for evaluating service contracts in the context of continued involvement with the given asset,
  - IAS 19 *Employee Benefits*, introduces the requirement to make reference to market yields on government bonds in a given currency (and not only in a given currency in a given country) in the discount rate used to measure post-employment employee benefits, if there are no highly-liquid, low-risk corporate bonds,
  - IAS 34 *Interim Financial Reporting*, with respect to disclosing information elsewhere in the interim financial report.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not significantly affect the consolidated financial statements of the Group.

- **Amendments to IAS 1 Presentation of Financial Statements titled Disclosure Initiative**. This document introduces guidelines on questions involving the evaluation by preparers of financial statements of the materiality of presented financial data, their aggregation and disaggregation, in terms of both the amount and nature, the manner of presenting partial data and the need to analyse disclosures required by the standards in terms of their materiality. An entity should not present immaterial information, even if a given standard describes it as the minimum scope of disclosure. An entity may however provide information which is not required if it could lead to a better understanding by the user of the financial statements of the impact of particular transactions on an entity's assets and financial results.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not significantly affect the consolidated financial statements of the Group.

- **Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures titled Investment Entities: Applying the Consolidation Exception.**
  The amendments in IFRS 10 confirm that parent entities which are subsidiaries of investment entities are also excluded from the requirement to prepare consolidated financial statements under condition that all of the subsidiaries are measured by their parent entities at fair value through profit or loss.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not affect the consolidated financial statements of the Group.

2.2 Accounting policies

2.2.1 Property, plant and equipment

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Property, plant and equipment are tangible items that:

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

The most important property, plant and equipment of the Group is property, plant and equipment related to the mining and metallurgical operations, comprised of land, buildings, water and civil engineering structures, mining infrastructure (including in underground mines, such mine facilities as: shafts, wells, galleries, drifts, primary chambers) as well as machines, technical equipment, motor vehicles and other movable fixed assets.

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

2. Main accounting policies (continued)

Upon initial recognition, in the costs of property, plant and equipment 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 are included. In particular, the initial cost of Group items of property, plant and equipment includes 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. Principles for the recognition and measurement of decommissioning costs are described in **note 2.2.16**. 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 an item of 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.

Borrowing costs incurred for the purchase or construction of a qualifying item of property, plant and equipment are recognised in the initial cost. The principles for recognition and measurement of borrowing costs are described in **note 2.2.2.** 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. (Details on impairment of non–financial assets are described in **note 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 Group, 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.

Items of property, plant and equipment (excluding land) **are depreciated,** depending on the model of consuming the economic benefits from the given item of property, plant and equipment:

- **using the straight-line method,** for items which are used in production at an equal level throughout the period of their usage, 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 a deposit or the quantity of units produced, and this extraction or production is not spread evenly through the period of their usage. In particular this refers to buildings and mining facilities, as well as to mining machinery and equipment.

The useful lives, and therefore the depreciation rates of fixed assets used in the production of copper, are adapted to the plans for the closure of operations. For individual groups of fixed assets, estimated based on expected mine life reflecting ore content, the following useful lives have been adopted:

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

In addition, the Group performs annual regular reviews of its property, plant and equipment in terms of the adequacy of applied useful lives to current operating conditions. The results of the review of depreciation rates performed in 2014 are presented in this report in **note 3.2**.

Depreciation begins when an item of property, plant and equipment is available for use. Depreciation ceases at the earlier of the two dates:when 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 individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the given fixed 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 includes the 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 or if no future economic benefits are expected to be derived from its use or disposal.

2. Main accounting policies(continued)

Stripping costs in the production phase of a surface mine

In the surface mines operated by Group subsidiaries, activities are undertaken involving pre-stripping during the production phase in the mines to gain access to ore (so-called accessing work).
The material removed through stripping during the production phase is often a combination of waste and ore (depending on the deposit). In particular, strip activity can bring economic benefits by obtaining ore that can be used to produce inventory or to gain access to deeper parts of the deposit that will be mined in future periods. To the extent that the benefit obtained by the Group from stripping activity is achieved by:

- the production of inventories, the Group accounts for the cost of such stripping in accordance with IAS 2 Inventories, as a manufacturing cost of products sold. As regards unsold production the said cost is capitalised as inventory; or
- the cost of work to gain access to deeper areas of ore, the Group recognises under non-current assets as "Surface mine stripping assets" (presented in property, plant and equipment under the buildings group), if the following conditions are met: (a) future economic benefits are expected to be derived from the stripping activity, (b) the Group is able to identify that part of the ore deposit to which better access was gained and (c) the stripping costs of this part of the deposit can be reliably measured.

When the cost of the stripping activity asset and the inventory produced are not separately identifiable, the Group allocates these costs between the inventory produced and the stripping activity fixed asset by using a method which is based on a relevant production measure. The production measure for a given area in the Group's mines is the stripping ratio, i.e. the volume of waste extracted compared to expected volume, for a given volume of ore production.

2.2.2 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when the flow of economic benefits is probable and the costs can be measured reliably.
Other borrowing costs are recognised as an expense when incurred.

Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds. Borrowing costs include in particular:

- interest expenses calculated based on the effective interest method in accordance with IAS 39;
- financial costs 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 of interest costs.

Eligible for capitalisation are: specific financing costs (the amount being the difference between the actual borrowing costs and the revenues from the temporary investment of the borrowed funds) and general financing costs (costs recognised using the capitalisation rate).

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

<u>The capitalisation of borrowing costs starts</u> with the joint fulfilment of the following conditions:

a/ expenditures for the asset are being incurred,
b/ borrowing costs are incurred, and
c/ actions necessary to prepare the asset for the intended use or sale, are in progress.

<u>The capitalisation of borrowing costs ceases</u> when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

<u>The capitalisation of borrowing costs</u> is suspended during prolonged breaks in the active performance of investment activity in relation to the qualifying assets, unless such a break is a normal element for the given type of investment. The borrowing costs incurred during the time of the break not constituting the normal element for the given investment, affect the costs of the period.

Exchange differences on borrowings drawn in a foreign currency affect the initial value of the qualifying asset to the extent in which it represents an adjustment of interest costs. To calculate the borrowing costs eligible for capitalisation, both from targeted financing and general financing, only exchange differences which are adjustments to interest costs are taken into account. The amount of the exchange differences adjusting the interest cost is the difference between the cost of interest on equivalent financing which an entity would have drawn in its functional currency and the financing cost incurred in the foreign currency.

2. Main accounting policies (continued)

The exchange differences which are the adjustment to the borrowing costs are settled in the annual reporting period.

If the capitalised borrowing costs increase the value of the qualifying asset and it exceeds its recoverable value, an impairment loss is recognised by the Group.

If the initial value of the qualifying asset was written down, then in the calculation of the capitalisation rate the gross initial value of this asset is taken into account.

2.2.3 Intangible assets

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

- Goodwill;
- Development costs;
- Software;
- Acquired property rights (concessions, patents, licenses, mining rights – mining usufruct rights);
- Other intangible assets;
- Exploration and evaluation assets (intangible assets not yet available for use); and
- Other intangible assets not yet available for use (under construction).

On initial recognition, items of intangible assets are measured at cost. As at the end of the reporting period, items of intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses. (Details on the impairment of non–financial assets are described in **note 2.2.4**).
Amortisation of intangible assets (excluding goodwill, water rights, exploration and evaluation assets and intangible assets not yet available for use) is done using the straight line method, based on expected useful lives, which for individual groups of intangible assets is:

- development costs: 5 – 15 years;
- software: 2 – 5 years;
- acquired property rights (concessions, patents, licenses, mining usufruct rights): 5 – 50 years; and
- other intangible assets, including the right to geological information: 50 years.

The amortisation method and the amortisation rate of intangible assets are subject to review at least at the end of each financial year.

Intangible assets not yet available for use (under construction), goodwill and water rights (assets with indefinite useful lives) are subject to review for impairment at least at the end of each financial year. Eventual impairment loss is recognised in profit or loss.

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 obtaining the 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.

Intangible assets include among others acquired exploration rights, expenditures on drilling, stripping work, sampling, the topographical, geological, geochemical and geophysical analysis of deposits, remuneration and related costs and other employee benefits of individual employees and employees engaged in teams or designated units or those delegated to the supervision or operation of individual projects and other direct costs related to the acquisition or construction of exploration and evaluation 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.);

2. Main accounting policies (continued)

- the purchase of geological information;
- the preparation of geological documentation and its approval;
- the execution of economic and technical assessments of resources for the purpose of obtaining decisions on the application for mine operating concessions; and
- equipment usage costs (property, plant and equipment) used in exploratory work.

Exploration and evaluation assets are measured at 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:

- 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 exploration and evaluation assets);and
- the facts and circumstances indicate that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

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

Other intangible assets

The following are recognised by the Group under other intangible assets, among others:

- water rights in Chile, in the KGHM INTERNATIONAL LTD. Group – due to the specific nature of this asset, i.e. the inexhaustibility of the source, the Group adopted an indefinite period of use for these rights and in accordance with IAS 36 does not amortise this asset. Annual testing for impairment is performed however.
- the fee for managing the jointly-controlled venture Sierra Gorda S.C.M. and intangible assets due to signed contracts for the sale of services, which were identified and measured during the process of accounting for the combination of KGHM INTERNATIONAL LTD. pursuant with IFRS 3. For these assets, the Group adopted a 22-year long amortisation period.

2.2.4 Impairment of non-financial assets

Goodwill, water rights, and other intangible assets with indefinite useful lives, 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 of assets for Group companies which are listed on active markets are the continuation over the long term of a situation in which the carrying amount of these 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 these companies' assets. Internal factors taken into account in determining whether assets have been impaired primarily include any 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 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 it exists. 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.

2. Main accounting policies (continued)

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 as to 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 is initially measured at cost. Transaction costs are included in the initial measurement.

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 and consolidation principles

Subsidiaries in the consolidated financial statements of the Group are those entities which are controlled by the Parent Entity, either directly or indirectly through its subsidiaries. The Parent Entity controls an entity only if it has all of the following:

a) power over the entity,
b) exposure, or rights, to variable returns from its involvement with the entity,
c) the ability to use its power over the entity to affect the amount of its returns.

Power over an entity is usually exercised through ownership of the majority of the total number of votes in the governing bodies of such entities, if decisions concerning the relevant activities of the entity are made by exercising these votes. The existence and effect of potential voting power (provided that it is significant) is considered when assessing whether the Parent Entity controls a given entity. In doubtful situations, a factor indicating whether the Parent Entity has power over the entity is the actual ability to direct the entity's relevant activities (i.e. the activities that significantly affect the entity's financial results) or existence of a special relationship.

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.

Recognised as goodwill are 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 costs of the period in which they are incurred, while marginal costs of issuing debt and equity instruments are recognised as decreases in the value of these instruments at initial recognition.

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. The consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

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

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

2. Main accounting policies (continued)

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

The Group classifies as investments accounted for using the equity method the interest in joint arrangements, identified as joint ventures in which jointly-controlling parties have the right to the net assets of a given entity. Joint control is the contractually agreed sharing of control over joint arrangements which occurs only when decisions about the relevant activities require the unanimous consent of the jointly-controlling parties. Relevant activities are understood as activities which significantly impact the amount of returns made by these joint arrangements.

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

The Group's share of post-acquisition profits or losses of entities accounted for using the equity method is recognised in profit or loss, and its share of post-acquisition movements in accumulated other comprehensive income is recognised in the respective item of 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 entities accounted for using the equity method equals or exceeds its interest in the entity, the Group discontinues recognising its share of further losses, unless it has incurred obligations or made payments on behalf of the entity.

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 and instruments initially designated as hedging instruments excluded from hedge accounting.

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 for 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 as measured 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

2. Main accounting policies (continued)

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 and instruments initially designated as hedging instruments excluded from hedge accounting.

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.

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 included in trade and other receivables in the statement of financial position.

Cash and cash equivalents and financial assets for mine closure and the restoration of tailings storage facilities are also classified as loans and receivables. In the statement of financial position both cash and cash equivalents, and financial assets for mine closure and the restoration of tailing storage facilities, 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 by the Group 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.

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 the fair value plus transaction costs, with the exception of financial assets and liabilities measured at fair value through profit or loss, which initially are 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 of an asset 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 less impairment.

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.

Loans and receivables

Loans and receivables 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; and
- financial guarantee agreements, which are measured at the higher of two amounts: the amount determined in accordance with point 2.2.16 Provisions, or the amount initially recognised less cumulative amortisation recognised according to IAS 18 *Revenue*.

2.2.8.4 Fair value

The fair value of an asset or liability is the price at which the asset could be sold or the price which would be paid to transfer the liability (exit price) in an arm's-length transaction between market participants at the measurement date. 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 most representative price from this market at the measurement date. If the market for a financial asset or liability is not active (and including non-quoted securities), the Group establishes fair value using appropriate valuation techniques based on maximum utilisation of appropriate observable inputs and minimum utilisation of unobservable inputs. Valuation techniques used include comparison with recent arm's length market transactions, reference to the current fair value of other instruments that are 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 fairly valued financial instrument and the situation of the issuer.

In the case of derivatives, 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 fairly valued based on market prices. In the case of purchase or sale of commodity forwards, fair value was estimated based on forward prices for the maturity dates of specific transactions. In the 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. In the case of volatility and forward prices, quotations of banks/brokers are used.

Currency interest rates and currency volatility ratios obtained from Reuters are used. Forwards and swaps on the copper market are priced based on a forward market curve. Silver and currency forward prices are calculated based on fixing price 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 negatively-valued derivatives takes into account adjustments for the risk of non-performance, which includes a credit risk assessment of the relevant entity of the Group. The fair value of positively-valued derivatives takes into account adjustments for credit risk related to a counterparty, i.e. the risk of the counterparty becoming insolvent prior to the expiry of the relevant contract. The Group's entities quantify their own credit risk and counterparty credit risk when measuring financial instruments at fair value, using the simulation of future exposures approach with data implied from the current market quotations of financial instruments.

2. Main accounting policies (continued)

The fair value of unquoted debt instruments is determined as the present value of future cash flows discounted using the prevailing interest rate.

The fair value hierarchy

Assets and liabilities measured at fair value in the statement of financial position, or those which are not measured at fair value but for which information about their fair value is disclosed, are classified by the Group using the fair value hierarchy that categorises the inputs into three levels, depending on their availability:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- level 3 inputs are unobservable inputs for the asset or liability.

In cases where the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The fair value measurement of the Group's derivatives is classified under level 2 of the fair value hierarchy, while measurement of equity instruments is classified under level 1 of the fair value hierarchy.

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 (impairment indicators): 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 periods 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 as at the last revaluation for variable interest rate assets). Any impairment loss is recognised in profit or loss.

Receivables and loans 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 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.

2. Main accounting policies (continued)

Financial assets which are not derivatives, or financial liabilities which are not derivatives, may be designated as hedging instruments only for currency risk hedging.
The Group uses natural hedging through the use of hedge accounting for loans denominated in USD, and designates them as hedging instruments for foreign currency risk, which relates to future revenues of the Group from sales of copper, silver and other metals, denominated in USD.

The Group uses hedge accounting for cash flow hedges.

Derivatives used in cash flow hedges

The Group hedges cash flow.

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 are 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 a 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 linked 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, 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 forecasted 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 forecasted transaction will not occur, then the net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment.

2. Main accounting policies (continued)

2.2.9 Inventories

Inventories consist of the following:

- materials,
- half-finished products and work in progress, including mainly copper ore, copper concentrate undergoing processing, 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 purchased or granted certificates of origin for energy from renewable energy resources, cogeneration and granted energy efficiency certificates.

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

Inventory additions are measured in accordance with the following principles:

- materials and merchandise – at cost;
- property rights to coloured energy and energy efficiency certificates – property rights at cost, certificates at fair value
- finished goods, half-finished products – at actual manufacturing cost; and
- work in progress – based on weighted average actual manufacturing costs.

Inventory disposals are measured as follows:

- materials and merchandise – at average cost based on the weighted average cost of a given item;
- property rights to coloured energy and energy efficiency certificates - using the FIFO method; and
- finished goods, half-finished products and work in progress – based on weighted average actual manufacturing cost.

Inventories are measured as follows:

- materials and merchandise – at average cost as set for inventory disposal;
- property rights to coloured energy and energy efficiency certificates – at cost less impairment loss, but not higher than the net realisable value; and
- finished goods, half-finished products and work in progress – based on weighted average manufacturing costs, including 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.

Estimates of net realisable value are based on the most reliable evidence available at the time of preparing such estimates as regards anticipated amounts realisable from the sale of inventories.

The net realisable value of inventories held to satisfy firm sales is based on the contract price.

Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

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 a 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 following are regarded as receivables:

- **trade receivables** – these are receivables which arise from the core 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, receivables from employees, if they are settled other than by cash payment, and also government 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.

Equity

Equity consists of:
Equity attributable to shareholders of the Parent Entity:

- share capital;
- revaluation reserve from the measurement of financial instruments, of which:
  - revaluation reserve from the measurement of cash flow hedging instruments;
  - revaluation reserve from the measurement of available-for-sale financial assets;
- exchange differences from the translation of foreign operations statements to the Group's presentation currency;
- actuarial gains/losses on post employment benefits;
- 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 put options for employee shares;
  - profit or loss for the period, and

Equity attributable to non-controlling interests.

The non-controlling interests are the equity of subsidiaries, which cannot be attributed directly or indirectly to the Parent Entity.

2.2.12 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 instruments, other loans (borrowings) and finance lease liabilities;
- trade payables;
- other financial liabilities;
- liabilities arising from the acquisition or construction of tangible and intangible assets; 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 is similar to the amount of their amortised cost, calculated using the effective interest rate.

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

2. Main accounting policies (continued)

2.2.13 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.

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 local government entities due to perpetual usufruct of land, as well as liabilities due to other operating leases agreements, are presented in **notes 43 and 7**.

2.2.14 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 payable to employees.

Accruals include among others:
- remuneration and the related surcharges paid on a one-off basis, relating to annual periods;
- costs recorded in accounting books related to taxes and local fees;
- short-term accruals for unused annual leave;
- accruals for costs of purchase of property rights resulting from certificates of origin of energy from renewable resources and cogeneration; and
- accruals for the costs of depreciation of CO_2 emissions allowances.

2.2.15 Deferred income

Deferred income includes mainly:

- cash received to finance the purchase or construction of fixed assets under construction or development work, which are recognised in profit or loss on a systematic basis over the useful life of the asset i.e. in accordance with the depreciation charges of the respective assets financed from these sources, and
- 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, and
- granted allowances of ETS, according to emission rights schemes (CO_2) and granted energy efficiency certificates.

The value of fixed assets, fixed assets under construction and intangible assets acquired for free as grants, is accounted for in accordance with the description in **point 2.2.24**.

2.2.16 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;
- future costs of decomissioning of the tailings pond;
- 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 technological facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition. Estimation of this provision is based on specially-prepared studies using ore extraction forecasts (for mining facilities), and feasibility studies prepared either by specialist firms or by the Parent Entity. Provisions are reviewed at the end of the reporting period.

2. Main accounting policies (continued)

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 passage of time (unwinding of the discount) – recognition in finance costs;
- increases/decreases due to changes in the discount rate and 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;
- increases/decreases due to changes in the time horizon of realising liabilities resulting in a decrease or increase of the number of discount periods, as well as of the present value of the provision.

*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 o the item of property, plant and equipment. A 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 3.17**.

2.2.17 Employee benefits

The Group is obliged to pay 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 the future benefits payments, 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 does exist in Poland, the market yield on government bonds at the end of the reporting period should be applied. Market yields used for estimating provisions are discussed in **note 3.16**.

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 on a one-off basis in the period in which they arose.

2.2.18 Income tax

Income tax recognised in profit or loss comprises: 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.

2. Main accounting policies (continued)

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 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.

2.2.19 Contingent assets and liabilities

A contingent asset is:

- a possible asset 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 Group.

Contingent assets are assessed systematically and are recognised in the off-balance sheet register if an inflow of economic benefits to the Group is probable.

If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related revenue are recognised in the financial statement of the period in which the change occurs.

A contingent liability is:

- 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
- 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.

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.

2.2.20 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 (profit or loss) for a given period contains the aggregated amount of all revenues and other income, costs and charges in a reporting period, excluding items of other comprehensive income. The cost of sales format is applied as the basic costs accounting method. The result of the period in the statement of profit or loss is the profit/loss for the period.

The statement of comprehensive income contains the total amount of the net result of the period transferred from the statement of profit or loss 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 IFRS, 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 IFRS, 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

2. Main accounting policies (continued)

- exchange differences from the translation of foreign operations statements, including the related tax effect.

In the group of items which will not be reclassified to profit or loss are 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.

2.2.21 Revenues

Sales revenues are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. In the case of metals sales, mainly copper products and silver, for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale. Sales revenues 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. Sales revenues are adjusted by the gain or loss from the settlement of derivative cash flow hedges, 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 measurement of the hedged item is recognised at the moment when the hedged item affects profit or loss.

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

Income of the reporting period affecting the profit or loss of the period also includes:
other operating income, indirectly associated with the conducted activities, i.e.:

- income and gains from financial 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 Group activities (bank and other loans, bonds, finance leases etc.); and
- income from the realisation and fair value measurement of derivatives related to liabilities financing the Group's activities.

Moment of recognition of revenues

Sales revenues from products, merchandise and materials are realised when:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the merchandise, finished goods and materials;
- the Group neither retains continuing involvement in the management of merchandise, finished goods and materials sold to the extent associated with the management function for inventories to which it has ownership rights, nor 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 by the Group in respect of the transaction can be measured reliably.

The transfer of ownership of the subject of a 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 realised 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.

2. Main accounting policies (continued)

Revenues from the realisation of construction contracts
In a case where the outcome of a construction contract can be estimated reliably, the Group recognises contract revenue and contract costs respectively to the degree of completion of the contract at the end of the reporting period. Depending on the nature of the contract, the degree of realisation is either measured as the proportion of costs incurred to the total estimated costs of the contract, or else is based on real measurement of completion of the contract work.

Contract revenue comprises the initial amount of revenue 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 revenue and it is possible to reliably determine their value, and that the party requesting such changes agrees to them.

In a case where the outcome of a construction contract cannot be reliably estimated, the Group recognises revenue 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 contract revenue, 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.

2.2.22 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 through distributions to equity participants.
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.

Costs are accounted for both by nature and by the cost centers, 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.

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 instruments 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 used to finance the Group's activities; and
- changes in provisions arising from the approach of the maturity date of a liability (the so-called unwinding of the discount effect).

2. Main accounting policies (continued)

2.2.23 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; and
- 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 preceeding 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.

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.

2.2.24 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.

Monetary government grants for assets are presented in the statement of financial position as deferred income These grants 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.
Grants related to energy efficiency certificates (grants related to assets) are recognised in the statement of profit or loss as other operating income systematically in accordance with the depreciation of property, plant and equipment, whose purchase/manufacturing resulted in the creation of energy efficiency confirmed by energy efficiency certificates (white certificates).

Grants related to income in the statement of profit or loss compensate costs to which they relate up to the value of these costs. Grants which exceed the value of the cost to which it relates are recognised as other operating income.

Grants related to property rights to coloured energy decrease the production cost of energy.
Grants related to CO_2 emission rights decrease the value of the provision which is created in accordance with the obligation for their depreciation (submission).

Grants are recognised uniformly, regardless of whether they were received in the form of cash or as a decrease of liabilities.

2. Main accounting policies (continued)

2.2.25 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.

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 subsidiaries 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**.

2.2.26 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.

2.2.27 Statement of cash flows

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

2.2.28 Management of capital

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 net debt to EBITDA. Net debt is the total amount of borrowings and finance lease liabilities less free cash and cash equivalents and short term investments with a maturity up to 1 year. 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.

3. Important estimates and assumptions

In the consolidated financial statements, estimates are used which are based on assumptions and judgements which affect the applied accounting principles and presented assets, liabilities, income and costs. The estimates, and the assumptions 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 judgment 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.

3.1 Impairment of assets of the KGHM Polska Miedź S.A. Group in terms of the market capitalisation

Under IAS 36, one of the reasons to perform impairment testing of assets is to assess whether the carrying amount of the net assets of the Group exceeds the Parent Entity's market capitalisation. In accordance with its adopted accounting policies KGHM Polska Miedź S.A. recognises the following indications to perform impairment testing of the carrying amount of the Group's net assets: a significant or prolonged decrease in market capitalisation versus the carrying amount of net assets. A decrease by at least 20% and a decline over a period of 12 months are classified respectively as significant and prolonged by the Group.
The Management Board of KGHM Polska Miedź S.A. continuously monitors market capitalisation and the carrying amount of the net assets of the Group to identify any indications of impairment.
Taking into consideration the 200 000 000 shares issued by KGHM Polska Miedź S.A., the Parent Entity's market capitalisation in the first half of 2014 and in December 2014 was below the carrying amount of the Group's net assets. In 2014 the share price of KGHM Polska Miedź S.A. decreased by 7.75%, from PLN 118.00 per share at the end of 2013 to PLN 108.85 per share at the end of 2014. In addition, it was noted that in 2014 the share price rose above PLN 118.00 per share from the end of 2013.
Taking into consideration the insignificant and short-term decrease in the Parent Entity's market capitalisation in 2014 versus the carrying amount of the net assets, there were no reasons to perform an impairment test of these assets.

3.2 Useful life of property, plant and equipment

The management boards of Group companies perform annual reviews of residual values, depreciation methods and anticipated useful lives of depreciable property, plant and equipment. As a result of a review of the useful life of the Group's fixed assets in 2014 versus the depreciation rates used as at 31 December 2013, there was a decrease of depreciation costs in 2014 in the amount of PLN 49 million, which was mainly a result of the extension of the estimated useful lives by 1-1.7 years
For assets which are used, in the opinion of a given company's management board, on a systematic basis, the straight-line method of depreciation is applied. Depreciation is set through the estimation of useful lives and equal distribution of the amounts to be depreciated. It is estimated that the useful lives of assets assumed 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 2014 amounted to PLN 10 199 million (as at 31 December 2013, PLN 8 929 million).

For assets whose utilisation, in the opinion of a given company's management board, is directly related to the amount of mineral extracted from ore or the amount of end product, and extraction or production is not evenly distributed during their useful lives, the natural depreciation method (units of production method) is applied. Depreciation is estimated based on the expected amount of mineral reserves tonnage to be extracted, or based on the expected amount of products. The net value of property, plant and equipment subject to depreciation using the units of production method as at 31 December 2014, amounted to PLN 3 552 million (as at 31 December 2013, PLN 3 015 million) and represented mainly the production assets of KGHM INTERNATIONAL LTD.

3.3 Stripping costs

In the reporting period the Group recognised as property, plant and equipment (**note 6** - mining and metallurgical assets) costs incurred in 2014 to access ore through pre-stripping during the production phase in open-pit mines belonging to KGHM INTERNATIONAL LTD. amounted to PLN 183 million (in 2013: PLN 282 million). Professional judgment with respect to assessing whether there exists a portion of an orebody to which access has been improved as well as assessment of the level of pre-stripping costs which would be recognised in property, plant and equipment, is performed by a group of engineers and teams of specialists in the Group's open-pit mines. In 2014 it was determined that the full value of expenditures incurred must be capitalised in mining and metallurgical assets. These assets will be depreciated over periods conforming to the periods of use of the identified orebody, to which access improved as a result of this work. The balance of non-current assets due to stripping costs as at 31 December 2014 amounted to PLN 598 million, or USD 170 million (as at 31 December 2013: PLN 340 million, or USD 113 million).

(amounts in tables in PLN millions, unless otherwise stated)

3. Important estimates and assumptions (continued)

3.4 Testing for impairment of the Robinson mine

During the analysis performed to identify indications under IAS 36, the Management Board of the Parent Entity identified indications to perform a test for impairment of the assets of the Robinson mine from KGHM INTERNATIONAL LTD. Group (operating segment "KGHM INTERNATIONAL LTD.") due to a deterioration of ore quality.

The carrying amount of the Cash Generating Unit Robinson mine was estimated at a level of USD 340.1 million (PLN 1 193 million based on the average exchange rate from 31 December 2014 announced by the National Bank of Poland). For purposes of estimating the recoverable amount during this testing a fair value measurement of the assets of the Robinson mine less cost to sell was set, making use of the DCF method, i.e. the method of discounted cash flows. Assumptions used in estimating the recoverable value of the asset:

Mine life	8 years – according to the planned mine production period
Saleable metals production during mine life	829 million pounds of copper (91% of revenues) and 207 thousand ounces of gold (9% of revenues)
Average operating margin during mine life	38.9%
Capital expenditures	USD 593 million during mine life
Applied income tax rate	35%
Applied discount rate	8.0%
Price curves	copper and molybdenum price curves, based on internal macroeconomic assumptions adopted by the Parent Entity and incorporating the comparison with the median of available, multiannual forecasts of financial and analytical institutions

As a result of this testing a fair value less costs to sell of 2% was determined for the Robinson mine of USD 341 million (PLN 1 196 million based on the average exchange rate from 31 December 2014 announced by the National Bank of Poland), which exceeded the carrying amount of assets of the Robinson mine, and consequently did not form the basis for recognising an impairment loss.

The performed sensitivity analysis of the recoverable amount of the assets of the Robinson mine shows that the key assumption used in testing for impairment is the adopted price curves. Assumptions concerning the price curves were adopted while taking into account the professional judgment of the Management Board of the Parent Entity with respect to changes in copper prices in the future, which was reflected in the calculation of the recoverable amount. The Management Board, after taking into account the results of the performed analysis, decided that the recoverable amount of the Robinson mine's assets would be lower than the carrying amount if the average copper prices in 2015 were to decrease by approx. 0.25% or if the average copper prices for the years 2016-2022 were to decrease by approx. 0.05%.

3.5 Goodwill

Pursuant to IAS 36, at the end of the reporting period annual testing is performed for the impairment of cash - generating units to which goodwill was allocated.

In the current period testing was performed for the impairment of cash-generating units, to which goodwill was allocated in the total amount of PLN 39 million of which:

• „Energetyka" sp. z o.o.	PLN 26 million
• other	PLN 13 million

For the purpose of estimating the recoverable amount of the cash-generating units, their fair value less costs to sell was estimated, based on cash flow projections contained in the approved financial plans of the cash-generating units, using the DCF method, i.e. the discounted cash flow method. This measurement to fair value was classified to level three of the fair value hierarchy.

Key assumptions used to measure the most important cash-generating unit:

Period of projected cash flows	for the years 2015-2020
Rate of EBIT increase in the period of projection	3.3%
Rate of cash flow increase following the period of projection	2%
Discount rate (after taxation)	4.58% (real)
Total capital expenditures in the period of projection	PLN 295 million

The key assumptions were based on sector parameters and on the market and internal conditions of entities, including mainly with respect to realised investments.

As a result of the testing performed, the recoverable amount of „Energetyka" sp. z o.o. (EV), was set at the level of PLN 437 million.

3. Important estimates and assumptions (continued)

By comparing the recoverable amounts of cash-generating units with their carrying amounts, the total impairment loss on goodwill was determined to be PLN 25 million, which was allocated to the following units:
- „Energetyka" sp. z o.o. – PLN 12 million,
- other – PLN 13 million.

3.6 Testing for impairment of intangible assets with indefinite useful lives
The Group performed the annual test for impairment under IAS 36 in order to assess if there was an impairment of intangible assets with indefinite useful lives. As at 31 December 2014 the Group classified to this group of intangible assets the water rights held in Chile with a carrying amount of PLN 217 million (USD 62 million, based on the average exchange rate from 31 December 2014 announced by the NBP). The judgment in respect to indefinite useful life was made based on the nature of this asset, i.e. the inexhaustibility of the source. As part of the testing for impairment of this asset, its recoverable amount was estimated by determining its fair value. For this purpose the assessment of an independent assessor was used to estimate the capacity of the source, which was set at the level of USD 150 thousand for one liter of water from the source per second (PLN 526.1 thousand, based on the average exchange rate from 31 December 2014 announced by the National Bank of Poland). Due to the fact that the total capacity of the source (the total permissible offtake) is 431 litres from the source per second, the recoverable amount was set at PLN 227 million (USD 65 million, based on the average exchange rate from 31 December 2014 announced by the NBP). After comparing the recoverable amount to the carrying amount, no impairment was recognised. The measurement was classified to level 2 of the fair value hierarchy in accordance with IFRS 13.

3.7 Test for impairment of intangible assets not yet available for use

In accordance with IAS 36, the Group performed an annual estimate of the recoverable amount of intangible assets which are not yet available for use, whose carrying amount as at 31 December 2014 amounted to PLN 86 million (as at 31 December 2013: PLN 69 million). The tests performed at the end of the reporting period and for the comparable period did not identify any impairment of these assets.

3.8 Exploration and evaluation assets

Taking into consideration the current stage of advancement of the projects classified to exploration and evaluation assets and the positive results of the work carried out, the management boards of Group companies did not identify any indications that the carrying amount of their exploration and evaluation assets may exceed their recoverable amounts.

3.9 Joint ventures (jointly controlled entities)

In the current period the most significant item, which was classified by the Group as a joint venture under IFRS 11, is the „JV Sierra Gorda" agreement, in which the share of KGHM INTERNATIONAL LTD. equals 55%, entered into to develop the extraction of copper and molybdenum in the Sierra Gorda (Chile) area.

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

In the consolidated financial statements, the shares in the jointly controlled entities were measured using the equity method. 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 assets attributable to the share of the joint operator.

3.10 Start of depreciation of the assets of Sierra Gorda from allocation of the purchase price

As a result of the acquisition of KGHM INTERNATIONAL LTD., for the purpose of accounting for the acquisition price, the fair value of the Sierra Gorda project was estimated using the discounted cash flow method. The carrying amount as at 31 December 2014 amounted to USD 1 236 million. The excess of the fair value over the carrying amount of the investment in Sierra Gorda, which was recognised in the consolidated financial statements at the level of USD 651 million (PLN 2 283 million at the average exchange rate on 31 December 2014 announced by the NBP), is mainly in respect of the measurement of the assets of Sierra Gorda (the deposits of the investment project). Depreciation of the assets of Sierra Gorda (including measurement to fair value at the date of acquisition of KGHM INTERNATIONAL LTD.) will begin at the moment when commercial production is reached. Due to the fact that in 2014 Sierra Gorda S.C.M. did not achieve the commercial production level, defined as bringing the project's assets to an operational state as measured by:
- achievement of 65% of copper ore processing capacity for at least 60 consecutive days; and
- at least 40% molybdenum content in concentrate for at least 30 consecutive days,

settlement of the excess of fair value in the consolidated financial statements is expected at the beginning of 2015.

(amounts in tables in PLN millions, unless otherwise stated)

3. Important estimates and assumptions (continued)

3.11 Testing for impairment of the joint venture Sierra Gorda

As a result of a change in the tax system in Chile announced in 2014 which will come into force on 1 January 2017, there arose indications that an impairment test had to be performed of the Sierra Gorda S.C.M. project, accounted for using the equity method, which is the separate operating segment "Sierra Gorda Project".

The carrying amount of Sierra Gorda as at 31 December 2014 amounted to USD 1 236 million (PLN 4 333 million, based on the average exchange rate from 31 December 2014 announced by the National Bank of Poland). To determine the recoverable amount during the testing, an estimate was made of the fair value of the tested assets less costs to sell, making use of the DCF method, i.e. the method of discounted cash flows.

Calculation of the recoverable amount was performed on the basis of the projected results, assuming:

- completion of the investment's second phase, comprising development of the existing infrastructure, (assuming an increase in the mine's processing capacity);
- prolongation of the mine life as a result of mining of the mineralized areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, based on the infrastructure of the investment's second stage;
- Completion of the oxide ore project (Oxide), with estimated production of 342 thousand tonnes of copper in 2017-2032;
- a copper and molybdenum price curve based on internal macroeconomic assumptions adopted by the Parent Entity and incorporating the median of available, multiannual forecasts of financial and analytical institutions.
- selection of a corporate income tax model for business activities in Chile which assumes a target corporate income tax rate of 27% starting from 2018, which will be paid on taxable income earned by the company in a given year as well as additional taxation on foreign companies equal to the difference between the 35% tax rate and the paid tax rate of 27% (effectively 8% of taxable income, representing 11% of taxable income less income tax paid by the company) paid when profit is distributed. In order to make use of this taxation option the foreign shareholder must meet the condition of tax residency in a country with which Chile has an agreement to avoid double taxation. KGHM Polska Miedź S.A. is in the process of creating an organisational structure which will allow this option to be chosen, while achievement of these changes is not restricted by any external factors.

Key assumptions used in the measurement:

Mine life/forecast period	42 years (to 2056)
Saleable metals production	26.0 billion pounds of copper (86% of revenues), 813 million pounds of molybdenum (10% of revenues), 2.4 million ounces of gold (3% of revenues), 77.4 million ounces of silver (1% of revenues)
Average operating margin during mine life	44.6%
Capital expenditures	USD 5 803 million to be incurred in the years 2015-2056 (of which USD 3 054 million by 2018, USD 2 749 million in the period 2019-2056)
Applied income tax rate	for the years 2015–2017 - 22.5%- 25.5% from 2018 - 27%
Applied discount rate after taxation	
- for the Catabella mine	8%
- for mineralized areas– Pampa Lina and Salvadora	9%

As a result of this testing a fair value less costs to sell of 2% was determined for Sierra Gorda at the level of USD 1 275 million (PLN 4 472 million based on the average exchange rate from 31 December 2014 announced by the National Bank of Poland), which exceeded the carrying amount of the investment in the Sierra Gorda project and did not form the basis for recognising an impairment loss.

The performed sensitivity analysis of the recoverable amount of the investment in Sierra Gorda shows that the key assumptions used in testing for impairment are the adopted price curves and the discount rate. Assumptions concerning the price curves and the discount rate were adopted while taking into account the professional judgment of the Parent Entity's Management Board with respect to changes to these amounts in the future, which was reflected in the calculation of the recoverable amount. It was decided that, for the purposes of monitoring the risk of impairment of the investment in Sierra Gorda in subsequent reporting periods, the recoverable amount would be lower than the carrying amount if the average annual copper prices for the years 2015-2024 were to decrease by approx. 1.0% versus the adopted assumptions, or if the discount rate were to increase by approx. 1.25% versus the adopted assumptions.

3. Important estimates and assumptions (continued)

3.12 Impairment of the „Elektrownia Blachownia Nowa" Sp. z o.o. project

In 2013, an agreement was signed by KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., based on which it was decided to temporarily suspend the project to build a gas-steam block in the company "Elektrownia Blachownia Nowa" Sp. z o.o. This was due to the current situation on the electricity and natural gas market, resulting in higher investment risk and subsequently the need to review and optimise the project.

The Parties committed themselves to ensure the functioning of the company "Elektrownia Blachownia Nowa" Sp. z o.o. as well as to secure the results of the Project achieved to date and to continue monitoring of the energy market and the regulatory environment, in terms of the possibility to rapidly re-commence realisation of the project.

The Parties to the agreement agree that a decision to re-commence the project will be made in the form of a separate agreement, which in accordance with the Parties' expectations should be signed by 31 December 2016.

Changes in 2014 on the energy market and in the associated regulatory environment did not provide a basis to restart the project to build a gas-steam block. Due to present indicators, the investment held in the company „Elektrownia Blachownia Nowa" Sp. z o.o. was tested for impairment.

As a result of this test, the recoverable amount was set at PLN 18 million. This amount was lower than the carrying amount of the investment (PLN 32 million), which justified the recognition of impairment loss in the amount of PLN 14 million.

3.13 Impairment of available-for-sale financial assets

In accordance with accounting policy, the Group measured the fair value of shares classified to the category of available-for-sale financial assets. Analysis of the value of shares versus their purchase price is performed at the end of each quarter. The most important item of available-for-sale financial assets are investment in Tauron Polska Energia S.A., whose shares are listed on the Warsaw Stock Exchange. At the end of the reporting period the fair value of this investment was higher then its carrying amount, and as a result there was a partial reversal of a previous impairment loss in the amount of PLN 124 million, which was recognised as an increase of other comprehensive income.

As at 31 December 2014, the carrying amount of available-for-sale financial assets amounted to PLN 988 million (as at 31 December 2013, PLN 868 million).

3.14 Receivables due to loans granted

The KGHM INTERNATIONAL LTD. Group has granted a long-term loan to the Sierra Gorda S.C.M. to finance its mining projects in Chile. As at 31 December 2014, the balance of loan granted (including accrued interest) amounted to USD 1 777 million. The repayment date of this loan was set at 2024. According to the financial projections prepared by Sierra Gorda S.C.M., the expense of repaying this loan was included in the plans for the years in which maturity of the loan falls. Due to the fact that settling the loan is planned and probable in the forseeable future, the loan is not a net investment under IAS 21.15 and the assessment as to its recoverability was prepared independently of the analysis with respect to the recoverable amount of the investment in Sierra Gorda. On the basis of the adopted financial projections, no risk concerning the recoverability of the loan granted was identified.

3.15 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 2014 the provisionally-set value of inventories amounted to PLN 309 million (as at 31 December 2013, PLN 276 million). In 2014 there was an adjustment of inventories arising from the leaching process whose value was provisionally set in the previous reporting periods, in the amount of PLN 88 million (in 2013 there was no adjustment of inventories).

3.16 Measurement of future employee benefits liabilities

Future employee benefits, i.e. 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 these 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.

(amounts in tables in PLN millions, unless otherwise stated)

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 for the Group entities 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 whose maturities 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 salary, are based in part on current market conditions. The assumptions applied to measurement as at 31 December 2014 may be found in **note 24**.
The sensitivity of future employee benefits liabilities to changes in assumptions 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 would be immaterial.

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

	At 31 December 2014	At 31 December 2013
an increase in the discount rate by 1%	(260)	(168)
a decrease in the discount rate by 1%	348	215
an increase in the coal price and salary increase rates by 1%	335	214
a decrease in the coal price and salary increase rates by 1%	(261)	(172)

A change in the main actuarial assumptions (discount rate, salary increase rate and coal price increase rate) as at 31 December 2014 versus assumptions applied as at 31 December 2013 caused an increase in liabilities due to employee benefits in the amount of PLN 452 million.
As at 31 December 2014 the carrying amount of employee benefits liabilities was PLN 2 146 million (as at 31 December 2013, PLN 1 694 million).

3.17 Provisions for decommissioning costs of mines and other technological facilities

These provisions represent the discounted-to-present-value estimated future decommissioning costs of mines and other facilities. Reassessment of this provision at the end of the reporting period is affected by the following indicators:

1. In the Parent Entity:
   a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
   b) the forecasted discount rate calculated based on the yield on treasury bonds with maturities nearest to the planned financial outflow,
2. In the KGHM INTERNATIONAL LTD. Group:
   a) the rate of return on investments in US 10-20 year treasury notes of the Federal Reserve of the United States of America, and
   b) the rate of return on investments in 5-year government bonds issued by the governments of Canada and Chile.

The yield on treasury bonds and the inflation rate are set separately for future periods, i.e. for the first, second and third years, and jointly for periods from the fourth year.
In the KGHM Polska Miedź S.A Group, in order to estimate provisions for the decommissioning costs of mines and other technological facilities located in individual countries, the following discount rates were applied:

	2014	2013
- in Poland	2.75 %	4.5 %
- in the United States	1.8% - 2.5%	1.8% - 3.4%
- in Canada	2.3% - 2.9%	2.6% - 2.8%
- in Chile	1.9%	2.3%

(amounts in tables in PLN millions, unless otherwise stated)

3. Important estimates and assumptions (continued)

Impact of changes in the discount rate on the balance of the provision for decommissioning costs of mines and other technological facilities

	At 31 December 2014	At 31 December 2013
an increase in the discount rate by 1%	(372)	(205)
a decrease in the discount rate by 1%	339	278

In the Parent Entity, in financial year 2014 the number of discount periods remained at the same level as in 2013. The program and schedule for decommissioning technological facilities of KGHM Polska Miedź S.A. and the estimation of decommissioning costs of mines and other technological facilities has been in development since 2001. They are being developed in cooperation with our subsidiary, KGHM Cuprum Sp. z o.o. – CBR. The last estimate of decommissioning costs of other technological facilities was made in 2013. The updated program and schedule for decommissioning technological facilities was developed assuming a timeframe for production from the mines of KGHM Polska Miedź S.A. in current concessioned areas to the year 2063.

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 2014. 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 will end in 2022, and by the Carlota mine in 2017.

3.18 Deferred tax assets/liabilities

Deferred tax assets/liabilities are measured using the tax rates which are expected to apply at the moment when the assets are realised or the liabilities are 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 assets with future tax income is based on the budgets of Group companies. The companies of the Group recognised in their accounts deferred tax assets up to the 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.

In the current reporting period, as a result of the change in the tax system in Chile, the Group remeasured the value of the deferred tax liabilities created in respect of the future dividends to be paid by a foreign entity on the difference between the carrying amount of the net assets of the Sierra Gorda project and their fair value as at the date of acquisition by KGHM Polska Miedź S.A.
At initial recognition of the Sierra Gorda project, its income was taxed according to the First Category Tax in Chile (FCT) at the level of 17%. In addition, the tax system provided for the taxation of dividends paid to owners outside of Chile under the Second Category Tax (SCT). The SCT rate was 35%, and consequently the tax paid could be fully deducted in respect of the SCT, i.e. the total tax rate amounted to 35% (effectively 18% of taxable income, which is 21.7% of taxable income less income tax paid by the company), as a result of which deferred tax liabilities were recognised at the date of acquisition of Sierra Gorda in the amount of USD 222 million (PLN 778 million at the average exchange rate on 31 December 2014 announced by the NBP).

The change in the Chilean tax system adopted in 2014 will take effect from 1 January 2017. These regulations required Sierra Gorda S.C.M. to select one of the new corporate income tax models. The company chose the taxation model which sets the target corporate income tax rate at 27% starting from 2018, which will be paid on taxable income earned by the company for a given year as well as additional tax on foreign companies equal to the difference between the 35% tax rate and the paid tax rate of 27% (effectively 8% of taxable income, which is 11% of taxable income less income tax paid by the company), paid when profit is distributed. In order to make use of this taxation option the foreign shareholder must meet the condition of tax residency in a country with which Chile has an agreement to avoid double taxation. KGHM Polska Miedź S.A. is in the process of creating an organisational structure which will allow this option to be chosen, while achievement of these changes is not restricted by any external factors.

3. Important estimates and assumptions (continued)

In consideration of the above, the Group remeasured the deferred tax, which resulted in:

- a decrease in deferred tax liabilities arising from temporary differences on profits due from the investment Sierra Gorda in the amount of USD 91 million (PLN 290 million based on the arithmetic average of average exchange rates announced by the NBP at the end of each month in 2014) through profit or loss in the "income tax expense" position
- a decrease in value of the investment in Sierra Gorda in the amount of USD 79 million (PLN 251 million based on the arithmetic average of average exchange rates announced by the National Bank of Poland at the end of each month in 2014) due to the estimates of the tax on profits, recognised in the value of the investment in Sierra Gorda, through profit or loss in the "Share in losses of investments accounted for using the equity method" position.

(amounts in tables in PLN millions, unless otherwise stated)

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 2014	% of Group's share as at 31 December 2013
"BIOWIND" sp. z o.o. in liquidation	Lubin	generation, transfer and distribution of electricity	100	100
BIPROMET S.A.	Katowice	Construction and urban planning, 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	-	47.41
CBJ sp. z o.o.	Lubin	technical research and analyses; measurement of imissions and emissions; industrial research	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	purchase/sale of scrap: steel, coloured metals and steel alloys, sale of smelter products and construction reinforcing materials, waste recycling	99.54	98.64
CUPRUM Nieruchomości sp. z o.o.	Wrocław	activities connected with real estate management and construction, design and financial services	100	-
Ecoren DKE sp. z o.o. in liquidation	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	-	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 over other companies within the holding structure created to acquire KGHM INTERNATIONAL LTD.	100	100
Fermat 2 S.á r. l.	Luxembourg	foundation, development, management or exercise of control over other companies within the holding structure created to acquire KGHM INTERNATIONAL LTD.	100	100
Fermat 3 S.á r. l.	Luxembourg	foundation, development, management or exercise of control over other companies within the holding structure created to acquire KGHM INTERNATIONAL LTD.	100	100
Fundusz Hotele 01 Sp. z o.o.	Wrocław	financial activities, buying and selling of own 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
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	67.71
Interferie Medical SPA Sp. z o.o.	Lubin	hotel services, recreation, rehabilitation, health tourism and wellness	89.46	89.46
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	80	80
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	R&D activities	100	100
CUPRUM DEVELOPMENT sp. z o.o.	Wrocław	activities connected with real estate management and construction, design and financial services	100	-
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
KGHM Kupfer AG	Berlin	exploration for and evaluation of deposits of copper and other metals in Europe	100	100

(amounts in tables in PLN millions, unless otherwise stated)

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 2014	% of Group's share as at 31 December 2013
KGHM I 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 IV FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM V 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
KGHM LETIA S.A.	Legnica	promotion of innovation; technology transfer; operation of a technology park; property sale and rental	84.93	88.58
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
KGHM ZANAM Sp. z o.o. (formerly DFM ZANAM - LEGMET Sp. z o.o.)	Polkowice	repair and construction of machinery	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	hospital services; medical 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
NITROERG SERWIS Sp. z o.o. (formerly BAZALT-NITRON Sp. z o.o.)	Wilków	sale and transport of explosives, work related to drilling and blasting	85	85
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
PB Katowice S.A. in liquidation	Katowice	construction of complete facilities or parts thereof, general and specialty construction	58.14	58.14
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 Ltd.	Vancouver	agricultural activity	100*	100*

* actual Group share

(amounts in tables in PLN millions, unless otherwise stated)

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 2014	% of Group's share as at 31 December 2013
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
Polska Grupa Uzdrowisk Sp. z o.o.	Wrocław	financial holding activities, financial services, trade and real estate services	100	100
Polska Grupa Uzdrowisk Spółka z ograniczoną odpowiedzialnością S.K.A.	Warsaw	financial activities, retail and wholesale of different merchandise and products	100	100
Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU	Jelenia Góra	spa services	97.87	92.66
Uzdrowiska Kłodzkie S.A. - Grupa PGU	Polanica Zdrój	spa services, production and sale of mineral water	99.31	92.57
Uzdrowisko Połczyn Grupa PGU S.A.	Połczyn Zdrój	spa services	98.42	91.38
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. - Grupa PGU	Świeradów Zdrój	spa services	98.65	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	100	98.5
Walcownia Metali Nieżelaznych "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	85.2	85.2
Zagłębie Lubin S.A.	Lubin	management of football section, organisation of professional sporting events	100	100
0929260 B.C U.L.C.	Vancouver	management or exercise of control over other companies	100	100
KGHM INTERNATIONAL LTD. Group				
KGHM INTERNATIONAL LTD.	Vancouver	foundation, development, management or exercise of control over other companies	100	100
Malmbjerg Molybdenum A/S	Greenland	management and development of the Malmbjerg project with respect to molybdenum mining	100	100
International Molybdenum Plc	United Kingdom	financial activities	100	100
KGHMI (Barbados) Holdings Ltd.	Barbados	management and exercise of control over other companies	100	100
Quadra FNX Chile (Barbados) Ltd.	Barbados	management and exercise of control over other companies	100	100
Quadra FNX Holdings Chile Limitada	Chile	management and exercise of control over other companies	100	100
Quadra FNX SG (Barbados) Ltd.	Barbados	management and exercise of control over other companies	100	100
Aguas de la Sierra Limitada	Chile	ownership and exercise of water rights in Chile	100	100

(amounts in tables in PLN millions, unless otherwise stated)

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 2014	% of Group's share as at 31 December 2013
Quadra FNX FFI Ltd.	Barbados	financial activities	100	100
Robinson Holdings (USA) Ltd.	Nevada, USA	technical and management services for subsidiaries in the USA	100	100
Wendover Bulk Transhipment Company	Nevada, USA	shipping services for the Robinson mine	100	100
Robinson Nevada Mining Company	Nevada, USA	copper ore mining, copper production and sale	100	100
Carlota Holdings Company	Arizona, USA	management and exercise of control of other companies	100	100
Carlota Copper Company	Arizona, USA	leaching of copper ore, copper production and sale	100	100
FNX Mining Company Inc.	Ontario, Canada	copper and nickel ore mining, copper and nickel production and sale, Victoria project development	100	100
DMC Mining Services Ltd.	Ontario, Canada	mining services contracting	100	100
Quadra FNX Holdings Partnership	British Columbia, Canada	management and exercise of control of other companies	100	100
Raise Boring Mining Services, S.A. de C.V.	Mexico	mining services contracting	100	100
FNX Mining Company USA Inc.	USA	management and exercise of control of other companies	100	100
DMC Mining Services Corporation	USA	mining services contracting	100	100
Centenario Holdings Ltd.	British Virgin Islands	management and exercise of control of other companies	100	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	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 Gorda project and the Franke mine	100	100
Frankie (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	100	100
Sociedad Contractual Minera Franke	Chile	leaching of copper ore, production and sale of copper	100	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	100

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

Significant changes in the structure of the KGHM Polska Miedź S.A. Group during the reporting period

Combination of jointly-controlled entities

On 21 January 2014 the General Meeting of KGHM Metraco S.A. and the General Meeting of KGHM Ecoren S.A. decided to combine the companies through the acquisition of KGHM Ecoren S.A. by KGHM Metraco S.A. KGHM Polska Miedź S.A. owned 100% of the shares in both companies at the moment the decision to combine the companies was made. On 31 January 2014, an entry about the combination was made in the National Court Register. After the combination, KGHM Polska Miedź S.A. remains the owner of 100% of the shares of KGHM Metraco S.A., as it acquired all of the newly-issued shares in the increased share capital of KGHM Metraco S.A., covering them with the assets of KGHM Ecoren S.A. From the date of combination KGHM Metraco S.A. continued the activities previously carried out by KGHM Ecoren S.A. Due to the finalised transaction's character (the combination of jointly-controlled entities) it did not have a significant impact on the Group's consolidated financial statements as at 31 December 2014.

On 22 January 2014 there was a combination of subsidiaries of the KGHM INTERNATIONAL LTD. Group: Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd., and subsequently their acquisition by Centenario Holdings Ltd. These actions were undertaken in order to simplify the KGHM INTERNATIONAL LTD. Group structure by dissolving subsidiaries whose activities are not related to the core business operations of KGHM INTERNATIONAL LTD. This transaction did not have a significant impact on the Group's consolidated financial statements as at 31 December 2014.

Acquisition of employee shares

In 2014, the Group performed an acquisition of employee shares in the following subsidiaries:

- Uzdrowiska Kłodzkie S.A. – Grupa PGU, representing 6.74% of the company's share capital,
- Uzdrowisko Połczyn Grupa PGU S.A., representing 7.04% of the company's share capital,
- Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, representing 5.21% of the company's share capital,
- Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU, representing 10.91% of the company's share capital, and
- CENTROZŁOM WROCŁAW S.A., representing 0.9% of the company's share capital.

The total value of shares purchased is PLN 15 million and decreased put option liabilities for employee shares in the consolidated financial statements.
Simultaneously, a decrease in equity attributable to non-controlling interest of PLN 21 million was performed by a settlement of capital from valuation of the put option for employee shares in the amount of PLN 21 million (equity from initial recognition of put option liabilities in retained earnings).

Acquisition of these shares represents the execution of an obligation arising from a sales agreement with the State Treasury to submit an irrevocable purchase offer for all remaining employee shares, which were purchased by the employees during the privatisation process of the aforementioned companies.

Other changes in the Group's structure in 2014 were immaterial with regards to the consolidated financial statements.

Significant changes in the structure of KGHM Polska Miedź S.A. Group during the period from 1 January 2013 to 31 December 2013

Acquisition of employee shares

In 2013 KGHM Ecoren S.A. acquired 1 500 590 employee shares representing 13.64% of the equity of the subsidiary CENTROZŁOM WROCŁAW S.A., in accordance with the provisions of contracts to purchase the shares entered into between KGHM Ecoren S.A. and non-controlling shareholders of CENTROZŁOM WROCŁAW S.A.
The total value of the shares acquired is PLN 27 million, and decreased put option liabilities for employee shares in the consolidated financial statements. As at 31 December 2013, the Group held 98.64% of the share capital of CENTROZŁOM WROCŁAW S.A.

Acquisition of these shares represents the execution of an obligation arising from a sales agreement with the State Treasury to submit an irrevocable purchase offer for all remaining employee shares, which were purchased by the employees during the privatisation process of the aforementioned companies.

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

Acquisition of investment certificates of Closed-End Investment Funds

In 2013, KGHM Polska Miedź S.A. acquired investment certificates of the following investment funds:

- On 9 September 2013 and on 20 December 2013, 696 investment certificates and 2 225 investment certificates of KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN), respectively for PLN 10 629.40 per certificate and PLN 9 886.71 per certificate, paid in cash in the amount of PLN 29 million.
- On 19 April 2013, 4 970 investment certificates of KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN), for PLN 8.5 thousand per certificate, paid in cash in the amount of PLN 42.2 million.
- On 3 June 2013, 4 210 investment certificates of KGHM V Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM V FIZAN), for PLN 10 thousand per certificate, paid in cash in the amount of PLN 42.1 million.

The managing body of the KGHM Closed-End Non-Public Investment Funds is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The share of the KGHM Polska Miedź S.A. Group in the capital of the investment funds is 100%. The investment objective of the KGHM V FIZAN Fund is to invest capital in attractive sectors (apart from those in which the other funds managed by KGHM TFI S.A. have invested), creating synergy for the KGHM Polska Miedź S.A. Group based on the benefits arising from the diversification of activities.

The aforementioned transactions did not have a significant impact the consolidated financial statements.

Liquidation of KGHM II FIZAN

On 18 June 2013 the General Meeting of the KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN)(Closed-End Non-Public Investment Fund), resolved to dissolve the Fund. The application to liquidate KGHM II FIZAN was submitted to the Regional Court in Warsaw, Section VII Civil Registrations on 19 June 2013.
KGHM TFI S.A. was the liquidator of KGHM II FIZAN.

The aforementioned transaction did not have a significant impact the consolidated financial statements.

Other changes in the structure of the KGHM Group in 2013 were immaterial with regards to the consolidated financial statements.

5. Operating segments

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

In the adopted 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 operating segments were identified which are analysed in detail by management bodies. The identified operating 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, 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 segments includes companies of the Group not related to the mining industry

* in the reporting period and in the comparable periods 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.

Fermat 1 S. á r. l., Fermat 2 S. á r. l., Fermat 3 S. á r. l. and 0929260 B.C.U.L.C were founded within the holding structure created to acquire KGHM INTERNATIONAL LTD. These companies' scope of activities include: foundation, development, management and exercise of control over other companies within this structure. These companies do not conduct operating activities which could impact the financial results achieved by individual segments. Because of this they were not classified to any of the aforementioned segments and data concerning these companies was included in the column "Consolidation adjustments and adjustments of segments to consolidated amounts".

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

Segments' results are measured by: Profit/(loss) for the period and operating profit plus depreciation/amortisation (EBITDA).

5. Operating segments (continued)

Reporting segments of the KGHM Polska Miedź S.A. Group at 31 December 2014

KGHM Polska Miedź S.A.

KGHM INTERNATIONAL LTD. Group

- KGHM INTERNATIONAL LTD.
- KGHMI (Barbados) Holdings Ltd.
- Quadra FNX Chile (Barbados) Ltd.
- Quadra FNX Holdings Chile Limitada
- Quadra FNX SG (Barbados) Ltd.
- Aguas de la Sierra Limitada
- Quadra FNX FFI Ltd.
- Malmbjerg Molybdenum A/S
- International Molybdenum Plc
- Robinson Holdings (USA) Ltd.
- Wendover Bulk Transhipment Company
- Robinson Nevada Mining Company
- Carlota Holdings Company
- Carlota Copper Company
- FNX Mining Company Inc.
- DMC Mining Services Ltd.
- Quadra FNX Holdings Partnership
- Raise Boring Mining Services, S.A. de C.V.
- FNX Mining Company USA Inc.
- DMC Mining Services Corporation
- Centenario Holdings Ltd.
- Minera Carrizalillo Limitada
- Minera y Exploraciones KGHM International SpA
- Frankie (BVI) Ltd.
- Sociedad Contractual Minera Franke
- 0899196 B.C. Ltd.

Sierra Gorda project

- Sierra Gorda S.C.M.

Resource base development

- KGHM Kupfer AG
- KGHM AJAX MINING INC.
- Sugarloaf Ranches Ltd.

Support of the core business

- KGHM Metraco S.A.
- POL-MIEDŹ TRANS Sp. z o.o.
- "Energetyka" sp. z o.o.
- PeBeKa S.A.
- KGHM ZANAM Sp. z o.o.
- KGHM CUPRUM sp. z o.o. – CBR
- CBJ sp. z o.o.
- INOVA Spółka z o.o.
- BIPROMET S.A.
- "BIOWIND" sp. z o.o. in liquidation
- WPEC w Legnicy S.A.

Other segments

- NITROERG S.A.
- PHP "MERCUS" sp. z o.o.
- CENTROZŁOM WROCŁAW S.A.
- WMN "ŁABĘDY" S.A.
- WFP Hefra SA
- PHU "Lubinpex" Sp. z o.o.
- PMT Linie Kolejowe Sp. z o.o.
- KGHM TFI S.A.
- INTERFERIE S.A.
- Interferie Medical SPA Sp. z o.o.
- Uzdrowiska Kłodzkie S.A. – Grupa PGU
- Uzdrowisko Połczyn Grupa PGU S.A.
- Uzdrowisko Cieplice Sp. z o.o. – Grupa PGU
- Uzdrowisko Świeradów - Czerniawa Sp. z o.o. – Grupa PGU
- Fundusz Hotele 01 Sp. z o.o.
- Fundusz Hotele 01 Sp. z o.o. S.K.A.
- Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.
- Polska Grupa Uzdrowisk Sp. z o.o.
- KGHM I FIZAN
- KGHM III FIZAN
- KGHM IV FIZAN
- KGHM V FIZAN
- "MIEDZIOWE CENTRUM ZDROWIA" S.A.
- Zagłębie Lubin S.A.
- KGHM LETIA S.A.
- KGHM (SHANGHAI) COPPER TRADING CO., LTD.
- PB Katowice S.A. in liquidation
- NITROERG SERWIS Sp. z o.o.
- CUPRUM Nieruchomości sp. z o.o.
- CUPRUM Development sp. z o.o.

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.

(amounts in tables in PLN millions, unless otherwise stated)

5. Operating segments (continued)

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda Project ***	Resource base development	Support of the core business	Other segments	Adjustment due to measurement in accordance with IFRS 3	Consolidation adjustments	Total
	For the period from 1 January to 31 December 2014								
Sales revenue	16 633	2 229	-	1	4 667	2 475	-	(5 513)	**20 492**
Inter-segment sales revenue	264	-	-	-	4 252	1 035	-	(5 551)	**-**
External sales revenue	16 369	2 229	-	1	415	1 440	-	38	**20 492**
Total costs of products, merchandise and materials sold	(13 120)	(2 388)	-	(4)	(4 602)	(2 478)	(94)	5 547	**(17 139)**
Depreciation/Amortisation	(818)	(525)	-	(1)	(163)	(67)	(58)	(3)	**(1 635)**
Operating profit/(loss)	3 545*	190*	-	(2)	86*	175*	(94)	(224)	**3 676**
Profit/(loss) before income tax	**3 362**	**3**	**-**	**(2)**	**82**	**167**	**(342)**	**(172)**	**3 098**
Income tax expense	(948)	51	-	(1)	(19)	(11)	359	(78)	**(647)**
Profit/(loss) for the period	**2 414***	**54***	**-**	**(3)**	**63***	**156***	**17**	**(250)**	**2 451**
	As at 31 December 2014								
Segment assets, including:	**32 312**	**15 376**	**12 003**	**631**	**2 901**	**2 201**	**2 720**	**(27 770)**	**40 374**
Investments accounted for using the equity method	18	2 051**	-	-	-	14	2 282	(2)	**4 363**
Liabilities	**8 035**	**5 193**	**9 655**	**56**	**1 116**	**584**	**865**	**(10 660)**	**14 844**
Other information	**For the period from 1 January to 31 December 2014**								
Capital expenditures on property, plant and equipment and intangible assets	2 416	771	3 343	170	170	100	-	(3 330)	**3 640**
EBITDA (operating profit plus depreciation/amortisation)	**4 363**	**715**			**249**				
% of sales to KGHM Polska Miedź S.A.					**86%**				
Production and cost data									
Payable copper (kt)	576.9	86.0							
- including from purchased copper-bearing materials (kt)	156.5	-							
Nickel (kt)	-	3.2							
Molybdeum (kt)	-	0.3							
Silver (t)	1 256.0	1.9							
Gold (koz t)	82.8	32.3							
Platinum (koz t)	-	10.9							
Palladium (koz t)	-	26.9							
C1 cash cost of copper in concentrate production (USD/lb) ****	1.82	2.26							

„Adjustment due to measurement in accordance with IFRS 3" – respecting adjustment to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidated level, including accumulated adjustments from the acquisition date to 31 December 2014 for an item in the consolidated statement of financial position and from 1 January to 31 December 2014 for an item of the consolidated statement of profit or loss.

* 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.
**** C1 cash cost of copper production - cash cost of payable copper production, reflecting ore mining and processing costs, minerals extraction tax, transport costs, administrative expenses during the mining phase, smelter treatment and refining charges (TC/RC) less by-product value.

(amounts in tables in PLN millions, unless otherwise stated)

5. Operating segments (continued)
Information on segments for the comparable period

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda Project ***	Resource base development	Support of the core business	Other segments	Adjustment due to measurement in accordance with IFRS 3	Consolidation adjustments	Total
	For the period from 1 January to 31 December 2013								
Sales revenue	18 579	3 364	-	1	5 174	2 880	-	(5 888)	**24 110**
Inter-segment sales revenue	278	-	-	-	4 481	1 111	-	(5 870)	**-**
External sales revenue	18 301	3 364	-	1	693	1 769	-	(18)	**24 110**
Total costs of products, merchandise and materials sold	(13 970)	(3 287)	-	(5)	(5 159)	(2 859)	(218)	5 982	**(19 516)**
Depreciation/Amortisation	(768)	(536)	-	(1)	(137)	(79)	(176)	117	**(1 580)**
Operating profit/(loss)	4 208*	212*	-	(4)	87*	11*	(218)	76	**4 372**
Profit/(loss) before income tax	**4 196**	**56**	**-**	**(4)**	**80**	**2**	**(159)**	**64**	**4 235**
Income tax expense	(1 138)	(26)	-	(16)	(18)	1	43	(48)	**(1 202)**
Profit/(loss) for the period	**3 058***	**30***	**-**	**(20)**	**62***	**3***	**(116)**	**16**	**3 033**
	As at 31 December 2013								
Segment assets, including:	**29 038**	**11 270**	**7 381**	**484**	**2 647**	**2 365**	**2 655**	**(21 375)**	**34 465**
Investments accounted for using the equity method	32	1 488**	-	-	-	2	2 198	-	**3 720**
Liabilities	**5 740**	**3 652**	**5 828**	**33**	**1 234**	**573**	**1 101**	**(6 760)**	**11 401**
Other information	**For the period from 1 January to 31 December 2013**								
Capital expenditures on property, plant and equipment and intangible assets	2 357	577	3 551	87	277	100	-	(3 563)	**3 386**
EBITDA (operating profit plus depreciation/amortisation)	**4 976**	**748**			**224**				
% of sales to KGHM Polska Miedź S.A.					**82%**				
Production and cost data									
Payable copper (kt)	565.2	100.8							
- including from purchased copper-bearing materials (kt)	134.8	-							
Nickel (kt)	-	4.7							
Molybdeum (kt)	-	0.6							
Silver (t)	1 161.1	2.6							
Gold (koz t)	34.3	53.2							
Platinum (koz t)	-	13.3							
Palladium (koz t)	-	31.8							
C1 cash cost of copper in concentrate production (USD/lb) ****	1.78	2.15							

„Adjustment due to measurement in accordance with IFRS 3" – respecting adjustment to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidated level, including accumulated adjustments from the acquisition date to 31 December 2013 for an item in the consolidated statement of financial position and from 1 January to 31 December 2013 for an item of the consolidated statement of profit or loss.

* 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.

**** C1 cash cost of copper production - cash cost of payable copper production, reflecting ore mining and processing costs, minerals extraction tax, transport costs, administrative expenses during the mining phase, smelter treatment and refining charges (TC/RC) less by-product value.

(amounts in tables in PLN millions, unless otherwise stated)

5. Operating segments (continued)

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

The geographical breakdown reflects the location of end clients.

	For the period	
	From 1 January 2014 to 31 December 2014	**From 1 January 2013 to 31 December 2013**
Poland	4 797	4 837
Germany	3 570	4 315
China	2 916	3 379
The United Kingdom	1 639	2 581
The Czech Republic	1 422	1 547
Canada	784	1 199
France	712	815
Italy	712	774
Hungary	596	733
The USA	587	1 144
Turkey	498	507
Switzerland	455	372
Australia	414	-
Austria	253	269
Japan	193	220
Belgium	183	158
Romania	142	173
Slovakia	107	142
Spain	61	3
Bulgaria	52	45
Netherlands	43	35
Finland	42	8
Slovenia	33	36
Bosnia and Herzegovina	29	36
South Korea	21	93
Russia	20	17
Ukraine	19	32
Denmark	1	110
Other countries (dispersed sale)	191	530
Total	**20 492**	**24 110**

Main customers

During the period from 1 January 2014 to 31 December 2014 and in the comparable period, the sales revenues from no single customer exceeded 10% of the revenues of the Group.

70.82% of the non-current assets (property, plant and equipment and intangible assets) of the Group are located in Poland. The remaining 29.18% of the non-current assets are located in: Canada – 16.60%; the USA – 6.32%; Chile – 2.56%; other countries – 3.70%.

(amounts in tables in PLN millions, unless otherwise stated)

6. Property, plant and equipment

	At 31 December 2014	At 31 December 2013
Mining and metallurgical assets, of which:	**14 876**	**12 229**
Buildings and land*	6 584	5 270
Technical equipment and machinery, motor vehicles and other fixed assets	5 018	4 057
Fixed assets under construction	3 274	2 902
Other assets not related to mining and metallurgical activities, of which:	**2 745**	**2 899**
Buildings and land	1 563	1 513
Technical equipment and machinery, motor vehicles and other fixed assets	1 117	1 239
Fixed assets under construction	65	147
Total	**17 621**	**15 128**

*In the item buildings and land, deposits acquired during the process of acquiring mining assets in the Group, the costs of construction of mines and metallurgical facilities and the costs of pre-stripping to enable extraction are also recognised.

(amounts in tables in PLN millions, unless otherwise stated)

6. Property, plant and equipment (continued)

Changes in property, plant and equipment in the period from 1 January 2014 to 31 December 2014

		Mining and metallurgical assets			Other assets not related to mining and metallurgical activities			
	Note	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	Total
At 1 January 2014								
Gross carrying amount		10 360	8 519	2 902	1 968	1 931	149	25 829
Accumulated depreciation		(4 904)	(4 475)	-	(418)	(672)	-	(10 469)
Impairment losses		(186)	13	-	(37)	(20)	(2)	(232)
Net carrying amount		**5 270**	**4 057**	**2 902**	**1 513**	**1 239**	**147**	**15 128**
Changes in 2014 net								
Settlement of fixed assets under construction		500	1 518	(2 018)	124	161	(285)	-
Purchase		270	3	1 364	29	6	228	1 900
Stripping costs of surface mines		183	-	-	-	-	-	183
Self-constructed items		-	-	925	-	-	23	948
Borrowing costs*		-	-	42	-	-	-	42
Changes due to decommissioning/scrapping, sale, donations and no-cost transfer		(1)	(16)	(3)	(4)	(7)	-	(31)
Changes due to acquisition/transfer of assets used based on lease agreement		-	-	-	-	(6)	-	(6)
Change in amount of provisions for costs of decommissioning		519	-	-	1	-	-	520
Depreciation	28	(581)	(746)	-	(62)	(181)	-	(1 570)
Impairment losses	26, 28	(40)	-	-	(1)	(1)	-	(42)
Reversal of impairment losses	26, 28	-	-	-	1	3	-	4
Utilisation of impairment losses	26	-	-	-	1	-	-	1
Exchange differences from the translation of foreign operations		347	91	19	17	-	-	474
Other changes		117	111	43	(56)	(97)	(48)	70
At 31 December 2014								
Gross carrying amount		12 752	9 996	3 281	2 101	1 983	60	30 173
Accumulated depreciation		(5 810)	(4 916)	(5)	(415)	(852)	5	(11 993)
Impairment losses		(358)	(62)	(2)	(123)	(14)	-	(559)
Net carrying amount		**6 584**	**5 018**	**3 274**	**1 563**	**1 117**	**65**	**17 621**

* Borrowing costs were estimated while taking into account the capitalisation rate calculated on the basis of the amount of expenditures on assets classified under IAS 23 to the total amount of the Group's debt.

(amounts in tables in PLN millions, unless otherwise stated)

6. Property, plant and equipment (continued)

Changes in property, plant and equipment in the period from 1 January 2013 to 31 December 2013

		Mining and metallurgical assets			Other assets not related to mining and metallurgical activities			
	Note	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	Total
At 1 January 2013								
Gross carrying amount		9 685	7 915	2 207	2 067	1 635	213	23 722
Accumulated depreciation		(4 234)	(4 178)	-	(549)	(715)	-	(9 676)
Impairment losses		(16)	(9)	(2)	(35)	(13)	-	(75)
Net carrying amount		**5 435**	**3 728**	**2 205**	**1 483**	**907**	**213**	**13 971**
Changes in 2013 net								
Settlement of fixed assets under construction		346	1 352	(1 916)	176	399	(357)	-
Purchase		92	14	1 516	14	11	351	1 998
Stripping costs of surface mines		282	-	-	-	-	-	282
Self-constructed items		-	-	829	-	-	20	849
Changes due to decommissioning/scrapping, sale, donations and no-cost transfer		(17)	(45)	(5)	(10)	(5)	-	(82)
Changes due to acquisition/transfer of assets used based on lease agreement		-	38	-	-	2	-	40
Purchase of a subsidiary		-	-	-	1	3	-	4
Depreciation	28	(653)	(771)	-	(3)	(96)	-	(1 523)
Impairment losses	26, 28	(228)	-	-	(14)	(15)	-	(257)
Reversal of impairment losses	26, 28	17	9	-	2	6	-	34
Utilisation of impairment losses	26	-	-	-	4	-	-	4
Exchange differences from the translation of foreign operations		(74)	(17)	(1)	(5)	-	-	(97)
Other changes		70	(251)	274	(135)	27	(80)	(95)
At 31 December 2013								
Gross carrying amount		10 360	8 532	2 902	1 968	1 931	149	25 842
Accumulated depreciation		(4 904)	(4 475)	-	(418)	(672)	-	(10 469)
Impairment losses		(186)	-	-	(37)	(20)	(2)	(245)
Net carrying amount		**5 270**	**4 057**	**2 902**	**1 513**	**1 239**	**147**	**15 128**

(amounts in tables in PLN millions, unless otherwise stated)

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 1 502 million (for the period from 1 January 2013 to 31 December 2013, PLN 1 462 million). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 26 million (for the period from 1 January 2013 to 31 December 2013, PLN 23 million), in selling costs in the amount of PLN 32 million (for the period from 1 January 2013 to 31 December 2013, PLN 32 million) and in the value of production inventories in the amount of PLN 10 million (for the period from 1 January 2013 to 31 December 2013, PLN 6 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 2014			At 31 December 2013		
	Initial cost	Accumulated depreciation	Net carrying amount	Initial cost	Accumulated depreciation	Net carrying amount
Technical equipment and machinery, motor vehicles and other fixed assets	**80**	**28**	**52**	**89**	**24**	**65**

The 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 2014				At 31 December 2013			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
Buildings and land	36	1	18	18	56	1	28	28
Technical equipment and machinery, motor vehicles and other fixed assets	1	-	1	-	38	3	4	34
Total	**37**	**1**	**19**	**18**	**94**	**4**	**32**	**62**

(amounts in tables in PLN millions, unless otherwise stated)

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 22** 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 2014	At 31 December 2013
Pyrometallurgy Modernisation Program	956	609
Deep Głogów (Głogów Głęboki – Przemysłowy)	821	552
Construction of the SW-4 shaft	574	534
Investment activity related to development and operation of the Żelazny Most Tailings Pond	234	169
Investments related to infrastructural development in mines	167	222

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

	At 31 December 2014	At 31 December 2013
Capital commitments due to purchase of:		
- property, plant and equipment	2 855	2 711
- intangible assets	34	38
Total capital commitments	**2 889**	**2 749**

Share of the Group in capital commitments in investments accounted for using the equity method (Sierra Gorda project) was presented in **note 9**.

(amounts in tables in PLN millions, unless otherwise stated)

7. Intangible assets

	At	
	31 December 2014	**31 December 2013**
Development costs	11	11
Goodwill	15	39
Software	26	29
Acquired concessions, patents, licenses	269	106
Other intangible assets, including:	406	392
- water rights*	217	181
- intangible assets due to service sales contracts*	23	52
- management fee for Sierra Gorda S.C.M.*	29	24
Exploration and evaluation assets	2 105	1 529
Other intangible assets not yet available for use	86	69
Total	**2 918**	**2 175**

* Relates to the KGHM INTERNATIONAL LTD. Group

As at 31 December 2014, the largest item within intangible assets not yet available for use are exploration and evaluation assets in the amount of PLN 2 105 million (as at 31 December 2013, PLN 1 529 million).

Significant expenditures incurred on exploration and evaluation were recognised in the following companies:

- KGHM INTERNATIONAL LTD. – expenditures related to exploratory work, mainly within the Victoria project located in the Sudbury Basin in Canada. Balance of expenditures as at 31 December 2014 amounts to PLN 1 346 million, including expenditures incurred in 2014 in the amount of PLN 204 million - (operating segment "KGHM INTERNATIONAL LTD."),

- KGHM AJAX MINING INC. – expenditures related to exploratory work within the Ajax project. Balance of expenditures as at 31 December 2014 amounts to PLN 430 million, including expenditures incurred in 2014 in the amount of PLN 168 million - (operating segment "Resource Base Development"),

- KGHM Kupfer AG – expenditures related to exploratory work within the project "Exploration for and evaluation of copper ore deposits in the Weisswasser I and II areas". The balance of expenditures as at 31 December 2014 amounts to PLN 58 million, including expenditures incurred in 2014 in the amount of PLN 3 million – (operating segment "Resource Base Development"),

- KGHM Polska Miedź S.A. – the project „Exploration and economic assessment of copper mineralisation in the Synklina Grodziecka region", which is aimed at investigating and documenting copper-silver ore resources in the "Wartowice" and "Niecka Grodziecka" areas, located within the so-called "Old Copper Belt". The balance of expenditures as at 31 December 2014 amounts to PLN 104 million, including expenditures incurred in 2014 in the amount of PLN 34 million - (operating segment "KGHM Polska Miedź S.A.),

- KGHM Polska Miedź S.A. – the project „Assessment of the feasibility of mining the Radwanice-Gaworzyce deposit". The Company carried out mineralogical-petrographic and hydrogeological research. The geological profile of the deposit, confirmed in the course of this work, led to the necessity of reviewing the scope of further actions and a change in the concession. The Parent Entity applied to the Ministry of the Environment for a change in the concession for exploration of the copper ore deposit in the documented region „Gaworzyce" and for exploration of the copper ore deposit in the documented region „Radwanice".
  The balance of expenditures as at 31 December 2014 amounts to PLN 37 million, including expenditures incurred in 2014 in the amount of PLN 12 million - (operating segment "KGHM Polska Miedź S.A.),

As at 31 December 2014 liabilities related to investing activities due to the exploration for and evaluation of mineral resources amounted to PLN 42 million (as at 31 December 2013, PLN 31 million). Information on cash flows concerning the exploration and evaluation of mineral resources was presented **in note 40**.

Goodwill and water rights (assets with indefinite useful lives) as at 31 December 2014 were tested for impairment, which was described in detail in **notes 3.5** and **3.6**.

(amounts in tables in PLN millions, unless otherwise stated)

7. Intangible assets (continued)

Changes in intangible assets in the period from 1 January 2014 to 31 December 2014

	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Intangible assets not yet available for use: Exploration and evaluation assets	Intangible assets not yet available for use: Other intangible assets not yet available for use	Total
At 1 January 2014									
Gross carrying amount		21	70	74	196	476	1 529	69	2 435
Accumulated amortisation		(10)	-	(45)	(90)	(84)	-	-	(229)
Impairment losses		-	(31)	-	-	-	-	-	(31)
Net carrying amount		**11**	**39**	**29**	**106**	**392**	**1 529**	**69**	**2 175**
Changes in 2014 net									
Settlement of intangible assets not yet available for use		2	-	1	175	3	-	(181)	-
Purchases		-	-	3	-	23	353	130	509
Self-constructed		-	-	-	-	-	-	58	58
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer		-	-	-	-	7	-	-	7
Purchase of subsidiaries		-	-	-	-	3	-	-	3
Amortisation	28	(3)	-	(9)	(13)	(40)	-	-	(65)
Impairment losses	26, 28	-	(25)	-	-	(1)	-	-	(26)
Utilisation of impairment losses	26, 28	-	-	-	-	1	-	-	1
Exchange differences from the translation of foreign operations		1	-	2	-	30	118	-	151
Other changes		-	1	-	1	(12)	105	10	105
At 31 December 2014									
Gross carrying amount		24	70	80	371	538	2 105	86	3 274
Accumulated amortisation		(13)	-	(54)	(102)	(132)	-	-	(301)
Impairment losses		-	(55)	-	-	-	-	-	(55)
Net carrying amount		**11**	**15**	**26**	**269**	**406**	**2 105**	**86**	**2 918**

(amounts in tables in PLN millions, unless otherwise stated)

7. Intangible assets (continued)

Changes in intangible assets in the period from 1 January 2013 to 31 December 2013

	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Intangible assets not yet available for use: Exploration and evaluation assets	Intangible assets not yet available for use: Other intangible assets not yet available for use	Total
At 1 January 2013									
Gross carrying amount		14	70	67	122	536	1 334	36	2 179
Accumulated amortisation		(10)	-	(40)	(75)	(59)	-	-	(184)
Impairment losses		(1)	(4)	-	-	(1)	-	-	(6)
Net carrying amount		**3**	**66**	**27**	**47**	**476**	**1 334**	**36**	**1 989**
Changes in 2013 net									
Settlement of intangible assets not yet available for use		2	-	2	11	11	-	(26)	-
Purchases		8	-	5	1	5	176	33	228
Self-constructed		-	-	-	-	-	1	27	28
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer		-	-	-	-	(7)	-	-	(7)
Amortisation	28	(2)	-	(8)	(7)	(40)	-	-	(57)
Impairment losses	26, 28	-	(27)	-	-	-	(5)	-	(32)
Reversal of impairment losses	26, 28	1	-	-	-	1	-	-	2
Utilisation of impairment losses		-	-	-	-	-	5	-	5
Exchange differences from the translation of foreign operations		-	-	(1)	-	(5)	(41)	-	(47)
Other changes		(1)	-	4	54	(49)	59	(1)	66
At 31 December 2013									
Gross carrying amount		21	70	74	196	476	1 529	69	2 435
Accumulated amortisation		(10)	-	(45)	(90)	(84)	-	-	(229)
Impairment losses		-	(31)	-	-	-	-	-	(31)
Net carrying amount		**11**	**39**	**29**	**106**	**392**	**1 529**	**69**	**2 175**

(amounts in tables in PLN millions, unless otherwise stated)

7. Intangible assets (continued)

Perpetual usufruct of land

At 31 December 2014, the Group entities used land under perpetual usufruct rights comprising a total area of 6 556 ha (at 31 December 2013: 6 548 ha).

	At 31 December 2014	At 31 December 2013
	(ha)	(ha)
KGHM Polska Miedź S.A.	5 708	5 703
Subsidiaries of the Group	848	845

The Parent Entity and Polish subsidiaries of the Group received perpetual usufruct rights mainly free of charge based on laws in force. The land held under perpetual usufruct comprises industrial terrain related to the principal production activities, 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 as at 31 December 2014.

Future fees due to perpetual usufruct of land

	At 31 December 2014	At 31 December 2013
Under one year	13	12
From one to five years	55	52
Over five years	703	691
Total value of future conditional fees due to perpetual usufruct of land	**771**	**755**

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Fees due to perpetual usufruct of land recognised in profit or loss	17	10

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.

(amounts in tables in PLN millions, unless otherwise stated)

8. Investment property

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Beginning of financial period	**65**	**59**
Purchase of subsidiaries	-	1
Fair value measurement	(2)	3
Reclassification from properties for internal use to investment properties	-	6
Reclassification to assets held for sale	-	(4)
Sale of properties	(3)	-
End of financial period	**60**	**65**

Investment property of PLN 60 million was set based on the valuation by a valuer as at 31 December 2014.

9. Investments accounted for using the equity method

		For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Beginning of financial period		**3 720**	**3 911**
Purchase of shares		502	9
Share in losses of investments accounted for using the equity method, including:	35	(252)	-
a decrease in the value of investment due to tax law changes in Chile	35	(251)	-
Elimination of unrealised profits		(201)	(93)
Exchange differences from the translation of foreign operations shares at the end of the reporting period		608	(107)
Impairment losses		(14)	-
End of financial period		**4 363**	**3 720**

In 2014 significant changes in the value of the investment in Sierra Gorda, accounted for using the equity method, concerned:

- an increase in value due to the acquisition of newly-issued shares in the increased share capital in the amount of USD 154 million (PLN 490 million at the arithmetic average of the average exchange rates announced by the NBP at the end of each month in 2014),
- an increase in value due to exchange differences in the amount of PLN 608 million (change in the exchange rates from 3.012 USDPLN as at 31 December 2013 to 3.5072 USDPLN as at 31 December 2014),
- a decrease in value due to adjustment of deferred tax recognised in the fair value of the investment at the date of acquisition due to tax rate changes in Chile, in the amount of USD 79 million (PLN 251 million at the arithmetic average of the average exchange rates announced by the NBP at the end of each month in 2014),
- a decrease in value due to elimination of unrealised profits, proportionally to the Group share (55%), due to transactions between the Group and Sierra Gorda of USD 63 million (PLN 201 million at the arithmetic average of the average exchange rates announced by the NBP at the end of each month in 2014).

In 2013 significant changes in the value of the investment in Sierra Gorda, accounted for using the equity method, concerned:

- a decrease in value due to exchange differences in the amount of PLN 107 million (change in exchange rates from 3.0996 USDPLN as at 31 December 2012 to 3.012 USDPLN as at 31 December 2013),
- a decrease in value due to the elimination of unrealised profits, proportionally to the Group share (55%), due to transactions between the Group and Sierra Gorda of USD 29 million (PLN 93 million at the arithmetic average of the average exchange rates announced by the NBP at the end of each month in 2013).

(amounts in tables in PLN millions, unless otherwise stated)

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

Information concerning entities accounted for using the equity method

	Main place of business	% of share capital held by the Group	% of voting power	Investment value in the consolidated financial statements as at 31 December 2014	31 December 2013
Jointly-controlled entities					
Sierra Gorda S.C.M.	Chile	55	50	4 333	3 686
"Elektrownia Blachownia Nowa sp. z o.o."	Poland	50	50	18	32
NANO CARBON sp. z o.o.	Poland	49	50	12	2
Total				**4 363**	**3 720**

Condensed financial data of entities accounted for using the equity method as at 31 December 2014 as shown in the financial statements of these entities

	Sierra Gorda S.C.M.	"Elektrownia Blachownia Nowa" Sp. z o.o.	NANO CARBON Sp. z o.o.
Non-current assets	24 427	27	2
Current assets, including:	1 576	37	12
cash and cash equivalents	981	36	12
Non-current liabilities, including:	16 084	-	1
liabilities arising from bank loans	3 192	-	1
liabilities arising from loans granted by jointly-controlling entities	11 328	-	-
Current liabilities, including:	1 470	-	-
liabilities arising from bank loans	317	-	-
Net assets	**8 449**		
Group share in net assets	4 647		
Value of the investment in the consolidated statement of financial position	4 333		
Adjustment due to unrealised gains	**314**		

(amounts in tables in PLN millions, unless otherwise stated)

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

Condensed financial data of entities accounted for using the equity method as at 31 December 2013 as shown in the financial statements of these entities

	Sierra Gorda S.C.M.	"Elektrownia Blachownia Nowa" Sp. z o.o.	NANO CARBON Sp. z o.o.
Non-current assets	15 759	28	1
Current assets, including:	1 656	37	3
cash and cash equivalents	861	37	3
Non-current liabilities, including:	9 442	-	-
liabilities arising from bank loans	3 012	-	-
liabilities arising from loans granted by jointly-controlling entities	6 141	-	-
Current liabilities, including:	1 155	-	-
liabilities arising from bank loans	1	-	-
Net assets	**6 818**		
Group share in net assets	3 750		
Value of the investment in the consolidated statement of financial position	3 686		
Adjustment due to unrealised gains	**64**		

Revenues and costs of entities accounted for using the equity method both during the reporting period as well as the comparable period were not significant.

Sierra Gorda S.C.M.

a) As at 31 December 2014, the share of the Group in contractual obligations of Sierra Gorda S.C.M. related to investment and operating activities amounted to PLN 4 038 million (as at 31 December 2013, PLN 5 605 million).
b) The share of the Group in the amount of future minimal payments due to use of mining equipment, based on lease agreements signed by Sierra Gorda S.C.M. in 2014 amounted to PLN 862 million (in 2013 : PLN 103 million).
c) The group has granted guarantees in the amount of PLN 823 million to secure the proper performance of agreements ented into by the Sierra Gorda S.C.M. (**note 34.3.1**).

10. Available-for-sale financial assets

	Note	At 31 December 2014	At 31 December 2013
Shares		10	11
Shares in listed companies		921	799
Non-current available-for-sale financial assets		**931**	**810**
Shares		-	1
Shares in listed companies		57	57
Current available-for-sale financial assets		**57**	**58**
Total available-for-sale financial assets:	**33 .1**	**988**	**868**

The main increase in the carrying amount of available-for-sale financial assets in the reporting period was due to a reversal of an impairment loss on the shares of listed companies in the amount of PLN 124 million due to an increase in the share prices of these companies. Details were described in **note 3.13**.

(amounts in tables in PLN millions, unless otherwise stated)

11. Financial assets for mine closure and restoration of tailings storage facilities

	Note	At 31 December 2014	At 31 December 2013
Cash held in the Mine Closure Fund and Tailings Storage Facilities Restoration Fund		297	254
Debt instruments		61	69
Non-current financial assets for mine closure and restoration of tailings storage facilities		**358**	**323**
Cash held in the Mine Closure Fund		2	1
Current mine closure financial assets		**2**	**1**
Financial assets for mine closure and restoration of tailings storage facilities, total:	**33.1**	**360**	**324**

As at 31 December 2014, cash held for mine closure and restoration of tailings storage facilities comprised the following:

(a) Cash accumulated by the Parent Entity in separate bank accounts 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) and the Tailings Storage Facilities Restoration Fund (TSFR) resulting from the Waste Act, dated 14 December 2012 (Journal of Laws 2013.21) to cover future decommissioning costs of mines and other technological facilities and restoration of tailings storage facilities.
(balance of the Fund as at 31 December 2014 – PLN 206 million, as at 31 December 2013 – PLN 179 million).

(b) Cash accumulated by KGHM INTERNATIONAL LTD. to cover the costs of restoration of areas degraded by the mining activities of this group.
(balance as at 31 December 2014 – PLN 91 million, as at 31 December 2013- PLN 76 million).

As at 31 December 2014, debt instruments in the amount of PLN 61 million (as at 31 December 2013: PLN 69 million) represented funds for mines 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 the estimated provision for the decommissioning of mines.

Details concerning the re-assessment of the provision for decommissioning costs of mines and other technological facilities are described in **note 3.17**.

(amounts in tables in PLN millions, unless otherwise stated)

12. Derivatives

	Note	At 31 December 2014	At 31 December 2013
Non-current assets			
Hedging instruments		190	342
Trade and embedded instruments		24	15
Non-current assets due to derivatives, total		**214**	**357**
Current assets			
Hedging instruments		243	472
Trade and embedded instruments		10	4
Instruments initially designated as hedging instruments excluded from hedge accounting		24	-
Current assets due to derivatives, total		**277**	**476**
Total assets due to derivatives		**491**	**833**
Non-current liabilities			
Hedging instruments		122	15
Trade and embedded instruments		1	2
Non-current liabilities due to derivatives, total		**123**	**17**
Current liabilities			
Hedging instruments		10	3
Trade and embedded instruments		26	4
Instruments initially designated as hedging instruments excluded from hedge accounting		1	-
Current liabilities due to derivatives, total		**37**	**7**
Total liabilities due to derivatives		**160**	**24**
Derivatives, net assets/(liabilities)	**33.1**	**331**	**809**
including:			
Derivatives- currency -net		55	538
Derivatives-metals-net		244	255
Embedded derivatives		32	16

12. Derivatives (continued)

TRADE INSTRUMENTS			At 31 December 2014 [PLN thousands]				At 31 December 2013 [PLN thousands]			
	Volume/ Notional	**Avg. weighted price/ex. rate**	**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative	Cu [t] Currency [USD thousands]	Cu [USD/t] Currency [USD/PLN]	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - Metals - Copper										
Options										
Sold put options	42 000	4 500	-	-	(824)	(338)	-	-	(138)	(1 651)
TOTAL			**-**	**-**	**(824)**	**(338)**	**-**	**-**	**(138)**	**(1 651)**
Derivatives – Currency contracts										
Forwards/swaps										
Forwards/swaps – sold USD	2 654	3.4501	3		(200)		46			
Forwards/swaps – sold EUR	12 580	4.3053	287	23	(276)	(92)	964	253	(9)	
Forwards/swaps – sold CZK									(2)	
Options - USD										
Purchased put options			-	-	-	-	407	-	-	-
Sold put options	360 000	3.4000	-	-	(24 175)	-	-	-	(3 885)	-
Options - EUR										
Purchased put options							160			
Collar	11 480	4.2374 – 4.4445	482	296	(434)	(357)	628	413	(198)	(226)
TOTAL			**772**	**319**	**(25 085)**	**(449)**	**2 205**	**666**	**(4 094)**	**(226)**
Embedded derivatives			**9 016**	**23 863**	**-**	**-**	**2 180**	**14 139**	**-**	**-**
TOTAL TRADE INSTRUMENTS			**9 788**	**24 182**	**(25 909)**	**(787)**	**4 385**	**14 805**	**(4 232)**	**(1 877)**

12. Derivatives (continued)

HEDGING INSTRUMENTS							At 31 December 2014 [PLN thousands]				At 31 December 2013 [PLN thousands]			
	Volume/ Notional	Avg. weighted price/ ex. rate	Maturity/ settlement period		Period of profit/loss impact		Financial assets		Financial liabilities		Financial assets		Financial liabilities	
Type of derivative	Cu [t] Currency [USD thousands]	Cu [USD/t] Currency [USD/PLN]	From	Till	From	Till	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Derivatives – Commodity contracts - Metals - Copper														
Options														
Purchased put options	6 000	7 200	Jan 15	June 15	Feb 15	July 15	19 489	-	-	-	-	-	-	-
Seagull	42 000	1 771-10 271	Jan15	Dec 15	Feb 15	Jan 16	204 809	19 896	(96)	(60)	128 863	140 117	(2 129)	(9 343)
TOTAL							**224 298**	**19 896**	**(96)**	**(60)**	**128 863**	**140 117**	**(2 129)**	**(9 343)**
Derivatives – Currency contracts														
Options USD														
Purchased put options	540 000	2.8667	Jan 15	Dec 15	Jan 15	Dec 15	1 706	-	-	-	-	-	-	-
Collar	1 680 000	3.2839-4.0429	Jan 15	Dec 17	Jan 15	Dec 17	16 471	169 849	(9 602)	(121 743)	178 648	202 452	(183)	(5 681)
Collar-seagull							-	-	-	-	83 985	-	-	-
Seagull							-	-	-	-	80 057	-	(12)	-
TOTAL							**18 177**	**169 849**	**(9 602)**	**(121 743)**	**342 690**	**202 452**	**(195)**	**(5 681)**
TOTAL HEDGING INSTRUMENTS							**242 475**	**189 745**	**(9 698)**	**(121 803)**	**471 553**	**342 569**	**(2 324)**	**(15 024)**

12. Derivatives (continued)

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING

Type of derivative	Volume/ Notional Cu [t] Currency [USD thousands]	Avg. weighted price/ ex. rate Cu [USD/t] Currency [USD/PLN]	Maturity/ settlement period		Period of profit/loss impact		At 31 December 2014 [PLN thousands]				At 31 December 2013 [PLN thousands]			
							Financial assets		Financial liabilities		Financial assets		Financial liabilities	
			From	Till	From	Till	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Derivatives-Currency contracts														
Options														
Collar	360 000	3.4000-4.5000	Jan-15	Dec-15	Jan-15	Dec-15	24 175	-	(568)	-	-	-	-	-
TOTAL							**24 175**	**-**	**(568)**	**-**	**-**	**-**	**-**	**-**
INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING - TOTAL							**24 175**	**-**	**(568)**	**-**	**-**	**-**	**-**	**-**

(amounts in tables in PLN millions, unless otherwise stated)

13. Trade and other receivables

	Note	At 31 December 2014	At 31 December 2013
Trade and other non-current receivables			
Deposits of over 12 months		-	2
Loans granted*	33.1	6 231	3 378
Other financial receivables		269	51
Total loans and financial receivables, net		**6 500**	**3 431**
Other non-financial receivables		-	5
Prepayments		69	23
Total non-financial receivables, net		**69**	**28**
Trade and other non-current receivables, net		**6 569**	**3 459**
Trade and other current receivables			
Trade receivables		1 925	2 281
Amount retained (collateral) due to long-term construction contracts		52	65
Unsettled derivative receivables		34	41
Loans granted		-	2
Deposits of over 3 up to 12 months		1	6
Other financial receivables		83	63
Impairment allowances	34.2.6	(67)	(90)
Total loans and financial receivables, net		**2 028**	**2 368**
Other non-financial receivables, including:		418	687
- due to taxes and other charges		358	585
- advances granted		54	-
Prepayments		108	89
Impairment allowances		(17)	(25)
Total non-financial receivables, net		**509**	**751**
Trade and other current receivables, net		**2 537**	**3 119**
Total trade and other non-current and current receivables, net		**9 106**	**6 578**

* relates to a loan granted by KGHM INTERNATIONAL LTD. to Sierra Gorda S.C.M. Details presented in **note 34.2.4**.

There are long-term construction contracts in the companies of the Group.

As at 31 December 2014, the gross amount due from clients due to work based on construction contracts amounted to PLN 70 million (as at 31 December 2013, PLN 44 million).

(amounts in tables in PLN millions, unless otherwise stated)

14. Inventories

	Note	At 31 December 2014	At 31 December 2013
Materials		682	727
Half-finished products and work in progress		1 933	1 967
Finished goods		547	438
Merchandise		200	265
Total carrying amount of inventories, net		**3 362**	**3 397**

		For the period	
Write-down of inventories in the reporting period		**from 1 January 2014 to 31 December 2014**	**from 1 January 2013 to 31 December 2013**
Write-down of inventories recognised in cost of sales	28	(91)	(15)
Reversal of write-down recognised in cost of sales	28	39	3

15. Cash and cash equivalents

	Note	At 31 December 2014	At 31 December 2013
Cash in hand		1	1
Cash at bank		288	524
Other cash		2	68
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		184	271
Total cash and cash equivalents	**33.1**	**475**	**864**

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.

(amounts in tables in PLN millions, unless otherwise stated)

16. Share capital

As at 31 December 2014 and at the date of signing of these financial statements, the Parent Entity's share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, each having a face value of PLN 10. All of the shares are bearer shares. The Parent Entity has not issued preference shares. Each share grants the right to one vote at the general meeting. The Parent Entity does not have treasury shares.

Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2014 and 31 December 2013 there were no changes in either registered share capital or in the number of issued shares.

In 2014 and 2013 there were no changes in the ownership of significant blocks of shares of KGHM Polska Miedź S.A. In 2014 and 2013, the State Treasury was the only shareholder of the Parent Entity with a stake granting the right to at least 5% of the share capital and of the total number of votes.

As at 31 December 2014 and at the date of signing of these financial statements, the Parent Entity's shareholder structure was as follows:

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

(amounts in tables in PLN millions, unless otherwise stated)

17. Other equity items attributable to the shareholders of the Parent Entity

	Note	Revaluation reserve from measurement of financial instruments					
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging instruments**	**Revaluation reserve from measurement of financial instruments, Total**	**Exchange differences from the translation of foreign operations statements**	**Actuarial gains/losses on post-employment benefits**	**Retained earnings**
At 1 January 2014		**23**	**499**	**522**	**(267)**	**(132)**	**20 718**
Dividends from profit for 2013 - paid		-	-	-	-	-	**(1 000)**
Offsetting of profit from prior years with the actuarial gains and losses		-	-	-	-	4	**(4)**
Total comprehensive income		**101**	**(246)**	**(145)**	**1 438**	**(302)**	**2 450**
Profit for the period		-	-	**-**	-	-	2 450
Other comprehensive income		101	(246)	**(145)**	1 438	(302)	-
Profit from measurement of available-for-sale financial assets after prior impairment		124	-	**124**	-	-	-
Impact of effective cash flow hedging transactions	34.1.6	-	227	**227**	-	-	-
Amount transferred to profit or loss due to the settlement of hedging instruments	34.1.6	-	(531)	**(531)**	-	-	-
Actuarial losses on post-employment benefits	24, 40	-	-	**-**	-	(372)	-
Exchange differences from the translation of foreign subsidiaries		-	-	**-**	830	-	**-**
Exchange differences from the translation of investment in Sierra Gorda S.C.M.	9	-	-	**-**	608	-	**-**
Deferred income tax	23	(23)	58	**35**	-	70	-
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	**-**	-	-	20
At 31 December 2014		**124**	**253**	**377**	**1 171**	**(430)**	**22 184**

(amounts in tables in PLN millions, unless otherwise stated)

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

		Revaluation reserve from measurement of financial instruments					
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging instruments**	**Revaluation reserve from measurement of financial instruments, Total**	**Exchange differences from the translation of foreign operations statements**	**Actuarial gains/losses on post-employment benefits**	**Retained earnings**
At 1 January 2013		**(51)**	**286**	**235**	**19**	**(543)**	**19 971**
Dividends from profit for 2012 - paid		-	-	-	-	-	**(1 960)**
Offsetting of profit from prior years with the actuarial gains and losses*		-	-	**-**	-	356	**(356)**
Total comprehensive income		**74**	**213**	**287**	**(286)**	**55**	**3 035**
Profit for the period		-	-	**-**	-	-	3 035
Other comprehensive income		74	213	**287**	(286)	55	-
Amount transferred to profit or loss due to the impairment of available-for-sale financial assets		61	-	**61**	-	-	-
Profit from measurement of available-for-sale financial assets after prior impairment		18	-	**18**	-	-	-
Impact of effective cash flow hedging transactions	34.1.6	-	713	**713**	-	-	-
Amount transferred to profit or loss due to the settlement of hedging instruments	34.1.6	-	(450)	**(450)**	-	-	-
Actuarial gains on post-employment benefits	24, 40	-	-	**-**	-	68	-
Exchange differences from the translation of foreign subsidiaries		-	-	**-**	(179)	-	-
Exchange differences from the translation of investment in Sierra Gorda S.C.M.	9	-	-	**-**	(107)	-	-
Deferred income tax	23	(5)	(50)	**(55)**	-	(13)	-
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	**-**	-	-	28
At 31 December 2013		**23**	**499**	**522**	**(267)**	**(132)**	**20 718**

* On 19 June 2013 the Ordinary General Meeting of the Parent Entity resolved by resolution no. 6/2013 to offset profit from prior years in the amount of PLN 356 million with the negative amount of the reserves arising from actuarial gains and losses in the amount of PLN 356 million which arose due to changes in accounting principles.

(amounts in tables in PLN millions, unless otherwise stated)

18. Retained earnings

	At 31 December 2014	At 31 December 2013
Undistributed profit/(loss) from prior years	(772)	(632)
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	764	720
Reserve capital created and utilised in accordance with the statutes of Group entities	19 772	17 642
Capital from valuation of the put option for employee shares	(30)	(47)
Profit for the period	2 450	3 035
Total retained earnings	**22 184**	**20 718**

Based on the Act of 15 September 2000 (the Commercial Partnerships and Companies Code), the Group's joint stock companies subject to these laws 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 2014, this statutory reserve capital in the Group entities amounts to PLN 764 million, of which PLN 660 million relates to the Parent Entity.

19. Changes in equity attributable to non-controlling interest

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
As at the beginning of the period		**223**	**232**
Non-controlling interest in profits of subsidiaries		1	(2)
Changes in ownership shares in subsidiaries which do not result in loss of control	19.1	(2)	-
Changes in equity attributable to non-controlling interest due to exchange differences from the translation of foreign operations statements		6	(7)
As at the end of the period		**228**	**223**

(amounts in tables in PLN millions, unless otherwise stated)

19. Changes in equity attributable to non-controlling interest (continued)

19.1 Transactions with non-controlling interest

For the period from 1 January 2014 to 31 December 2014	Note	Net assets at the date of 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
Changes in ownership shares in subsidiaries which do not result in loss of control	**19**			**41**	**33**	**(2)**	**20**
Acquisition of employee shares of Centrozłom Wrocław S.A.		167	0.90%	1	1	(1)	1
Acquisition of employee shares of Grupa PGU companies		297	x	21	13	(20)	19
Increase in the share capital of KGHM AJAX MINING INC.		534	-	19	19	19	-

For the period from 1 January 2013 to 31 December 2013	Note	Net assets at the date of 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
Changes in ownership shares in subsidiaries which do not result in loss of control	**19**			**58**	**58**	**-**	**28**
Acquisition of employee shares of Centrozłom Wrocław S.A.		201	13.64%	27	27	(27)	27
Acquisition of employee shares of Grupa PGU companies		258	0.77%	2	2	(2)	1
Increase in the share capital of KGHM AJAX MINING INC.		364	-	29	29	29	-

(amounts in tables in PLN millions, unless otherwise stated)

19. Changes in equity attributable to non-controlling interest (continued)

19.2 Summary of subsidiaries' financial information with significant, non-controlling interest

	BIPROMET S.A.	INTERFERIE S.A.	KGHM AJAX MINING INC.	NITROERG S.A.	Walcownia Metali Nieżelaznych "ŁABĘDY" S.A.	WPEC w Legnicy S.A.
Percentage of share capital attributable to non-controlling interest	**34%**	**32.29%**	**20%**	**15%**	**15.04%**	**14.80%**
Statement of financial position			**As at 31 December 2014**			
Non-current assets	52	126	543	147	34	184
Current assets	37	5	20	97	30	43
Total assets	**89**	**131**	**563**	**244**	**64**	**227**
Non-current liabilities	10	13	7	21	6	40
Current liabilities	24	10	22	49	14	39
Total liabilities	**34**	**23**	**29**	**70**	**20**	**79**
Net assets	**55**	**108**	**534**	**174**	**44**	**148**
Net assets attributable to non-controlling interest	**19**	**35**	**107**	**26**	**7**	**22**
Statement of comprehensive income			**For the period from 1 January 2014 to 31 December 2014**			
Sales revenue	48	41	-	318	86	131
Profit/(loss) for the period	1	1	(2)	15	(2)	(3)
Other comprehensive income	-	-	33	(1)	-	-
Total comprehensive income	**1**	**1**	**31**	**14**	**(2)**	**(3)**
Total comprehensive income attributable to non-controlling interest	**-**	**-**	**6**	**2**	**-**	**-**
Statement of cash flows			**For the period from 1 January 2014 to 31 December 2014**			
Cash flows from operating activities	(3)	4	13	22	(3)	14
Cash flows from investing activities	-	(2)	(167)	(29)	(2)	(20)
Cash flows from financing activities	-	(3)	95	-	3	11
Total net cash flows	**(3)**	**(1)**	**(59)**	**(7)**	**(2)**	**5**

(amounts in tables in PLN millions, unless otherwise stated)

19. Changes in equity attributable to non-controlling interest (continued)

	BIPROMET S.A.	INTERFERIE S.A.	KGHM AJAX MINING INC.	NITROERG S.A.	Walcownia Metali Nieżelaznych "ŁABĘDY" S.A.	WPEC w Legnicy S.A.
Percentage of share capital attributable to non-controlling interest	**34%**	**32.29%**	**20%**	**15%**	**15.04%**	**14.80%**
Statement of financial position	**As at 31 December 2013**					
Non-current assets	54	128	344	128	33	174
Current assets	36	5	72	107	32	42
Total assets	**90**	**133**	**416**	**235**	**65**	**216**
Non-current liabilities	9	16	1	21	6	27
Current liabilities	28	11	7	55	12	37
Total liabilities	**37**	**27**	**8**	**76**	**18**	**64**
Net assets	**53**	**106**	**408**	**159**	**47**	**152**
Net assets attributable to non-controlling interest	**18**	**34**	**82**	**24**	**7**	**22**
Statement of comprehensive income	**For the period from 1 January 2013 to 31 December 2013**					
Sales revenue	42	39	-	310	92	147
Profit/(loss) for the period	-	1	(3)	14	(3)	(2)
Other comprehensive income	-	-	(26)	-	-	(1)
Total comprehensive income	**-**	**1**	**(29)**	**14**	**(3)**	**(3)**
Total comprehensive income attributable to non-controlling interest	**-**	**-**	**(6)**	**2**	**-**	**-**
Statement of cash flows	**For the period from 1 January 2013 to 31 December 2013**					
Cash flows from operating activities	(3)	7	(7)	17	6	13
Cash flows from investing activities	(3)	(3)	(84)	(11)	(1)	(30)
Cash flows from financing activities	-	(3)	146	-	(5)	13
Total net cash flows	**(6)**	**1**	**55**	**6**	**-**	**(4)**

(amounts in tables in PLN millions, unless otherwise stated)

20. Trade and other payables

	Note	At 31 December 2014	At 31 December 2013
Trade and other non-current payables			
Trade payables	33.1	175	16
Including payables due to purchase, construction of property, plant and equipment and intangible assets		168	9
Put option liabilities for employee shares		3	27
Other financial liabilities		12	11
Total financial liabilities (under IFRS 7)		**190**	**54**
Deferred income:		812	720
liabilities due to Franco Nevada streaming contract*		543	668
advances received from customers		269	52
Other non-financial liabilities		-	-
Total non-financial liabilities		**812**	**720**
Total trade and other non-current payables		**1 002**	**774**
Trade and other current payables			
Trade payables	33.1	1 209	1 275
Including payables due to purchase, construction of property, plant and equipment and intangible assets		407	414
Payables due to unsettled derivatives	33.4	-	19
Put option liabilities for employee shares		16	3
Other financial liabilities		106	120
Total financial liabilities (under IFRS 7)		**1 331**	**1 417**
Employee benefits liabilities		217	213
Liabilities due to taxes and social security		587	486
Other non-financial liabilities		65	61
Special funds		238	206
Deferred income		35	47
Accruals**		763	664
Total non-financial liabilities		**1 905**	**1 677**
Total trade and other current payables		**3 236**	**3 094**
Total trade and other non-current and current payables		**4 238**	**3 868**

* This liability is recognised at fair value, corresponding to the obligation to provide streaming services in the future, arising from contractual obligations, which will be accounted for in the future based on the amount provided.

**As at 31 December 2014, accruals consisted mainly of the the one-off bonus paid after the approval of the annual financial statements which were recorded in the accounting books in the reporting year and other employee benefits resulting from the collective labour agreements in the amount of PLN 321 million (PLN 343 million as at 31 December 2013) and costs due to unused annual leave in the amount of PLN 60 million (PLN 53 million as at 31 December 2013).

(amounts in tables in PLN millions, unless otherwise stated)

21. Borrowings, debt instruments and finance lease liabilities

	Note	At 31 December 2014	At 31 December 2013
Bank loans		143	162
Loans		1 057	5
Finance lease liabilities		28	34
Debt instruments*		1 769	1 513
Total non-current borrowings, debt instruments and finance lease liabilities		**2 997**	**1 714**
Bank loans		1 782	1 186
Loans		10	3
Finance lease liabilities		15	17
Debt instruments - interest		6	9
Total current borrowings, debt instruments and finance lease liabilities		**1 813**	**1 215**
Total borrowings, debt instruments and finance lease liabilities	**33.1**	**4 810**	**2 929**

* relates to senior notes issued by KGHM INTERNATIONAL LTD. (details in **note 34.3.1.**).

As at 31 December 2014, the amount of PLN 2 108 million (as at 31 December 2013: PLN 1 123 million) relates to bank and other loans of KGHM Polska Miedź S.A.

21.1 Borrowings

Bank and other loans as at 31 December 2014

Bank and other loans currency	Interest rate	Value of bank and other loans at the end of the reporting period: In currency	In PLN	Payable in: 2015 (current)	2016	2017	2018-2019	2019 and beyond
EUR	Variable	15	66	7	-	7	7	45
USD*	Variable	501	1 751	1 751	-	-	-	-
USD**	Fixed	302	1 058	6	-	28	114	910
PLN	Variable	-	104	23	-	17	15	49
PLN	Fixed	-	13	5	-	2	1	5
Total bank and other loans		**-**	**2 992**	**1 792**	**-**	**54**	**137**	**1 009**

* relates to a working capital facility in the amount of PLN 1 268 million and an overdraft facility in the amount of PLN 483 million. The interest on these loans is based on variable LIBOR rates plus a margin.

** relates to the investment loan granted by the European Investment Bank. The interest on the drawn instalment of the investment loan is based on a fixed interest rate of 3.032%.

Details regarding major loan agreements, the investment loan and information on the open lines of credit may be found in **note 34.3.1**.

(amounts in tables in PLN millions, unless otherwise stated)

21. Borrowings, debt instruments and finance lease liabilities (continued)

Bank and other loans as at 31 December 2013

Bank and other loans currency	Interest rate	Value of bank and other loans at the end of the reporting period		Payable in:				
		in currency	In PLN	2014 (current)	2015	2016	2017-2018	2018 and beyond
EUR	Variable	17	70	6	7	7	15	35
USD*	Variable	373	1 123	1 123	-	-	-	-
PLN	Variable	-	145	51	26	14	25	29
PLN	Fixed	-	18	9	4	2	1	2
Total bank and other loans		**-**	**1 356**	**1 189**	**37**	**23**	**41**	**66**

* concerns the working capital facilities and overdraft facilities.

21.2 Finance lease liabilities

Finance lease liabilities as at 31 December 2014

	2015 (current)	2016	2017	2018-2019	Total
Nominal value of minimum lease payments	**16**	**12**	**11**	**5**	**44**
Future finance costs due to finance leases	(1)	-	-	-	**(1)**
Present value of minimum lease payments	**15**	**12**	**11**	**5**	**43**

Finance lease liabilities as at 31 December 2013

	2014 (current)	2015	2016	2017-2018	Total
Nominal value of minimum lease payments	**18**	**11**	**12**	**11**	**52**
Future finance costs due to finance leases	(1)	-	-	-	**(1)**
Present value of minimum lease payments	**17**	**11**	**12**	**11**	**51**

(amounts in tables in PLN millions, unless otherwise stated)

22. Collateral for the repayment of liabilities

As at the date of drawing bank and other loans, in order to guarantee their repayment, the following collateral has been pledged:

- proxy rights to 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 existing and future insurance contracts;
- mortgages;
- blank promissory notes with promissory declarations;
- statement on submitting to an enforcement regime;
- surrender of rights under insurance policies;
- surrender of receivables;
- registered pledge on technical equipment and machinery, with assignment of rights under an insurance agreement on these machines and equipment;
- registered pledge on motor vehicles; and
- surrender of rights under movable assets insurance agreement (surrender of rights under an insurance policy against fire and other hazards).

Carrying amount of Group companies assets which are pledged as collateral for financial liabilities at the end of the reporting period:

	At 31 December 2014	At 31 December 2013
Property, plant and equipment, including:	**422**	**275**
Fixed assets under construction	-	10
Buildings (1)	345	177
Motor vehicles (1)	17	28
Technical equipment and machinery	60	60
Investment property	-	7
Inventories	-	4
Trade receivables (2)	4	10
Other financial and non-financial receivables	-	8
Cash and cash equivalents	1	1
Total carrying amount of assets which are pledged as collateral for financial liabilities	**427**	**305**

(1) including those used based on a finance lease
(2) including those under a pledge or surrender of receivables

(amounts in tables in PLN millions, unless otherwise stated)

23. Deferred tax

	Note	At 31 December 2014	At 31 December 2013
Net deferred tax liabilities at the beginning of the period, of which:		**(1 275)**	**(1 207)**
Deferred tax assets at the beginning of the period		**451**	**565**
Deferred tax liabilities at the beginning of the period		**(1 726)**	**(1 772)**
Credited/(Charged) to profit	36	221	(42)
Increase/(Decrease) in other comprehensive income	17	105	(68)
Exchange differences from the translation of deferred tax of foreign operations		(192)	42
Net deferred tax (liabilities)/assets at the end of the period, of which:		**(1 141)**	**(1 275)**
Deferred tax assets at the end of the period		**535**	**451**
Deferred tax liabilities at the end of the period		**(1 676)**	**(1 726)**

The deferred tax assets and deferred tax liabilities are offset in the statements of financial position at the level of the financial statements of subsidiaries.

Maturities of deferred tax assets/liabilities

Deferred tax assets	**At 31 December 2014**	**At 31 December 2013**
Maturity over 12 months from the end of the reporting period	369	270
Maturity up to 12 months from the end of the reporting period	166	181
Total	**535**	**451**

Deferred tax liabilities	**At 31 December 2014**	**At 31 December 2013**
Maturity over 12 months from the end of the reporting period	1 482	1 699
Maturity up to12 months from the end of the reporting period	194	27
Total	**1 676**	**1 726**

(amounts in tables in PLN millions, unless otherwise stated)

23. Deferred tax (continued)

Deferred tax assets prior to offsetting

	At 1 January 2014	Credited/(Charged) to profit due to a change in the balance of temporary differences	Increase/(Decrease) of other equity items due to change in the balance of temporary differences	Increase/(Decrease) Of other items of equity due to exchange differences from the translation of foreign operations	At 31 December 2014
Short-term accruals for remuneration	64	-	-	-	64
Provision for decommissioning of mines and other technological facilities	106	92	-	-	198
Measurement of forward transactions	310	(99)	-	-	211
Re-measurement of hedging instruments	-	-	3	-	3
Differences between depreciation rates for accounting purposes and for tax purposes	265	(57)	-	30	238
Realisation of adjustment due to fair value measurement of KGHM INTERNATIONAL LTD.	(34)	(5)	-	-	(39)
Future employee benefits liabilities	320	15	71	-	406
Unpaid remuneration with surcharges	18	-	-	-	18
Measurement of available-for-sale financial assets	1	-	-	-	1
Other	266	98	-	19	383
Total	**1 316**	**44**	**74**	**49**	**1 483**

As at 31 December 2014, the Group did not recognise a deferred tax asset on unused tax losses and tax allowances representing the amount of PLN 1 639 million, as it is unlikely that a taxable profit would be earned in the future against which the carryforward of tax losses and tax allowances can be utilised.

(amounts in tables in PLN millions, unless otherwise stated)

23. Deferred tax (continued)

Expiry dates of unused tax losses and tax allowances as at 31 December 2014, for which deffered tax assets were not recognised in individual countries, were presented in the following table:

	Unused tax losses	Expiry date	Unused tax allowance	Expiry date
Poland	7	2015-2020	5	2015-2019
Luxembourg	546	2019	-	-
Canada	20	2032-2033	-	-
The USA	186	2034	95	undefined
Chile	880	undefined	-	-
Total	**1 639**		**100**	

Tax rates binding in individual countries in 2014 were presented in **note 36**.

(amounts in tables in PLN millions, unless otherwise stated)

23. Deferred tax (continued)

Deferred tax assets prior to offsetting

	At 1 January 2013	Credited/(Charged) to profit due to a change in the balance of temporary differences	Increase/(Decrease) of other items of equity due to change in the balance of temporary differences	Increase/(Decrease) of other items of equity due to exchange differences from the translation of foreign operations	At 31 December 2013
Short-term accruals for remuneration	68	(4)	-	-	64
Provision for decommissioning of mines and other technological facilities	143	(37)	-	-	106
Measurement of forward transactions	467	(157)	-	-	310
Re-measurement of hedging instruments	92	-	(92)	-	-
Differences between depreciation rates for accounting purposes and for tax purposes	229	41	-	(5)	265
Realisation of adjustment due to fair value measurement of KGHM INTERNATIONAL LTD.	(72)	38	-	-	(34)
Future employee benefits liabilities	331	2	(13)	-	320
Unpaid remuneration with surcharges	17	1	-	-	18
Measurement of available-for-sale financial assets	33	-	(32)	-	1
Other	230	42	-	(6)	266
Total	**1 538**	**(74)**	**(137)**	**(11)**	**1 316**

As at 31 December 2013, the Group did not recognise a deferred tax asset on unused tax losses and tax allowances representing the amount of PLN 1 016 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.

(amounts in tables in PLN millions, unless otherwise stated)

23. Deferred tax (continued)

Expiry dates of unused tax losses and tax allowances as at 31 December 2013 for which deffered tax assets were not recognised in individual countries, were presented in the following table:

	Unused tax losses	Expiry date	Unused tax allowance	Expiry date
Poland	5	2015-2018	2	2014
Canada	156	2027-2032	108	undefined
Chile	745	undefined	-	-
Total	**906**		**110**	

Tax rates binding in individual countries in 2013 are presented in **note 35**.

(amounts in tables in PLN millions, unless otherwise stated)

23. Deferred tax (continued)

Deferred tax liabilities prior to offsetting

	At 1 January 2014	(Credited)/Charged to profit due to a change in the balance of temporary differences	(Credited)/Charged to profit due to tax rate changes	(Increase)/Decrease of other items of equity due to change in the balance of temporary differences	(Increase)/Decrease of other items of equity due to exchange differences from the translation of foreign operations	At 31 December 2014
Measurement of forward transactions	163	(70)	-	-	-	**93**
Re-measurement of hedging instruments	118	-	-	(55)	-	**63**
Differences between depreciation rates for accounting purposes and for tax purposes	954	356	-	-	(38)	**1 272**
Adjustments due to fair value measurement of KGHM INTERNATIONAL LTD. and realisation of adjustments to the end of the reporting period	227	(11)	-	-	185	**401**
Temporary differences from dividends income of the Sierra Gorda investment*	689	-	(290)	-	(30)	**369**
Measurement of available-for-sale financial assets	5	-	-	24	-	**29**
Other	435	(162)	-	-	124	**397**
Total	**2 591**	**113**	**(290)**	**(31)**	**241**	**2 624**

As at 31 December 2014, the Parent Entity did not recognise a deferred tax liability on taxable temporary differences in the amount of PLN 117 million related to investments in subsidiaries, associates and shares in joint ventures, as the conditions described in IAS 12.39 were met.

*As a result of tax rate changes in Chile in 2014, the Parent Entity credited to profit for the period in the consolidated financial statements the amount of PLN 290 million (USD 91 million based on the average exchange rate from 31 December 2014 announced by the NBP) due to temporary differences from dividends income of the Sierra Gorda investment.

Detailed destricption of tax rate changes in Chile may be found in **note 3.18**.

(amounts in tables in PLN millions, unless otherwise stated)

23. Deferred tax (continued)

Deferred tax liabilities prior to offsetting

	At 1 January 2013	(Credited)/Charged to profit due to a change in the balance of temporary differences	(Increase)/Decrease of other items of equity due to change in the balance of temporary differences	(Increase)/Decrease of other items of equity due to exchange differences from the translation of foreign operations	At 31 December 2013
Measurement of forward transactions	253	(90)	-	-	**163**
Re-measurement of hedging instruments	160	-	(42)	-	**118**
Differencies between depreciation rates for accounting purposes and for tax purposes	959	6	-	(11)	**954**
Adjustments due to fair value measurement of KGHM INTERNATIONAL LTD. and realisation of adjustments to the end of the reporting period	263	(5)	-	(31)	**227**
Temporary differences from dividends income of the Sierra Gorda investment	688	-	-	1	**689**
Measurement of available-for-sale financial assets	32	-	(27)	-	**5**
Other	390	57	-	(12)	**435**
Total	**2 745**	**(32)**	**(69)**	**(53)**	**2 591**

As at 31 December 2013, the Parent Entity did not recognise a deferred tax liability on taxable temporary differences in the amount of PLN 204 million related to investments in subsidiaries, associates and shares in joint ventures, as the conditions described in IAS 12.39 were met.

(amounts in tables in PLN millions, unless otherwise stated)

24. Employee benefits liabilities

A general description of the employee benefit plans is presented in **note 2.2.17**.

The present value of liabilities due to future employee benefits equals their carrying amount.

Change in liabilities due to future employee benefits

		TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
At 1 January 2014		**1 694**	**328**	**250**	**1 050**	**66**
Total costs recognised in profit or loss:		**192**	**100**	**24**	**63**	**5**
Interest costs		**76**	15	11	47	3
Current service cost		**57**	26	13	16	2
Past service cost		**1**	1	-	-	-
Actuarial losses recognised in profit or loss		**58**	58	-	-	-
Actuarial losses recognised in other comprehensive income	17	**372**	-	40	318	14
Benefits paid		**(112)**	(49)	(21)	(38)	(4)
At 31 December 2014		**2 146**	**379**	**293**	**1 393**	**81**
of which:						
Carrying amount of non-current liabilities		**2 011**	332	253	1 350	76
Carrying amount of current liabilities		**135**	47	40	43	5

(amounts in tables in PLN millions, unless otherwise stated)

24. Employee benefits liabilities (continued)

		TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
At 1 January 2013		**1 748**	**348**	**258**	**1 077**	**65**
Total costs recognised in profit or loss:		**126**	**30**	**25**	**62**	**9**
Interest costs		**74**	14	12	45	3
Current service cost		**53**	18	13	17	5
Past service cost		**-**	(1)	-	-	1
Actuarial gains recognised in profit or loss		**(1)**	(1)	-	-	-
Actuarial gains recognised in other comprehensive income	17	**(68)**	-	(14)	(49)	(5)
Benefits paid		**(112)**	(50)	(19)	(40)	(3)
At 31 December 2013		**1 694**	**328**	**250**	**1 050**	**66**
of which:						
Carrying amount of non-current liabilities		**1 563**	281	213	1 008	61
Carrying amount of current liabilities		**131**	47	37	42	5

(amounts in tables in PLN millions, unless otherwise stated)

24. Employee benefits liabilities (continued)

At	Present value of employee benefits
31 December 2014	2 146
31 December 2013	1 694
31 December 2012	1 748
31 December 2011	1 465
31 December 2010	1 338

Main actuarial assumptions at 31 December 2014

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

Main actuarial assumptions at 31 December 2013

	2014	2015	2016	2017	2018 and beyond
- discount rate	4.50%	4.50%	4.50%	4.50%	4.50%
- rate of increase in coal prices	0.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	5.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.40%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	2.50%	2.50%	2.50%	2.50%	2.50%

The change in actuarial gains/losses is caused by a change in assumptions relating to the increase in discount rate, increases in coal prices and increases in the lowest salary.

For purposes of reassessment of 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.

Actuarial gains/losses as at 31 December 2014 versus actuarial assumptions as at 31 December 2013

Change in financial assumptions	419
Change in demographic assumptions	33
Other changes	(22)
Total actuarial gains/losses	**430**

Maturity profile of employee benefits liabilities

Year of maturity	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2015	135	47	41	43	4
2016	144	34	60	42	8
2017	90	28	17	39	6
2018	80	28	14	34	4
2019	67	25	10	28	4
Other years	1 630	217	151	1 207	55
Total liabilities in the statement of financial position as at 31 December 2014	**2 146**	**379**	**293**	**1 393**	**81**

(amounts in tables in PLN millions, unless otherwise stated)

25. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
Provisions at 1 January 2014		**1 032**	**964**	**68**
Provisions recognised in other operating costs		35	1	34
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs		8	8	-
Changes in provisions arising from updating of estimates recognised in fixed assets	40	520	520	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	32	41	41	-
Utilisation of provisions		(36)	(11)	(25)
Release of provisions recognised in other operating income		(17)	(13)	(4)
Adjustment due to transfer to Mine Closure Fund and Tailings Storage Facilities Restoration Fund		(27)	(27)	-
Other		94	83	11
Provisions at 31 December 2014		**1 650**	**1 566**	**84**
of which:				
Non-current provisions		**1 483**	**1 473**	**10**
Current provisions		**167**	**93**	**74**

	Note	TOTAL	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
Provisions at 1 January 2013		**1 079**	**1 021**	**58**
Provisions recognised in other operating costs		23	-	23
Changes in provisions arising from updating of estimates recognised in other operating income		(26)	(26)	-
Decrease in provisions arising from updating of estimates recognised in fixed assets		(170)	(170)	-
Increase in provisions arising from updating of estimates recognised in fixed assets		170	170	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	32	42	42	-
Utilisation of provisions		(28)	(21)	(7)
Release of provisions recognised in other operating income		(5)	(1)	(4)
Adjustment due to transfer to Mine Closure Fund and Tailings Storage Facilities Restoration Fund		(33)	(33)	-
Other		(20)	(18)	(2)
Provisions at 31 December 2013		**1 032**	**964**	**68**
of which:				
Non-current provisions		**920**	**906**	**14**
Current provisions		**112**	**58**	**54**

(amounts in tables in PLN millions, unless otherwise stated)

25. Provisions for other liabilities and charges (continued)

A detailed description of the principles for estimating the provision may be found in **note 2 point 2.2.16**.

The amount of the provision is reassessed by the Group at the end of each quarter by applying the discounted rates model described in **note 3.17**.

26. 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 were described in **note 2 point 2.2.4**. Disclosures of impairment losses were presented in **note 3**.

Impairment losses by asset class during the period from 1 January to 31 December 2014

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Mining and metallurgical assets, of which:	6	**40**	**-**	**-**
Buildings and land	6	40	-	-
Other assets not related to mining and metallurgical activities, of which:	6	**2**	**5**	**1**
Buildings and land	6	1	1	1
Technical equipment and machinery, motor vehicles and other fixed assets	6	1	4	-
Goodwill	7	25	-	-
Development costs	7	1	-	1
Total		**68**	**5**	**2**

Impairment losses by segment during the period from 1 January to 31 December 2014

	Impairment loss recognised	Impairment loss reversed	Impairment loss used
KGHM Polska Miedź S.A.	1	-	1
KGHM INTERNATIONAL LTD.	40	-	-
Support of the core business	27	5	-
Other segments	1	-	1
Total consolidated value	**69**	**5**	**2**

(amounts in tables in PLN millions, unless otherwise stated)

26. Impairment losses (continued)

Impairment losses by asset class during the period from 1 January to 31 December 2013

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Mining and metallurgical assets, of which:	6	**228**	**26**	**-**
Buildings and land	6	228	17	-
Technical equipment and machinery, motor vehicles and other fixed assets	6	-	9	-
Other assets not related to mining and metallurgical activities, of which:	6	**29**	**8**	**4**
Buildings and land	6	14	2	4
Technical equipment and machinery, motor vehicles and other fixed assets	6	15	6	-
Development costs	7	-	1	-
Goodwill	7	27	-	-
Other intangible assets	7	-	1	-
Exploration and evaluation assets	7	5	-	5
Total		**289**	**36**	**9**

Impairment losses by segment during the period from 1 January to 31 December 2013

	Impairment loss recognised	Impairment loss reversed	Impairment loss used
KGHM Polska Miedź S.A.	5	25	5
KGHM INTERNATIONAL LTD.	228	-	-
Support of the core business	22	9	-
Other segments	34	2	4
Total consolidated value	**289**	**36**	**9**

(amounts in tables in PLN millions, unless otherwise stated)

27. Sales revenue

Net revenues from the sale of products, merchandise and materials (by type of activity)

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Copper, precious metals, smelter by-products	18 165	20 823
Salt	42	109
Energy	85	68
Services	883	1 222
Mining machinery, transport vehicles for mining and other	11	37
Electro-mechanical products	84	96
Merchandise – smelting products	315	495
Other merchandise	166	454
Scrap and materials	221	118
Other finished goods	520	688
Total	**20 492**	**24 110**

Net revenues from the sale of products, merchandise and materials (by destination)

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Domestic	**4 797**	**4 837**
Copper, precious metals, smelter by-products	3 125	3 134
Salt	36	80
Energy	85	68
Services	535	534
Mining machinery, transport vehicles for mining, other	11	36
Electro-mechanical products	76	91
Merchandise – smelting products	291	184
Other merchandise	164	175
Scrap and materials	189	112
Other finished goods	285	423
Foreign	**15 695**	**19 273**
Copper, precious metals, smelter by-products	15 040	17 689
Salt	6	29
Services	348	688
Mining machinery, transport vehicles for mining,other	-	1
Electro-mechanical products	8	5
Merchandise – smelting products	24	311
Other merchandise	2	279
Scrap and materials	32	6
Other finished goods	235	265
Total	**20 492**	**24 110**

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Average copper price on LME (USD/t)	6 862	7 322
Average exchange rate (USD/PLN) per NBP	3.15	3.16

(amounts in tables in PLN millions, unless otherwise stated)

27. Sales revenue (continued)

Construction services contracts

	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Revenues due to realisation of contracts recognised for the given period	383	664

Revenues due to realisation of construction contracts recognised for the given period are presented in **note 27** Sales revenue in the item – services.

Data for contracts being realised at the end of the period

	At 31 December 2014	At 31 December 2013
Total revenues due to realisation of contracts	1 482	1 214
Total costs incurred to date due to realisation of contracts	1 260	1 033
Gains due to realisation of contracts	**222**	**181**

(amounts in tables in PLN millions, unless otherwise stated)

28. Expenses by nature

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Depreciation of property, plant and equipment and amortisation of intangible assets	6, 7	1 635	1 580
Employee benefits expenses	29	4 704	4 702
Materials and energy		7 607	7 899
External services		1 813	2 280
Taxes and charges	37	2 008	2 360
including the minerals extraction tax*	37.1	1 520	1 856
Advertising costs and representation expenses		77	65
Property and personal insurance		31	33
Research and development costs not capitalised in intangible assets		9	8
Other costs, of which:		229	377
Impairment losses on property, plant and equipment, intangible assets	6, 7	43	257
Impairment losses on goodwill	7	25	27
Write-down of inventories	14	89	15
Allowance for impairment of receivables	34.2.5	3	10
Reversal of impairment of property, plant and equipment, intangible assets	6	(5)	(36)
Reversal of write-down of inventories	14	(38)	(3)
Reversal of allowance for impairment of receivables	34.2.5	(3)	(1)
Losses from the disposal of financial instruments	33.3	7	9
Other operating costs		108	99
Total expenses by nature		**18 113**	**19 304**
Cost of merchandise and materials sold (+)		534	973
Allowance for impairment of receivables	34.2.5	3	8
Write-down of inventories	14	2	-
Reversal of allowance for impairment of receivables	34.2.5	(1)	(1)
Reversal of write-down of inventories	14	(1)	-
Change in inventories of finished goods and work in progress (+/-)		5	546
Cost of manufacturing products for internal use (-)**		(1 513)	(1 307)
Total cost of sales, selling costs and administrative expenses		**17 139**	**19 516**
of which:			
Cost of sales		15 751	18 101
Selling costs		390	426
Administrative expenses		998	989

*In the Parent Entity, the minerals 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 basic product manufacturing costs and is not deductible for corporate income tax purposes.

** A significant item in the adjustment is the capitalised stripping costs of surface mines in the KGHM INTERNATIONAL LTD. Group, details presented in **note 3.3**.

(amounts in tables in PLN millions, unless otherwise stated)

29. Employee benefits expenses

	Note	For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Remuneration		3 442	3 509
Costs of social security		1 182	1 179
Costs of future benefits		80	14
Total	28	**4 704**	**4 702**

30. Other operating income

	Note	For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Income and gains from financial instruments classified under other operating activities, resulting from:	33.3	747	612
Measurement and realisation of derivatives		258	324
Interest		306	225
Dividends received	40	35	37
Foreign exchange gains		146	-
Gains on sale		-	24
Reversal of allowance for impairment of loans and receivables		2	2
Increase in fair value of investment property		-	5
Gains from the sale of intangible assets		-	1
Interest on non-financial receivables		5	2
Reversal of allowance for impairment of other non-financial receivables		2	2
Government grants and other donations received		9	46
Release of unused provisions due to:		18	35
Decommissioning of mines		14	32
Disputed issues, pending court proceedings		3	1
Other		1	2
Surpluses identified in current assets		3	4
Penalties and compensation received		10	16
Management fee for Sierra Gorda S.C.M.*		50	49
Change in estimated put option liabilities for employee shares		-	23
Other operating income/gains		78	52
Total		**922**	**847**

* 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.

(amounts in tables in PLN millions, unless otherwise stated)

31. Other operating costs

	Note	For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Costs and losses on financial instruments classified under other operating activities, resulting from:	33.3	437	921
Measurement and realisation of derivatives		430	676
Interest		1	1
Foreign exchange losses		-	58
Losses on measurement of non-current liabilities		-	1
Allowances for impairment of receivables		3	3
Impairment losses on available-for-sale financial assets		3	182
Losses on the sale of property, plant and equipment, and intangible assets		14	46
Impairment loss on an investment accounted for using the equity method		14	-
Impairment losses on fixed assets under construction and intangible assets not yet available for use		1	5
Interest on overdue non-financial liabilities		1	-
Donations granted		20	17
Provisions for:		44	27
Decommissioning of mines		10	3
Disputed issues, pending court proceedings		5	6
Other		29	18
Penalties and compensation		5	5
Non-culpable shortages in tangible current assets, cash and losses due to force majeure		3	4
Contributions to a voluntary organisation		14	15
Change in estimated put option liabilities for employee shares		10	-
Other operating costs/losses		36	29
Total		**599**	**1 069**

(amounts in tables in PLN millions, unless otherwise stated)

32. Finance costs

	Note	For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Interest costs due to:	33.3	123	101
Bonds		92	81
Bank and other loans		30	18
Finance leases		1	2
Foreign exchange gains/(losses) on borrowings	33.3	126	(26)
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount)	25	41	42
Measurement of provisions for decommissioning of mines		41	41
Measurement of other provisions		-	1
Changes in financial liabilities arising from the approach of the maturity date of liabilities (unwinding of discount)	33.3	8	(1)
Other finance costs		28	21
Total		**326**	**137**

(amounts in tables in PLN millions, unless otherwise stated)

33. Financial instruments
33.1 Carrying amount

At 31 December 2014

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: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities beyond the scope of IAS 39	Hedging instruments	Total
Debt instruments- financial assets for mine closure	11	-	-	61	-	-	-	-	**61**
Listed shares	10, 33.4	978	-	-	-	-	-	-	**978**
Unlisted shares	10	10	-	-	-	-	-	-	**10**
Trade receivables (net)		-	-	1 891	-	-	-	-	**1 891**
Cash and cash equivalents and deposits		-	-	775	-	-	-	-	**775**
Financial assets for mine closure and restoration of tailings storage facilities	11	-	-	299	-	-	-	-	**299**
Trade and other receivables		-	-	1	-	-	-	-	**1**
Cash and cash equivalents	15	-	-	475	-	-	-	-	**475**
Loans granted	13	-	-	6 231	-	-	-	-	**6 231**
Other financial assets (net)		-	-	405	-	-	-	-	**405**
Derivatives – Currency (net)	12, 33.4	-	25	-	(26)	-	-	56	**55**
Derivatives - Commodity contracts – metals (net)	12, 33.4	-	-	-	(1)	-	-	245	**244**
Embedded derivatives	12, 33.4	-	32	-	-	-	-	-	**32**
Trade payables	20	-	-	-	-	(1 384)	-	-	**(1 384)**
Borrowings	21	-	-	-	-	(2 992)	-	-	**(2 992)**
Debt instruments – issued bonds	21	-	-	-	-	(1 775)	-	-	**(1 775)**
Other financial liabilities		-	-	-	-	(137)	(43)	-	**(180)**
Trade and other payables		-	-	-	-	(137)	-	-	**(137)**
Finance lease liabilities	21	-	-	-	-	-	(43)	-	**(43)**
Total		**988**	**57**	**9 363**	**(27)**	**(6 288)**	**(43)**	**301**	**4 351**

* Instruments initially designated as hedging instruments, excluded from hedge accounting, were included in the categories of financial liabilities and financial assets at fair value through profit or loss.

(amounts in tables in PLN millions, unless otherwise stated)

33. Financial instruments (continued)

		At 31 December 2013							
		Categories of financial instruments							
						Other financial liabilities			
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	Financial liabilities measured at amortised cost	Financial liabilities beyond the scope of IAS 39	Hedging instruments	**Total**
Debt instruments- financial assets for mine closure	11	-	-	69	-	-	-	-	**69**
Listed shares	10, 33.4	856	-	-	-	-	-	-	**856**
Unlisted shares	10	12	-	-	-	-	-	-	**12**
Trade receivables (net)		-	-	2 219	-	-	-	-	**2 219**
Cash and cash equivalents and deposits		-	-	1 127	-	-	-	-	**1 127**
Financial assets for mine closure and restoration of tailings storage facilities	11	-	-	255	-	-	-	-	**255**
Trade and other receivables		-	-	8	-	-	-	-	**8**
Cash and cash equivalents	15	-	-	864	-	-	-	-	**864**
Loans granted	13	-	-	3 378	-	-	-	-	**3 378**
Other financial assets (net)		-	-	194	-	-	-	-	**194**
Derivatives – Currency (net)	12, 33.4	-	3	-	(4)	-	-	539	**538**
Derivatives - Commodity contracts – metals (net)	12, 33.4	-	-	-	(2)	-	-	257	**255**
Embedded derivatives	33.4	-	16	-	-	-	-	-	**16**
Trade payables	20	-	-	-	-	(1 291)	-	-	**(1 291)**
Borrowings	21	-	-	-	-	(1 356)	-	-	**(1 356)**
Debt instruments – issued bonds	21	-	-	-	-	(1 522)	-	-	**(1 522)**
Other financial liabilities		-	-	-	-	(180)	(51)	-	**(231)**
Trade and other payables		-	-	-	-	(180)	-	-	**(180)**
Finance lease liabilities	21	-	-	-	-	-	(51)	-	**(51)**
Total		**868**	**19**	**6 987**	**(6)**	**(4 349)**	**(51)**	**796**	**4 264**

(amounts in tables in PLN millions, unless otherwise stated)

33. Financial instruments (continued)

33.2 Fair value

Classes of financial instruments		At 31 December 2014		At 31 December 2013	
		Carrying amount	Fair Value	Carrying amount	Fair Value
	Note	33.1		33.1	
Debt instruments - financial assets for mine closure		61	61	69	69
Listed shares		978	978	856	856
Unlisted shares		10	-	12	2
Trade receivables (net)		1 891	1 891	2 219	2 219
Cash and cash equivalents and deposits		775	775	1 127	1 127
Loans granted		6 231	6 231	3 378	3 378
Other financial assets (net)		405	405	194	194
Derivatives - Currency, of which:		55	55	538	538
Assets		212	212	548	548
Liabilities		(157)	(157)	(10)	(10)
Derivatives - Commodity contracts - metals, of which:		244	244	255	255
Assets		245	245	268	268
Liabilities		(1)	(1)	(13)	(13)
Embedded derivatives - Assets		32	32	16	16
Trade payables		(1 384)	(1 384)	(1 291)	(1 291)
Borrowings		(2 992)	(2 992)	(1 356)	(1 356)
Debt instruments – issued bonds		(1 775)	(1 796)	(1 522)	(1 626)
Other financial liabilities		(180)	(180)	(231)	(231)

The methods and assumptions used by the Group for measuring the fair values are presented in **note 2.2.8.4**.

(amounts in tables in PLN millions, unless otherwise stated)

33. Financial instruments (continued)

33.3 Items of income, costs, profit and losses recognised in profit or loss by category of financial instruments

For the period from 1 January 2014 to 31 December 2014	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities beyond the scope of IAS 39	Hedging instruments	Total
Interest income/(costs) recognised in:		**-**	**-**	**306**	**(123)**	**(1)**	**-**	**182**
Other operating income	30	-	-	306	-	-	-	**306**
Other operating costs	31	-	-	-	(1)	-	-	**(1)**
Finance costs	32	-	-	-	(122)	(1)	-	**(123)**
Foreign exchange gains/(losses) recognised in:		**-**	**-**	**291**	**(271)**	**-**	**-**	**20**
Other operating income	30	-	-	291	(145)	-	-	**146**
Finance costs	32	-	-	-	(126)	-	-	**(126)**
Losses on measurement of non-current liabilities recognised in finance costs	32	-	-	-	(8)	-	-	**(8)**
Impairment allowances recognised in:		**-**	**(3)**	**(9)**	**-**	**-**	**-**	**(12)**
Expenses by nature	28	-	-	(6)	-	-	-	**(6)**
Other operating costs	31	-	(3)	(3)	-	-	-	**(6)**
Reversal of impairment losses recognised in:		**-**	**-**	**6**	**-**	**-**	**-**	**6**
Expenses by nature	28	-	-	4	-	-	-	**4**
Other operating income	30	-	-	2	-	-	-	**2**
Adjustment to sales due to hedging transactions	34.1.6	-	-	-	-	-	531	**531**
Losses from disposal of financial instruments recognised in expenses by nature	28	-	-	(7)	-	-	-	**(7)**
Gains on measurement and realisation of derivatives recognised in other operating income	30	258	-	-	-	-	-	**258**
Losses on measurement and realisation of derivatives recognised in other operating costs	31	(430)	-	-	-	-	-	**(430)**
Total net gain/(loss) from continued operations		**(172)**	**(3)**	**587**	**(402)**	**(1)**	**531**	**540**

(amounts in tables in PLN millions, unless otherwise stated)

33. Financial instruments (continued)

For the period from 1 January 2013 to 31 December 2013	**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	**Total**
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities beyond the scope of IAS 39		
Interest income/(costs) recognised in:		**-**	**-**	**225**	**(100)**	**(2)**	**-**	**123**
Other operating income	30	-	-	225	-	-	-	**225**
Other operating costs	31	-	-	-	(1)	-	-	**(1)**
Finance costs	32	-	-	-	(99)	(2)	-	**(101)**
Foreign exchange gains/(losses) recognised in:		**-**	**-**	**112**	**(144)**	**-**	**-**	**(32)**
Other operating income	30	-	-	123	(123)	-	-	**-**
Other operating costs	31	-	-	(11)	(47)	-	-	**(58)**
Finance costs	32	-	-	-	26	-	-	**26**
Gains/(Losses) on measurement of non-current liabilities recognised in finance costs:		**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other operating costs	31	-	-	-	(1)	-	-	**(1)**
Finance costs	32	-	-	-	1	-	-	**1**
Impairment allowances recognised in:		**-**	**(182)**	**(21)**	**-**	**-**	**-**	**(203)**
Expenses by nature	28	-	-	(18)	-	-	-	**(18)**
Other operating costs	31	-	(182)	(3)	-	-	-	**(185)**
Reversal of impairment losses recognised in:		**-**	**-**	**4**	**-**	**-**	**-**	**4**
Expenses by nature	28	-	-	2	-	-	-	**2**
Other operating income	30	-	-	2	-	-	-	**2**
Adjustment to sales due to hedging transactions	34.1.6	-	-	-	-	-	450	**450**
Gains/(losses) from disposal of financial instruments recognised in:		**-**	**24**	**(9)**	**-**	**-**	**-**	**15**
Expenses by nature	28	-	-	(9)	-	-	-	**(9)**
Other operating income	30	-	24	-	-	-	-	**24**
Gains on measurement and realisation of derivatives recognised in other operating income	30	324	-	-	-	-	-	**324**
Losses on measurement and realisation of derivatives recognised in other operating costs	31	(676)	-	-	-	-	-	**(676)**
Total net gain/(loss) from continued operations		**(352)**	**(158)**	**311**	**(244)**	**(2)**	**450**	**5**

(amounts in tables in PLN millions, unless otherwise stated)

33. Financial instruments (continued)

33.4 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 2014		At 31 December 2013	
Classes of financial instruments		Level 1	Level 2	Level 1	Level 2
Listed shares	33.2	978	-	856	-
Other financial receivables	13	-	34	-	41
Derivatives - currency, of which:	33.2	-	55	-	538
Assets		-	212	-	548
Liabilities		-	(157)	-	(10)
Derivatives – metals, of which:	33.2	-	244	-	255
Assets		-	245	-	268
Liabilities		-	(1)	-	(13)
Embedded derivatives - assets	33.2	-	32	-	16
Other financial liabilities	20	-	-	-	(19)

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

Neither in 2014 nor in the comparable period were there any financial instruments measured at fair value which were classified to level 3 in the Group.

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 the fixing price and appropriate interest rates. Interest rates for currencies and the volatility ratios for exchange rates are taken from Reuters. The standard German-Kohlhagen model is used to measure European options on currency markets.

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, for the purpose of valuation at the end of the reporting period. In the case of volatility and forward prices, quotations given by Banks/Brokers are used. Forwards and swaps on the copper market are priced based on the forward market curve, and in the case of silver forward prices are calculated based on fixing and the respective interest rates. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets.

Level 1
Listed shares
The shares listed on the Warsaw Stock Exchange were measured based on the closing price from the end of the reporting period. 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.

34. Financial risk management

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

- market risks:
  - risk of changes in metal prices,
  - risk of changes in foreign exchange rates,
  - risk of changes in interest rates,
  - price risk related to investments in debt instruments,
  - price risk related to investments in shares of listed companies,
- credit risk,
- liquidity risk.

The Group continuously identifies and measures financial risk, and also takes actions aimed at minimising its impact on the financial situation. Understanding these threats arising from exposure to risk and having an appropriate organisational structure and procedures enable better realisation of its tasks.

The Parent Entity manages identified financial risks in a conscious and responsible manner on the basis of the approved Market Risk Management Policy, Financial Liquidity Management Policy and Credit Risk Management Policy. 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.

In March 2014, a new Market Risk Management Policy in the KGHM Polska Miedź S.A. Group was approved, and KGHM INTERNATIONAL LTD. representatives were added to the composition of the Market Risk Committee. These changes were aimed at setting principles and procedures with respect to market risk management in selected mining companies of the Group (including KGHM INTERNATIONAL LTD.). The Policy concerns exposure to the following market risks: volatility in metals prices, volatility in exchange rates, volatility in interest rates and volatility in prices of commodities other than metals.

Liquidity risk management in the Parent Entity is based on the Financial Liquidity Management Policy approved by the Management Board. In KGHM INTERNATIONAL LTD. the liquidity risk management principles are described in the Investment Policy. These documents describe the financial liquidity management process while taking into account the specific character of the Group companies, indicating best practise procedures and instruments. The Parent Entity supervises the process of managing liquidity and acquiring external financing in the Group.

34.1 Market risk

The market risk to which the Group is exposed 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 instruments and the share prices of listed companies.

34.1.1. Principles of market risk management

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

The Parent Entity actively manages the market risk to which it is exposed, while taking into account that its activities and decisions should be considered in context of the whole KGHM Polska Miedź S.A. Group's global exposure to market risk.

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

- to limit fluctuations in financial result;
- to increase the probability of meeting budget assumptions;
- to decrease the probability of losing financial liquidity;
- to maintain a healthy financial condition; and
- to support the process of strategic decision making related to investment activity, including sources of financing.

All the market risk management objectives should be considered as a whole, and their realisation is determined mainly by the internal situation of the Group and market conditions.

34. Financial risk management (continued)

The goals of market risk management at the Group level are achieved through their realisation in individual mining companies of the Group, with the coordination of these activities at the Parent Entity's level, in which key tasks were centralised. These tasks are related to the process of market risk management (such as coordination of the identification of sources of exposure to market risk, proposing hedging strategies, contacting financial institutions in order to sign, confirm and settle derivatives transactions, and calculating measurements to fair value).

The primary technique for market risk management is the use of hedging strategies involving derivatives. Apart from this, natural hedging is also used.

Taking into account the potential scale of their impact on the Group's results, the market risk factors were divided into groups. The risk is managed by applying different approaches to separate, identified exposure groups.

The first group of factors with the greatest influence on the Group's total exposure to market risk consists of: the copper price, silver price and USD/PLN exchange rate. The Parent Entity applies a strategic approach to this group, aimed at systematically building up a hedging position comprising production and revenues from sales for subsequent periods while taking into account the long-term cyclical nature of different markets. A hedging position may be restructured before it expires.

The second group, which comprises risk factors such as the prices of other metals and merchandise, other exchange rates and interest rate levels is tactically managed - which means taking advantage of favourable market conditions.

The Parent Entity considers the following factors when selecting hedging strategies or restructuring hedging positions: current and forecasted market conditions, the internal situation of the Entity and the effective level and cost of hedging.

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

The Group's Market Risk Management Policy permits the use of the following types of instruments:

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

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments). Primarily applied are cash flow hedging instruments meeting the requirements for effectiveness as understood in 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 2.2.8.6** Accounting policy – Hedge accounting).

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

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

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

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, limits were set with respect to commitment in derivatives.

For the Parent Entity, limits on the commodity and currency markets are:

- up to 85% of planned, monthly sales volume of copper, silver and gold from own concentrates[(1)],
- up to 85% of planned, monthly revenues from the sale of products from own concentrates in USD[(2)] or up to 85% of the monthly, contracted net currency cash flows in case of other currencies.

With respect to the risk of changes in interest rates, the Parent Entity has set a limit of commitment in derivatives of up to 100% of the debt's nominal value in every interest period, as stipulated in the signed agreements.[(3)]

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

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

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

34.1.2 Commodity risk

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

In the Parent Entity and the KGHM INTERNATIONAL LTD. Group the price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange (LME) for copper and other common metals and from the London Bullion Market (LBM) for precious metals. As part of the trading policy, the Parent Entity and KGHM INTERNATIONAL LTD. set the price base for physical delivery contracts as the average price of the appropriate future month. There are also other formulas in the Group for setting metals sales prices.

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

On the metals market, the Group has a so-called long position, which means it has higher sales than purchases. The analysis of the Group's exposure to market risk 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.

Exposure of the Group to commodity risk is presented below[(4)]:

	For the period					
	from 1 January 2014 to 31 December 2014			from 1 January 2013 to 31 December 2013		
Metal	**Net**	**Sales**	**Purchases**	**Net**	**Sales**	**Purchases**
Copper [tonnes]	**491 173**	653 266	162 093	**525 239**	704 880	179 641
Silver [tonnes]	**1 229**	1 262	33	**1 235**	1 266	31
Nickel [tonnes]	**3 175**	3 175	-	**4 672**	4 672	-

Exposure to the risk of changes in other metal prices was not included in the table because of its lower significance.

(1) While: for copper and silver - up to 50% with respect to instruments which are obligations of the Parent Entity (for financing the hedging strategy) and up to 85% with respect to instruments representing the rights of the Parent Entity.
(2) For purposes of setting the limit, expenses for servicing the debt denominated in USD decrease the nominal amount of exposure to be hedged.
(3) Separately for every currency.
(4) Tonnage relates to amounts of payable metal in sold and purchased products.

34. Financial risk management (continued)

Sensitivity of the Group's financial instruments to the risk of changes in copper and silver prices at the end of the reporting period is presented in **Note 34.1.7** Sensitivity analysis of the Group to commodity and currency risk.

34.1.3. Currency risk

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

- the transaction exposure concerning volatility of cash flows in the base currency;
- the balance sheet exposure concerning volatility of selected items in consolidated statements of financial position in the base currency (functional currency); and
- the net investment exposure concerning volatility of consolidated equity in the Group's base currency (presentation currency).

The transaction exposure to currency risk results from contracts generating cash flows, the amounts of which in the base (functional) currency depend on the future exchange rates of the foreign currencies versus the base currency. Cash flows exposed to currency risk may possess the following characteristics:

- denomination in the foreign currency – cash flows are settled in the foreign currencies other the functional currency; and
- indexation in the foreign currency – cash flows may be settled in the base currency, but the price (i.e. of a metal) is settled in a different foreign currency.(5)

The key source of exposure to currency risk in the business operations of the Parent Entity are the revenues from sales of products (metals prices, processing and producer margins).

The source of balance sheet exposure to currency risk are items in the consolidated statement of financial position denominated in foreign currencies, which under the existing accounting regulations must be, upon settlement or periodic valuation, converted by applying the current exchange rate of the foreign currencies versus the base (functional) currency. Changes in the carrying amounts of such items between valuation dates result in the volatility of profit/loss for the period.

The balance sheet exposure includes in particular:

- trade receivables and payables related to purchases and sales denominated in foreign currencies;
- financial debt liabilities in foreign currencies; and
- cash and cash equivalents in foreign currencies.

In 2014, a financing agreement was signed with the European Investment Bank for the amount of PLN 2 000 million and with instalment repayment dates of up to 12 years from the date the instalment was drawn (details in **note 34.3.1** Financial liquidity management). In accordance with the loan amortisation schedule, the first instalment in the amount of USD 300 million was designated to hedge revenues from sales against the risk of changes in foreign exchange rates during the period from October 2017 to October 2026. The hedged position is comprised of a series of highly probable, planned revenues from sales transactions of products denominated in USD, in particular the first volume of revenues from sales (to the amount of designated capital rate) generated during a given calendar month. The hedging position is a part of the loan's capital rate, which was designated to be included in the hedge accounting. As a result of hedge accounting, the exchange differences due to loans drawn will be recognised in the revaluation reserve from measurement of cash flow hedging instruments until the hedged revenues are recognised in the statement of profit or loss if they will meet the criteria of effectiveness.

34.1.4. Interest rate risk

Interest rate risk is the possibility of the negative impact on the Group's results due to interest rate changes. The Group was exposed to this risk due to loans granted, investing free cash and borrowing.

As at 31 December 2014 the balances of positions exposed to interest rate risk and therefore changes in interest income and interest costs were as follows:

- cash: PLN 475 million(6); and
- bank loans: PLN 1 925 million(7).

(5) It is widely accepted on commodity markets that physical delivery contracts of metals are settled in USD or indexed in USD.
(6) As at 31 December 2013: PLN 864 million.
(7) As at 31 December 2013: PLN 1 348 million.

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

As at 31 December 2014 the balances of positions exposed to interest rate risk due to a change in measurement of a financial instrument with a fixed interest rate were as follows:

- receivables due to loans granted by the KGHM INTERNATIONAL LTD. Group to finance a joint venture in Chile: PLN 6 231 million (i.e. USD 1 777 million);[(8)]
- payables due to senior notes issued by KGHM INTERNATIONAL LTD.: PLN 1 775 million (nominal value of senior notes: USD 494 million, while the fair value after the final accounting at cost amounted to USD 506 million);[(9)] and
- liabilidies due to loans: PLN 1 066 million, including the loan received by the Parent Entity which was granted by the European Investment Bank in the amount of PLN 1 058 million (i.e. USD 302 million);[(10)]

As at 31 December 2014, the Group held liabilities due to bank and other loans in the amount of 2 992 million, whose currency and aging structure,including interest, are presented in the table below.

Liabilities due to bank loans and a loan granted by the European Investment Bank as at 31 December 2014

Bank and other loans currency	Interest	Balance of bank and other loans drawn in the currency [millions]	Balance of bank and other loans drawn in PLN [millions]	Of which bank and other loans:	
				short-term	long-term
PLN	variable	-	104	23	81
EUR	variable	15	66	7	59
USD	variable	501	1 751	1 751	-
PLN	fixed	-	13	5	8
USD	fixed	302	1 058	6	1 052
		-	**2 992**	**1 792**	**1 200**

34.1.5 Commodity, currency and interest risk management - derivatives

In order to reduce the market risk related to changes in commodity prices and in foreign exchange rates the Parent Entity, KGHM INTERNATIONAL LTD. and some other domestic companies of the Group make use of derivatives. However, only the Parent Entity applies hedging strategies, as understood by hedge accounting.

Taking into account the exposure to market risk, the most significant impact on the Group's results is from the activities of the Parent Entity and KGHM INTERNATIONAL LTD.

Commodity, currency and interest risk management in the Parent Entity

The notional amount of copper price hedging strategies settled in 2014 represented approx. 15% (in 2013: 23%) of the total[11] sales of this metal by the Parent Entity. Revenues from sales of silver were not hedged by derivatives in 2014 (in 2013, approximately 9% of total revenues from sales of silver were hedged). In case of the currency market, hedged revenues from sales represented approx. 26% (in 2013: 18%) of total revenues from metals sales achieved by the Parent Entity.

In 2014 the Parent Entity implemented a copper price hedging strategy with a total volume of 11 thousand tonnes and a time horizon falling from August 2014 to June 2015. Put options were purchased (Asian options).

In 2014 the Parent Entity did not implement any hedging transactions for the silver market.

(8) As at 31 December 2013: PLN 3 378 million.
(9) As at 31 December 2013: PLN 1 522 million.
(10) As at 31 December 2013: PLN 8 million.
(11) Relates to the sales of products from own concentrates or from purchased copper-bearing materials.

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

In the first quarter of 2014 however, favourable market conditions in the currency market were taken advantage of (strengthening of the PLN versus the USD) and there was a restructuring of the hedging position for the period from April to December 2014 through repurchasing seagull and collar options which were implemented in the fourth quarter of 2011 and the second quarter of 2012 for a total notional amount of USD 540 million. The closure of the position and un-designation of the hedging transactions was reflected in revenues from sales in 2014 in the amount of PLN 204 million. Simultaneously put options were purchased, with a strike exchange rate of USD/PLN 2.85, hedging revenues from sales in the same periods (in the second quarter and the second half of 2014) and for the same notional amount (in total: USD 540 million). In addition, in the first quarter of 2014 the hedging position for 2015 was restructured by reselling purchased put options with a strike exchange rate of USD/PLN 3.40 from the collar structure, which was implemented in the second quarter of 2012 for a notional amount of USD 360 million. Simultaneously put options were purchased with an exchange rate of USD/PLN 2.70 for the same notional amount (USD 360 million) and for the same period (2015). The closure of the position and un-designation of the hedging transactions was reflected in the revaluation reserve from the measurement of financial instruments in the amount of PLN 93 million, which will increase revenues from sales for 2015. In case of a significant strengthening of the Polish currency, revenues from sales will still be hedged for the same notional amount as they were before restructuring.
In the third and fourth quarters of 2014, planned revenues from sales for the total notional amount of USD 1 710 million and a time horizon falling in the period from October 2014 to December 2017 were additionally hedged (of which USD 90 million concerned hedging the revenues from sales for the fourth quarter of 2014). The Parent Entity made use of put options (European options) and collar option strategies.

As at 31 December 2014, the Parent Entity remained hedged for a portion of copper sales planned for 2015 (48 thousand tonnes). The Parent Entity does not hold any open hedging transactions on the silver market. As at 31 December 2014, with respect to revenues from sales (currency market), the Parent Entity held a hedging position for the planned revenues from sales of metals in the amount of USD 2 220 million, including: USD 960 million in 2015, USD 720 million in 2016 and USD 540 million in 2017.

Condensed table of open transactions in derivatives of the Parent Entity[12]

COPPER MARKET

	Instrument	Volume [tonnes]	Option strike 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[13]			Participation limited to	Hedge limited to
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
	Purchased put option	6 000	-	7 200	-	-298	6 902	-	-
	Total	**27 000**							
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
	Total	**21 000**							
TOTAL 2015		**48 000**							

[12] With the classification by type of assets hedged and type of instruments used as at 31 December 2014; hedged notional/volume in the presented periods is allocated monthly, on a systematic basis
[13] Due to current hedge accounting laws, transactions included in the seagull structures – purchased put options and sold call options – are shown in the table containing a detailed list of derivative positions - "Hedging instruments", while *sold put options* in seagull structures are shown in the table "Trade instruments" (**note 12**)

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

CURRENCY MARKET

Period	Instrument	Notional [millions USD]	Option strike 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			Participation limited to	Hedge limited to
I half of 2015	Sold call option	180	4.5000	-	-	+0.3125	-	4.5000	-
	Purchased put option	180	-	2.7000	-	-0.0352	2.6648	-	-
	Collar	120	4.0000	3.3000	-	-0.0694	3.2306	4.0000	-
	Purchased put option	180	-	3.2000	-	-0.0556	3.1444	-	-
	Total(14)	**480**	Closure of the purchased put option USDPLN 3.40 and un-designation of the hedging transactions in the first quarter of 2014 was reflected in the *Revaluation reserve from the measurement of financial instruments* in the amount of PLN 50 million, which will increase *Revenues from sales* for the first half of 2015.						
II half of 2015	Sold call option	180	4.5000	-	-	+0.3125	-	4.5000	-
	Purchased put option	180	-	2.7000	-	-0.0352	2.6648	-	-
	Collar	120	4.0000	3.3000	-	-0.0694	3.2306	4.0000	-
	Collar	180	4.0000	3.2000	-	-0.0499	3.1501	4.0000	-
	Total(14)		Closure of the purchased put option USDPLN 3.40 and un-designation of the hedging transactions in the first quarter of 2014 was reflected in the *Revaluation reserve from the measurement of financial instruments* in the amount of PLN 43 million, which will increase *Revenues from sales* for the second half of 2015.						
TOTAL 2015		**960**							
I half of 2016	Collar	180	4.0000	3.2000	-	-0.0525	3.1475	4.0000	-
	Collar	180	4.2000	3.3000	-	-0.0460	3.2540	4.2000	-
	Total	**360**							
II half of 2016	Collar	180	4.0000	3.2000	-	-0.0553	3.1447	4.0000	-
	Collar	180	4.2000	3.3000	-	-0.0473	3.2527	4.2000	-
	Total	**360**							
TOTAL 2016		**720**							
I half of 2017	Collar	270	4.0000	3.35000	-	-0.0523	3.2977	4.0000	-
	Total	**270**							
II half of 2017	Collar	270	4.0000	3.35000	-	-0.0524	3.2976	4.0000	-
	Total	**270**							
TOTAL 2017		**540**							

With respect to currency risk management whose source is borrowing, the Parent Entity uses natural hedging by borrowing in currencies in which it has revenues. All liabilities which comprised the balance of bank loans as at 31 December 2014 were drawn in USD, and following their translation to PLN they amounted to PLN 2 108 million.

The Parent Entity did not use derivatives to hedge against the interest rate risk, both in the current and comparable reporting periods. However, taking into consideration that the holding of financial liabilities denominated in USD, based on LIBOR, exposes the Parent Entity to the risk of higher interest rates, in the third quarter of 2014 the Management Board decided to take advantage of the opportunity to draw loans from the European Investment bank based on a fixed interest rate.

(14) Excluded from the amount is the notional of *sold call options* (USD 180 million for every half-year), which, from the risk profile point of view, represent a *collar strategy* together with *purchased put options* of the same notional amount. The strategy is not presented directly as a collar, as it arose as a result of a restructuring of the position and could not, from a formal point of view and in accordance with the risk management principles, be designated as such.

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

Commodity and currency risk management in selected mining companies and in KGHM INTERNATIONAL LTD.

Due to the fact that a portion of the expenditures on the Sierra Gorda project were incurred in the Chilean peso, KGHM INTERNATIONAL LTD. in January 2014 purchased put options with a strike exchange rate of USD/CLP 525 for the notional amount of USD 200 million for the first quarter of 2014. The purpose of entering into derivatives transactions was to limit the risk of a strengthening of the Chilean peso versus the USD. These options expired unrealised.

Taking into account the estimated cost exposure in Canadian dollars, KGHM INTERNATIONAL LTD. in August 2014 implemented a strategy in currency derivatives (USD/CAD) for the period from August to December 2014 and for the total notional amount of USD 62.5 million). Asian put options were purchased.

As at 31 December 2014, KGHM INTERNATIONAL LTD. did not hold open derivatives on commodity or currency markets.

34.1.6. Impact of derivatives on the Group's financial statement

The impact of derivatives on the profit or loss in the current and comparable periods is presented in the table below.

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Impact on revenues from sales	**33.3**	**531**	**450**
Impact on other operating activities		**(172)**	**(352)**
from realisation of derivatives		(68)	(177)
from measurement of derivatives		(104)	(175)
Total impact of derivatives on profit or loss		**359**	**98**

Impact of derivatives on the revaluation reserve from measurement of cash flow hedging instruments is presented in the table below.[15]

	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
As at the beginning of the period (excluding the deferred tax effects)	**617**	**354**
Amount recognised in the period due to cash flow hedging transactions	244	713
Amount transferred to revenues from sale – reclassification adjustment	(531)	(450)
As at the end of the period (excluding the deferred tax effects)	**330**	**617**

[15] Concerns the open derivatives on the copper market and the currency market (USD/PLN). The amount of PLN 330 million as at 31 December 2014 and presented in the revaluation reserve from measurement of cash flow hedging instruments does not include the negative amount of PLN 17 million which was recognised due to the exchange differences on the tranche of the loan granted by the European Investment Bank, designated as a cash flow hedging instrument.

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

The fair value of derivatives of the Group and receivables/liabilities due to unsettled derivatives are presented in the table below[16]:

	At 31 December 2014		At 31 December 2013	
	Derivatives	**Receivables due to unsettled derivatives[17]**	**Derivatives**	**Receivables /(liabilities) due to unsettled derivatives[18]**
Financial assets	491	34	833	41
Financial liabilities	(160)	-	(24)	(19)
Fair value	**331**	**34**	**809**	**22**

The remaining information on derivatives was presented in **note 12: Derivatives** and in **note 33: Financial instruments**.

34.1.7 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:[19]

Potential metal price and exchange changes

	As at 31 December 2014					As at 31 December 2013				
	SPOT / FIX	UP 95%		DOWN 95%		SPOT / FIX	UP 95%		DOWN 95%	
Copper [USD/tonnes]	6 359	8 097	*27%*	4 807	*-24%*	7 376	9 510	*29%*	5 336	*-28%*
USD/PLN	3.5072	4.0702	*16%*	2.9796	*-15%*	3.0120	3.5829	*19%*	2.5358	*-16%*
EUR/PLN	4.2648	4.7162	*11%*	3.8786	*-9%*	4.1472	4.6570	*12%*	3.7519	*-10%*
CAD/PLN	3.0255	3.4481	*14%*	2.6578	*-12%*	2.8297	3.2686	*16%*	2.4731	*-13%*

(16) Including embedded derivatives.
(17) Settlement date falls on 5 January 2015.
(18) Settlement date falls on 3 January 2014.
(19) 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 and GPB/PLN exchange rates.
For potentially possible changes in the half-year time horizon, quartiles were assumed from the model at the level of 5% and 95%, selected based on 90 thousand simulations. The metals models were calibrated to historical prices adjusted by the impact of PPI inflation in the USA, while currency models were calibrated to the current forward structure of interest rates.
Potentially possible changes in prices and exchange rates were presented in percentage terms to prices and exchange rates used to measure financial instruments to fair value at the end of the reporting period.

34. Financial risk management (continued)

Currency structure of financial instruments exposed to market risk

Financial instruments	VALUE AT RISK as at 31 December 2014				VALUE AT RISK as at 31 December 2013[20]			
	Total PLN million	USD million	EUR million	CAD million	**Total PLN million**	USD million	EUR million	CAD million
Debt instruments - financial assets for mine closure	**61**	17	-	-	**69**	23	-	-
Shares	**3**	-	-	1	**3**	-	-	1
Trade receivables (net)	**1 450**	341	45	21	**1 782**	489	66	12
Cash and cash equivalents and deposits	**365**	69	11	26	**756**	124	26	97
Loans granted	**6 231**	1 777	-	-	**3 378**	1 122	-	-
Other financial assets (net)	**380**	63	-	52	**173**	33	-	26
Derivatives – Currency	**55**	-	-	-	**538**	-	-	-
Derivatives – Metals	**244**	69	-	-	**255**	85	-	-
Embedded derivatives	**32**	9	-	-	**16**	5	-	-
Trade payables	**(357)**	(47)	(31)	(19)	**(321)**	(61)	(21)	(18)
Borrowings	**(2 875)**	(801)	(15)	-	**(1 193)**	(373)	(17)	-
Debt instruments – issued bonds	**(1 775)**	(506)	-	-	**(1 522)**	(505)	-	-
Other financial liabilities	**(42)**	(9)	(1)	(2)	**(57)**	(18)	(1)	-

[20] Risk of changes in GBP/PLN exchange rate, included in the consolidated financial statements for the year 2013, was excluded from the analysis due to its small significance.

34. Financial risk management (continued)

SENSITIVITY ANALYSIS OF THE GROUP TO CURRENCY RISK as at 31 December 2014

FINANCIAL RECEIVABLES AND LIABILITIES	VALUE AT RISK	31.12.2014 CARRYING AMOUNT	USD/PLN				EUR/PLN				CAD/PLN			
			4.07		2.98		4.72		3.88		3.45		2.66	
			+16%		-15%		+11%		-9%		+14%		-12%	
	[PLN millions]	[PLN millions]	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
Debt instruments - financial assets for mine closure	61	61	8	-	(7)	-	-	-	-	-	-	-	-	-
Shares	3	988	-	-	-	-	-	-	-	-	-	-	-	-
Trade receivables (net)	1 450	1 891	155	-	(146)	-	17	-	(14)	-	7	-	(6)	-
Cash and cash equivalents and deposits	365	775	31	-	(29)	-	4	-	(3)	-	9	-	(8)	-
Loans granted	6 231	6 231	810	-	(759)	-	-	-	-	-	-	-	-	-
Other financial assets (net)	380	405	29	-	(27)	-	-	-	-	-	18	-	(16)	-
Derivatives – Currency contracts	55	55	(368)	(158)	97	467	(10)	-	9	-	-	-	-	-
Derivatives – Commodity contracts - Metals	244	244	1	38	(1)	(36)	-	-	-	-	-	-	-	-
Embedded derivatives	32	32	3	-	(2)	-	-	-	-	-	-	-	-	-
Trade payables	(357)	(1 384)	(21)	-	20	-	(11)	-	10	-	(6)	-	6	-
Borrowings	(2 875)	(2 992)	(228)	(169)	213	158	(6)	-	5	-	-	-	-	-
Debt instruments – issued bonds	(1 775)	(1 775)	(231)	-	216	-	-	-	-	-	-	-	-	-
Other financial liabilities	(42)	(180)	(4)	-	4	-	-	-	-	-	(1)	-	1	-
IMPACT ON PROFIT OR (LOSS)			**185**		**(421)**		**(6)**		**7**		**27**		**(23)**	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(289)**		**589**		**-**		**-**		**-**		**-**

34. Financial risk management (continued)

SENSITIVITY ANALYSIS OF THE GROUP TO CURRENCY RISK as at 31 December 2013[21]

FINANCIAL RECEIVABLES AND LIABILITIES	VALUE AT RISK	31.12.2013 CARRYING AMOUNT	USD/PLN				EUR/PLN				CAD/PLN			
			3.58		2.54		4.66		3.75		3.27		2.47	
			+19%		-16%		+12%		-10%		+16%		-13%	
	[PLN millions]	[PLN millions]	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
Debt instruments - financial assets for mine closure	69	69	11	-	(9)	-	-	-	-	-	-	-	-	-
Shares	3	868	-	-	-	-	-	-	-	-	-	-	-	-
Trade receivables (net)	1 782	2 219	226	-	(189)	-	27	-	(21)	-	4	-	(3)	-
Cash and cash equivalents and deposits	756	1 127	57	-	(48)	-	11	-	(8)	-	35	-	(28)	-
Loans granted	3 378	3 378	519	-	(433)	-	-	-	-	-	-	-	-	-
Other financial assets (net)	173	194	15	-	(13)	-	-	-	-	-	9	-	(7)	-
Derivatives – Currency contracts	538	538	(40)	(455)	(105)	741	(15)	-	13	-	-	-	-	-
Derivatives – Commodity contracts - Metals	255	255	18	31	(15)	(25)	-	-	-	-	-	-	-	-
Embedded derivatives	16	16	3	-	(2)	-	-	-	-	-	-	-	-	-
Trade payables	(321)	(1 291)	(28)	-	24	-	(9)	-	7	-	(7)	-	5	-
Borrowings	(1 193)	(1 356)	(173)	-	144	-	(7)	-	5	-	-	-	-	-
Debt instruments – issued bonds	(1 522)	(1 522)	(236)	-	195	-	-	-	-	-	-	-	-	-
Other financial liabilities	(57)	(231)	(8)	-	7	-	-	-	-	-	-	-	-	-
IMPACT ON PROFIT OR (LOSS)			**(364)**		**(444)**		**7**		**(4)**		**41**		**(33)**	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(424)**		**716**		-		-		-		-

[21] Risk of changes in GBP/PLN exchange rate, included in the consolidated financial statements for the year 2013, was excluded from the analysis due to its small significance.

34. Financial risk management (continued)

SENSITIVITY ANALYSIS TO COMMODITY RISK
as at 31 December 2014

FINANCIAL RECEIVABLES AND LIABILITIES	VALUE AT RISK	31.12.2014 CARRYING AMOUNT	COPPER PRICES [USD/t]			
			8 097		4 807	
			+27%		-24%	
	[PLN millions]	[PLN millions]	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income
Derivatives – Commodity contracts - Metals	**244**	**244**	39	(237)	(28)	257
Embedded derivatives	**32**	**32**	(40)		80	
		IMPACT ON PROFIT OR (LOSS)	**(1)**		**52**	
		IMPACT ON OTHER COMPREHENSIVE INCOME		**(237)**		**257**

SENSITIVITY ANALYSIS TO COMMODITY RISK
as at 31 December 2013

FINANCIAL RECEIVABLES AND LIABILITIES	VALUE AT RISK	31.12.2013 CARRYING AMOUNT	COPPER PRICES [USD/t]			
			9 510		5 336	
			+29%		-28%	
	[PLN millions]	[PLN millions]	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income
Derivatives – Commodity contracts - Metals	**255**	**255**	(189)	(180)	(132)	745
Embedded derivatives	**16**	**16**	(114)	-	58	-
		IMPACT ON PROFIT OR (LOSS)	**(303)**		**(74)**	
		IMPACT ON OTHER COMPREHENSIVE INCOME		**(180)**		**745**

34.1.8 Price risk related to investments in debt instruments

As at 31 December 2014, the Group held Treasury bonds in the amount of PLN 61 million, i.e. USD 17 million (as at 31 December 2013: PLN 69 million). This amount is represented by environmental bonds denominated in USD under the mine closure assets of KGHM INTERNATIONAL LTD. which were issued by the United States government. Change in value was described in **note 11**.

Group's investments in debt instruments are slightly exposed to price risk.

34.1.9 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.

Due to investments in listed companies the Group is exposed to the risk of significant changes in accumulated other comprehensive income due to changes in the share prices of these companies, resulting from current macroeconomic conditions. In case of an increase in the fair value of the shares versus cost or when the value of the shares decreases versus cost by at least 20%, the Group is exposed to the risk of changes in profit or loss.

As at 31 December 2014, the carrying amount of shares of companies which are held by the Group and are listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 978 million.

Sensitivity analysis of listed companies shares to price changes as at 31 December 2014

	31 December 2014	Percentage change of share price				31 December 2013	Percentage change of share price			
	CARRYING AMOUNT	+13%		-20%		CARRYING AMOUNT	+24%		-11%	
	[PLN millions]	PROFIT OR (LOSS)	OTHER COMPREH. INCOME	PROFIT OR (LOSS)	OTHER COMPREH. INCOME	[PLN millions]	PROFIT OR (LOSS)	OTHER COMPREH. INCOME	PROFIT OR (LOSS)	OTHER COMPREH. INCOME
Listed shares	**978**	-	130	(24)	(172)	**856**	-	208	(70)	(28)

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

34.2 Credit risk

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

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

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

- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- loans granted,
- debt instruments,
- guarantees granted.

34.2.1 Credit risk related to cash and cash equivalents and bank deposits

The Group allocates periodically free 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. Analysis of exposure to this type of risk, conducted as at 31 December 2015 for the amount of PLN 451 million, which represents 95% of the Group's cash, has proven that these are solely banks with the highest[(22)], medium-high[(23)] and medium[(24)] 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 standing and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the level of concentration respectively:

- as at 31 December 2014 of 95%; and
- as at 31 December 2013 of 94%.

of the periodically free cash and cash equivalents, showing the assessed creditworthiness of the financial institutions[(25)].

	At	
Rating levels	**31 December 2014**	**31 December 2013**
Highest	40%	36%
Medium-high	23%	51%
Medium	37%	13%

As at 31 December 2014 the maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounted to 20% (as at 31 December 2013: 22%).

[(22)] 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.
[(23)] 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.
[(24)] 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.
[(25)] Weighed by amount of cash and cash equivalents.

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

34.2.2 Credit risk related to derivative transactions

All entities with which the Group enters into derivative transactions operate in the financial sector.

The following table presents the structure of ratings of the financial institutions with whom the Group engaged in derivatives transactions, representing an exposure to credit risk(26).

	At	
Rating levels	**31 December 2014**	**31 December 2013**
Highest	1%	16%
Medium-high	93%	79%
Medium	6%	5%

Taking into consideration the fair value of open derivative transactions entered into by the Group and unsettled derivatives, the maximum single entity share of the amount exposed to credit risk arising from these transactions as at 31 December 2014 amounted to 44% (as at 31 December 2013: 22%).

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 counterparties) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty.

The fair value of open derivatives of the Group, and receivables and payables due to unsettled derivatives by counterparty (financial institutions), are presented in the table below(27).

	At 31 December 2014			At 31 December 2013		
	Financial receivables	**Financial payables**	**Net**	**Financial receivables**	**Financial payables**	**Net**
Counterparty 1	154	(1)	**153**	185	(9)	**176**
Counterparty 2	106	(8)	**98**	140	(6)	**134**
Counterparty 3	22	-	**22**	-	-	**-**
Counterparty 4	37	(22)	**15**	-	-	**-**
Counterparty 5	30	(17)	**13**	98	(2)	**96**
Other	144	(112)	**32**	435	(26)	**409**
Total	**493**	**(160)**	**333**	**858**	**(43)**	**815**
Open derivatives	459	(160)	**299**	817	(24)	**793**
Unsettled derivatives	34	-	**34**	41	(19)	**22**

(26) Weighed by positive fair value of open and unsettled derivatives.
(27) Excluding embedded derivatives, which are included in the contracts with counterparties not being financial institutions. As at 31 December 2014 the fair value of embedded derivatives amounted to PLN 32 million, while as at 31 December 2013 PLN 16 million.

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

34.2.3 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.

Geographical concentration of credit risk for trade receivables[28]:

	At 31 December 2014			At 31 December 2013		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net trade receivables	31%	28%	41%	22%	28%	50%

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 or trade financing instruments which wholly transfer the credit risk to financial institutions. The Parent Entity has secured the majority of its receivables by promissory notes[29], frozen funds on bank accounts, registered pledges[30], 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[31].

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 2014 the Parent Entity had secured 95% of its trade receivables (as at 31 December 2013: 74%).

The concentration of credit risk in the Group is related to the terms of payment allowed to key clients. Consequently, as at 31 December 2014 the balance of receivables from the 7 largest clients, in terms of trade receivables at the end of the reporting period, represented 60% of the trade receivables balance (as at 31 December 2013: 49%). 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 1 379 million, the KGHM INTERNATIONAL LTD. Group PLN 283 million, CENTROZŁOM WROCŁAW S.A. PLN 70 million, NITROERG S.A. PLN 30 million, WPEC w Legnicy S.A. PLN 29 million, „MIEDZIOWE CENTRUM ZDROWIA" S.A. PLN 17 million, Uzdrowiska Kłodzkie S.A. – Grupa PGU PLN 13 million, WMN „ŁABĘDY" S.A. PLN 12 million, KGHM ZANAM Sp. z o.o. PLN 11 million, PHP „MERCUS" Sp. z o.o. PLN 10 million.

Individual Group companies operate in various economic sectors, such as transport, construction, commerce, industrial production and energy. As a consequence, in the case of most Group companies, in terms of sectors, there is no concentration of credit risk. KGHM INTERNATIONAL LTD. operates in the same economic sector as the Parent Entity. Despite operating in the same sector, these two companies are different both in terms of their portfolios of products as well as in terms of the geographic location and nature of their customers, and consequently this sector concentration of credit risk is considered to be acceptable.

(28) Data concerning the receivables arising from sales of copper and silver was presented in the financial statements as at 31 December 2013. The data was recalculated in order to include all trade receivables.

(29) In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.

(30) 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.

(31) 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.

(amounts in tables in PLN millions, unless otherwise stated)

34. 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.

34.2.4 Credit risk related to loans granted

As at 31 December 2014 the carrying amount of loans granted by the Group amounted to PLN 6 231 million, i.e. USD 1 777 million (as at 31 December 2013: PLN 3 378 million, i.e. USD 1 122 million).

This item is mainly represented by long term loans based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group for the financing of the joint mining venture in Chile. Both the principal amount and interest are paid on demand, but not after 15 December 2014.

Credit risk related to the loan granted is dependent on the risk connected with mine project realisation, and is judged at the present moment to be moderate.

34.2.5 Credit risk related to investments in debt instruments

As at 31 December 2014, the Group held US government bonds in the amount PLN 61 million, i.e. USD 17 million (as at 31 December 2013 PLN 69 million, i.e. USD 23 million). These are environmental bonds denominated in USD representing the mine closure assets of KGHM INTERNATIONAL LTD.

These investments are slightly exposed to credit risk due to the guarantee of solvency 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.

34.2.6 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 2014

	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	**120**	100	10	6	3	1
Other financial receivables	**1**	1	-	-	-	-

At 31 December 2013

	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	**81**	60	9	5	5	2
Other financial receivables	**1**	1	-	-	-	-

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.

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

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 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Impairment allowance at the beginning of the period		**62**	**52**
Changes recognised in profit or loss		2	16
Utilisation		-	(1)
Other decreases		(30)	(5)
Impairment allowance at the end of the period	**13**	**34**	**62**

Other financial assets (category: loans and financial receivables)

	Note	For the period from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Impairment allowance at the beginning of the period		**28**	**18**
Changes recognised in profit or loss		1	1
Other increases		4	9
Impairment allowance at the end of the period	**13**	**33**	**28**

Shares (category: available-for-sale financial assets)

		For the period from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Impairment loss at the beginning of the period		**329**	**165**
Changes recognised in profit or loss	31	3	182
Impairment loss reversed, recognised in other comprehensive income		(124)	(18)
Other decreases		(64)	-
Impairment loss at the end of the period		**144**	**329**

34.3 Liquidity risk and management of capital

The management of capital in the Group aims at providing both relevant funding capabilities for business development and at securing relevant liquidity.

Contractual maturities for financial liabilities as at 31 December 2014

	Contractual maturities from the end of the period					Total (without discounting)	Carrying amount
Financial liabilities	**Up to 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**		
Trade payables	1 203	6	17	17	368	**1 611**	**1 384**
Borrowings	1 067	49	142	1 032	936	**3 226**	**2 992**
Debt instruments	-	6	-	1 790	-	**1 796**	**1 775**
Derivatives – Currency contracts	-	-	-	-	-	**-**	**157**
Derivatives – Commodity contracts - metals	-	-	-	-	-	**-**	**1**
Other financial liabilities	105	32	35	9	1	**182**	**180**
Guarantees granted	812	275	3	-	340	**1 430**	**-**
Total financial liabilities by maturity	**3 187**	**368**	**197**	**2 848**	**1 645**	**8 245**	

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

Contractual maturities for financial liabilities as at 31 December 2013

Financial liabilities	Contractual maturities from the end of the period: Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years	Total (without discounting)	Carrying amount
Trade payables	1 265	10	8	1	7	**1 291**	**1 291**
Borrowings	1 146	45	63	40	65	**1 359**	**1 356**
Debt instruments	-	-	-	-	1 626	**1 626**	**1 522**
Derivatives – Currency contracts	-	-	-	-	-	**-**	**10**
Derivatives – Commodity contracts - metals	-	-	-	-	-	**-**	**13**
Other financial liabilities	122	37	57	19	2	**237**	**231**
Guarantees granted	18	3	1	598	-	**620**	**-**
Total financial liabilities by maturity	**2 551**	**95**	**129**	**658**	**1 700**	**5 133**	

Financial liabilities arising from derivatives are calculated as their intrinsic values, excluding the effects of discounting.

34.3.1 Financial liquidity management

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

- investment of financial surpluses in liquid instruments;
- compliance with the limits for individual financial investment categories;
- compliance with the limits for the concentration of resources for financial institutions; and
- assuring the stable and effective financing of the Group's activities.

The Group's external financing is based on four pillars:

1. The unsecured, revolving syndicated credit facility in the amount of USD 2 500 million (PLN 8 768 million using the exchange rate as at 31 December 2014) with the maturity date falling on 11 July 2019 (and the option to extend it for another 2 years) acquired by the Parent Entity;
2. The investment loan granted to the Parent Entity by the European Investment Bank, in the amount of PLN 2 000 million and a 12-year financing period;
3. Short-term bank loans in the amount of over PLN 4 600 million, used to finance working capital and to support current liquidity in Group companies as well as investment bank loans drawn by Group companies to finance the continued advancement of their investment activities; and
4. The senior notes program of KGHM INTERNATIONAL LTD. up to the amount of USD 500 million.

The above-mentioned sources of financing fully satisfy the current, medium- and long-term liquidity needs of the Group. In 2014, the Group made use of all sources of external financing available in the aforementioned pillars.

Unsecured revolving credit facility

On 11 July 2014, the Parent Entity signed an agreement for an unsecured, revolving syndicated credit facility in the amount of USD 2 500 million with a five-year tenor with the option of extending for another 2 years. The option of extending may be exercised at the request of the Parent Entity on the first and second anniversaries of signing the agreement.

The financial resources from the credit facility will be used in financing general corporate purposes, including expenditures related to the continued advancement of investment projects and for refinancing the debt of KGHM INTERNATIONAL LTD. in the amount of USD 700 million. Consolidating the Group's external financing at the Parent Entity's level is a key provision of the new financing strategy. The strategy will enable to attain significant saving on debt servicing costs and is in line with the best market practices for the financing of large, international groups. It will also allow for an increase in effectiveness of the liquidity management process, simplification of the external financing structure and to optimise the financial and non-financial covenants in the Group.

34. Financial risk management (continued)

The Parent Entity expects to make gradual use of the loan. The flexible structure of the transaction gives the possibility of multiple borrowing and repaying of the loan instalments, depending on the current liquidity needs of the KGHM Polska Miedź S.A. Group. Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA ratio. The credit facility agreement obliges the Group to comply with the financial covenant and non-financial covenants standard for this type of transaction. As at 31 December 2014 and during the reporting period there were no instances of violation of the covenants stipulated in the aforementioned agreement.

Investment loan from the European Investment Bank

On 1 August 2014, the Parent Entity signed an agreement for financing from the European Investment Bank for PLN 2 000 million with a maximum repayment period for the instalments drawn of 12 years from the drawing date. The loan is available for a period of 22 months from the date of signing the agreement.

For each of these loan instalments the Parent Entity has the option of drawing a non-renewable instalment in PLN, EUR or USD, with either a fixed or variable interest rate of WIBOR, LIBOR or EURIBOR plus a margin.

The funds acquired through this loan will be used to finance investment projects of the Parent Entity, related to modernisation of metallurgy and development of the Żelazny Most tailings pond.

The credit facility agreement obliges the Group to comply with the financial and non-financial covenants standard for this type of transaction. As at 31 December 2014 and during the reporting period there were no instances of violation of the covenants stipulated in the aforementioned agreement.

Bank loans

The Group has open lines of credit due to short- and long term bank loans agreements entered into. The funds available from these open lines of credit are available in the following currencies: PLN, USD and EUR, with the interest based on variable WIBOR, LIBOR, EURIBOR rates plus a margin. The funds acquired from the aforementioned credit agreements are used for financing the working capital and support the short-term financial liquidity management.

As at 31 December 2014, the Parent Entity had open lines of credit and an investment loan, whose balances were as follows:

Open lines of credit and loans drawn as at 31 December 2014 (millions)

Type of bank and other loans:	**Bank and other loans available in:**	**Balance of available bank and other loans in PLN**	**Balance of bank and other loans drawn in PLN**
Working capital facility and overdraft facility	USD, EUR, PLN	3 313	1 050
Unsecured revolving credit facility	USD	8 768	0
Investment loan	USD, EUR, PLN	2 000	1 058
Total		**14 081**	**2 108**

All of the Parent Entity's liabilities which comprised the balance of bank and other loans as at 31 December 2014 in the amount of PLN 2 108 million were drawn in USD.

As at 31 December 2014, the KGHM INTERNATIONAL LTD. Group held an open line of credit in the amount of USD 200 million (PLN 701 million), with a variable interest rate, set as the sum of the reference rate LIBOR and a margin depending on the ratio net debt/EBITDA. It was fully utilised at the end of the reporting period.

In order to finance the continued advancement of the investment activities which are aimed at restoration, modernisation or increasing the assets' value, the Group's companies utilise investment loans. A loan's currency is PLN or EUR and their repayment is guaranteed by mortgages on assets, cessions of trading agreements or cession of rights arising from insurance policies.

(amounts in tables in PLN millions, unless otherwise stated)

34. Financial risk management (continued)

Senior notes of KGHM INTERNATIONAL LTD.

KGHM INTERNATIONAL LTD. benefits from external financing in the form of issued long-term senior notes with a fixed interest rate and a maturity falling in 2019. As at 31 December 2014 the value of the senior notes amounted to PLN 1 775 million (nominal value of the senior notes: USD 494 million; fair value due to final accounting for the acquisition: USD 506 million). These notes, issued in 2011, give KGHM INTERNATIONAL LTD. the opportunity for early repurchase at their nominal price, plus a premium if repurchase is made prior to 15 June 2017.

The Parent Entity continues to add additional companies to the cash management service of the KGHM Polska Miedź S.A. Group (zero-balance cash pool).

In the first half of 2014, KGHM INTERNATIONAL LTD. among others joined the service. As at 31 December 2014, the total available limit under this service amounted to PLN 696 million. Funds available under this service bear an interest based on variable WIBOR and LIBOR, respectively for PLN and USD.

This service enables optimisation of costs and effective management of current cash liquidity in the KGHM Polska Miedź S.A. Group.

As at 31 December 2014, 29 companies and the Parent Entity, serving as the coordinator, participated in the cash pool. 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, benefits from financing.

Guarantees and letters of credit are important tools used in managing the financial liquidity of the KGHM Polska Miedź S.A. Group. Thanks to them, the Group does not need to engage cash and cash equivalents in order to secure its liabilities toward other entities.
As at 31 December 2014, the Group held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 720 million.

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

- securing the proper performance of agreements entered into by the JV Sierra Gorda in the amount of PLN 823 million;
- securing the proper performance of future environmental liabilities of the Parent Entity in the amount of PLN 320 million, related to the obligation to restore terrain around the „Żelazny Most" tailings pond following the conclusion of its operations; and
- securing the Robinson mine's restoration cost, in the amount of PLN 272 million.

34.3.2 Management of capital

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 benefit the other stakeholders.

In accordance with market practice, the Group companies monitor their 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 free cash and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation/amortisation).

In the process of managing financial liquidity the Group makes use of financial ratios which play a supportive role in this process. To monitor the level of liquidity,a broad range of liquidity ratios is 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.

In addition, the revolving, unsecured credit facility agreement and the loan agreement signed with the European Investment Bank oblige the Group to maintain its financial and non-financial covenants, standard for these types of transactions. As at 31 December 2014 and in the reporting period there were no instances of breaching the covenants stipulated in the aforementioned agreements.

The ratios for the Group are presented in the table below:

Ratios	**At 31 December 2014**	**At 31 December 2013**
Net Debt/EBITDA	0.82	0.37
Equity ratio	0.56	0.61

35. Share in losses of entities accounted for using the equity method

		For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Share in losses of entities accounted for using the equity method		(1)	-
Decrease in the value of investment due to tax changes in Chile		(251)	-
Total	9	**(252)**	**-**

Details concerning decreases in the value of investment due to tax changes in Chile were described in **note 9**.

(amounts in tables in PLN millions, unless otherwise stated)

36. Income tax

Income tax	Note	For the period from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Current income tax		878	1 161
Deferred income tax	23	(221)	42
Adjustments to income tax from prior periods		(10)	(1)
Total	**40**	**647**	**1 202**

Identification of differences between profit before tax for the Group and the income tax which would be achieved were the tax rate of the Parent Entity to be applied.

	For the period from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Profit before tax	**3 098**	**4 240**
Tax calculated using the Parent Entity's rate (2014: 19%, 2013: 19%)	**589**	**806**
Effect of applying other tax rates abroad:	(51)	1
Canada (2014: 26%, 2013: 25.75%)	15	(5)
The USA (2014: 35%, 2013: 35%)	(26)	36
Chile (2014: 21%, 2013: 20%)	3	(3)
Barbados (2014: 0.25-2.5%, 2013: 0.5-2.5%)	(58)	-
Other countries	15	(27)
Tax effect of non-taxable income	(36)	(95)
Tax effect of expenses not deductible for tax purposes*	407	424
Utilisation of previously-unrecognised tax losses	(52)	(9)
Tax losses on which deferred tax assets were not recognised	5	43
Deductible temporary differences on which deferred tax assets were not recognised	85	33
Adjustments to income tax from prior periods	(10)	(1)
Re-measurement of deferred tax liabilities due to changes in tax system in Chile	(290)	-
Income tax expense the average income tax rate applied was 20.9% (2013: 28.3%)	**647**	**1 202**

* tax effect of expenses not deductible for tax purposes in 2014 and 2013 mainly related to the minerals extraction tax. Details in **note 28**.

Laws in respect of taxes, including, among others, the tax on goods and services and corporate and personal income tax, 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 settlements (for example customs or foreign exchange) may be subjected to audit by bodies who are empowered to impose high penalties, while the additional liabilities imposed as a result of such audits must be paid with interest.
In Poland, tax bodies are empowered to audit tax declarations for a period of five years, although companies during this period may offset receivables with tax liabilities being the income of the State Treasury (including due to current income tax).
In Canada tax declarations may be audited for a period of three years without the right to offset receivables with liabilities due to current income tax.

36. Income tax (continued)

At present, tax audits are underway in the KGHM Polska Miedź S.A. Group in respect of:

- KGHM INTERNATIONAL LTD., operating in Canada, with respect to corporate income tax and transfer prices for the years 2010 - 2011. As at the date of signing of the consolidated financial statements for publication, tax bodies had not identified any irregularities.
- Robinson Holdings (USA) Ltd. and subsidiaries belonging to the KGHM INTERNATIONAL LTD. Group and operating in the USA, with respect to corporate income tax for the years 2009 – 2011 and Robinson Nevada Mining Company with respect to Nevada mining tax for the years 2009-2011. As at the date of signing of the consolidated financial statements for publication, tax bodies had not identified any irregularities.
- Aguas de la Sierra Limitada, belonging to the KGHM INTERNATIONAL LTD. and operating in Chile, with respect to corporate income tax for the years 2011-2012. As at the date of signing of the consolidated financial statements for publication, tax bodies had not identified any irregularities.

In 2014, a tax audit was performed in respect of KGHM INTERNATIONAL LTD., operating in Canada, with respect to corporate income tax, withholding tax and transfer prices. The only tax issue pointed out by the tax bodies are advances toward the Canadian income tax from non-residents temporarily working in Canada (the tax liability in the amount of USD 314 thousand was paid before the date of preparation of these Consolidated financial statements). No other irregularities have been identified.

The Parent Entity believes 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.

(amounts in tables in PLN millions, unless otherwise stated)

37. Other taxes and charges

37.1 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	Name of tax due to extraction in the given country	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013	Basis for calculating tax	Tax rates of the given country	Presentation in the consolidated statement of profit or loss
1	Poland	Minerals extraction tax:	1 520	1 856			
		- copper	1 218	1 444	Amount of copper in concentrates, expressed in tonnes	Weighted average tax rate calculated for every reporting period *	Taxes and charges in expenses by nature, presented in n**ote 28**
		- silver	302	412	Amount of silver in concentrates, expressed in kilogrammes		
2	USA (Nevada)	Nevada Net proceeds tax	-	6	Taxable income available in Nevada	5%	Income tax
3	Canada (Ontario)	Ontario Mining tax	-	11	Taxable income available in Ontario	10%	Income tax

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

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 2014, this tax was subject to approx. 30 ad hoc audits by customs officers who reviewed selected stages of the production process and concentrate documentation and correctness of settlement due to minerals extraction tax for the period from April to July 2012 and December 2012. None of these audits identified any irregularities, which confirmed the propriety of the procedures implemented in the Parent Entity.

37. Other taxes and charges

37.2 Other taxes and charges by area

For the period from 1 January 2014 to 31 December 2014	**Poland**	**USA**	**Canada**	**Chile**	**Total**
Basic fee for extracting minerals	103	-	1	-	**104**
Excise tax	52	-	-	-	**52**
Real estate tax	165	6	3	-	**174**
Fees due to environmental protection	35	-	-	-	**35**
Depreciation of CO_2 emissions allowances	4	-	-	-	**4**
Non-deductible VAT	11	-	-	-	**11**
Fees due to perpetual usufruct of land	14	-	-	-	**14**
PFRON (The State Fund for Rehabilitation of Handicapped Persons) Fee	21	-	-	-	**21**
Other taxes and charges	41	32	-	-	**73**
Total	**446**	**38**	**4**	**-**	**488**

For the period from 1 January 2013 to 31 December 2013	**Poland**	**USA**	**Canada**	**Chile**	**Total**
Basic fee for extracting minerals	100	-	-	-	**100**
Excise tax	53	-	-	-	**53**
Real estate tax	160	6	3	-	**169**
Payments due to environmental protection	35	1	-	-	**36**
Depreciation of CO_2 emissions allowances	34	-	-	1	**35**
Non-deductible VAT	9	-	-	-	**9**
Fees due to perpetual usufruct of land	13	-	-	-	**13**
PFRON (The State Fund for Rehabilitation of Handicapped Persons) Fee	21	-	-	-	**21**
Other taxes and charges	19	50	-	-	**69**
Total	**444**	**57**	**3**	**1**	**505**

38. Earnings per share

	For the period from 1 January 2014 to 31 December 2014	**For the period from 1 January 2013 to 31 December 2013**
Profit from continued operations attributable to shareholders of the Parent Entity	2 450	3 035
Weighted average number of ordinary shares (millions)	200	200
Basic/diluted earnings per share (PLN/share)	12.25	15.18

There are no dilutive potential ordinary shares.

(amounts in tables in PLN millions, unless otherwise stated)

39. Dividend paid

In accordance with Resolution No. 5/2014 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 23 June 2014 regarding the appropriation of the Parent Entity profit for financial year 2013, the amount of PLN 1 000 million, representing PLN 5.00 per share, was allocated from 2013 profit as a dividend.
The right to dividend date was set at 8 July 2014 with payment of the dividend in two instalments: on 18 August 2014 in the amount of PLN 2.50 per share, and on 18 November 2014 in the amount of PLN 2.50 per share.
All shares of the Parent Entity are ordinary shares.

In 2013, in accordance with Resolution No. 5/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2013 regarding the appropriation of the Parent Entity profit for financial year 2012, the amount of PLN 1 960 million, representing PLN 9.8 per share from profit for financial year 2012 was allocated as a shareholders dividend.
The right to dividend date was set at 12 July 2013.
The dividend payment date:
- 1st instalment on 14 August 2013- in the amount of PLN 4.90 per share,
- 2nd instalment on 14 November 2013- in the amount of PLN 4.90 per share.

All shares of the Parent Entity are ordinary shares.

40. Explanations to the consolidated statement of cash flows

Interest and share in profits (dividends)

	Note	For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Net interest and income from dividends from the statement of profit or loss, including:		**(221)**	**(162)**
- net interest		(186)	(125)
- income from dividends	30	(35)	(37)
Adjustments:			
Net interest from operating activities		46	46
interest and income from dividends presented in the statement of cash flows:		**(175)**	**(116)**
interest:		(140)	(79)
- interest realised from investment activities		-	(1)
- interest unrealised from investment activities		(282)	(189)
- interest realised from financial activities		131	138
- interest unrealised from financial activities		11	(27)
income from dividends		(35)	(37)

Foreign exchange (gains)/losses

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Foreign exchange (gains)/lossess from the statement of profit or loss	**(20)**	**32**
Adjustments:		
Net exchange differences from operating activities	(7)	(28)
Foreign exchange (gains)/losses, presented in the statement of cash flows	**(27)**	**4**
- realised from investment activities	9	9
- unrealised from investment activities	(149)	19
- realised from financial activities	37	24
- unrealised from financial activities	88	(52)
- on cash and cash equivalents	(12)	4

(amounts in tables in PLN millions, unless otherwise stated)

40. Explanations to the consolidated statement of cash flows (continued)

Change in provisions

	Note	For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Change in provisions for other liabilities and employee benefits from the statement of financial position		**1 070**	**(101)**
Adjustments:			
Provisions for decommissioning costs of mines recognised in property, plant and equipment	25	(520)	-
Actuarial gains/(losses) on post- employment benefits recognised in other comprehensive income	17	(372)	68
Exchange differences from translation of foreign operations statements		(81)	10
Other		1	4
Change in provisions recognised in the statement of cash flows		**98**	**(19)**

Change in inventories

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Change in inventories from the statement of financial position	**35**	**342**
Adjustments:		
Exchange differences from translation of foreign operations statements	83	15
Change recognised in the statement of cash flows	**118**	**357**

Change in receivables

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Change in trade and other receivables from the statement of financial position	**(2 528)**	**(2 216)**
Adjustments:		
Loans granted	2 082	2 050
Other current and non-current financial receivables excluding payments to capital and derivatives	(7)	(42)
Advances granted due to purchase of property, plant and equipment and intangible assets	(61)	29
Exchange differences from translation of foreign operations statements	880	(60)
Other	42	(3)
Change recognised in the statement of cash flows	**408**	**(242)**

(amounts in tables in PLN millions, unless otherwise stated)

40. Explanations to the consolidated statement of cash flows (continued)

Change in payables

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Change in trade and other payables in the statement of financial position	**370**	**(20)**
Adjustments:		
Payables due to purchase of property, plant and equipment and intangible assets	(107)	(139)
Non-cash subsidies to intangible assets related to CO_2 emission allowances	(14)	(13)
Cash subsidies to be used for the purchase of property, plant and equipment and intangible assets	(17)	(10)
Adjustment to liabilities accounted for against intangible assets assets related to CO_2 emission allowances	18	27
Exchange differences from translation of foreign operations	(168)	(63)
Other adjustments	(12)	(3)
Change in payables recognised in the statement of cash flows	**70**	**(221)**

Income tax paid

	Note	For the period	
		from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Income tax from the statement of profit or loss	36	(647)	(1 202)
Change in deferred tax assets recognised in profit for the period	23	(44)	74
Change in deferred tax liabilities recognised in profit for the period	23	(177)	(32)
Change in current corporate tax receivables		(33)	23
Change in current corporate tax liabilities		36	(320)
Exchange differences from translation of foreign operations statements		(3)	1
Total		(868)	(1 456)

Purchase of property, plant and equipment and intangible assets

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Purchase	(2 409)	(2 226)
Non-monetary adjustments to purchases	108	66
Stripping costs of surface mines	(183)	(282)
Capitalised borrowing costs	(42)	-
Self-constructed fixed assets	(1 006)	(877)
Change in payables due to purchases	107	139
Realised exchange differences	(9)	(9)
Expenditures on purchase of property, plant and equipment and intangible assets	(3 434)	(3 189)

(amounts in tables in PLN millions, unless otherwise stated)

40. Explanations to the consolidated statement of cash flows (continued)

Proceeds from the sales of property, plant and equipment and intangible assets

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Net carrying amount of property, plant and equipment and intangible assets sold and costs related to disposal	37	104
Losses on sales of property, plant and equipment and intangible assets	(14)	(46)
Negative change in receivables due to sales	(1)	(2)
Proceeds from sales of property, plant and equipment and intangible assets	**22**	**56**

Change in cash and cash equivalents

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Change in cash and cash equivalents from the statement of financial position	**(389)**	**(1 765)**
Adjustment**:**		
Exchange gains on cash and cash equivalents and on translation of foreign operation statements	(58)	(2)
Change in cash and cash equivalents recognised in the statement of cash flows	**(447)**	**(1 767)**

Expenditures on exploration for and evaluation of mineral resources recognised in operating activities

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Purchase recognised in profit or loss	(143)	(3)
Negative change in liabilities recognised in operating activities due to exploration for and evaluation of mineral resources	-	(1)
Total	**(143)**	**(4)**

Expenditures on exploration for and evaluation of mineral resources recognised in investing activities

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Purchase	(353)	(176)
Self-constructed assets	(1)	-
Positive/(Negative) change in liabilities recognised in investing activities due to exploration for and evaluation of mineral resources	5	18
Total	**(349)**	**(158)**

(amounts in tables in PLN millions, unless otherwise stated)

41. Related party transactions

As a result of the Polish State Treasury's control over KGHM Polska Miedź S.A., other companies controlled by the Polish State Treasury companies (in accordance with the list published by the Ministry of State Treasury) as at 31 December 2014 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.

Operating income from related entities	**For the period from 1 January 2014 to 31 December 2014**	**For the period from 1 January 2013 to 31 December 2013**
From joint ventures, including:	339	239
- due to interest on a loan granted to Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD.	282	189
- due to an agreement to render services to support the management process in Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD.	50	49
From other related entities	10	13
Total operating income from related entities	**349**	**252**

During the period from 1 January to 31 December 2014 and in the comparable period there were no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group.

Purchases from related entities	**For the period from 1 January 2014 to 31 December 2014**		
	Purchase of services, merchandise and materials	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other purchase transactions**
- from other related entities	17	-	2

Purchases from related entities	**For the period from 1 January 2013 to 31 December 2013**		
	Purchase of services, merchandise and materials	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other purchase transactions**
- from other related entities	24	1	9

Trade and other receivables from related entities	**Note**	**At 31 December 2014**	**At 31 December 2013**
- from jointly-controlled entity Sierra Gorda S.C.M., including:	34.2.3	6 238	3 378
- due to a loan granted		6 231	3 378
- from associates		-	1
- from other related entities		2	2
Total receivables from related entities		**6 240**	**3 381**

Trade and other payables towards related entities	**At 31 December 2014**	**At 31 December 2013**
- towards other related entities	2	6

(amounts in tables in PLN millions, unless otherwise stated)

41. Related party transactions (continued)

	At	
Contingent liabilities	**31 December 2014**	**31 December 2013**
Letters of credit and guarantees granted to secure a contract for the supply of electricity, and to secure lease liabilities of the Sierra Gorda S.C.M. project	823	414
Security granted for the payment of future environmental liabilities of the Robinson mine	272	184
Total contingent liabilities	**1 095**	**598**

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.

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 for the period from 1 January to 31 December 2014 amounted to PLN 749 million (for the period from 1 January to 31 December 2013: PLN 960 million), and the unsettled balance of liabilities from these transactions as at 31 December 2014 amounted to PLN 241 million (as at 31 December 2013: PLN 36 million).

41. Related party transactions (continued)
Remuneration of the key managers
(a) Remuneration of the Management Board of the Parent Entity in PLN thousands

	Period when function served in 2014	Fixed part of remuneration	Variable part of remuneration**	Earnings from subsidiaries	Benefits due to termination of employment relationship	Other benefits and earnings****	Total earnings in 2014
Members of the Management Board serving in this function as at 31 December 2014							
Herbert Wirth	01.01-31.12.2014	1 442	560	-	-	275	**2 277**
Jarosław Romanowski	01.01-31.12.2014	1 297	194	-	-	232	**1 723**
Wojciech Kędzia	01.01-31.12.2014	1 153	450	-	-	220	**1 823**
Jacek Kardela	01.01-31.12.2014	1 153	142	-	-	207	**1 502**
Marcin Chmielewski	01.01-31.12.2014	1 154	156	-	-	212	**1 522**
Other Members of the Management Board*							
Włodzimierz Kiciński	-	324	-	-	561	50	**935**
Adam Sawicki	-	288	-	-	378	25	**691**
Dorota Włoch	-	288	-	-	346	35	**669**
		7 099	**1 502**	**-**	**1 285**	**1 256**	**11 142**

	Period when function served in 2013	Fixed part of remuneration	Variable part of remuneration***	Earnings from subsidiaries	Benefits due to termination of employment relationship	Other benefits and earnings****	Total earnings in 2013
Members of the Management Board serving in this function as at 31 December 2013							
Herbert Wirth	01.01-31.12.2013	1 393	363	-	-	243	**1 999**
Jarosław Romanowski	02.09-31.12.2013	419	-	-	-	61	**480**
Wojciech Kędzia	01.01-31.12.2013	1 117	295	-	-	171	**1 583**
Jacek Kardela	02.09-31.12.2013	372	-	210	-	53	**635**
Marcin Chmielewski	02.09-31.12.2013	372	-	-	-	39	**411**
Other Members of the Management Board*							
Włodzimierz Kiciński	01.01-02.09.2013	1 255	261	-	-	218	**1 734**
Adam Sawicki	01.01-02.09.2013	1 112	175	-	-	216	**1 503**
Dorota Włoch	01.01-02.09.2013	1 109	230	-	-	193	**1 532**
Maciej Tybura	-	-	88	-	-	-	**88**
		7 149	**1 412**	**210**	**-**	**1 194**	**9 965**

*The amounts in the ” Fixed part of remuneration” and ” Variable part of remuneration” columns include remuneration during the period of employment termination, which in 2014 amounted to PLN 900 thousand (in 2013: PLN 1 144 thousand.
**” Variable part of remuneration” includes:
- settlement of the variable part of remuneration for 2013,
- prepayments on variable part of remuneration (in quarterly periods) for 2014.
***”Variable part of remuneration” includes:
- settlement of the variable part of remuneration for 2012,
- prepayments on variable part of remuneration (in quarterly periods) for 2013.
**** Amounts in the column „Other benefits and earnings” include additional benefits, including insurance, contributions to the Employee Retirement Fund and financing towards non-cash benefits.

41. Related party transactions (continued)
(b) Remuneration of the Supervisory Board of the Parent Entity in PLN thousands

	Period when function served in 2014	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts*	Other benefits**	Total earnings in 2014
Krzysztof Kaczmarczyk	01.01-23.06.2014	52	-	4	**56**
Aleksandra Magaczewska	01.01-23.06.2014	59	-	2	**61**
Jacek Poświata	01.01-31.12.2014	97	-	2	**99**
Bogusław Szarek	01.01-31.12.2014	96	213	13	**322**
Andrzej Kidyba	01.01-31.12.2014	96	338	18	**452**
Iwona Zatorska-Pańtak	01.01-23.06.2014	48	-	-	**48**
Marek Panfil	01.01-23.06.2014	48	18	5	**71**
Tomasz Cyran	23.06-31.12.2014	54	-	10	**64**
Barbara Wartelecka-Kwater	23.06-31.12.2014	49	-	3	**52**
Marcin Moryń	23.06-31.12.2014	60	-	3	**63**
Józef Czyczerski	23.06-31.12.2014	49	74	2	**125**
Bogusław Stanisław Fiedor	23.06-31.12.2014	49	-	3	**52**
Leszek Hajdacki	23.06-31.12.2014	49	84	6	**139**
		806	**727**	**71**	**1 604**

	Period when function served in 2013	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts*	Other benefits**	Total earnings in 2013
Krzysztof Kaczmarczyk	01.01-31.12.2013	102	-	3	**105**
Aleksandra Magaczewska	01.01-31.12.2013	116	-	4	**120**
Jacek Poświata	01.01-31.12.2013	93	-	34	**127**
Bogusław Szarek	01.01-31.12.2013	93	161	10	**264**
Andrzej Kidyba	19.06-31.12.2013	49	78	9	**136**
Iwona Zatorska-Pańtak	19.06-31.12.2013	48	-	3	**51**
Marek Panfil	19.06-31.12.2013	48	16	52	**116**
Paweł Białek	01.01-19.06.2013	45	-	32	**77**
Dariusz Krawczyk	01.01-19.06.2013	45	-	2	**47**
Ireneusz Piecuch	01.01-19.06.2013	45	-	2	**47**
Krzysztof Opawski	01.01-27.11.2013	85	-	-	**85**
		769	**255**	**151**	**1 175**

*****Amounts in the column „Earnings from other contracts" include remuneration due to labour contracts in the Divisions of KGHM Polska Miedź S.A. and remuneration due to serving on the supervisory bodies of Group subsidiaries
******Amounts in the column „Other benefits" include travel costs and financing of non-monetary benefits

(c) Remuneration of other key managers personnel in PLN thousands

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Remuneration and other benefits of other key managers	5 412	5 229

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

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

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Companies of the PricewaterhouseCoopers Group	**6 047**	**6 597**
From contract for the review and audit of financial statements, including:	3 999	3 888
- audit of annual financial statements	3 283	3 036
- review of financial statements	716	852
From other contracts	2 048	2 709

43. 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 2014	31 December 2013
Contingent assets	**474**	**529**
-disputed State Budget issues	2	22
-guarantees received (1)	223	248
-promissory note receivables	109	126
-real estate tax on mining facilities (2)	87	87
-inventions, implementation of projects	47	44
-other	6	2
Contingent liabilities	**1 720**	**892**
-guarantees, including:	1 429	620
a letter of credit granted to secure the proper performance of a long-term contract for the supply of electricity for the JV Sierra Gorda S.C.M (3)	482	414
guarantees granted to additionally secure the proper performance of leasing agreements entered into by the JV Sierra Gorda S.C.M. (4)	341	-
guarantees granted to secure the proper performance of future environmental obligations of the Parent Entity to restore the area, following the decommissioning of the "Żelazny Most" facility	320	-
a letter of credit granted to secure the proper performance by KGHM INTERNATIONAL LTD. of the future environmental obligations to restore the area following the closure of the Robinson mine	272	184
-promissory note liabilities	2	15
-disputed issues, pending court proceedings	43	74
-liabilities due to implementation of projects and inventions (5)	154	123
-real estate tax on mining facilities	70	42
-other	22	18
Liabilities not recognised in the statement of financial position	**244**	**308**
-liabilities towards local government entities due to expansion of the tailings pond (6)	120	187
-liabilities due to operating leases	124	121

(1) Bid securities and security deposits in the form of bank guarantees to cover proper execution of agreements by contractors.

(amounts in tables in PLN millions, unless otherwise stated)

43. Assets and liabilities not recognised in the statement of financial position (continued)

(2) Claims for the return of overpaid property tax due to exclusion by the Parent Entity from the taxable base of the value of underground mines, following the issuance by the Constitutional Tribunal of a judgment dated 13 September 2011. On 23 January 2014, the first judgment in this case was issued by the Supreme Administrative Court. The Supreme Administrative Court confirmed the validity of the manner of proceeding adopted by the Parent Entity, and revoked both the judgment of the Regional Administrative Court in Wrocław as well as the decisions of tax bodies in both instances questioning the formal manner of proceeding by Parent Entity and therefore disallowing a substantive hearing on the request. The Court at this stage did not address the issue of a return of the overpayment, but called for further proceedings to be held, in which the tax bodies were ordered to prepare a substantive assessment of the request submitted by the Parent Entity for the return of the overpayment.

(3) According to the terms of the „Sierra Gorda Power Puchase Agreement" regarding the construction of a power plant and electricity supply, entered into between Sierra Gorda and Empresa Electrica Cochrane S.A., the co-controlling partners of the Sierra Gorda project are required to ensure security for the payment of liabilities. KGHM INTERNATIONAL LTD. met this requirement by issuing a letter of credit in the amount of USD 138 million, as part of a loan agreement dated 19 June 2013, based on which the lender, The Bank of Nova Scotia, granted a credit limit in the amount of USD 200 million.

(4) On 20 May and 24 June 2014, Sierra Gorda S.C.M. signed leaseback agreements with Banco de Chile and Banco Satander respectively for USD 53 million and USD 51 million. These transactions concerned 21 trucks and additional equipment. These leases were settled as finance leases for the period of 84 months, with an interest at the level of 6-month LIBOR plus a margin. As a result of these sale and leaseback transactions, Sierra Gorda S.C.M. signed an agreement with the Parent Entity to additionally secure the proper performance of leasing agreements.

(5) Liabilities due to disputed issues against the Parent Entity concerning unpaid royalties for inventors, deemed baseless and undue by the Parent Entity.

(6) A liability due to compensation for the economic activity of the Parent Entity in some surrounding municipialities. Based on signed agreements the Parent Entity is commited to the payment of funds to these municipialities for the purposes and under the conditions stipulated in the agreements.

As part of its operations, DMC Mining Services Ltd., belonging to the KGHM INTERNATIONAL LTD. Group, enters into contracts with customers in which it commits to paying compensation for failure to carry out such contracts without specifying a limit for this liability. The Group has not to date made such a payment nor has it recognised contingent liabilities related to it, however, due to the risk associated with the performance of the Janzen project it has recognised a provision for future costs in the amount of USD 5 million (PLN 18 million at the average exchange rate announced by the National Bank of Poland as at 31 December 2014) .

Liabilities due to operating leases - total value of future minimum payments due to leases

	At	
	31 December 2014	**31 December 2013**
Up to one year	23	24
From one to five years	65	59
Over five years	37	38
Total	**125**	**121**

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Rental and lease payments recognised in profit or loss	24	9

The total value of future minimum payments due to perpetual usufruct of land was presented in **note 7**.

(amounts in tables in PLN millions, unless otherwise stated)

44. Employment structure

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
White-collar employees	10 190	10 033
Blue-collar employees	23 907	24 419
Full-time equivalent employees - total:	**34 097**	**34 452**

45. Social Fund assets and liabilities

The net balance of liabilities of the Social Fund after offsetting as at 31 December 2014 amounted to PLN 3 million, and as at 31 December 2013 – PLN 3 million.

Details on assets, liabilities and costs related to the Social Fund are presented in the table below.

	At	
Social Fund assets and liabilities	**31 December 2014**	**31 December 2013**
Housing loans granted to employees	139	134
Cash and cash equivalents	29	29
Liabilities towards the Social Fund	(171)	(166)
Net balance	**(3)**	**(3)**
The balance is settled in subsequent periods after refunding.		
Charged to operating costs of the financial period due to contributions made to the Social Fund	143	140

46. Government grants

The balance of government grants recognised in deferred income at 31 December 2014 is PLN 51 million (at 31 December 2013: PLN 41 million). These are cash grants received for the acquisition of property, plant and equipment, for expenditures on development, and for subsidising the costs of employee training.
The companies of the Group also receive government grants from the National and Regional 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.

47. Subsequent events

Act on Controlled Foreign Corporations ("CFC")

On 1 January 2015 tax rules came into force regarding the taxation in Poland of controlled foreign corporations, whose direct or indirect shareholders are Polish payers of corporate income tax (art. 24a of the Act dated 15 February 1992 on corporate income tax (unified text, Journal of Laws from 2014, item 851 with subsequent amendments; hereafter: Act on CIT)).

The rules regarding CFC are applicable to foreign corporations with their registered head office or management board based within the territory of a country which either practices harmful tax competition, or with which Poland has not signed an international agreement, or the European Union has not signed an international agreement on the exchange of information. The rules regarding CFC are also applicable to entities from the EU/EEA (or from other countries with which Poland has signed an agreement), if the following conditions are met:

(a) a resident of Poland owns indirectly or directly at least 25% of the share capital, 25% of the voting rights or 25% of the income of a foreign corporation for at least 30 consecutive days;

(b) the foreign corporation has mainly (i.e., at least 50%) passive income (eg., dividends earned otherwise than in a manner based on EU directives on parent entities, interest, intellectual proprty rights, capital gains);

(c) the income of a foreign corporation is taxable based on nominal rates lower than 14.25% (i.e., 75% of the income tax rate in force in Poland) or the given income is not taxable or takes advantage of tax-exempt status, unless this income is exempt from taxation in the home country or that of the management board receiving it on the basis of EC directive 2011/96/UE dated 30 November 2011.

The taxable base is the income of a controlled foreign corporation in that part respecting the interest held related to the right to participate in the profits of the said corporation, after deducting (i) the dividends received by the Polish corporate taxpayer from the controlled foreign corporation, and (ii) the amount received from the sale of shares in a controlled foreign corporation. The amount which is not deducted in a given tax year may be deducted over the next five consecutive fiscal years. In accordance with CFC rules, the income earned in a given tax year is the sum of the excess of revenues over deductible costs, which are set by the Polish Act on CIT, regardless of the source of the revenues, set on the last day of the fiscal year of the controlled foreign corporation.

Income earned by a controlled foreign corporation is subject to corporate income tax in Poland at the rate of 19%. In principle, tax which is payable in Poland may be reduced by the amount of tax paid abroad by a controlled foreign corporation, as long as there is an international agreement, to which Poland is a party, based on which Polish tax authorities may receive tax information from the tax authority of the country in which the controlled foreign corporation has tax residency.

The rules regarding CFC introduce the following additional administrative and reporting obligations:

(a) keeping a register of foreign companies,

(b) keeping track of economic events which take place in the controlled foreign corporations, and

(c) the obligation to file a separate declaration on the income of each controlled foreign corporation earned in a given fiscal year – by the end of the ninth month of the subsequent fiscal year – and to pay within this period the tax due.

Appropriate procedures are being implemented in the KGHM Polska Miedź S.A. Group in order to meet the obligations with respect to CFC rules (maintaining the required data, maintaining a register, documentation, tax calculation, filing CFC tax declarations in Poland).

Extension of validity of the guarantee towards the Lower Silesia Voivodeship

On 12 January 2015, at the request of KGHM Polska Miedź S.A., the bank cooperating with the Parent Entity extended the validity of a guarantee in the amount of PLN 320 million by a further two months. The new term of validity of the guarantee expires on 31 March 2015.This guarantee secures the liabilities of the Parent Entity towards the Lower Silesia Voivodeship.

The guarantee was issued in connection with art. 32 sec. 1 of the Act dated 10 July 2008 on mining tailings, aimed at ensuring proper execution, by an owner of tailings which operates a mining tailings treatment pond, of obligations respecting the closure of the mining tailings treatment pond and restoration of the terrain.

47. Subsequent events (continued)

Unsecured, revolving syndicated credit facility

On 20 January 2015, KGHM Polska Miedź S.A. has drawn the instalment of the unsecured, revolving credit facility. The credit in the amount of USD 200 million (i.e. PLN 747 million at the exchange rate announced by the NBP at the date the installment was drawn) was drawn for the period of 3 months with the intent to extend it to the subsequent periods. Interest on the credit facility is based on LIBOR rate plus a bank's margin. The acquired funds were used for refinancing of the financial debt of KGHM INTERNATIONAL LTD. Consolidating the Group's external financing at the Parent Entity's level is a key provision of the new financing strategy. The strategy will enable to attain significant savings on debt servicing costs and is in line with the best market practices for the financing of international groups.

On 28 January 2015, KGHM INTERNATIONAL LTD. repaid USD 200 million in debt arising from the credit facility agreement entered into with a syndicate of banks, and as at that date the agreement expired.

Strategy for the years 2015-2020 with an outlook to 2040

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

Dividend Policy

On 26 January 2015 the Management Board of KGHM Polska Miedź S.A. adopted a resolution related to the Dividend Policy. The Dividend Policy of KGHM Polska Miedź S.A. is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the Parent Entity's funds.
The Dividend Policy of KGHM Polska Miedź S.A. assumes that the Management Board will recommend allocation of up to one-third of the net profit for the previous financial year as a dividend, while taking into account the current and anticipated financial situation of the Parent Entity and the Group. In particular, in making its recommendation the Management Board will take into account the KGHM Polska Miedź S.A. anticipated requirements for capital to complete the development program as well as a safe debt level for the Group. The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

Call for the sale of shares of BIPROMET S.A.

On 29 January 2015, the Management Board of KGHM Polska Miedź S.A. announced (as Bidder) a tender offer to purchase 2 107 932 ordinary bearer shares of BIPROMET S.A. representing 34% of this entity's outstanding shares. KGHM Polska Miedź S.A. currently owns 66% of the shares of BIPROMET S.A. and as a result of the tender intends to acquire 100% ownership of this company. The tender opened on 19 February 2015, with conclusion set for 20 March 2015.

Announcement of Plan to reorganise POL-MIEDŹ TRANS Sp. z o.o. – a subsidiary in the KGHM Polska Miedź S.A. Group

On 25 February 2015, the Management Board of POL-MIEDŹ TRANS Spółka z ograniczoną odpowiedzialnością announced that the Division Plan for POL-MIEDŹ TRANS Sp. z o.o (a company in the course of being divided) has been agreed, approved an signed under art. 529 § 1 point 4 of the Commercial Partnerships and Companies Code, by separating from POL-MIEDŹ TRANS Sp. z o.o. assets representing organised parts of the company to the following acquiring companies:

1. PHP „MERCUS" sp. z o.o. with its head office in Polkowice (acquiring company 1);
2. KGHM ZANAM Sp. z o.o with its head office in Polkowice (acquiring company 2);
3. „Energetyka" sp. z o.o. with its head office in Lubin (acquiring company 3); and
4. The newly founded company which will operate under the name PMT Linie Kolejowe 2 Sp. z o.o., with its head office in Owczary (acquiring company 4).

The division will be carried out by separating assets of the divided company to an already existing company or to a newly founded company. The details of the Division Plan have been made publically available at the website www.pmtrans.pl.

47. Subsequent events (continued)

Extension of repayment date of the working capital loan

In 2015, the Parent Entity has extended the period of utilisation of the working capital loan in the amount of USD 162 million (under the Agreement for a Multipurpose Credit Line with Bank PEKAO S.A.). In the period from 6 January to 3 April 2015, the credit's interest is basd on the LIBOR rate plus a margin. The Agreement states that the working capital loan is available to 8 August 2016.

Recommendation on payment of dividend

On 16 March 2015, the Management Board of KGHM Polska Miedź S.A. resolved to recommend the payment of a dividend from profit for financial year 2014 in the amount of PLN 800 million (or PLN 4 per share).
The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

(amounts in tables in PLN millions, unless otherwise stated)

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Herbert Wirth	President of the Management Board	
16 March 2015	Jarosław Romanowski	First Vice President of the Management Board	
16 March 2015	Marcin Chmielewski	Vice President of the Management Board	
16 March 2015	Jacek Kardela	Vice President of the Management Board	
16 March 2015	Mirosław Laskowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

GROUP

THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE GROUP IN 2014

Lubin, March 2015

Contents of the Management Board's Report on the activities of the Group in 2014

Table 1. Aggregated data of the KGHM Polska Miedź S.A. Group for the years 2007-2014*

Statement of comprehensive income		2007	2008	2009	2010	2011	2012	2013	2014
Sales revenue	PLN mn	13 494	12 655	12 120	17 293	22 107	26 705	24 110	**20 492**
Sales revenue less total costs of products, merchandise and materials sold	PLN mn	4 968	3 162	3 183	6 690	9 402	7 142	4 594	**3 353**
EBITDA	PLN mn	5 124	3 868	3 423	6 389	13 998	8 047	5 952	**5 311**
Profit before income tax	PLN mn	4 757	3 396	2 904	5 778	13 290	6 448	4 235	**3 098**
Profit for the period	PLN mn	3 936	2 766	2 359	4 715	11 064	4 803	3 033	**2 451**
Statement of financial position									
Total assets	PLN mn	13 460	15 000	14 897	21 177	30 554	33 616	34 465	**40 374**
Non-current assets	PLN mn	7 888	9 113	9 808	12 414	12 037	23 762	26 488	**33 569**
Current assets	PLN mn	5 571	5 857	5 090	8 763	18 517	9 854	7 977	**6 805**
Equity	PLN mn	9 502	10 983	10 624	14 892	23 382	21 710	23 064	**25 530**
Liabilities and provisions	PLN mn	3 958	4 017	4 274	6 286	7 172	11 906	11 401	**14 844**
Financial ratios									
Earnings per share (EPS)**	PLN	18.99	14.60	12.70	22.84	56.67	24.34	15.29	**12.07**
Dividend per share (DPS)***	PLN	9.00	11.68	3.00	14.90	28.34	9.80	5.00	**x**
Price per share/ earnings per share (P/E)	x	5.6	1.9	8.3	7.6	2.0	7.8	7.7	**9.0**
Current liquidity	x	2.5	2.7	2.2	2.6	4.2	2.1	1.7	**1.2**
Quick liquidity	x	1.7	2.0	1.3	1.9	3.6	1.3	1.0	**0.6**
Return on assets (ROA)	%	29.2	18.4	15.8	22.3	36.2	14.3	8.8	**6.1**
Return on equity (ROE)	%	41.4	25.2	22.2	31.7	47.3	22.1	13.2	**9.6**
Debt ratio	%	29.4	26.8	28.7	29.7	23.5	35.4	33.1	**36.8**
Durability of financing structure	%	83.3	85.5	84.5	83.9	85.7	85.8	86.4	**86.2**
Production results									
Electrolytic copper production	kt	533	526.8	502.5	547.1	571.0	676.3	666	**662.9**
Metallic silver production	t	1 215	1 193	1 203	1 161	1 260	1 274	1 164	**1 258**
Macroeconomic data (average annual)									
Copper prices on LME	USD/t	7 126	6 952	5 164	7 539	8 811	7 950	7 322	**6 862**
Silver prices on LBM	USD/oz t	13.38	14.99	14.67	20.19	35.12	31.15	23.79	**19.08**
USD/PLN exchange rate	USD/PLN	2.77	2.41	3.12	3.02	2.96	3.26	3.17	**3.15**
USD/CAD exchange rate per Bank of Canada	USD/CAD						1.00	1.03	**1.10**
USD/CLP exchange rate per Bank of Chile	USD/CLP						486.55	495.09	**570.17**
Other data									
Market capitalisation, end of period	PLN/ share	105.8	28.12	106	173	110.6	190	118	**108.85**
Capital expenditures	PLN mn	1 118	1 440	1 362	1 526	2 023	2 516	3 386	**3 635**
Concentrate production cost – C1	USD/lb	1.13	1.58	1.12	1.07	0.63	1.59	1.85	**1.89**

* *since 2012 included data of the KGHM INTERNATIONAL LTD. Group*
** *with respect to KGHM Polska Miedź S.A.*
*** *dividend for the financial year*

Table 2. Significant events in the KGHM Polska Miedź S.A. Group in 2014

EVENT		S/RF *
Advancement of projects		
Sierra Gorda		
30.07.2014	Start of production by the mine	
04.08.2014	Positive decision by the Chilean Supreme Court regarding environmental permits for the Sierra Gorda project	S 4 and 6.1
25.10.2014	First shipment of copper concentrate to a smelter in Japan	
other		
01.04.2014	Start of production from the Deep Głogów area below the level of 1200 m	S 4
03.11.2014	Official start of generation of electricity and heat by gas-steam blocks at the power plants in Głogów and Polkowice	
Agreements/decisions as regards new ventures		
10.01.2014	Agreement with Grupa Azoty Zakłady Azotowe „Puławy" S.A. and Gdańskie Zakłady Nawozów Fosforowych „Fosfory" Sp. z o.o. on assumptions for cooperation regarding exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals as part of a joint venture	RF 1/2014
16.01.2014	Signing of a letter of intent with Grupa Azoty S.A.	RF 3/2014
01.10.2014	Concession received for the exploration for and assessment of potassium-magnesium salts deposits in the vicinity of Puck	S 4
03.09.2014	Signing of a Shareholders Agreement under the project to prepare and build a nuclear power plant	S 4
07.10.2014	Approval of the President of the Office of Competition and Consumer Protection for concentration (regarding the project to prepare and build a nuclear power plant)	RF 28/2014
Corporate decisions		
23.06.2014	Adoption by the Ordinary General Meeting of a resolution on the allocation of profit for financial year 2013	S 3.3
23.06.2014	Change in the composition of the Supervisory Board of the Parent Entity	S 3.1 and 7.3
26.01.2015	Approval by the Supervisory Board of the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020	S 2.7
02.01.2015	Change in the composition of the Management Board of the Parent Entity	S 3.1 i 7.4
Significant agreements		
30.01.2014	Change in a significant contract with Polskie Górnictwo Naftowe i Gazownictwo SA for the purchase of fuel gas	
11.07.2014	Syndicated loan agreement signed for USD 2 500 million	
1.08.2014	Loan agreement signed with the European Investment Bank for PLN 2 000 million	S 5.5
1.12.2014	Contract with Prysmian S.p.A. for the sale of copper wire rod in the years 2015 and 2016	
29.12.2014	Contract with Tele-Fonika Kable S.A. for the sale of copper wire rod in 2015	
Other		
18.07.2014	Conclusion of public consultations regarding development of the Żelazny Most tailings pond	S 4
02.12.2014	Information on the completion of exploratory work in the Gaworzyce-Radwanice concession	S 4
01.01.2015	Regulations come into force in Poland on the taxation of controlled foreign corporations	S 8
26.01.2015	Adoption by the Management Board of the Dividend Policy of KGHM Polska Miedź S.A.	S 8
29.01.2015	Announcement by KGHM Polska Miedź S.A. of a tender for the sale of shares of BIPROMET S.A.	S 8
25.02.2015	Announcement of a division plan for a subsidiary - POL-MIEDŹ TRANS Sp. z o.o.	S 8
16.03.2015	Recommendation of the Management Board of KGHM Polska Miedź S.A. on payment of a dividend from profit for 2014	S 8

** S – section in the Management Board's Report, RF – regulatory filing (aka current report)*

The above table shows important events in the KGHM Polska Miedź S.A. Group in 2014 and to the date of preparation of the Management Board's Report.

1. Introduction

KGHM Polska Miedź S.A. is the Parent Entity of a Group which is a world-class producer of copper and silver with over half a century of experience in the copper ore mining and processing industry. The company owns one of the largest copper ore deposits in the world, has great traditions, rich experience and substantial achievements.

The company's wealth of experience in production technology and the skills of its employees, based on knowledge, enabled the company to develop on an international scale through the friendly takeover in 2012 of the Canadian company Quadra FNX Mining Ltd. (today KGHM INTERNATIONAL LTD.). As a result of this event the KGHM Polska Miedź S.A. Group became a global company, with significant mine resources and production assets on three continents, including the world-class mine project Sierra Gorda in Chile, comprising construction of an open-pit mine on one of the world's largest deposits of copper, molybdenum and gold.

The development strategy is aimed at increasing copper production and strengthening the international position of the Group.

In 2014 the Sierra Gorda project marked a watershed event – the start of production at mid-year followed by the first shipment of copper concentrate to the Toyo Smelter in Japan in October. In addition, our other major resource development projects – Ajax and Victoria – were pushed forward.

A major achievement in terms of our investments in Poland 2014 was the start of production at a level below 1200 meters in the Deep Głogów mining concession. By gaining access to and commencing production from this new area we have prolonged the life of our mining operations in Poland by another 40 years.

In terms of projects aimed at securing the energy needs of KGHM Polska Miedź S.A., in 2014 we commissioned new gas-steam blocks. In addition, the Parent Entity signed a Shareholders Agreement regarding the company PGE EJ 1, which is responsible for the preparation and operation of the first nuclear power plant in Poland.

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

Following is a list of the changes in the Group as a result of implementation of the strategy.

Drawing 1. Changes in the Group in the years 2009-2014

2009	2010	2011	2012	2013	2014
Strategy for the years 2009-2018		*Change in strategy regarding the telecom assets*	***WATERSHED MOMENT***		***Approval of new Strategy for the years 2015-2020****
Join the group of large, global copper producers and increase production to approx. 700 thousand tonnes annually *Investments in telecom assets* *Gradual investment in the energy sector*	*Consistent advancement of the resource base development strategy - the purchase of shares in the Afton-Ajax project* *Intentions to divest the telecom assets*	*Disposal of the telecom assets* *Start of the process to achieve a friendly takeover of Quadra FNX Mining Ltd.*	***Friendly acquisition of 100% of the shares of Quadra FNX Mining Ltd.*** *(today KGHM INTERNATIONAL LTD.)* *Transformation into a global company with substantial assets, including Sierra Gorda*	*Development of resource projects*	*Main goal - achieve annual production capacity of over 1 million tonnes of copper equivalent* *One of the supporting strategies is to secure the Company's energy needs* *Start of production at Sierra Gorda*

**new strategy approved as a result of achievement of key aspects of the strategy from 2009*

2. Profile of KGHM Polska Miedź S.A. Group operations

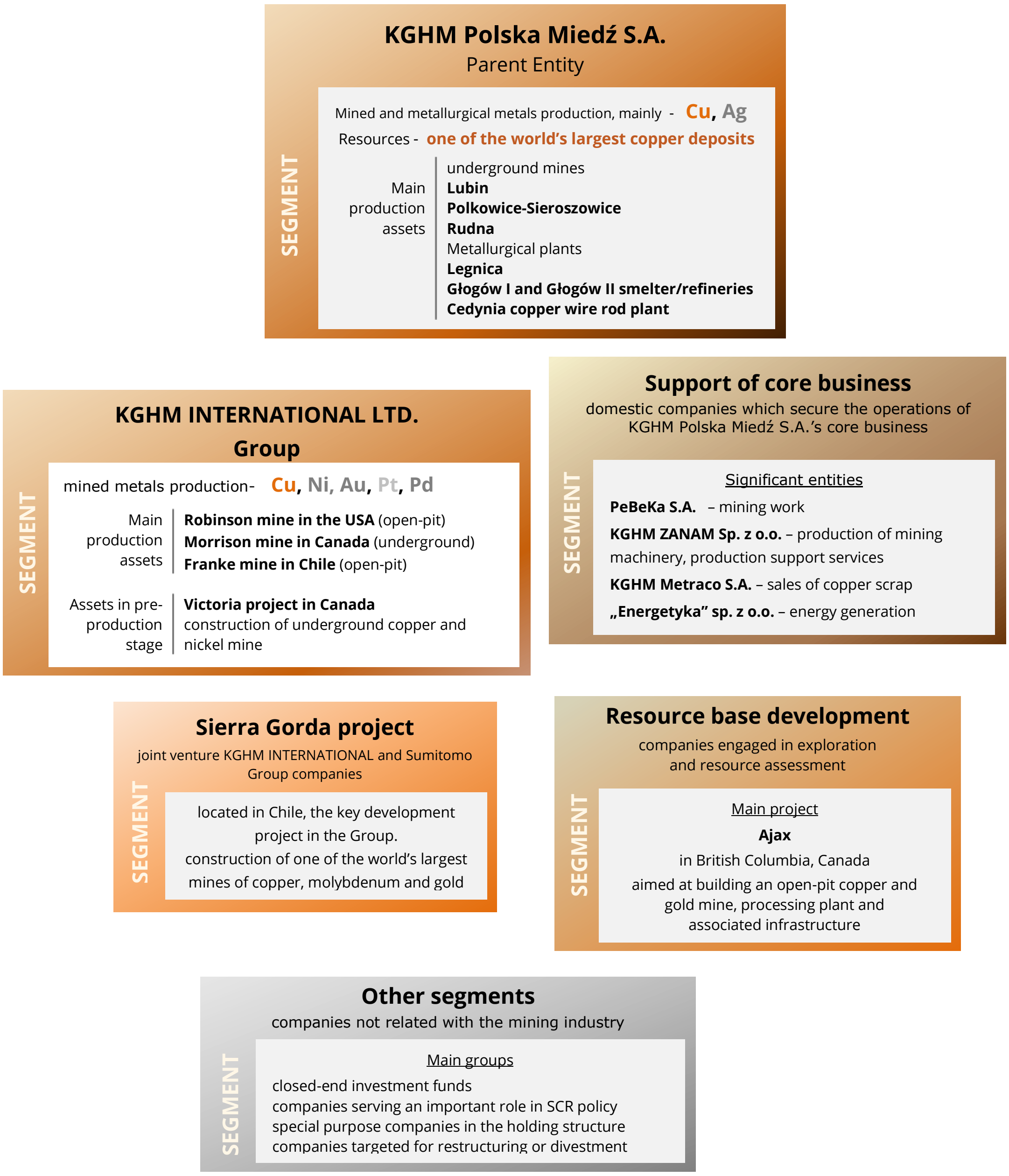
2.1. Group structure and major assets

As at 31 December 2014, the Group was composed of KGHM Polska Miedź S.A. - the Parent Entity, and 75 subsidiaries (including four closed-end, non-public investment funds). Some of these subsidiaries formed their own groups. The largest of these, in terms both of the number of entities as well as the level of equity, was KGHM INTERNATIONAL LTD. It was comprised of 26 subsidiaries. As at the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in three joint ventures - „Elektrownia Blachownia Nowa" sp. z o.o., Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.

Following is a simplified diagram of the Group's structure by operating segments which are independently evaluated by management bodies. Important production assets and projects are shown by segment.

A detailed diagram of the KGHM Polska Miedź S.A. Group showing the relationships between entities may be found in Appendices 1 and 2 to the Management Board's Report.

Diagram 1. Operating segments in the KGHM Polska Miedź S.A. Group as at 31.12.2014



Detailed information on operating segments may be found in point 6.1 of the Management Board's Report.

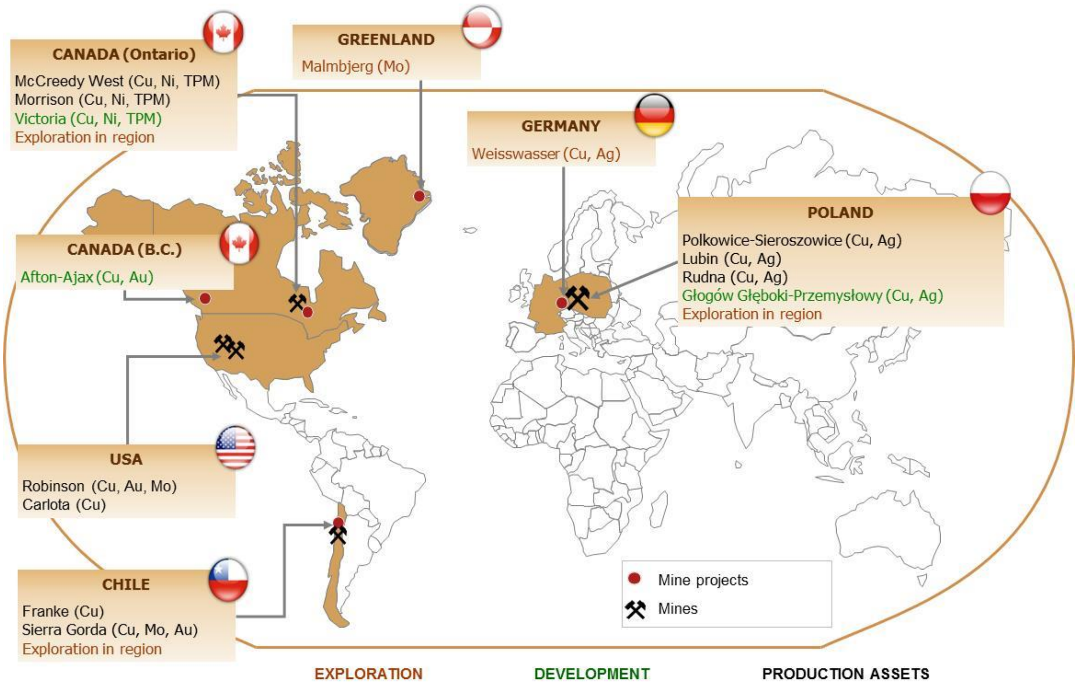
2.2. Principles for managing the Group

In 2014 there were no changes in the principles for managing the Group, which are based on principles adopted in 2012 resulting from the acquisition of foreign mining assets. The internal structures and tools employed in the management process are adapted to the needs arising from the process of integration in the Group and project development.
In 2014, the process began of consolidating debt in the Group by acquiring medium and long-term loans. The consolidation of debt in the Group at the Parent Entity level will enable the achievement of substantial savings in the costs of servicing Group debt, and will enhance the efficiency of liquidity management, simplify the borrowing structure and optimise financial and non-financial covenants in the Group.
In terms of Human Resources (HR), an International Mobility Policy was adopted which codifies the KGHM Group's principles regulating transfers of employees delegated from one Group entity to another based in a different country. The purpose of the Policy is among others to ensure continuity in managing risk (legal, tax-related, immigration, etc.) in the process of delegating employees abroad both from the employee's point of view as well as that of the Group's companies involved in the process.
With respect to the Central Procurement Office, work was carried out aimed at implementing a global procurement system within the Group.

2.3. Group activities, location of mining assets

The Group includes companies involved in the core business, i.e. the mined production of metals (such as copper, silver, nickel, gold, platinum and palladium), exploring for and assessing depoits of copper and other metals, and companies which support the core business, for example companies which provide services involving mine construction, transportation, the production of mining machinery and equipment, the generation of electricity and heat, the production of explosives and also research and development. Other companies which are not related to the core business provide services in fields such as health care and cash investment. Details on the activities of Group companies may be found in Appendix 3 to the Management Board's Report.
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 phase at varied stages of development, as well as exploration projects. The most important development project - Sierra Gorda – is located in Chile. This is a joint project of KGHM INTERNATIONAL LTD. and companies from the Sumitomo Group.

Drawing 2. Location of mining assets of the KGHM Polska Miedź S.A. Group



TPM – precious metals (gold, platinum, palladium)

2.4. Major investment and development programs in the Group

In 2014, the Parent Entity continued to advance its two main investment projects:

Deep Głogów – aimed at maintaining mined output stability

The mining of the Deep Głogów deposit ensures stable long-term mine production by KGHM Polska Miedź S.A. (to 2042) and the optimal utilisation of production capacity.

Completion of the project is expected in 2026.

Expenditures incurred on the project in 2014: PLN 416 million.

Pyrometallurgy Modernisation Program – aimed at enhancing global metallurgical competitiveness

This investment program involves integration of the metallurgical structure. This will provide economic benefits – a decrease in the unit processing cost, higher revenues from the sale of additional amounts of silver, rhenium and refined lead and a decrease in environmental impact.

The completion of construction and assembly work is planned in 2016.

Expenditures incurred on the project in 2014: PLN 484 million.

In 2014 work continued on the main resource base development projects in the Group.

The Sierra Gorda project in Chile
(KGHM Polska Miedź S.A. Group 55%, Sumitomo Group companies 45%)

Construction of one of the world's largest open-pit mines of copper, molybdenum and gold.

Production commenced in mid-2014. Achievement of full phase I production capacity (an average of 120 thousand tonnes of copper per year) is expected in mid-2015.

Expenditures incurred on the project in 2014 amounted to PLN 6 081 million, of which the 55% interest held by the KGHM Polska Miedź S.A. Group accounted for PLN 3 343 million.

Victoria project in Canada

Construction of an underground mine of copper, nickel and platinum group metals.

Shaft sinking is expected to begin in the second quarter of 2016 and last to 2019.

Production is planned to begin in 2020, with full production capacity in 2022. Expected average annual production amounts to 16 thousand tonnes of Ni, 15 thousand tonnes of Cu and 100 thousand ounces of precious metals.

Expenditures incurred on the project in 2014 amounted to PLN 204 million.

Ajax project in British Columbia, Canada
(KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%)

The project involves the construction of an open-pit copper and gold mine and an ore processing plant, with associated infrastructure.

The new project schedule assumes that applications for the environmental permits will be submitted in the first half of 2015, with the start of mine plant construction in the second half of 2016. The company expects that production of the first copper concentrate from the mine will take place at the end of 2018. Expected average annual production amounts to 50 thousand tonnes of Cu and 100 thousand ounces of precious metals. (80% share of the Group in expected average annual production - 40 thousand tonnes of Cu, 80 thousand ounces of precious metals).

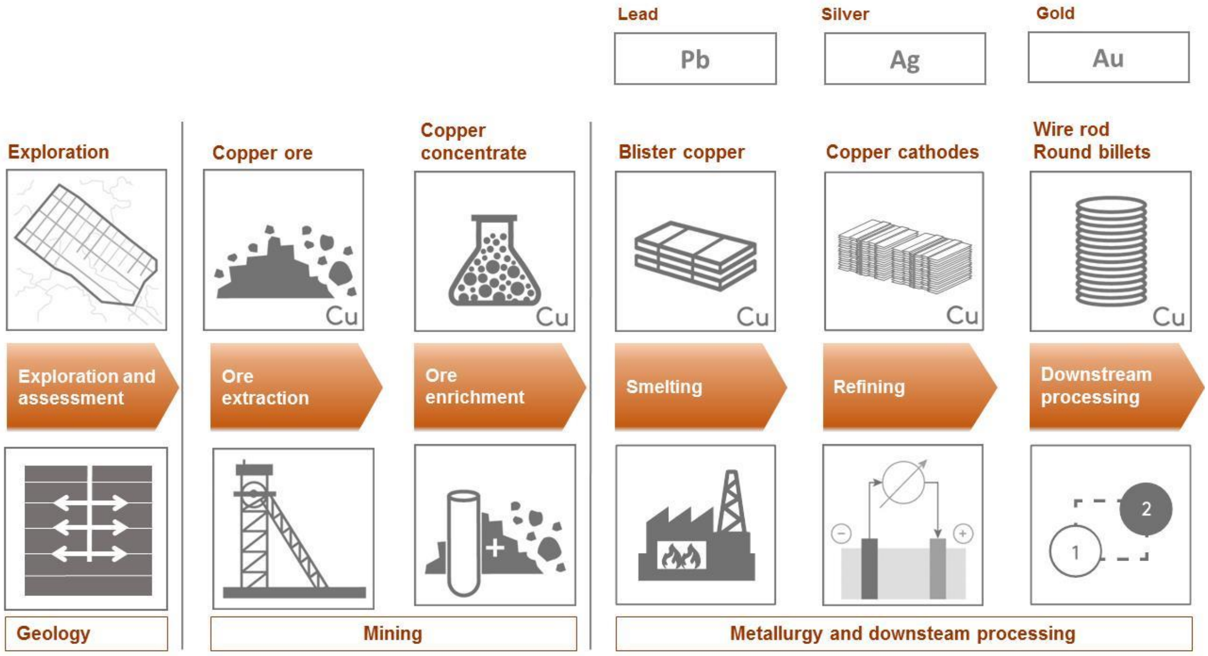
Expenditures incurred on the project in 2014 amounted to PLN 168 million.

Detailed information on progress in these investments may be found in Section 4 of the Management Board's Report.

2.5. Production processes

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

Diagram 2. Integrated mining, processing, smelting and refining process (KGHM Polska Miedź S.A.)



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

Mining

The technology of mining the copper ore in all 3 mines is based on the room-and-pillar system with the use of blasting for ore extraction. The mined ore is transported to storage areas near the shafts, from where it is sent by skip hoisting shafts to the surface. After the ore is unloaded at the shaft top, it is transported by conveyor belts or railway to the processing plants located at each of the three mines.

The operations and processes applied at each of the three concentrators are similar. The enrichment technologies applied include the following individual operations: screening and crushing, milling and classification, flotation and drying of the concentrate.

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

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

The tailings, in liquid form, are transported through pipelines to the Żelazny Most tailings pond, where the sedimentation of the solid particles takes place and clarified water is collected and redirected to the ore processing plants. The storage site also serves as a retention-dosage reservoir for excess mine water. Excess water is periodically discharged to the Odra River.

Metallurgy

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

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

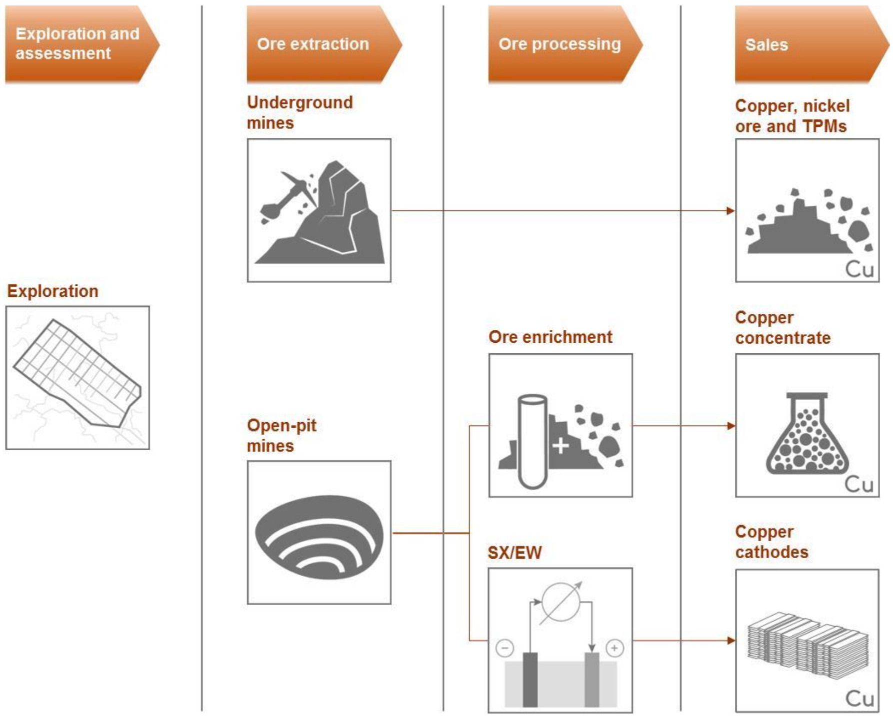
The Głogów II smelter applies flash furnace technology based on a modified license from the Finnish company Outokumpu. This technology combines two stages into one: the smelting of the matte copper and its converting. The blister copper containing around 99% Cu is processed in anode furnaces, while the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

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

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

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

Diagram 3. Operational flowchart (KGHM INTERNATIONAL LTD. Group)



The core business of the KGHM INTERNATIONAL LTD. Group is the mined production of metals, such as copper, nickel, gold, platinum and palladium, from both open-pit as well as underground mines.

The open-pit mines Carlota in the USA and Franke in Chile process their ore using SX/EW technology (involving leaching of the ore on heaps, extraction of the resulting solvent and its preparation for electrowinning followed by electrorefining to produce metallic copper). The end product is electrolytic copper in the form of cathodes.

The open-pit mine Robinson in the USA processes the ore it mines and sells the resulting concentrate with a copper content of above 20%. The mine also produces a small quantity of molybdenum concentrate.

The underground mine McCreedy West and the Morrison mine in Canada sell for processing the ore they extract, containing copper, nickel, gold, palladium and platinum.

The Sierra Gorda open-pit mine in Chile processes the ore it extracts and sells copper concentrate containing around 30% copper, as well as molybdenum concentrate, as a final product.

2.6. Employment in the Group

The level and structure of employment in the KGHM Polska Miedź S.A. Group is presented below.

Table 3. Average employment by period *(positions)*

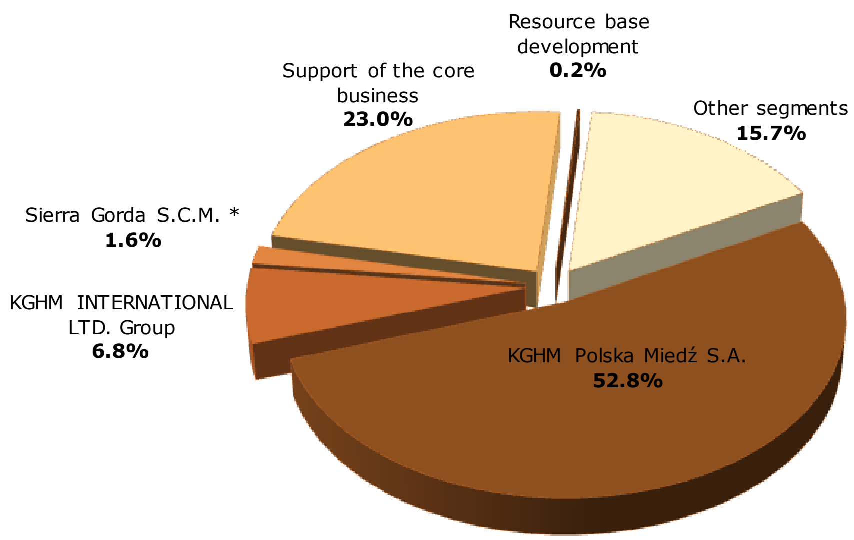
Description	2013	2014	Change 2013=100
White collar employees	10 033	**10 190**	101.6
Blue collar employees	24 419	**23 907**	97.9
Total	**34 452**	**34 097**	**99.0**

In 2014, average employment in the KGHM Polska Miedź S.A. Group was lower versus 2013 by 355 positions (1%), due to a decrease in employment in blue collar positions.

The largest drop in employment was in the Parent Entity, by 279 positions (1.5%) and was due to natural movements in staff.

The following chart shows employment in the KGHM Polska Miedź S.A. Group by segment.

Chart 1. Structure of employment by segment in 2014



* *employment proportional to share in the company (55%)*

Workplace safety

The life and health of employees and workplace safety in general is the chief priority in the hierarchy of values of KGHM Polska Miedź S.A. In 2014, we began to implement a unified workplace safety and hygiene policy: „Program to improve workplace safety in KGHM Polska Miedź S.A. to the year 2020". The Program is based on best practices currently applied by individual divisions, and was consulted with public labour inspectors as well as with the trade unions which signed the Collective Labour Agreement. The Program, which includes actions aimed at altering attitudes and behaviors, improving education and skills, workplace environment and health, is aimed at:

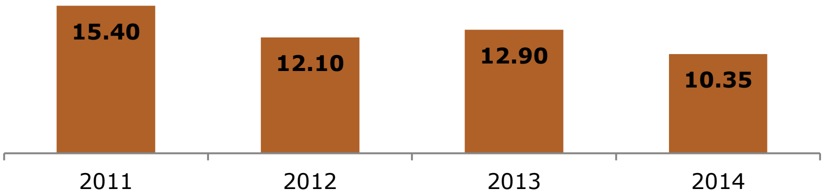
- decreasing the LTIFR ratio (the number of accidents per million worked hours),
- improving safety culture,
- raising the quality of training,
- wider participation by employees in efforts to improve safety,
- recording potential accident-inducing events and their elimination,
- implementing a coordinated program to promote health,
- implementing new types of personal protective equipment, and
- optimising costs related to occupational health and safety.

Amongst the most hazardous and life-threatening events involving employees in the mines of KGHM Polska Miedź S.A. are the natural hazards asociated with the underground mining of copper ore. In particular, hazards related to seismic tremors and their potential effects in the form of roof and wall collapses are considered as particularly important from the safety point of view, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with breaks in production. KGHM Polska Miedź S.A. maintains on-going seismic observations in its mines based on a well-developed network of underground and surface-based seismic monitoring stations, encompassing all of the company's active mining areas.

Actions are also undertaken to limit the threat of tremors and roof collapses, for example through careful planning of mining operations (selecting the size and shape of rooms and of inter-room pillars, the most advantageous direction of mine advance and the optimum order of extracting the ore to minimise local concentrations of stress), the systematic provocation of the rock mass by group blasting of mine faces and by blasting to relieve stress in the orebody and its flooring. To minimise risk, blasting is only performed between shifts, when there are no people in the areas at the mining faces, and to ensure safety after blasting, strong rock mass tremors, de-stressings and roof collapses, waiting times are strictly enforced.

The impact of these activities is reflected in the systematic drop in the LTIFR ratio.

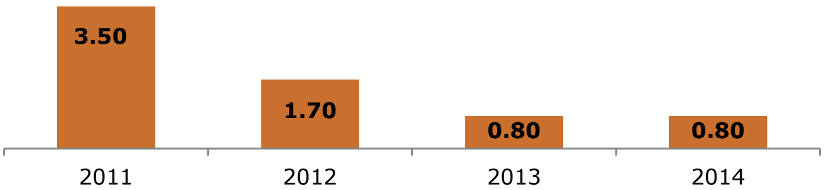
Chart 2. Lost-time injury frequency rate in the Parent Entity *(accidents per million worked hours)*



In KGHM INTERNATIONAL LTD. a „Zero Harm" culture is practiced both by employees and clients, as well as in terms of the company's impact on local communities. The quality of the workplace health and safety standards applied by KGHM INTERNATIONAL LTD. is continuously being raised, supported by the generally-recognised principle of joint accountability by all employees at every stage of safety management. Annual safety goals are set and monitored, utilising risk assessment techniques to define and control hazards so as to mitigate their potential impact.

The impact of these activities is reflected in the systematic drop in the TRIR ratio.

Chart 3. Total Recordable Injury Rate *(accidents per 200 thousand worked hours)*



Due to the use of different accident frequency ratios by KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD., work has begun to unify the statistical safety ratios used.

Major Human Resources-related projects

In 2014 the following HR-related initiatives and strategic projects were carried out:

- employee mobility,
- talent management,
- results management.

With respect to the **employee mobility** project, the Mobility Policy was adopted, and tools and products related to mobility management procedures were developed. At present the mobility policy is being implemented in Group companies along with the unification of procedures and practices on a global scale.

The Mobility Policy sets forth the principles in force in the Group regulating transfers of employees delegated from one Group entity to another based in a different country. The purpose of the Policy is to:

- define consistent principles regulating international transfers when delegating employees abroad, their remuneration (including delegation-related benefits) and the treatment of taxation issues,
- ensure that the principles applied conform to the business needs of the KGHM Group and comply with best market practice in this regard,
- define the breakdown of duties at all stages of the process of delegating employees abroad between the affected companies of the KGHM Polska Miedź S.A. Group,

– ensure continuity in managing risk (legal, tax-related, immigration, etc.) in the process of delegating employees abroad both from the employee's point of view as well as that of the Group's companies involved in the process.

The process of talent management is aimed at ensuring the availability of human resources required to meet business challenges of KGHM Polska Miedź S.A., by the identification and development of future leaders – both in leadership roles as well as experts.
In 2014, key existing and newly-confirmed roles were identified in the company as well as employees with high potential who could potentially be the successors for these roles in the future.

With respect to continued implementation of the process of management by goals in KGHM Polska Miedź S.A., which will eventually encompass all employee groups and thereby create a framework for dialogue between the Management Board and management staff, implementation was continued through lower levels in the company.

Relations with the trade unions

The major events involving relations with the trade unions in 2014 are described below.

KGHM Polska Miedź S.A.

On 28 January 2014, the parties signed Additional Protocol No. 15 to the Collective Labour Agreement (CLA) for the Employees of KGHM Polska Miedź S.A., based on which the following took affect:

– an increase in the table of basic wages for categories by 2.4% from 1 January 2014,
– a 4.5% increase in the additional contribution to the social fund, most of which is to be used for financing day care and pre-school fees, and
– a change in Appendix no. 11 to the CLA regarding changes in the method of calculating the annual bonus from profit.

On 17 June 2014, an agreement was entered into between KGHM Polska Miedź S.A. and the trade unions regarding equalisation of the wage factor for 2013 by an increase in the annual bonus by 0.8 percentage points.

The signing of the aforementioned additional protocol and agreement also enabled the conclusion of the collective dispute initiated in 2013 by the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego.

Other domestic companies

„MCZ" S.A. - This company remains in four collective disputes announced in 2007 mainly involving the question of wage raises. As a result of agreements between the trade unions and the Management Board of the company, the parties agreed that subsequent negotiations regarding the question of employee wages would be held on 15 September 2015.

PeBeKa S.A. - Since March 2010, the company has been in a collective dispute with the trade union Związek Zawodowy Pracowników Dołowych, which is demanding an increase in wage categories for employees, 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. – An agreement was signed concluding the collective dispute from 2010.

POL-MIEDŹ TRANS Sp. z o.o. - This company remains in a collective dispute with one of the trade unions in the company, initiated in November 2013. The trade union's demands mainly involve questions of remuneration. Negotiations were held from December 2013 to April 2014 and were concluded with the signing of a protocol of dispute and the selection of a mediator.

Due to the planned breakup of POL-MIEDŹ TRANS Sp. z o.o. and the transferal of selected organised parts of the company to other entities within the KGHM Polska Miedź S.A. Group and the planned change in the ownership structure of the company, since August 2014 consultations have been held with trade union representatives, who regularly receive information on subsequent stages of the project.

KGHM INTERNATIONAL LTD. Group

In the Franke mine belonging to the KGHM INTERNATIONAL LTD. Group, negotiations were concluded with trade union no. 1 and a collective labour agreement was signed. Negotiations with the trade union were conducted without interruption to the operations.

2.7. Strategy for the years 2015-2020

On 26 January 2015, the Supervisory Board of the Parent Entity adopted the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 as submitted by the Management Board.

Adoption of the Strategy is connected with the early completion of key provisions of the previous Strategy, which was approved in February 2009.

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

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

The Strategy for the years 2015-2020 with an outlook to 2040 is based on the three main pillars described in the following diagram:

Diagram 4. Pillars of the Strategy for the years 2015 – 2020

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

Strategic Pillar	
Pillar I	**Resource Base Development** As part of its exploration and acquisition activities, the Parent Entity plans to replace every mined tonne of copper with three tonnes of copper in new resources. This will ensure the long-term operational prospects of the company and an enhanced position on the cost curve. KGHM Polska Miedź S.A. will concentrate on exploration in areas near the company's current operations and on the search for low-cost assets in geopolitically-stable regions. The planned development of KGHM's resource base will ensure long-term mining activities and secure higher production volume.

Pillar II	**Production Assets Development** According to the Strategy, the company plans to invest PLN 27 billion over the period from 2015 to 2020. These funds will be allocated to developing the current portfolio of investment projects, mainly including programs to develop the core business in Poland and those leading to the operational commissioning of resource projects in Poland and abroad (Deep Głogów, Victoria, Sierra Gorda phase II, Sierra Gorda oxides project and Ajax). Completion of its investment projects will enable a substantial increase in Group production capacity and enhance its position on the global cost curve of copper producers. KGHM Polska Miedź S.A. is committed to efficiently allocating financial resources and developing projects which have the highest rate of return.
Pillar III	**Optimising production** KGHM Polska Miedź S.A. aims to ensure stable production levels while optimising production costs and maintaining the highest safety standards. Under the Strategy for the years 2015-2020 the company plans to increase the annual volume of mined ore from the mines of KGHM Polska Miedź S.A. in Poland. Moreover, the company plans to achieve full phase I production capacity by the Sierra Gorda project, i.e. 110 thousand tonnes of ore processed per day by mid-2015. Under the new strategy KGHM Polska Miedź S.A. plans to commence phase II of the project and to commence processing of the oxide ore from the Sierra Gorda mine, which will increase efficiency and ensure higher copper production from the mine.

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

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

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

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

The Strategy was developed based on the following assumptions:

- average copper price in the period 2015–2020 of 7 600 USD/t (in 2015 - 6 800 USD/t),
- average silver and molybdenum prices in the period 2015–2020 respectively 21 USD/oz t (in 2015 – 18 USD/oz t) and 12 USD/lb (in 2015 – 12 USD/lb),
- average assumed exchange rate of the PLN versus the USD in the period 2015–2020 of PLN 3.00 (in 2015 – PLN 3.30)

In 2015 KGHM Polska Miedź S.A. will focus on achieving the following priorities under the Strategy:

Exploration work	– planned exploration work in the Głogów, Retków-Ścinawa, Synklina Grodziecka, Konrad, Weisswasser II, Stojanów and Puck concessions – exploration work on the mining assets outside Poland, in particular Sierra Gorda and Ajax
Sierra Gorda Project	– achievement of target phase 1 production capacity - 110 kt of ore per day – completion of the feasibility study for the oxide ore project
Victoria Project	– preparations for shaft sinking
Ajax Project	– submitting an application for environmental permits
Pyrometallurgy Modernisation Program	– receiving technical approvals and construction permits – completion of the design phase with executory documentation – completion of the construction and development of the Flash Furnace and Electrical Furnace halls
Żelazny Most Development Project	– receipt of legally-binding Municipal Area Management Plans for the municipality of Polkowice to allow construction to begin – receipt of permits to develop the Main Facility to a crown height of 185 m a.s.l. in the municipalities of Rudna and Grębocice
Value Creation Plan	– implementation of initiatives in Poland and abroad
Workplace safety	– further improvement in the workplace safety ratio (LTIFR)
Financing of operations	– continued consolidation of financing in the Group to reduce the average weighted cost of capital
Innovation policy	– research projects, including the mechanical mining of ore

Strategy implementation

An integral part of the Strategy is the Strategic Management Procedure in KGHM Polska Miedź S.A. which defines the process of implementation. In 2015 the company plans to develop a detailed Strategy Implementation Plan for the company's new strategic outlook for the years 2015-2020 based on the adopted structure for breaking down the main strategy into executory strategies in the core business and strategies supporting the company's core business. The Strategy Implementation Plan will define the initiatives and associated projects as well as strategic actions which are key to achieving the strategic goals arising from the executory and supporting strategies, including a performance schedule and the allocation of required resources. The Strategy Implementation Plan will form the basis for monitoring and assessing achievement of the Strategy of KGHM Polska Miedź S.A. It is assumed that the Strategy Implementation Plan will be updated on an annual basis, in order to synchronise its work with the company's adopted budgetary process.

3. Parent Entity

3.1. Parent Entity governance

Management Board

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Management Board are appointed and dismissed by the Supervisory Board. The composition of the 8th-term Management Board of KGHM Polska Miedź S.A. in 2014 was as follows:

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

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

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

Herbert Wirth – President of the Management Board

Joined the Management Board of KGHM Polska Miedź S.A. in 2008. Since 2009 he has served as the President of the Management Board.

A graduate of the AGH University of Science and Technology in Kraków. Obtained the title doctor habilitatus in 2012. He completed among others postgraduate studies at the George Washington University School of Business and Public Management, obtaining a Master's Certificate in Project Management.

Since 1998 he has been involved with the KGHM Polska Miedź S.A. Group, initially with the research company Centrum Badawczo – Projektowe Miedzi „CUPRUM" (today KGHM CUPRUM sp. z o.o. – CBR) in Wrocław, since 2002 with the Parent Entity of the Group, with a one-year break when he served as Vice President of KGHM CUPRUM sp. z o.o. – CBR.

He was a winner in the competition „Best Managers in 2011", was awarded the title Visionary of the year for 2012 and was amongst the best company presidents during the economic crisis.

Since 2011 he has been a foreign member of the The Royal Swedish Academy of Engineering Sciences (IVA) and a member of the advisory team to the Polish Academy of Sciences.

He is also a member of the Honorary Conventions of AGH University of Science and Technology in Kraków, Wrocław University of Technology, Wrocław University of Environmental and Life Sciences and Wrocław University of Economics, among others.

He serves as Vice President of Pracodawcy Rzeczypospolitej Polskiej (Employers of Poland).

The President of the Management Board of KGHM Polska Miedź S.A. is responsible for supervising:

- the initiation, development and updating of the Main Strategy,
- activities related to comprehensive risk management at the corporate level as well as internal auditing and controlling within the Group,
- activities related to communications and corporate image-building within the Group,
- on the Founder's behalf - the functioning of the Fundacja Polska Miedź (Polish Copper Foundation) as well as other organisations serving the public (as defined by Polish law) which support achievement of the Group's business goals,
- the shaping of human resources policy within the Group, and
- activities related to developing the company's resource base and the work of the Central Procurement Office.

Jarosław Romanowski – First Vice President of the Management Board (Finance)

On the Management Board of KGHM Polska Miedź S.A. since September 2013.

A graduate of Poznań University of Economics with a specialisation in International Business. He has completed many prestigious courses in the field of international finance, risk management and valuation of companies.

Involved with KGHM Polska Miedź S.A. since 1996. He has participated in a number of strategic projects, including the creation of the market risk management department, organizing the refinancing of a syndicated loan (PLN 2.3 billion), contributing to the company's commercial policy, and leadership of the mergers and acquisitions team responsible for the acquisition of Quadra FNX.

He has held a variety of positions, among others: Director of Market Strategy from 1998, Executive Director for Finance from 2003, General Director of Trade and Hedging from 2006, and Vice President of KGHM INTERNATIONAL LTD. (Canada) from 2012. From 2003 - 2006 he served as Vice President, Chief Financial Officer for Tele-Fonika Kable S.A.

He currently holds the position of Chairman of the Board of Directors of KGHM INTERNATIONAL LTD. and of KGHM AJAX MINING INC.

The First Vice President of the Management Board (Finance) is responsible for supervising:

- the shaping of Group financial policy,
- finances in all of the Group's operations and activities,
- the creation of Group tax policy,
- the company's accounting services,
- the shaping of the company's portfolio of products and services, and
- the shaping of the company's commercial policy.

Marcin Chmielewski – Vice President of the Management Board (Corporate Affairs)

On the Management Board of KGHM Polska Miedź S.A. since September 2013.

Responsible for managing business relations and tasks related with corporate governance in the Group.

A graduate of Opole University of Technology, Faculty of Civil Engineering. Completed postgraduate studies in Banking and Finance at the University of Warsaw and Managing Company Value at the Warsaw School of Economics.

In the years 2011–2013 he was President of the Management Board of KGHM TFI SA. Previously, from 1992 - 2011 he worked in corporate banking, among others Bank Pekao SA, Dresdner Bank, DZ Bank, Bank BGŻ SA, from the positions of customer advisor to Regional Director.

While working as Managing Director of the Bank KBL Luxembourg he completed a series of courses in Luxembourg in the field of asset management of investment funds.

The Vice President of the Management Board (Corporate Affairs) is responsible for supervising:

- the shaping of the company's portfolio of production and equity assets, as well as overall corporate supervision over the Group's subsidiaries,
- compliance with corporate governance standards,
- analitycal support with respect to equity investments,
- the means used to shape relations with the company's external business environment (with current and potential investors),
- the level of compliance with formal reporting and publishing obligations within the scope required by law,
- the restructurisation and transformation of the Group,
- the integration of acquired entities with other entities in the Group,
- the development, updating and monitoring of the Group's equity investment plan.

Jacek Kardela – Vice President of the Management Board (Development)

On the Management Board of KGHM Polska Miedź S.A. since September 2013.

A graduate of the University of Wrocław, Faculty of Social Sciences. Completed Executive Doctoral Business Administration studies at the Institute of Economics (PAN) in Warsaw. He completed his MBA at the Warsaw School of Economics and postgraduate studies in Business Management at Wrocław University of Economics, and Production Management at the AGH University of Science and Technology in Kraków.

Associated with the KGHM Polska Miedź S.A. Group since 1998. He has held the position of President of the Management Board at various companies, including CBJ Sp. z o.o., KGHM ZANAM Sp. z o.o. and Zagłębie Lubin S.A.

He has also had experience in municipal companies. He serves as Chairman of the Supervisory Board of KGHM ZANAM Sp. z o.o.

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

- the development and implementation of management standards related to carrying out the Main Strategy,
- the conduct of projects with respect to tangible investments and R&D,
- progress in projects other than R&D and tangible investments,
- management of the company's property and real estate.

Wojciech Kędzia** (to 31 January 2015), **Mirosław Laskowski** (from 1 February 2015) **– Vice President of the Management Board (Production)

Responsible for managing the process of manufacturing the company's products and services and supervises production operations in the Group's subsidiaries, and is also responsible for acquiring, building and maintaining in readiness the production assets, in particular with respect to the tasks of workplace safety and control of environmental risk.

A graduate of Wrocław University of Technology. Doctor of Economics. Completed post-graduate studies in hydrometallurgy at the Chemistry Faculty of Wrocław University of Technology and Postgraduate Management Studies in the area of market economy organisation and management at Wrocław University of Economics.

Involved with KGHM since 1992. He climbed the entire career ladder, from the position of head miner, through director of a department for analyses and monitoring of production, to Vice-President of the Management Board.

Was chairman of the Supervisory Boards of PeBeKa S.A. and KGHM ZANAM Sp. z o.o. and a member of the Board of Directors of KGHM INTERNATIONAL LTD.

Since the beginning of his career he has been involved with KGHM. He has worked at every level of the career ladder, and served in his last position – as Director of the Rudna mine – in the years 2010 – 2015.

He is a graduate of Wrocław University of Technology, Mining Faculty, with a specialisation in deposit mining technology as well as post-graduate studies at Wrocław University of Economics in organisational and financial management. He has completed the ICAN Institute's Leadership and Innovation Academies as well as the TenStep Project Manager Certification at the TenStep Academy in Warsaw.

The Vice President of the Management Board (Production) is responsible for supervising:

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

Supervisory Board

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Supervisory Board are appointed and dismissed by the General Meeting. As at 1 January 2014, the composition of the 8th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows:

- Aleksandra Magaczewska - Chairwoman,
- Krzysztof Kaczmarczyk - Deputy Chairman,
- Marek Panfil - Secretary,
- Andrzej Kidyba,
- Iwona Zatorska – Pańtak,
- Jacek Poświata

including the following employee-elected member:
- Bogusław Szarek.

On 23 June 2014, the Ordinary General Meeting appointed the 9th-term Supervisory Board. The composition of the Supervisory Board as at 31 December 2014 was as follows:
- Marcin Moryń - Chairman,
- Tomasz Cyran - Deputy Chairman,
- Bogusław Stanisław Fiedor,
- Jacek Poświata,
- Andrzej Kidyba,
- Barbara Wertelecka-Kwater

including the following employee-elected members:
- Bogusław Szarek - Secretary
- Józef Czyczerski,
- Leszek Hajdacki.

Remuneration of members of bodies of the Parent Entity and of other key managers 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 remuneration in the industrial sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Chief Statistical Office. Payment of the variable salary is contingent on the fulfilment of criteria (tasks) set by the Supervisory Board, and is contingent upon achievement by the Members of the Management Board of key performance indicators (KPI) and amounts to up to 40% of the annual basic salary.

The employment contracts with Management Board Members also regulate the following matters:
- coverage by the company of costs required for the proper performance of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred 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); and
- 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).

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.

The contracts signed with Members of the Management Board forbidding any activities which would represent a conflict of interest with KGHM stipulate that, for adherence to such contracts, within a period of 12 months from the date of termination of employment in KGHM – regardless of the cause of termination – the 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.

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 4. Remuneration of the Parent Entity Management Board for 2014 *(in PLN thousands)*

Management Board Member	Period when function served in 2014	Fixed remuneration	Variable remuneration**	Benefits due to termination of employment contracts	Other benefits and earnings***	Total earnings in 2014
Members of the Management Board serving in the function as at 31 December 2014						
Herbert Wirth	1.01-31.12	1 442	560	-	275	**2 277**
Jarosław Romanowski	1.01-31.12	1 297	194	-	232	**1 723**
Wojciech Kędzia	1.01-31.12	1 153	450	-	220	**1 823**
Jacek Kardela	1.01-31.12	1 153	142	-	207	**1 502**
Marcin Chmielewski	1.01-31.12	1 154	156	-	212	**1 522**

Management Board Member	Period when function served in 2014	Fixed remuneration	Variable remuneration**	Benefits due to termination of employment contracts	Other benefits and earnings***	Total earnings in 2014
*Other Members of the Management Board**						
Włodzimierz Kiciński	-	324	-	561	50	**935**
Adam Sawicki	-	288	-	378	25	**691**
Dorota Włoch	-	288	-	346	35	**669**
Total		**7 099**	**1 502**	**1 285**	**1 256**	**11 142**

* *fixed and variable remuneration includes remuneration during the period of employment termination, which in 2014 amounted to PLN 900 thousand (in 2013: PLN 1 144 thousand)*

** *variable remuneration includes: settlement of the variable remuneration for 2013 and prepayments on variable remuneration (in quarterly periods) for 2014*

*** *other benefits and earnings include additional monetary benefits, including life insurance, contributions to the Employee Retirement Fund and financing of non-monetary benefits.*

Potentially-due remuneration due to variable remuneration for 2014 is presented in the following table.

Table 5. Potentially-due remuneration of the Parent Entity Management Board for 2014 *(in PLN thousands)*

Name	Position	Potentially-due remuneration for 2014
Herbert Wirth	President of the Management Board	577
Jarosław Romanowski	First Vice President of the Management Board	519
Wojciech Kędzia	Vice President of the Management Board	461
Jacek Kardela	Vice President of the Management Board	461
Marcin Chmielewski	Vice President of the Management Board	459

Performance-related bonus system

KGHM Polska Miedź S.A. has developed a system of Management by Objectives in which top managers of the company receive bonuses based on their performance. The system is based on the following principles and regulations:

– STIP - Short-Term Incentive Plan – principles for setting and granting annual bonuses for executive directors of the Divisions and for directors assigned to specific matters in the Divisions, as well as for executive directors and directors of departments in the Head Office of KGHM Polska Miedź S.A.,

  This system is based on collective, individual and task-related KPIs which were derived from the priorities of the Management Board for 2014 as set by the Supervisory Board, as well as on goals arising from the company's strategy. The STIP System comprises an 85 person management group in the company.

– LTIP - Long-Term Incentive Plan – a long-term incentive program for executive directors in the Divisions and for directors responsible for individual matters in the Divisions, as well as for executive directors in the Head Office of KGHM Polska Miedź S.A. for the years 2013-2016.

The main assumption of the program is to directly link the main long-term strategic goal of increasing the company's value with the system of remunerating key management directors. This concept assumes setting target amounts under the market indicator TRS (Total Return to Shareholders) and individual indicators related to long-term strategic goals. The LTIP System comprises 49 directors, during the period from 1 July 2013 to 30 June 2016.

The aforementioned bonus systems are included in the process of Management by Objectives, which will gradually encompass a wider group of employees, creating in this way a dialogue between Management and managing staff.

Supervisory Board remuneration

The remuneration of members of the Supervisory Board 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 and is set as a multiple of the gross average monthly remuneration in the industrial sector excluding payments from profit, for the last month of the previous quarter.

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

Table 6. Remuneration of the Parent Entity Supervisory Board for 2014 *(in PLN thousands)*

Supervisory Board Member	Period when function served in 2014	Remuneration for function served on SB	Earnings from other contracts*	Other Benefits**	Total earnings in 2014
Krzysztof Kaczmarczyk	01.01-23.06	52	-	4	**56**
Aleksandra Magaczewska	01.01-23.06	59	-	2	**61**
Jacek Poświata	01.01-31.12	97	-	2	**99**
Bogusław Szarek	01.01-31.12	96	213	13	**322**
Andrzej Kidyba	01.01-31.12	96	338	18	**452**
Iwona Zatorska-Pańtak	01.01-23.06	48	-	-	**48**
Marek Panfil	01.01-23.06	48	18	5	**71**
Tomasz Cyran	23.06-31.12	54	-	10	**64**
Barbara Wertelecka-Kwater	23.06-31.12	49	-	3	**52**
Marcin Moryń	23.06-31.12	60	-	3	**63**
Józef Czyczerski	23.06-31.12	49	74	2	**125**
Bogusław Stanisław Fiedor	23.06-31.12	49	-	3	**52**
Leszek Hajdacki	23.06-31.12	49	84	6	**139**
Total		**806**	**727**	**71**	**1 604**

** earnings from other contracts include remuneration due to labour contracts in the Divisions of KGHM Polska Miedź S.A. and remuneration due to serving on the supervisory bodies of Group subsidiaries.*
*** other benefits include travel costs and financing of non-monetary benefits.*

Remuneration of other key managers of the Group

Table 7. Remuneration and other benefits of remaining key managers

	2013	2014
Remuneration and other benefits of remaining key managers (in PLN thousands)*	5 229	5 412

** other key managers of the Group is understood as being the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD.*

Detailed information on the remuneration of members of the Management Board and Supervisory Board of KGHM Polska Miedź S.A. may be found in Note 41 of the Consolidated Financial Statements.

3.2. Share capital and ownership structure of the Parent Entity

As at 31 December 2014, the share capital of KGHM Polska Miedź S.A., in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The company has not issued preference shares.

There was no change in either registered share capital or in the number of issued shares in 2014.

As far as the Management Board is aware, there was also no change in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. during the same period. The only shareholder who as at 1 January 2014 as well as at 31 December 2014 held a number of shares granting the right to 5% or more of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the Polish State Treasury.

The company's shareholder structure as at 31 December 2014 and at the date of signing of this report is as follows:

Table 8. Shareholder structure as at 31 December 2014 and at the date of signing of this report

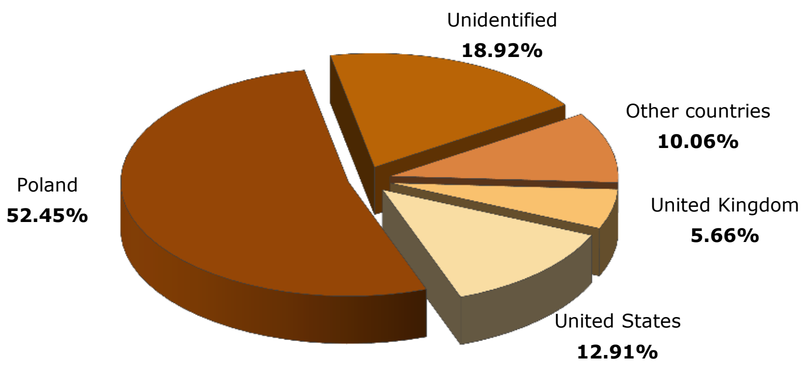
Shareholder	Number of shares/votes	% of share capital / total number of votes
State Treasury *	63 589 900	31.79%
Other shareholders	136 410 100	68.21%
Total	200 000 000	100.00%

** based on announcement received by the company dated 12 January 2010*

Other shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 68.21%, are mainly institutional investors, both domestic and international.

Following is the geographic distribution of the company's shareholder structure. The data is based on research into the shareholder structure performed in the fourth quarter of 2014.

Chart 4. Geographic distribution of the shareholder structure of KGHM Polska Miedź S.A.



The ownership of 81.08% of the shares issued by the company were identified in the research.
The company does not hold any of its treasury shares.
The Management Board of the company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.
Based on the information held by the company, as at 31 December 2014 and at the date of signing of this report, the following Members of the Management Board of KGHM Polska Miedź S.A. held the shares of KGHM Polska Miedź S.A.

Table 9. Shares held by the Members of the Management Board of KGHM Polska Miedź S.A. as at 31 December 2014 and at the date of signing of this report

Position /function	Name	Shares held as at 31 December 2014	Shares held at date of signing this report	Nominal value of shares (PLN)
President of the Management Board	Herbert Wirth	1 900	1 900	19 000
First Vice President of the Management Board	Jarosław Romanowski	1 900	1 900	19 000
Vice President of the Management Board	Marcin Chmielewski	1 993	1 993	19 930
Vice President of the Management Board	Jacek Kardela	1 900	1 900	19 000
Vice President of the Management Board	Wojciech Kędzia*	1 900	-	19 000

** Wojciech Kędzia submitted his resignation from the function of Vice President of the Management Board, effective as at 31 January 2015*

Based on the information held by KGHM Polska Miedź S.A., as at 31 December 2014 and at the date of signing of this report, the following Members of the company's Supervisory Board of held the shares of KGHM Polska Miedź S.A.

Table 10. KGHM shares held by the Members of the Supervisory Board of KGHM Polska Miedź S.A. as at 31 December 2014 and at the date of signing of this report

Position /function	Name	Number of shares held at 31 December 2014 and at date of signing this report	Nominal value of shares (PLN)
Member of the Supervisory Board	Józef Czyczerski	10	100
Member of the Supervisory Board	Leszek Hajdacki	1	10

Based on information held by KGHM Polska Miedź S.A., Members of the company's Management Board and Supervisory Board did not hold shares of the related entities of KGHM Polska Miedź S.A.

The company did not have an employee share inventive program in 2014.

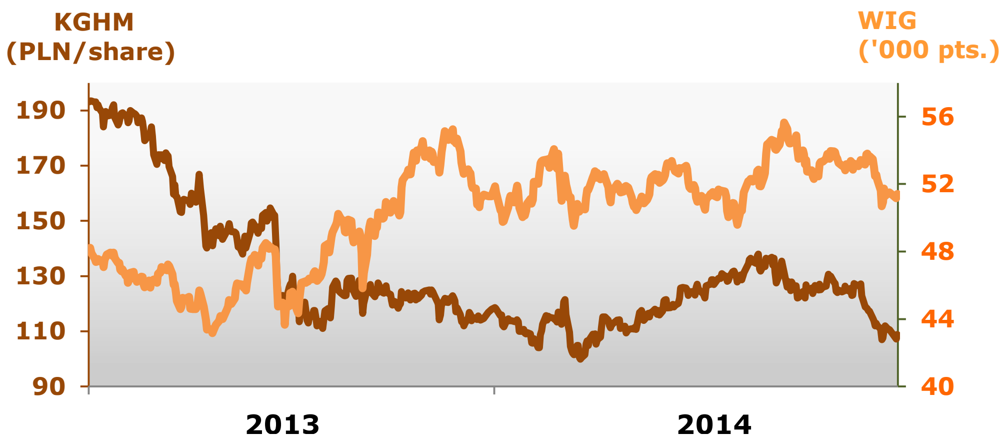
3.3. The Parent Entity on the Warsaw Stock Exchange

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange in July 1997. The company's shares are traded on the primary market in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices. Since 2009 the company has also been amongst the group of socially-responsible companies which comprise the RESPECT Index. The company's shares are included in the WIG-basic materials ("WIG-SUROWCE") sector index and the Wigdiv index.

In 2014 KGHM's share price decreased by 7.75%, from PLN 118.00 on 30 December 2013 to PLN 108.85 on the last trading day of 2014. During this period the WIG index increased by 0.26%, while the other main indices – WIG20 and WIG30 – decreased by 3.54% and 1.97% respectively.

The company's shares reached their highest closing price for the year of PLN 138.00 on 27 August 2014. The lowest closing price amounted to PLN 99.90 and was recorded on 20 March 2014.

Chart 5. Share price of KGHM Polska Miedź S.A. versus the WIG index



Key data on the share performance of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2013-2014 are presented in the following table.

Table 11. Key share information

Symbol: KGH ISIN: PLKGHM000017	Unit	2013	2014
Number of shares issued	shares	200 000 000	200 000 000
Closing price from the last day of trading in the year	PLN	118.00	108.85
Market capitalisation of the company at year's end	PLN bn	23.6	21.8
Change in share price from the end of the prior year	%	(37.89)	(7.75)
Highest closing price in the year	PLN	193.50	138.00
Lowest closing price in the year	PLN	111.00	99.90
Average trading volume per session	shares	950 299	883 361

Dividend

In accordance with Resolution No. 5/2014 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 23 June 2014, the amount of PLN 1 000 million was appropriated from profit for financial year 2013 as a shareholder dividend, amounting to PLN 5.00 per share. The dividend date was set at 8 July 2014 with the dividend being paid in two instalments: 18 August 2014 – PLN 2.50 per share and 18 November 2014 – PLN 2.50 per share.

Table 12. Dividend payouts in 2013-2014

	Unit	2013	2014
Dividend paid in the financial year from the appropriation of profit for the previous year	PLN mn PLN/share	1 960 9.80	**1 000** **5.00**
Dividend yield *	%	8.3	**4.6**

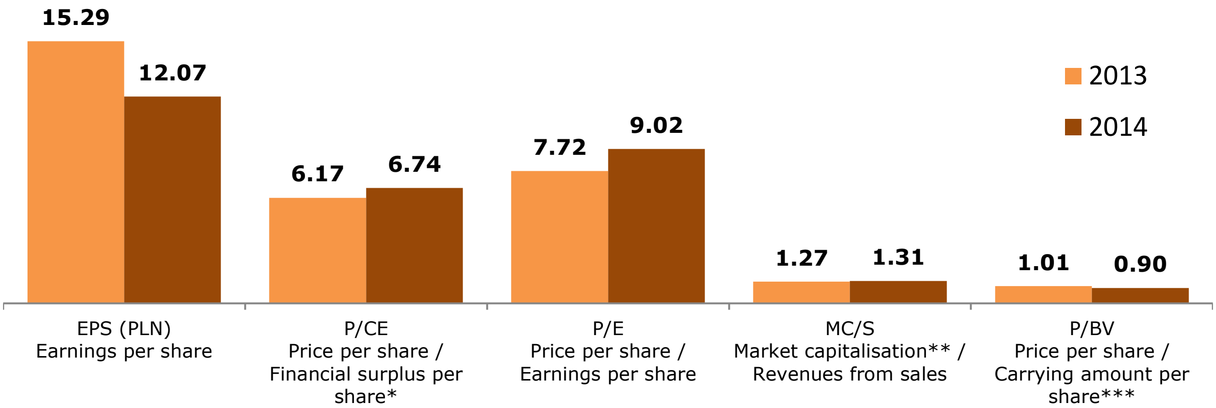
* *dividend per share paid in the given financial year divided by the closing price in the last trading day in the given financial year*

On 26 January 2015, the Management Board of KGHM Polska Miedź S.A. adopted a resolution on approving a Dividend Policy for KGHM Polska Miedź S.A. The Dividend Policy is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the company's funds. The Dividend Policy assumes that the Management Board will recommend allocation of up to one-third of the net profit for the previous financial year as a dividend, while taking into account the current and anticipated financial situation of the company and the Group. In particular, in making its recommendation the Management Board will take into account the company's anticipated capital needs to complete the company's development program as well as a safe debt level for the Group. The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

Financial ratios

The activities of the Parent Entity are described by the following financial ratios:

Chart 6. Financial ratios



** 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 x PLN 118.00 in 2013; PLN 108.85 in 2014)*
**** Carrying amount of equity at the end of the reporting period*

The main reasons for the change in the financial ratios as compared to 2013 were the lower profit for the period earned by KGHM Polska Miedź S.A. and the lower share price of the company from PLN 118.00 at the end of 2013 to PLN 108.85 at the end of 2014.

4. Implementation of Strategy in 2014

In 2014, KGHM Polska Miedź S.A. acted in accordance with its Strategy for the years 2009-2018, which was approved by the company's Management Board and subsequently confirmed by the company's Supervisory Board on 23 February 2009.

The realised vision of strategic development of KGHM Polska Miedź S.A. for the years 2009-2018 was based on five pillars and their main initiatives, with the ultimate goal of joining the ranks of large, global producers of copper and increasing the volume of copper production by the KGHM Group to approx. 700 thousand tonnes annually.

Pillar I - Improving productivity

With respect to Pillar I, in 2014 the company continued to pursue key strategic initatives aimed at improving productivity in the core business, mainly by implementing new and innovative technological solutions, continuing work on investment projects and working on organisational changes to enable the implementation of better production processes in mining and metallurgy.

Investments in new technologies

Development of mechanical mining technology in the conditions prevalent in the mines of KGHM Polska Miedź S.A.

The goal of this project is to develop an alternative mining technology to the currently used room and pillar mining system, in which blasting techniques are used. From the technical point of view, expectations related to the mechanical mining technology are connected with improving efficiency, speeding up extraction, reducing employment and increasing work safety, as mining is being performed in progressively more challenging geological and mining conditions. From the economic point of view, it is expected that there will be lower mining costs and that achieving the company's production plans will be easier.

Operational trials

In 2014 mining trials were continued under projects in this regard aimed at evaluating the potential to adopt new mining technology using the ACT mining complex (a joint project with the company Caterpillar Global Mining Europe GmbH) as well as drift drilling technology using a team of three combines (a project with the participation of PeBeKa S.A. and SANDVIK).

Agreement with KOPEX Machinery SA

To increase the probability of success as regards the research and development work being performed to assess the possibility of implementing mechanical mining technology in the mines of KGHM Polska Miedź S.A., in October 2014 KGHM Polska Miedź S.A. signed a contract with KOPEX Machinery SA, a Polish manufacturer and supplier of mining machinery and equipment, regarding cooperation in the development and implementation of a prototype of a mechanised copper ore mining complex. Work on the project will be completed by the end of 2019 in three stages: designing of the prototype complex, construction of the prototype mining complex and testing. The value of the signed contract is PLN 48 million. This is a project of world-class innovation for the underground mining industry, and at the same time, it represents an alternative to the ongoing project being pursued by KGHM Polska Miedź S.A. in cooperation with Caterpillar Global Mining Europe GmbH.

Pyrometallurgy Modernisation Program at the Głogów smelter/refinery

Completion of this Program will result in the creation of a functionally-integrated, cost-effective and environmentally-friendly metallurgical structure in KGHM Polska Miedź S.A. It is expected that KGHM Polska Miedź S.A. will gain long-term economic benefits from this program, including among others a decrease in the total unit cost of processing and higher revenues from the sale of additional amounts of silver, rhenium and refined lead. Moreover, thanks to the more than 50% decrease in emissions of dust and gas to the atmosphere there will be a very clear decrease in the environmental impact of the plant, and as a result the company's competitive position on the world market will improve.

In 2014 construction and assembly work was completed as part of stage II of the intensification of concentrate processing at the Głogów II smelter/refinery, and construction continued on the Flash Furnace complex at the Głogów I smelter/refinery (PMP).

The updated budget for the Pyrometallurgy Modernisation Program project is PLN 2.1 billion. The completion of all deliveries and construction and assembly work necessary to commission the Flash Furnace (including sending copper concentrate through the modernised Flash Furnace installation) is planned by October 2016. The above projects do not affect the continuity of metallurgical production by KGHM Polska Miedź S.A. while developing the investment.

The changes in conduct of the project are related to prolongation of the design process, which is impacted by a change in geological-mining conditions in the Polish mines of KGHM Polska Miedź S.A. and the resulting increase in the calorific value of the copper concentrates produced by the processing plants, resulting in the need to adapt and optimise the technology and processes adopted for the modernised metallurgical infrastructure.

Due to the need to reduce the calorific value of the concentrates processed by eliminating excess organic elements in the concentrates produced, the Management Board of KGHM Polska Miedź S.A. has decided to build a concentrates roasting installation at the Głogów I plant with associated infrastructure. This roasting installation will enable all of the concentrates produced by KGHM in Poland to be smelted in the installations of Głogów I, Głogów II and Legnica, as well as the possibility to substantially increase the processing of imported concentrates. The estimated CAPEX for this investment is around PLN 251 million.

Other initiatives aimed at improving productivity and lowering the costs of functioning of the core business

Investment projects and actions aimed at improving efficiency and organisation of the production processes

- maintenance and replacement projects in mining,
- projects involving the modernisation of ore processing to improve metals recovery,
- projects to increase the level of automation of the core production business,
- programs to increase energy savings,
- projects to implement IT tools to improve efficiency in underground machinery management and in monitoring of the wear of machinery and equipment along with operational costs,
- programs to optimise the maintenance process.

Reorganisation of the procurement process in the KGHM Group

In terms of the Central Procurement Office, work was carried out aimed at implementing a global procurement system within the KGHM Polska Miedź S.A. Group:

- an organisational structure was defined and implemented as well as a management model for the global procurement function in KGHM Polska Miedź S.A., reflecting the flow of information between the operations of KGHM INTERNATIONAL LTD. and the Central Procurement Office in KGHM Polska Miedź S.A.,
- a draft modified KGHM Polska Miedź S.A. Group Procurement Policy was prepared, reflecting the need for changes resulting from expanding its scope to include KGHM INTERNATIONAL LTD. and the company Sierra Gorda S.C.M.,
- on-going analysis and process improvements were carried out aimed at achieving synergy and savings with respect to procurement, among others by optimising delivery chains, simplifying purchase procedures, implementing unified IT tools supporting the procurement process, increasing the number of assortment groups realised globally, aggregating procurement volumes and conducting global tenders.

Research policy goals

As regards research and development, KGHM Polska Miedź S.A. is aiming at an organisational model based on knowledge, which concentrates mainly on:

- enhancing efficiencies in production,
- developing new mining technology,
- non-ferrous metals ore processing and metallurgy,
- effective management of industrial risk, and
- development of the resource base.

The answer to the challenges faced by the company is innovation. In the long-term perspective, the company plans to implement the concept of a so-called Intelligent Mine, followed by a fully-integrated „Intelligent Production Line" ensuring safety and technological efficiency, as well as the ability to efficiently and flexibly manage the entire production process.

Main partners in R&D

R&D in KGHM Polska Miedź S.A. is carried out with the participation of domestic and international R&D organisations, universities, research institutes, design firms and others. Key partners acting on behalf of the company are specialised entities of the KGHM Polska Miedź S.A. Group such as KGHM Cuprum sp. z o.o. – CBR, INOVA Centrum Innowacji Technicznych Sp. z o.o. and Centrum Badania Jakości sp. z o.o.

KGHM Polska Miedź S.A. cooperates with various independent Polish R&D partners, such as the Institute of Non-Ferrous Metals in Gliwice, the AGH University of Science and Technology in Kraków, the Central Mining Institute in Katowice, the Polish Geological Institute in Warsaw, Silesian University of Technology in Gliwice, Wrocław University of Technology, Wrocław University of Environmental and Life Sciences, the National Centre for Nuclear Research in Świerk and Wrocław Medical University.

KGHM works with a number of international companies, such as Outotec from Finland, FL Schmidt Minerals in the USA, the CANMET Research Center in Canada, the research center BRGM in France and also design firms and industrial partners such as Caterpillar Inc., SGS Lakefield, and Metso Minerals.

Main research projects

In 2014 research and development was aimed at advancing projects which will improve the company's technological and economic efficiency, ensure production stability given the current geological conditions and prepare the company to accomplish strategic tasks in the coming years:

in mining

- developing effective deep mining techniques using mechanised ore mining technology,
- automating individual operations as part of the presently-used ore mining technology, including horizontal and vertical transportation (an energy-efficient conveyor belt prototype has been designed as well as monitoring and remote control systems, which are planned to be installed underground in the first half of 2015),

in ore processing

- research into new milling technology which will optimise the energy-intensive concentrate production process,
- increasing the automation and flexibility of the production process to be more responsive to varying feed parameters,
- developing a system to analyse, and provide medium-term forecasting of, the feed for the concentrating process to meet the needs of the domestic non-ferrous metals processing industry (projects are being carried out with the participation of the National Nuclear Research Center: „Utilisation of neutron activation analysis technology to determine the content of useful elements in copper ore in situ and at various stages of processing and transportation" and „Determination of copper ore elemental composition in underground conditions based on x-ray methods"),

in metallurgy

- utilisation of semi-products produced during production and the recovery of associated elements (projects: „Development of technology to produce the lead alloys Pb-Sn and Pb-Sb" and „Technology to recover zinc combined with an improved quality of materials sent to the revolving-reverbatory furnaces").

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

The primary goal of this initiative is to make the optimum use of the knowledge gathered in the company by strengthening communication and cooperation between experts representing various organisational units within the KGHM Polska Miedź S.A. Group.

„Knowledge Center"

In 2014 work continued related to defining an organisational framework, business goals and operating areas based on client skills and needs, including the strategic client KGHM Polska Miedź S.A., for the new entity called the Knowledge Center, composed of a consortium of four companies within the KGHM Polska Miedź S.A. Group under an agreement:

- KGHM CUPRUM sp. z o.o. – CBR (R&D),
- INOVA sp. z o.o. (production of equipment, implementation, data transmission, communications),
- BIPROMET S.A. (design and construction of production lines, machinery and equipment, facilities related to environmental protection),
- CBJ sp. z o.o. (modern analysis, supporting laboratories).

The goal of the Center is to stimulate, design, implement and coordinate inter-disciplinary R&D programs within the KGHM Group in Poland and abroad. The Center will enable the development of innovative strategic solutions to deal with the technical and technological challenges faced by KGHM Polska Miedź S.A., in both mining and metallurgy. Other scientific-research institutions and national technical schools are also expected to cooperate on the projects carried out by the Center.

„TOP100 Conference"

The TOP100 is an annual international conference for the leaders and top managers of selected KGHM Polska Miedź Group companies whose activities are related to the core business of the Parent Entity. The purpose of the conference is to integrate the employees of the Group, as well as to exchange knowledge and experience from throughout the company's areas of expertise (organisational, technological, etc.) through discussions, plenary sessions and knowledge fairs, at which the best technical-technological and organisational solutions are presented and implemented by the employees of the KGHM Polska Miedź S.A. Group.

On 1-2 December 2014 in Lubin, the second edition of the TOP100 conference was held, in which approx. 150 persons took part, including management and engineering staff and representatives of teams from Poland, Canada, the USA and Chile. A key event of the Conference was the two-day Knowledge Fair, at which projects and initiatives selected as the most interesting in terms of innovative technology or organisational improvements were presented.

The honorary award of the President of the Management Board of KGHM Polska Miedź S.A. was awarded to the project „SYNAPSA – a project to monitor mining vehicles". The Competition Jury granted the main award – Innovation Project of the Year 2014 – Breakthrough Innovation – to the project „Platform to optimise control of the copper ore enrichment process" for its universality and scalability. In addition, the Award Jury distinguished two honorary mentions. The first honorary mention was for the project „Haulage Vehicle CB4-20TB" - due to the scale of innovation related to changing the scope of mining machinery, which could have an impact on the entire mining industry. The second honorary mention was for the project „Underground copper leaching at the Carlota mine" – for economic reasons (uncovering savings and increasing mine profitability).

„CuBR Sector Program"

CuBR Sector Program – a venture to promote the sustainable development of the non-ferrous metals industry using innovative technology – performed on the basis of an Agreement signed in 2012 and an Executory Contract signed in 2013 between KGHM Polska Miedź S.A. and the National Centre for Research and Development, involving the support of scientific research and development work for the non-ferrous metals industry. While this venture encompasses the full scope of the mining industry, its goal is to increase the competitiveness of the Polish economy, and to support the development potential of Polish science and industry. Pursuing projects involving the challenges related to the production line of KGHM Polska Miedź S.A. through scientific-industrial consortiums enables the selection of promising watershed ideas for KGHM Polska Miedź S.A. in terms of technology or innovative equipment to improve the production line, and also enables the development of new, profitable materials and products which can be utilised by KGHM Polska Miedź S.A. The Agreement is in force for a period of 10 years, with a program budget of PLN 200 million, with each of the parties having a 50% interest.

Based on the first edition of the CuBR Program competition which opened in January 2014, for which PLN 40 million was allocated, four research projects were accepted for implementation, comprising research and development related to new mining technology, metallurgy, processing, new products and their recycling, at the same time reducing environmental costs. In July 2014, the second edition of the competition was inaugurated with a budget of PLN 51.5 million, to finance another eight innovation projects in four thematic areas: mining and geology, metallurgical processing, downstream processing, new materials, and environmental protection, risk management and business effectiveness. Work is in progress on preparing the announcement for the third edition of the competition. The next competition is planned to be announced and concluded in 2015.

„KIC RawMatTERS Program"

KGHM Polska Miedź S.A. is a member of a European consortium created by over 100 partners from twenty-two European Union countries, including mining companies, institutions of higher learning and R&D institutes. Apart from KGHM Polska Miedź S.A., which played a key role in establishing a strong position for the consortium, Poland is represented by ten institutions, including KGHM Zanam Sp. z o.o., the AGH University of Science and Technology in Kraków, Wrocław University of Technology, the Institute of Non-Ferrous Metals in Gliwice and the Wroclaw Research Centre EIT+.

In December 2014, the consortium won a competition organised by the European Institute of Innovation and Technology (EIT) to carry out a seven-year program called the Knowledge and Innovation Community, in the area of natural resources – KIC RawMatTERS Tackling European Resources Sustainably.

The goal of the „KIC RawMatTERS" Knowledge and Innovation Community is to integrate and strengthen the innovation potential of the raw materials sector by introducing new technology, products and services to achieve sustainable exploration for, extraction, processing and recycling of natural resources. The role of all of the partners will also be to supply technology and services which are adapted to the changing needs of society, as well as education, business development, the creation of new jobs and actively undertaking the challenges related to the lack of sufficient resources in Europe, to the need to import them, to find new mining and recovery technology, to find ways to replace certain materials, applications and education and the creation of new companies and jobs. This sort of approach should increase the raw materials security and competitiveness of the European Union. Financing of the venture by the EIT is to be over EUR 400 million.

The head office of „KIC RawMatTERS" is in Berlin, with plans for the creation of six trans-national knowledge hubs. Thanks to KGHM Polska Miedź S.A., one of the hubs, which will integrate Poland, Austria and eastern Germany, will be established in Wrocław, in Lower Silesia. This will enable macro-region integration, in which the scientific environment with its industrial partners will develop technological specialisations utilising existing potential – from the generation and collection of ideas for innovation in the raw materials sector to companies and scientific environments, from supporting start-ups and companies from the small-to-medium business sector, to large pilot projects, testing technologies at higher levels.

Pillar II – Resource base development

As a result of the implementation of a non-organic expansion strategy (through acquisitions), KGHM Polska Miedź S.A. has delivered the key objectives of its Business Strategy. Global expansion has allowed the company to strengthen its position amongst the world's copper producers and increase the resource base of KGHM Polska Miedź S.A., in this way providing the expected increase in copper production in the KGHM Polska Miedź S.A. Group beginning from 2012. In addition, the company was able to diversify the resources and costs structure of the Group's mining activities thanks to new mining assets rich in metals besides copper, which are mined for example through the open-pit method, which is decidedly cheaper as compared to underground mining.

The first step in achieving the vision of becoming a global copper producer was taken by the company in 2010. This is when we **purchased a 51% stake in a special purpose company created in partnership with the Canadian company Abacus Mining & Exploration Corporation called KGHM AJAX MINING INC.** to advance the Afton-Ajax (today simply Ajax) copper and gold project located in British Columbia, Canada. Following the publication of a Bankable Feasibility Study for this deposit, in 2012 the company made use of the option to acquire an additional 29% of the shares of KGHM AJAX MINING INC. The project assumes annual copper production of 50 thousand tonnes, with gold production of 100 thousand ounces.

The friendly acquisition of 100% of the shares of the Canadian mining company Quadra FNX (today KGHM INTERNATIONAL LTD.) in 2012 was another step which enabled KGHM Polska Miedź S.A. to strengthen its position amongst the leaders of the mining sector. As a result of this acquisition, the company gained access to other attractive deposits in the world, increasing its resource base by 28% (8 million tonnes of copper ore). At the same time KGHM Polska Miedź S.A. gained the ability to increase copper production by nearly 25%, allowing the company to advance from 10th to 8th place in terms of global production. KGHM's portfolio of mining projects grew with the addition of mine assets rich in copper, silver, nickel, molybdenum and other precious metals, located mainly in North and South America, such as:

- the active open-pit mines Robinson (USA) and Franke (Chile), and the underground mine Morrison (in the Sudbury region of Canada),
- mine projects under construction, such as the open-pit mine Sierra Gorda in Chile - the company's most important development project, being advanced on one of the world's largest deposits of copper and molybdenum – as well as projects in the pre-operational stage such as the Victoria underground copper and nickel mine in Canada, and
- exploration projects, including in the Sudbury region of Canada and Malmbjerg in Greenland.

The diversified portfolio of geological-mining projects currently held by KGHM Polska Miedź S.A. are at various stages of development and ensure continued growth by the company. The global copper ore resources controlled by KGHM Polska Miedź S.A. guarantee the company's stability and continuity of production for the next 40 years.

In 2014, the company continued to advance projects aimed at ensuring access to the resource base of KGHM Polska Miedź S.A.:

Resource Base Development in Poland and Germany

Accessing the Deep Głogów deposit

In 2014, work continued on developing the main drifts to gain access to the Deep Głogów deposit (GG-P) with supporting technical infrastructure. Work continues on the sinking of the GG-1 ventilation (input) shaft using tubing construction. It is being built in stages and will be completed in 2019. This will be the deepest of the 31 shafts in the Copper Belt, with a target depth of 1 340 meters and a diameter of 7.5 meters.

In April 2014, the G-25 mining section was the first to commence operations in the Deep Głogów deposit. The consistent progress in improving acccess to the deposit will enable the mines to achieve their target levels of production. Mining the Deep Głogów deposit ensures long-term stability in the level of production of KGHM Polska Miedź S.A. by prolonging the life of the company's mines to the year 2042 and by ensuring the optimal utilisation of the company's production line, from mining to processing to metallurgical smelting and refining. Completion of the project is planned in 2026.

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

In 2014, KGHM Polska Miedź S.A. continued to advance exploration projects (comprised of the exploration for and documentation of mineral deposits) which are at various stages of geological work, in accordance with individual work schedules and the obligations set forth in the respective concessions.

Conduct of the exploration program is based on and in accordance with the conditions set forth in the respective concessions and on the agreements setting mine usufruct rights.

As a result of conducting this exploration work, the company plans to increase its resource base by documenting additional copper ore resources which meet its economic criteria. These copper ore resources will be evaluated in terms of their mining potential. In the subsequent stage KGHM Polska Miedź S.A. expects to begin the process of obtaining mining concessions, which will consequently create the opportunity to develop and prolong the operations of the mines of KGHM Polska Miedź S.A. over the long term.

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

- **Gaworzyce-Radwanice** project - exploration work planned for the years 2008-2014 was completed. As a result of this work 216 million tonnes of copper ore resources were documented with an average grade of 1.89% Cu (around 4.1 million tonnes of copper) and 35g/t Ag (around 7.5 thousand tonnes of silver). This geological documentation of the exploration work was sent to the government's geological administration body – the Ministry of the Environment – for its approval. In 2015 formal administrative and technical work will be continued related to gaining a concession for the extraction of copper ore from this area. The Gaworzyce-Radwanice concession covers an area of 99 km^2 and lies along the western border of deposits already being mined by the company (through the Polkowice-Sieroszowice mine).
- **Synklina Grodziecka** project – the drilling program planned for the years 2011-2014 was completed (18 holes) in the area of Synklina Grodziecka, located in the so-called Old Copper Belt near Bolesławiec. Geological work will continue in connection with the neighboring concession „Konrad", aimed at preparing joint documentation.
- **Konrad** project – preparations and organisational work were carried out prior to commencing geological work in the concession area. Tenders are underway aimed at conducting geophysical work.
- **Retków-Ścinawa** project – drilling commenced in the area of Retków-Ścinawa, where around 10 drillholes are planned to the end of 2015.
- **Głogów** project – preparatory work commenced for planned drilling in the area of Retków-Ścinawa, where around 4 drillholes are planned to the end of 2015.

Projects at the early exploration stage, without defined copper mineralisation

- **Weisswasser** project (Saxony in Germany) – geological exploratory work continued in the Weisswasser area - the first phase of stage II of the project was completed in the Weisswasser II area, representing an extension of the Weisswasser area towards the south–east to the border with Poland; seismic measurements were taken and historical data acquired from exploratory work conducted in this area in the 1960s was analysed. The data collected enabled the identification of a promising area in which the depth of the zechstein layer does not exceed 1500 m and the supposition that copper mineralisation meeting the exploration criteria of KGHM Polska Miedź S.A. is present. To verify the existing mineralisation, in 2015 the second phase of stage II of the project will be carried out, comprised of sinking a drillhole, taking geophysical drillhole measurements and assessing whether copper mineralisation exists which meets the criteria of KGHM Polska Miedź S.A. The second stage of the project is part of a large transborder project involving geological exploration on both sides of the Polish-German border. KGHM Polska Miedź S.A. holds an exploration concession for the Stojanów area, which is an extension on the Polish side to the Weisswasser II area. The results of the geological exploration work performed under the Weisswasser project will also be used to carry out exploratory work in the Stojanów area, including for a joint interpretation of the geological structure.
- **Stojanów** project – an extension of the Weisswasser deposit into Poland, for which respectively in January and May 2014 the company received concessions for the exploration and assessment of the copper ore deposit. At the moment the historical geophysical data is being re-interpreted.

Exploration projects in the preparatory phase

- **Bytom Odrzański** project – on 29 July 2014, as a result of appeals proceedings based on requests submitted by KGHM Polska Miedź S.A. to re-hear the matter, the Minister of the Environment issued decisions reversing in their entirety the decisions issued on 28 January 2014 regarding the refusal to grant KGHM Polska Miedź S.A. a concession for the exploration and assessment of the Bytom Odrzański copper ore deposit and ordering the case to be re-heard. A competing company submitted a claim against the aforementioned decision of the Minister of the Environment to the Regional Administrative Court. The Minister is not currently conducting administrative proceedings in this matter.
- **Kulów-Luboszyce** project – on 28 January 2014 KGHM Polska Miedź S.A. was granted concession no. 5/2014/p to explore the Kulów–Luboszyce copper ore deposit, in that part covered by the request of KGHM Polska Miedź S.A. Both KGHM Polska Miedź S.A. and a competing company submitted claims for the case to be re-heard. On 29 July 2014, as a result of appeals proceedings, the Minister of the Environment issued a decision reversing in entirety the aforementioned concession. The competing company submitted a claim against the aforementioned decision to the Regional Administrative Court. The company is currently awaiting a date for the hearing.
- **Nowiny** project – administrative proceedings regarding the Nowiny area concluded with a judgment of the Supreme Administrative Court and reversal of previous decisions of the Minister of the Environment granting concessions to another company, and were ordered to be re-heard. In 2014, KGHM Polska Miedź S.A. took part in a tender announced by the Minister of the Environment to acquire mining rights to explore for copper ore deposits in the Nowiny area. As a result of the announcement of the tender's results, the project was terminated.

Other exploration concessions

Zatoka Pucka project – based on a request submitted by KGHM Polska Miedź S.A., on 1 October 2014 the Minister of the Environment granted concession no. 28/2014/p to KGHM Polska Miedź S.A. for the exploration for and assessment of deposits of potassium-magnesium salt in the vicinity of Puck together with associated minerals: copper and silver ore and rock salt. Based on appeals submitted by competing companies, the Minister of the Environment re-heard the matter involving the granting of a concession for exploratory work in the aforementioned area as part of the appeal proceedings, upholding its earlier decisions to grant a concession to KGHM Polska Miedź S.A. Current work is aimed at commencing the work defined in the concession and at setting up a joint-venture company together with entities belonging to the company Grupa Azoty SA, which is to supervise the work in the area of Zatoka Pucka.

Resource Base Development in North and South America

Sierra Gorda Project in Chile (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%)

On 30 July 2014 the Sierra Gorda mine in Chile started production. The official opening ceremony for the mine was held on 1 October 2014. Full production capacity planned for the first phase of the project, allowing for the production of 120 thousand tonnes of copper per year (processing of 110 thousand tonnes of ore daily) is scheduled to be achieved in mid-2015.

On 25 October 2014, the first shipment to the Toyo Smelter and Refinery in Japan (with approx. 6 thousand tonnes of copper concentrate from the Sierra Gorda mine) left the Port of Antofagasta. The ship transporting the copper concentrate arrived at the port of Niihama in Japan on 14 December 2014.

CAPEX at completion, reflecting savings achieved, including from the mining equipment leasing program, amounted to USD 4.2 billion, compared with the March 2013 estimate of USD 3.9 billion.

Within the project's framework technical optimisations were implemented, which allowed an increase in Sierra Gorda project reserves from 1.275 billion tonnes @ 0.39% Cu, 0.024% Mo and 0.065 g/t Au to 1.463 billion tonnes @ 0.40% Cu, 0.020% Mo and 0.065 g/t Au.

From the start of production to 31 December 2014, approx. 5.2 million tonnes of ore were extracted from the Sierra Gorda mine, with resulting production of approx. 35.6 thousand tonnes of concentrate, representing approx. 10.5 thousand tonnes of pure copper.

With respect to preparations for phase 2 of the investment, aimed at increasing processing capacity from 110 thousand tonnes to at least 190 thousand tonnes of ore per day, design work began related to developing the infrastructure of the processing plant. Infrastructure analysis is underway, such as the availability of water and power for phase 2 of the project. This assumes that another 2-3 ball mills will be built at the processing plant. In addition, we expect the life of the mine to be prolonged as a result of mining of the mineralized areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, based on the infrastructure of the investment's second stage.

With respect to advancement of the Sierra Gorda Oxide project, aimed at processing the oxide ore set aside during construction and development of the Sierra Gorda mine in an installation for recovering metal using SX/EW technology, in 2014 testing began on the leaching of material stored in heaps on a semi-industrial scale. Stacking tests were also conducted. In March 2014, work began on a feasibility study which will incorporate the results of the tests. Completion of work on the feasibility study is planned in the first quarter of 2015.

Victoria Project in the Sudbury Basin, Canada (KGHM INTERNATIONAL LTD. 100%)

In 2014 work was completed on levelling the terrain to build the surface infrastructure. In addition, work was carried out on sinking the adit for the mine shaft. Work began on construction of surface infrastructure, including preparing foundations for the lift machinery. Work continued on an Integrated Development Study (equivalent to a Feasibility Study) for the Victoria project, one of whose elements is a detailed project schedule and project plan based on a one-shaft mining model.

Ajax Project, Canada (KGHM Polska Miedź S.A. 80%, Abacus Mining and Exploration Corp. 20%)

In May 2014 the company KGHM AJAX MINING INC. published a new mine plan which moves the infrastructure of the future Ajax open pit mine away from the nearest buildings of the town of Kamloops, and which also reduces the mine's environmental impact. Based on the change in the siting of selected infrastructure of the Ajax mine, engineering work was carried out on the project. At the same time, to gain a better understanding and to identify additional mineralisation at the Ajax deposit, in the second half of 2014 drilling was conducted in and around the planned pit zone. The results of this drilling will be used to update the mine's block model in the first quarter of 2015. In addition, analyses are being conducted to search for technological improvements for the mine, which create the possibility of optimising capital outlays and operating costs, and as a result may substantially enhance the economic attractiveness of the project.

In the fourth quarter of 2014 an agreement was signed with representatives of First Nations who will participate in public consultations regarding the environmental permits for the mine.

The new Ajax project schedule assumes that applications for the environmental permits will be submitted in the first half of 2015. The adopted schedule enables construction of the mine facilities to begin in the second half of 2016. The company expects that production of the first copper concentrate from the Ajax mine will take place at the end of 2018.

Other

Intensification of scrap processing

Another important initiative aimed at increasing copper production by the company is the intensification of scrap processing. In 2014, analyses of technical-technological solutions and analyses of the scrap market with respect to the possibility of enhancing the processing of secondary copper-bearing materials in the metallurgical installations of KGHM Polska Miedź S.A. were conducted.

Pillar III – Diversifying sources of revenues and securing competitively-priced energy

With respect to increasing energy production to meet the company's own energy needs, projects were continued whose completion will gradually assure the energy needs of KGHM Polska Miedź S.A. (at present, energy production by the subsidiary Energetyka Sp. z o.o. represents 10%, or approx. 250 GWh, of the total energy needs of KGHM Polska Miedź S.A., which amount to approx. 2 600 GWh) and will also lead to diversification of the energy generation portfolio as well as significantly reduce the company's exposure to climate policy risk and to changes in fuel and electricity prices.

The most significant projects in this area are:

Investments in energy generation

„Construction of gas-steam blocks at the Głogów and Polkowice power plants with installed power of 84 MWe”

This investment was carried out in the years 2010-2014, with total expenditures incurred on the project of PLN 523 million. 3 November 2014 marked the official start of the generation of electricity and heat through highly-efficient co-generation.

This project will enable optimisation of power and heating costs in KGHM Polska Miedź S.A. through the associated generation of power using internal generation capacity at the level of approx. 560 GWh, all of which is designated to meet the power needs of KGHM Polska Miedź S.A. Thanks to the benefits derived from the use of yellow certificates, the cost of generating electricity by the blocks is below market price.

The output of the blocks covers around one-fourth of the power needs of KGHM Polska Miedź S.A. and will result in lower greenhouse gas emissions by 40% as compared to emissions from conventional coal-fired sources. The first gas-steam block at the Polkowice power plant was commissioned on 5 November 2013, while the second gas-steam block at the Głogów power plant was commissioned on 8 July 2014.

„Construction of a research installation for the underground gasification of brown coal in the Legnica-Głogów Copper Belt (LGOM)”

With respect to 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, in 2014 a comprehensive program of analyses and interpretations was performed involving the results of geological work and specialty and laboratory research carried out in the years 2012-2014. Deposit selection criteria were developed as well as algorithms for assessing the deposit in terms of the technical possibilities of engaging in the underground gasification of brown coal, taking into account the susceptibility of the brown coal to gasification and the existing geological conditions. Work was performed related to setting the schedule for further geological work (Stages III and IV) which foresees the conducting of hydrogeological research and the modeling of conditions related to the coal gasification process. Work presently underway is aimed at completing the hydrogeological research.

With respect to cooperation with partners from the energy sector, in 2014 KGHM Polska Miedź S.A. continued to participate in the most important energy projects on a national scale. It is expected that participation in these projects will lead to secure energy supplies for KGHM Polska Miedź S.A. at an optimum price.

Nation-wide energy projects

„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”

Under an Agreement signed on 30 December 2013 by KGHM Polska Miedź S.A. together with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. (a subsidiary of TAURON), based on which it was decided to temporarily suspend the project to build a gas-steam block through the special purpose company „Elektrownia Blachownia Nowa” Sp. z o.o. (50% KGHM Polska Miedź S.A.), in 2014 on-going monitoring was performed of the energy market and the regulatory environment, in terms of the possibility to rapidly re-commence the project. In accordance with the terms of the Agreement the parties resolved that a decision to re-commence the project will be made in the form of a separate agreement, which in accordance with the expectations of the Parties to the Agreement should be signed by 31 December 2016. The cause of the suspension is the current situation on the electricity and natural gas market, resulting in increased investment risk and the consequent need to review and optimise the project.

Preparation for the construction and operation of the first Polish nuclear power plant”.

In 2014 KGHM Polska Miedź S.A. („KGHM”), PGE Polska Grupa Energetyczna S.A. („PGE”), TAURON Polska Energia S.A. („TAURON”) and ENEA S.A. („ENEA”) continued work on the project to prepare for the construction and operation of a nuclear power plant in Poland by developing updated clauses to the draft Shareholders Agreement for the company PGE EJ1 sp. z o.o. („PGE EJ 1”) with appendices. The parties agreed the final version of the draft Shareholders Agreement.

PGE EJ 1 sp. z o.o. is responsible for the preparation and execution of the investment to build and operate the first Polish nuclear power plant with a capacity of approx. 3 000 MWe ("Project"). The PGE Group is the Project Leader and the company PGE EJ 1 sp. z o.o. will be the power plant's operator.
In terms of cooperation on the nuclear project:

- On 3 September 2014, a Shareholders Agreement („Agreement”) was signed between KGHM, PGE, TAURON and ENEA.
- KGHM, TAURON and ENEA as Business Partners, will acquire from PGE, on the basis of a separate agreement („Shares Purchase Agreement”), a total of 30% of the shares (each Business Partner will acquire 10% of the shares) in the special purpose company – PGE EJ 1,
- The Management Board of KGHM Polska Miedź S.A. announced that the President of the Office of Competition and Consumer Protection granted unconditional approval to carry out this concentration, based on establishment of the joint undertaking PGE EJ 1 sp. z o.o. by the Applicants (Current report no. 28/2014),

- Pursuant to the Agreement, the parties agreed to jointly fund the activities of the Initial Phase of the Project, proportionally to their interest.,
- The Initial Phase's objective is to determine such elements as potential partners, including the strategic partner, technology suppliers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel suppliers and acquiring funds for the Project, as well as preparing PGE EJ 1 sp. z o.o. organisationally and in terms of the skills required for its role as the nuclear power plant's future operator, responsible for its safe and efficient operation.

According to the Shareholders Agreement, KGHM Polska Miedź S.A.'s expenditures during the Initial Phase will not exceed approx. PLN 107 million and will cover contributions in the increased share capital of PGE EJ 1 Sp. z o.o.

The parties continue to cooperate to prepare for the signing of the Shares Purchase Agreement.

Pillar IV – Regional support

Activities in areas such as corporate governance, human rights, employee policy, environmental projection and commitment to social issues, such as development of and aid to local communities, are the basis for the on-going commitment by KGHM Polska Miedź S.A. to act in a socially responsible manner under its CSR policy. In 2014, a CSR Strategy was developed and adopted by KGHM INTERNATIONAL LTD. Work is underway on developing and implementing a single, joint CSR Strategy for KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. based on sustainable development and corporate social responsibility.

Corporate social responsibility

Goals of the CSR Strategy

The priority goal of the adopted principles of the corporate social responsibility policy is to achieve a fundamental balance between the growth of the company and the best interests of the communities in which the company operates. The Main Initiatives of the CSR Strategy comprise:
- creating innovative solutions minimising the company's environmental impact,
- building a position as a "good neighbour" and trusted investor,
- ethics and transparency in managing relations with stakeholders, and
- caring for its employees.

Good neighbour policy

KGHM Polska Miedź S.A., at every stage of development, takes into careful consideration the need to build positive relationships with local communities, based on dialogue aimed at seeking mutual possibilities and expectations. Good relationships with stakeholders, based on mutual understanding and trust, are of key importance for KGHM Polska Miedź S.A. as an organisation which has a substantial impact on the economic, social and natural environments where it operates. Of particular importance for KGHM Polska Miedź S.A. as a business operating in the mining sector is its good neighbour policy. This policy finds an expression in the wide variety of valuable initiatives and actions which are undertaken to meet the expectations and needs of the people in our communities – amongst the most important of the company's stakeholders. In this way the company shows its concern for the best interests of these communities and upholds its „public license to act" in business areas.

In terms of public dialogue in 2014, KGHM Polska Miedź S.A. held consultations with the local governments and communities which will be most directly affected by the development of the Żelazny Most tailings pond. The result of these consultations was the signing on 18 July 2014 of an agreement between KGHM Polska Miedź S.A. and the five local municipalities which will be most directly affected by development of the Southern Quarter of the Żelazny Most tailings pond: Tarnówek, Żelazny Most, Dąbrowa, Pieszkowice and Komorniki. This agreement will be in effect for two years, with the possibility of extension. The parties will meet twice a year in order to confirm that the mutual obligations have been met. It assumes among others the organisation of holidays for children and health care and check-ups for the people in the communities, through so-called „white Saturdays" when medical care is free of charge, assistance by KGHM Polska Miedź S.A. in developing infrastructure in rural areas, and also cooperation in raising the level of professional knowledge and skills of local citizens.

Support by the Fundacja Polska Miedź (Polish Copper Foundation)

As part of its efforts to be a good neighbour, KGHM Polska Miedź S.A. in 2014 supported many valuable initiatives and projects aimed at promoting regional development. The Polish Copper Foundation financed almost 400 institutional projects in the total amount of over PLN 15 million, and provided almost PLN 1.3 million to over 550 private individuals. In addition, KGHM Polska Miedź S.A. participated in regional sponsoring projects in the total amount of approx. PLN 30 million.

Special CSR programs

Engagement by KGHM Polska Miedź S.A. in supporting local communities is also carried out by special CSR programs initiated in 2014 in the areas of preventative health care, ecology, business education and employee volunteering.

EKO-Zdrowie (EKO-Health program)

In terms of preventative health care, the company encourages local citizens to take part in free sporting events and medical check-ups, promotes preventative health care and organises sporting and recreational events. Health-related projects are designed to cover the largest number of people in local communities, in all age groups. Events which are organised on a cyclical basis include nordic walking for adults, swimming lessons for children, preventative health care events in pools for children and youth, soccer matches for boys with trainers from the Akademia Piłkarska KGHM (KGHM Soccer Academy), sporting and recreational events in which famous sporting figures from the local region participate and health-related events such as the „green schools" for young people.

Strefa Innowacji (Innovation Sphere program)

This program is a tool used to support the process of creating leaders, aimed at meeting the challenge of ensuring an efficiently managed business of international scope, in accordance with best corporate governance practice. The program is aimed at managers from small and medium-sized businesses as well as at government bodies which support the international expansion of Polish companies. The goal of these initiatives is to create platforms which enable the exchange of experience and development of the skills of management staff from Polish companies in terms of operating on international markets.

Miedziane Serce (Copper Heart) volunteer program

Under this program nearly 50 volunteer-type projects have been carried out. Several hundred employees took part, who together put in over a thousand hours. One of the most organisationally advanced volunteer projects in the company is KGHM's Drużyna Szpiku (Bone Marrow Team). For years this team has been promoting the idea of fighting with lukemia and has been registering potential blood donors. These volunteers have registered over 1000 potential blood donors. Three of the members of this team have themselves donated blood, in this way saving human lives.

KGHM Polska Miedź S.A. as a global company meets international corporate social responsibility standards. This is why the corporate social responsibility practices set forth in the CSR Strategy encompass operating principles which conform to international guidelines: ISO 26000, the AA1000 standard and the CSR guidelines for the mining sector published by ICMM (International Council on Mining and Metals). In 2014 the company issued its first Integrated Report, for the year 2013. The report was prepared based on international guidelines issued by the organisation Global Reporting Initiative, is on a 3 A+ level and includes a supplement for the mining and metallurgical sector (Mining and Metals Sector Supplements, MMSS).

As an efficiently managed business partner, in 2014 the company was included in the prestigious RESPECT Index of companies which are managed in a socially responsible and sustainable way.

Pillar V – Developing organisational know-how and capabilities

Performance of the development strategy of KGHM Polska Miedź S.A. is supported by activities aimed at enhancing efficiency and raising the company's organisational skills:

Global Skills Center

In 2014 the process of integration was continued within the KGHM Polska Miedź S.A. Group, and work began on developing a conceptual framework and model of a Global Skills Center, including the creation of a management model and determining areas which are managed and supervised from the Head Office of the KGHM Group. Design work and full implementation of the Global Skills Center concept will be carried out over the next five years.

Project management standards

In terms of implementing a projects management system, unified standards and methodology were implemented for managing investment and organisational portfolios and projects in the Divisions of KGHM Polska Miedź S.A. These standards rationalise and regulate the processes of carrying out, assessing and controlling the implementation of projects and portfolios, as well as allocation of the responsibilities and rights of individual employees and organisational units, while decision making for key investment decisions will be done through an Investment Committee. In future these standards will also cover R&D projects, as well as equity investments in the KGHM Polska Miedź S.A. Group, including within KGHM INTERNATIONAL LTD.

Transformation of HR

With respect to human resources management, work was continued on the project to Transform the HR function, aimed at transforming it to a role of effective support of strategic organisational ambitions, strengthened by a change in the function of the HR role from a purely administrative one into one which provides support, partnership and advice in key areas of the HR process such as management by goals, education and development, strategic planning of human resources, recruitment, talent management, and being a HR Business Partner. In 2014 initiatives which were carried out included:

- designing and implementing employee training programs using modern training techniques,
- improving and developing new organisational skills,
- career planning and developing programs to ensure the availability of human resources which are required to meet the company's business challenges by developing future leaders as both managers and experts,
- implementing principles of employee mobility within the company on a global scale, aimed at ensuring joint, unified international management standards for the delegees in terms of implementing business projects on a global scale,
- developing systems of management through goals, enabling an increase in the engagement, awareness and motivation of management staff and employee teams by utilising the tools of management by results,
- implementing a HR functioning model based on the concept of HR business partners and the comprehensive servicing and support of managers in questions involving human resource management.

5. Activities of the Group

5.1. Changes in Group structure, equity investments

In 2014, actions were continued in the KGHM Polska Miedź S.A. Group aimed at improving and simplifying its structure, in both domestic and foreign entities.

Table 13. Changes in Group structure in 2014

Combinations
Combination of KGHM Metraco S.A. with KGHM Ecoren S.A.
The combination of two domestic direct subsidiaries of KGHM Polska Miedź S.A., through the acquisition of KGHM Ecoren S.A. by KGHM Metraco S.A. KGHM Metraco S.A. continues the activities previously carried out by KGHM Ecoren S.A.
Combination of companies: Centenario Holdings Ltd., Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd
The combination of four subsidiaries with their registered head offices on the British Virgin Islands belonging to the KGHM INTERNATIONAL LTD. Group: Centenario Holdings Ltd., Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd., whose activities are not related to the core business operations of KGHM INTERNATIONAL LTD. These companies were acquired by Centenario Holdings Ltd.
Combination of NITROERG SERWIS Sp. z o.o. with EXPLO Sp. z o.o.
The combination of two subsidiaries of NITROERG S.A. through the acquisition by the company NITROERG SERWIS Sp. z o.o. of EXPLO Sp. z o.o., which was acquired during 2014. The combination was aimed at creating an entity to provide blasting services in the Polish open-pit mine market, based on the potential and products of NITROERG S.A.
Combination of PHP „MERCUS" sp. z o.o. with „Mercus Software" sp. z o.o.
Combination through the acquisition by the company PHP „MERCUS" sp. z o.o. of the subsidiary „Mercus Software" sp. z o.o. (100% of the capital). This combination was aimed at terminating the activities of „Mercus Software" sp. z o.o., whose primary domain – providing IT services – was acquired prior to the combination as an organised part of the company by the COPI Division of KGHM Polska Miedź S.A., which provides IT services for the Group.
Liquidations
Liquidation of Ecoren DKE sp. z o.o. in liquidation
The process begun in 2013 of liquidating the company Ecoren DKE sp. z o.o. (a direct subsidiary of KGHM Metraco S.A.) was completed, and it was removed from the court register.
Liquidation of KGHM Kupferhandelsges.m.b.H.i L.
The process begun in 2011 of liquidating the direct subsidiary KGHM Kupferhandelsges.m.b.H.i L. was completed, and it was removed from the court register.
Divestments
Divestment from Bipromet Ecosystem sp. z o.o.
The sale by BIPROMET S.A. of all shares held in the subsidiary Bipromet Ecosystem sp. z o.o. (72% of the share capital had been owned). This company was immaterial for the activities of the Group.
Splits
Split of KGHM CUPRUM sp. z o.o. – CBR / creation of the company CUPRUM Development sp. z o.o.
Split of the direct subsidiary KGHM CUPRUM sp. z o.o. – CBR (involved in R&D activities), by separating an organised part of the company, comprising real estate, and transferring it to the newly-created company CUPRUM Development sp. z o.o., all of whose shares were acquired by KGHM Polska Miedź S.A. Ultimately CUPRUM Development sp. z o.o. is to be made a part of a closed-end investment fund of KGHM Polska Miedź S.A. (which invests in real estate).

Creation/Acquisition
Creation of the company CUPRUM Nieruchomości sp. z o.o.
KGHM Polska Miedź S.A. founded the subsidiary CUPRUM Nieruchomości sp. z o.o. with share capital of PLN 50 thousand.
Acquisition of the company EXPLO Sp. z o.o.
The direct subsidiary NITROERG S.A. acquired 100% of the shares of EXPLO Sp. z o.o., as part of the plan to develop a distribution channel and to expand its blasting capabilities. During the year the company was combined with another subsidiary (information above – Combinations).

Equity investments in 2014

In 2014, the Group companies carried out equity investments within the Group aimed at ensuring funds for the advancement of overseas resource base development projects, including the key project Sierra Gorda, and the projects Victoria and Ajax. Financing for these projects was provided in the form of loans granted by KGHM Polska Miedź S.A. to the company Fermat 1 S.à r.l. (a direct subsidiary) and the company 0929260 B.C. Unlimited Liability Company (an indirect subsidiary) in the total amount of USD 381 million (PLN 1 336 million at the average exchange rate of the National Bank of Poland (NBP) from 31 December 2014), followed by loans and/or increases in the share capital of target companies within the holding structure.

Sierra Gorda project	The total amount of financing from companies in the KGHM Polska Miedź S.A. Group to meet the needs of the Sierra Gorda project, proportionally to the interest held in the share capital of Sierra Gorda S.C.M. (55%), amounted in 2014 to USD 666 million (PLN 2 336 million at the average exchange rate of the NBP from 31 December 2014), of which KGHM Polska Miedź S.A. provided USD 334 million (PLN 1 171 million at the average exchange rate of the NBP from 31 December 2014), while the remaining amount of USD 332 million (PLN 1 164 million at the average exchange rate of the NBP from 31 December 2014) was provided by KGHM INTERNATIONAL LTD.
Victoria project	The total amount of financing from companies in the KGHM Polska Miedź S.A. Group to meet the needs of the Victoria project amounted to USD 62 million (PLN 217 million at the average exchange rate of the NBP from 31 December 2014), of which USD 23 million (PLN 81 million at the average exchange rate of the NBP from 31 December 2014) was provided by KGHM Polska Miedź S.A., while the remaining amount of USD 39 million (PLN 137 million at the average exchange rate of the NBP from 31 December 2014) was provided by KGHM INTERNATIONAL LTD.
Ajax project	To finance the Ajax project proportionally to the interest held by the KGHM Group in the share capital of KGHM AJAX MINING INC. (80%), KGHM Polska Miedź S.A. provided CAD 26.4 million (PLN 79.9 million at the average exchange rate of the NBP from 31 December 2014).

In addition, the share capital of several domestic subsidiaries was increased in order to finance planned investments and to purchase investment certificates in closed-end investment funds belonging to KGHM Polska Miedź S.A., for cash investment purposes in accordance with the investment aims of the funds.

Table 14. Increases of share capital of Group companies in 2014

Company	Amount*	Description
Foreign entities		
Fermat 2 S.à r.l.		In 2014, the share capital of the company was increased several times.
	USD 0.4 million (PLN 1.3 million)	Fermat 3 S.à r.l. (an indirect subsidiary of KGHM Polska Miedź S.A.) acquired shares in the increased share capital of the company in exchange for receivables on the loan granted. Next, Fermat 3 S.à r.l. sold these shares to Fermat 1 S.à r.l. (a direct subsidiary of KGHM Polska Miedź S.A.).
	USD 396.9 million** (PLN 1 254.3 million)	Fermat 1 S.à r.l. acquired shares in several subsequent increases in the share capital of this company. The shares were paid for in cash.
		The funds obtained from this capital increase were used to increase the share capital of the company 0929260 B.C. Unlimited Liability Company, as described below.
		Fermat 1 S.à r.l. owns 100% of the shares of Fermat 2 S.à r.l.

Company	Amount*	Description
0929260 B.C. Unlimited Liability Company	CAD 470.4 million (PLN 1 331.2 million)	In 2014, the share capital of the company was increased several times. All of the shares in the increased share capital were acquired by Fermat 2 S.à r.l. (the sole owner of 0929260 B.C. Unlimited Liability Company). The shares were paid for in cash. The funds obtained from this capital increase were used to increase the share capital of the company KGHM INTERNATIONAL LTD. and of the company KGHM AJAX MINING INC., as described below and to repay liabilities towards KGHM INTERNATIONAL LTD.
KGHM INTERNATIONAL LTD.	CAD 399.9 million (PLN 1 151.0 million)	In 2014, the share capital of the company was increased several times. All of the shares in the increased share capital were acquired by 0929260 B.C. Unlimited Liability Company (an indirect subsidiary of KGHM Polska Miedź S.A., being the sole owner of the company KGHM INTERNATIONAL LTD.). The shares were paid for in cash. The funds obtained from this capital increase were used to advance the projects Sierra Gorda and Victoria.
Quadra FNX Chile (Barbados) Ltd.	USD 154 million (PLN 481.5 million)	In 2014, the share capital of the company was increased in relation to financing of the Sierra Gorda project. All of the shares in the increased share capital were acquired by KGHMI (Barbados) Holdings Ltd. The shares were paid for in cash.
Quadra FNX Holdings Chile Limitada	USD 154 million (PLN 481.5 million)	In 2014, the share capital of the company was increased in relation to financing of the Sierra Gorda project. All of the shares in the increased share capital were acquired by Quadra FNX Chile (Barbados) Ltd. The shares were paid for in cash. Quadra FNX Holdings Chile Limitada used the funds from this increase in share capital to pay for shares in the increased share capital of Sierra Gorda S.C.M. Proportionally to its interest in this company, it acquired 55% of the shares in the increased share capital, while the remaining 45% were acquired by SMM SIERRA GORDA INVERSIONES LIMITADA (a company in the Sumitomo Group).
KGHM AJAX MINING INC.	CAD 26.4 million (PLN 75.7 million)	In 2014, the share capital of the company was increased several times. Proportionally to its interest in the share capital, the company 0929260 B.C. Unlimited Liability Company acquired 80% of the shares in the increased share capital, with the remaining 20% acquired by Abacus Mining & Exploration. The shares were paid for in cash. The funds obtained from this capital increase were used to advance the Ajax project.
Domestic entities		
KGHM CUPRUM sp. z o.o. – CBR	PLN 7.2 million	All of the shares in the increased share capital were acquired by KGHM Polska Miedź S.A. which paid for them in cash at their nominal amount. The funds obtained from this capital increase were used by: – „MCZ" S.A., KGHM ZANAM Sp. z o.o. – for investments, – KGHM CUPRUM sp. z o.o. – CBR – as a return on a payment to capital.
„MCZ" S.A.	PLN 4 million	
KGHM ZANAM Sp. z o.o.	PLN 3.8 million	
NITROERG SERWIS Sp. z o.o.	PLN 1.2 million	All of the shares in the increased share capital were acquired by NITROERG S.A. which paid for them in cash at their nominal amount. The funds obtained from this capital increase were used for investments.

* amount of capital paid by Group companies translated using the NBP exchange rate from the capital increase date
** amount of agio from the excess of the issue value over the nominal value of shares in the increased share capital

Table 15. Acquisition of investment certificates and fund investments made in 2014

Entity	Amount	Description
Acquisition of investment certificates		
KGHM III FIZAN	PLN 11.8 million	Certificates acquired by KGHM Polska Miedź S.A., the sole participant in the fund, for cash investing as below.
KGHM V FIZAN	PLN 4.1 million	Certificates acquired by a Group company - KGHM Metraco S.A., which apart from KGHM Polska Miedź S.A. became the second participant in the fund (7.7% share). The funds from the issuance were used to repurchase from KGHM Metraco S.A. shares of WFP Hefra SA (to 100%) and receivables – actions taken to simplify the Group structure.
	PLN 0.7 million	The certificates were acquired by KGHM Polska Miedź S.A. (as financing for the Fund).
Fund Investments		
Acquisition of shares of NANO CARBON Sp. z o.o.	PLN 11.8 million	KGHM III FIZAN acquired shares in the increased share capital proportionally to its interest in the company (49%) and paid for them in cash. The remaining 51% of the shares were obtained by the other investor – Agencja Rozwoju Przemysłu S.A. The funds were used to advance a project – the development and commercialisation of technology and products based on graphene (a form of carbon). This investment conforms to the direction of the fund's investments, which assumes investing its assets in enterprises related to modern technology.
Purchase of shares of WFP Hefra SA	PLN 1.4 million	KGHM V FIZAN purchased from KGHM Metraco S.A. shares of the company WFP Hefra SA, thereby becoming its sole shareholder.

In execution of obligations arising from a sales agreement with the State Treasury to submit an irrevocable purchase offer for all remaining employee shares acquired by employees during the privatisation process, employee shares were purchased in spa companies and in CENTROZŁOM WROCŁAW S.A.

Table 16. Acquisition of employee shares of Group'scompanies in 2014

Acquisition of shares
Acquisition by KGHM I FIZAN of shares from employees of spa companies
In 2014, KGHM I FIZAN acquired shares from employees of spa companies, increasing its ownership interest in the following manner: – Uzdrowiska Kłodzkie S.A. - Grupa PGU - an increase to 99.3% (or by 6.7%), – Uzdrowisko Połczyn Grupa PGU S.A. - an increase to 98.4% (or by 7.0%), – Uzdrowisko Cieplice Sp. z o.o. – Grupa PGU - an increase to 97.9% (or by 5.2%), – Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU - an increase to 98.7% (or by 10.9%).
Acquisition by KGHM Metraco S.A. of employee shares of CENTROZŁOM WROCŁAW S.A.
In 2014, KGHM Metraco S.A. acquired shares from employees of the company CENTROZŁOM WROCŁAW S.A. representing 0.9 % of the share capital of this company, increasing its interest from 98.64% to 99.54%. In addition, KGHM Metraco S.A. acquired a small block of shares belonging to the State Treasury.

With respect to other changes in the Group, in 2014 the company PHP „MERCUS" sp. z o.o. sold all of the shares it held in the associate PHU „Mercus Bis" sp. z o.o. (32.3 %), as a result of voluntary redemption for remuneration. PHU „Mercus Bis" sp. z o.o. was not consolidated due to its immaterial impact on the consolidated financial statements.

5.2. Macroeconomic environment in 2014

Economic growth in 2014 was slightly faster as compared to 2013 and, according to estimates of the International Monetary Fund (IMF), amounted to 3.3% YoY. There was optimistic news on the US economy, which quickened after a weak first quarter, reaching 2.7% growth YoY in the third quarter, helping to reduce unemployment, which dropped in November 2014 to 5.8%. Other key countries continued to deal with serious problems. Although the Eurozone emerged from the recession of 2013, in 2014, according to the IMF, it grew by just 0.8%. In 2014, Germany was no longer in a position to independently drive Eurozone economic activity, France and Italy continued to lack structural reforms, and fears re-emerged both about Greece potentially exiting the Eurozone, and the United Kingdom exiting the European Union. In China, economic activity also slowed, though GDP remained above 7.0%. Inflation at a global level remained low, due among others to falling commodity prices. Some of the volatility on financial markets was caused by geopolitical problems related to the situation in Eastern Europe and the Middle East.

At the end of the year the first step was taken in the long-awaited decoupling of monetary policy between the global economy and that of the USA, when the Federal Reserve terminated the quantitative easing program. At the same time the European Central Bank first lowered the interest rate to a negative level, and then announced its own buy-back program, which is to begin this year. Likewise, the central banks in Japan and China carried out expansive monetary policies.

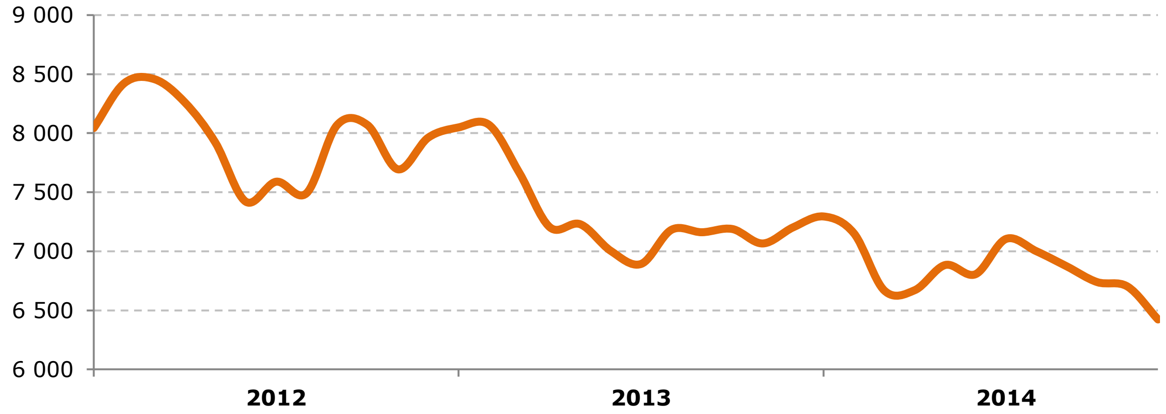
Commodity markets in the first half of 2014 were in a rising trend, though the second half brought substantially lower prices. By the end of June 2014 the Bloomberg Commodity Index had grown by 7%, but over the next six months it fell by 22%. Also of significance was the drastic fall in the oil price, which from its peak in June 2014 dropped by around 50%.

In the first half of 2014, the cash settlement price of copper on the London Metal Exchange (LME) ranged between 6 400 - 7 450 USD/t. In March 2014 the price fell sharply, mainly caused by fears about the sustainability of growth in China and to a reduction in positions in financial transactions hedged by metals. The sharp fall in the price of the red metal was offset by copper's gradual recovery in subsequent months, though in the second half of 2014 copper joined the general market trend downwards, and by the end of the year had fallen by 8%. In addition to the fears already mentioned about the condition of the Chinese economy, fears also involved the rate of economic growth in the Eurozone, as well as the strong appreciation in the USD. The American dollar strengthened versus most world currencies, including the PLN, and as a result the copper price expressed in PLN at the end of 2014 was similar to that recorded at the start of the year.

According to estimates by CRU International, global consumption of refined copper in 2014 rose by 3.9%. During 2014 the copper supply balance went from a state of deficit to one of slight surpus. At the same time, thanks to delays in the start of new production, political and legal difficulties and to a deterioration in the quality of extracted ore, the market gradually revised downwards the anticipated copper supply balance for the coming years. Official exchange inventories remained in the falling trend from 2013, and in 2014 decreased by a further 200 thousand tonnes.

The average annual price of copper on the LME in 2014 was 6 862 USD/t, which was over 6% lower as compared to 2013 (7 322 USD/t).

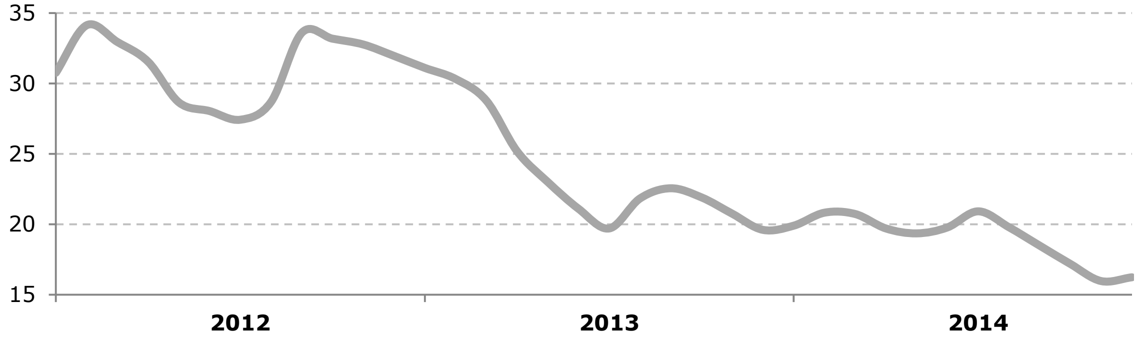
Chart 7. Copper prices on the LME *(USD/t)*



Silver in 2014 was fairly stable in price as compared to prior years, though it remained in a falling trend. In the first half of 2014 the price of silver ranged between 18.50 – 22.00 USD/ounce, thanks to the heightened uncertainty on financial markets caused by the political crises in Ukraine and the Middle East. However, in the second half of 2014, as was the case for other metals as well, the price of silver fell and at the end of the year was around 16 USD/ounce. Apart from the key factor of the USD's appreciation, another reason for the drop in the silver price was the data confirming the lack of global inflationary pressure and the Fed's termination of its assets buyback program.

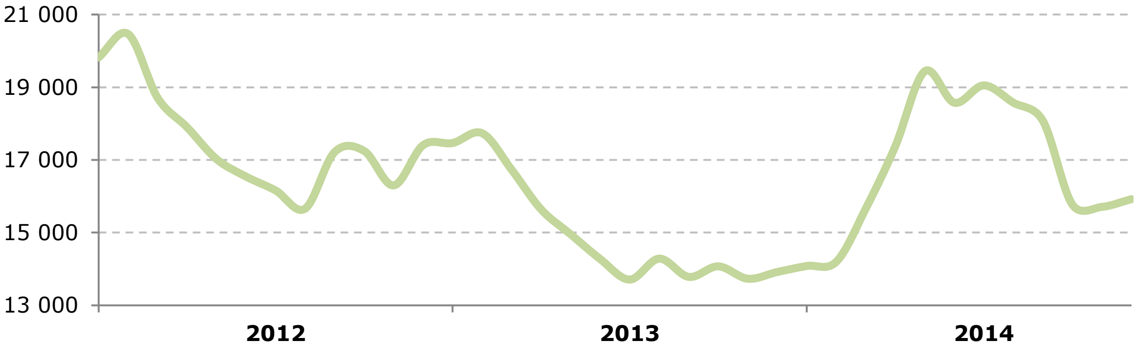
The price of silver on the London Bullion Market (LBM) fell in 2014 by nearly 20% and averaged 19.08 USD/ounce as compared to 23.79 USD/ounce in 2013.

Chart 8. Silver prices on the LBM *(USD/troy ounce)*



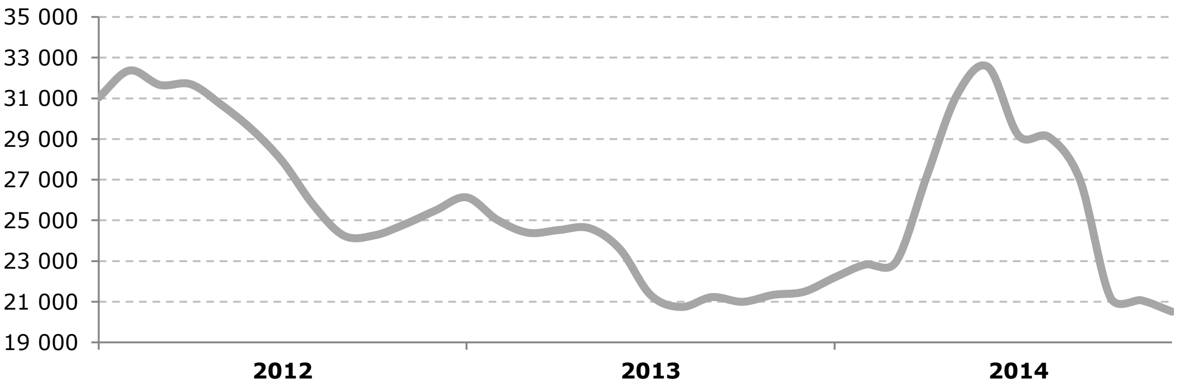
The average annual price of nickel on the LME in 2014 amounted to 16 867 USD/t and was more than 12% higher than the average price recorded in 2013 (15 004 USD/t). Following the embargo announced in January 2014 by the Indonesian government on the export of nickel ore, which reduced the supply of this metal on world markets by 15%, the price of nickel rose sharply, by as much as 50% in subsequent months. In the second half of 2014 the nickel market corrected, caused by growing stocks of the metal in LME warehouses, mainly those located in Asia.

Chart 9. Nickel prices on the LME *(USD/t)*



The price of molybdenum in 2014 reacted in a similar way to that of nickel. The turn of the first and second quarters of 2014 brought a 50% increase in the price of the metal, which was also followed by a substantial downward correction in the second half, which however was sharper than in the case of nickel. Despite the fall in the molybdenum price below the level at the start of 2014, its average annual price on the LME amounted to 25 548 USD/t, which was more than 11% higher than that of the prior year.

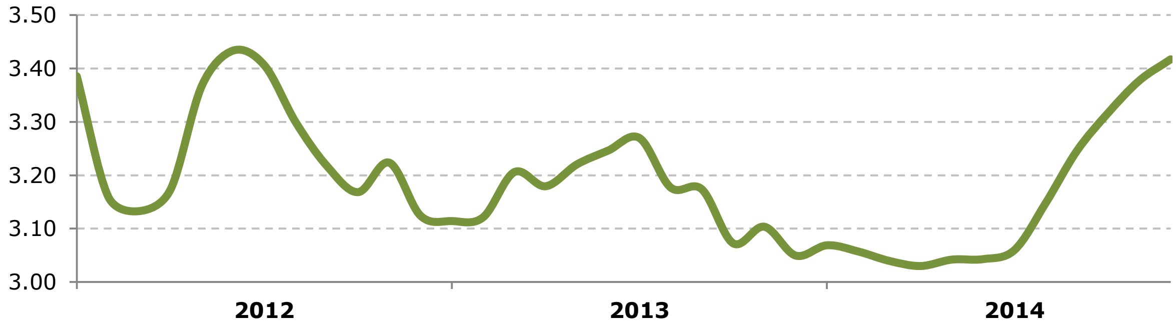
Chart 10. Molybdenum on the LME *(USD/t)*



The US dollar in 2014 strengthened substantially versus most currencies. The improving economic situation in the US, the problems in other key economies and the end of the quantitative easing program by the Fed led to an increase in the USD index of nearly 13% as compared to the currencies of the US's major trading partners, with all of this increase occurring in the last two quarters of 2014. The depreciation of the PLN as compared to the USD was also due to the weakness in the Eurozone, with which the Polish economy is closely entwined, as well as to the threats associated with the geopolitical destabilisation in Eastern Europe.

The average annual USD/PLN exchange rate (per the NBP) in 2014 amounted to 3.15 USD/PLN and was comparable to the average in 2013. However, the exchange rate at the end of 2014 was 16% higher than on the last day of 2013. The minimum USD/PLN exchange rate was recorded in May at the level of 3.0042 USD/PLN, while the maximum level was recorded at the end of December – 3.5458 USD/PLN.

Chart 11. USD/PLN exchange rate as per the National Bank of Poland



Both the Canadian dollar and the Chilean peso depreciated as compared to the American dollar in 2014, similarly as was the case in the prior year. The main reason for the continuation of this trend were the fears surrounding demand for the raw materials exported by these countries related to the slowdown in economic growth, as well as to the general appreciation of the American currency as compared to nearly all other world currencies.

The average USD/CAD exchange rate (per the Bank of Canada) in 2014 amounted to 1.10 and was 7% higher than in 2013 (1.03). The lowest USD/CAD exchange rate was recorded at the beginning of January 2014 – 1.0614, while the highest was in the second half of December 2014 – 1.1643.

The average annual USD/CLP exchange rate (per the Bank of Chile) in 2014 was 570.17, meaning a weakening of the local currecy as compared to the USD by over 15%. The peso was at its strongest in January – 524.61, while its weakest point was recorded in December 2014 – 621.41.

Chart 12. USD/CAD exchange rate as per the Bank of Canada

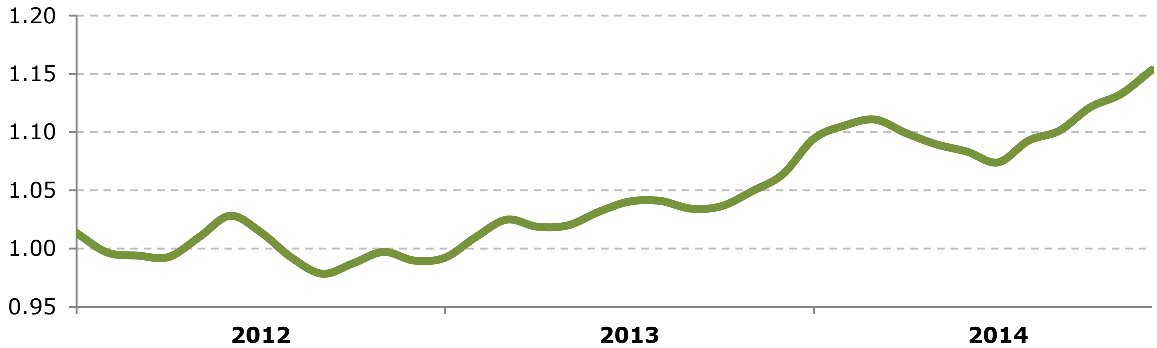
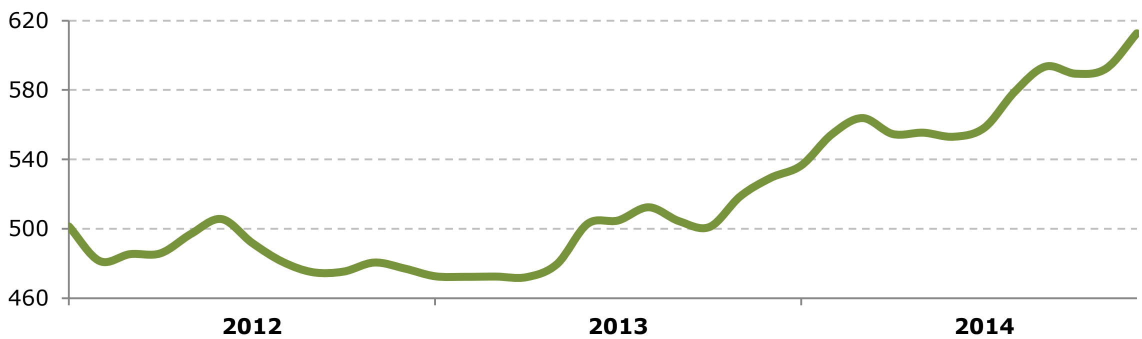


Chart 13. USD/CLP exchange rate as per the Bank of Chile



The macroeconomic factors of greatest importance for the operations of KGHM Polska Miedź S.A. Group are presented in the following table.

Table 17. Macroeconomic factors of importance for the operations of the KGHM Polska Miedź S.A. Group – average prices

	Unit	2013	2014	Change 2013=100	IQ'14	IIQ'14	IIIQ'14	IVQ'14
Copper price on the LME	USD/t	7 322	**6 862**	93.7	7 041	6 787	6 994	6 624
Silver price on the LBM	USD/oz t	23.79	**19.08**	80.2	20.48	19.62	19.76	16.50
Nickel price on the LME	USD/t	15 004	**16 867**	112.4	14 643	18 465	18 576	15 799
Molybdenum price on the LME	USD/t	22 925	**25 548**	111.4	22 648	30 327	28 415	20 937
USD/PLN exchange rate per the NBP		3.16	**3.15**	99.7	3.06	3.04	3.15	3.37
USD/CAD exchange rate per the Bank of Canada		1.03	**1.10**	106.8	1.10	1.09	1.09	1.14
USD/CLP exchange rate per the Bank of Chile		495.09	**570.17**	115.2	551.84	554.35	576.31	598.18

The Group's market position

According to estimates by CRU International, global copper mine production in 2014 amounted to 18 227 thousand tonnes. During this same period mine production by the KGHM Polska Miedź S.A. Group amounted to 507.2 thousand tonnes of copper in concentrate, representing 2.8% of global production. Global production of refined copper, according to estimates by CRU, amounted to 21 655 thousand tonnes. Production of refined copper in the Group amounted to 606.6 thousand tonnes, representing 2.8% of global production.

In 2014, global mine production of silver amounted to 833 million ounces (estimated data from CRU International). KGHM Polska Miedź S.A. during this period produced 38.2 million ounces of silver in concentrate, representing 4.6% of the global production of this metal.

5.3. Basic products

The largest share in the sales of the KGHM Polska Miedź S.A. Group (88%) is from sales of the basic products produced by the Parent Entity and companies of the KGHM INTERNATIONAL LTD. Group.

Table 18. Revenues from sales of basic products of the KGHM Polska Miedź S.A. Group *(in PLN millions)*

	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
KGHM Polska Miedź S.A.							
Cathodes and cathode parts	7 707	**6 966**	90.4	*1 555*	*1 488*	*1 612*	*2 310*
Copper wire rod and OFE rod	6 174	**5 990**	97.0	*1 520*	*1 498*	*1 552*	*1 421*
Other copper products	478	**261**	54.6	*78*	*35*	*80*	*68*
Total copper and copper products	**14 360**	**13 217**	**92.0**	*3 153*	*3 021*	*3 244*	*3 799*
Metallic silver	3 191	**2 471**	77.4	*455*	*690*	*610*	*717*
Metallic gold	144	**327**	x2.3	*39*	*63*	*108*	*117*
Refined lead	194	**183**	94.3	*44*	*39*	*49*	*51*
Total	**17 890**	**16 198**	**90.5**	*3 691*	*3 813*	*4 011*	*4 684*
KGHM INTERNATIONAL LTD. Group							
Copper*	2 317	**1 693**	73.1	*312*	*409*	*540*	*432*
Nickel	211	**177**	83.9	*50*	*47*	*38*	*42*
Precious metals (gold, platinum, palladium)	385	**221**	57.4	*47*	*59*	*56*	*59*
TC/RC	(229)	**(202)**	88.2	*(38)*	*(52)*	*(58)*	*(54)*
Total	**2 683**	**1 889**	70.4	*371*	*463*	*576*	*479*

* *copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore*

Table 19. Volume of sales of basic products of the KGHM Polska Miedź S.A. Group

	Unit	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
KGHM Polska Miedź S.A.								
Cathodes and cathode parts	kt	323.2	**303.9**	94.0	*69.3*	*67.0*	*69.0*	*98.6*
Copper wire rod and OFE rod	kt	250.7	**257.3**	102.6	*65.5*	*67.1*	*66.0*	*58.7*
Other copper products	kt	20.6	**12.1**	58.7	*3.6*	*2.2*	*3.4*	*3.0*
Total copper and copper products	kt	**594.5**	**573.3**	**96.4**	*138.4*	*136.3*	*138.4*	*160.3*
Metallic silver	t	1 250	**1 262**	101.0	*220*	*353*	*296*	*395*
Metallic gold	kg	1 057	**2 530**	x2.4	*307*	*494*	*836*	*894*
Refined lead	kt	26.7	**25.8**	96.6	*6.3*	*5.8*	*6.7*	*7.0*
KGHM INTERNATIONAL LTD. Group								
Copper *	kt	100.8	**80.1**	79.5	*16.1*	*19.1*	*24.8*	*20.2*
Nickel	kt	4.7	**3.2**	68.1	*1.0*	*0.6*	*0.7*	*0.9*
Precious metals (gold, platinum, palladium)	koz t	99.6	**66.5**	66.8	*13.9*	*17.4*	*18.3*	*16.9*

** copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore*

Total revenues from the sale of KGHM Polska Miedź S.A.'s basic products in 2014 amounted to PLN 16 198 million and were lower by 9% than revenues achieved in 2013, mainly as a result of a lower volume of copper sales by 21 thousand tonnes and to a fall in metals prices: copper on the London Metal Exchange (LME) and silver on the London Bullion Market (LBM). Revenues from the sale of copper and copper products were lower by 8%. Revenues from silver sales were lower by 23% as compared to their level in 2013, while revenues from gold sales were higher by 127%. The increase in revenues from gold sales, despite the fall in the price of this metal, was due to the increase in sales volume by 139% (1 473 kg) as compared to 2013. The value of revenues from sales in 2014 reflects the positive result from the settlement of hedging instruments in the amount of PLN 531 million (in the prior year PLN 450 million).

In 2014, revenues from sales of the basic products of companies belonging to the KGHM INTERNATIONAL LTD. Group, such as copper, nickel and precious metals (gold, platinum, palladium), represented 10% of the revenues from metals sales by the KGHM Polska Miedź S.A. Group.

In 2014, the KGHM INTERNATIONAL LTD. Group recorded a decrease in revenues from metals sales by 29.6% as compared to the prior year. This was mainly due to the decrease in the volume of copper sales by 20.5%, as well as nickel and precious metals respectively by 31.5% and 33.2%. The main reasons for the decrease in production, and consequently the sales volume, are described in Section 6.1 of the Management Board's Report.

The revenues of the KGHM INTERNATIONAL LTD. Group are also significantly impacted by metals prices, including the effective price of copper sold, which decreased from 7 253 USD/t in 2013 to 6 636 USD/t in 2014.

A large portion of the remaining Polish companies of the KGHM Polska Miedź S.A. Group provide services and supply products, merchandise and materials to the Parent Entity. The largest sales outside the Group in 2014 were earned by CENTROZŁOM WROCŁAW S.A. (3.2% of Group sales). Sales of other companies did not exceed 1%.

5.4. Sales markets

70.82% of the non-current assets (property, plant and equipment and intangible assets) of the KGHM Polska Miedź S.A. Group are located in Poland. The remaining 29.18% of the non-current assets are located in the following countries: Canada – 16.60%, the United States – 6.32%, Chile – 2.56%, other countries – 3.70%.

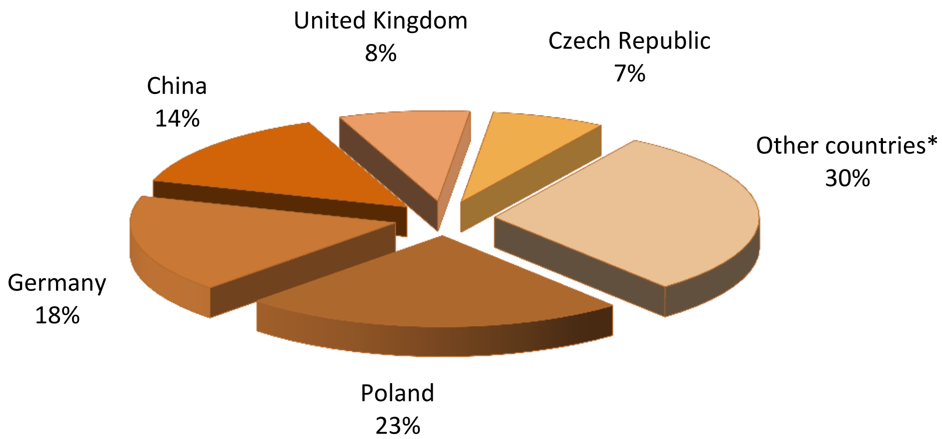
Geographical breakdown of sales

In 2014 the largest proportion of the Group's sales revenue (23%) was from Poland. The largest remaining customers were from Germany, China, the United Kingdom and the Czech Republic (see geographic breakdown below).

Table 20. Sales revenue by market *(in PLN millions)*

Country	2013	2014	Change '2013=100
Poland	4 837	**4 797**	99.2
Germany	4 315	**3 570**	82.7
China	3 379	**2 916**	86.3
The United Kingdom	2 581	**1 639**	63.5
The Czech Republic	1 547	**1 422**	92.0
Other countries	7 451	**6 148**	82.5
Total	**24 110**	**20 492**	**84.99**

Chart 14. Sales revenue breakdown for 2014



** sales to each of the remaining countries did not exceed 4%*

<u>Sales in the Polish market</u>

Around 67% of the revenues from Group sales in 2014 on the Polish market were realised by the Parent Entity. The sales volume of copper and copper products achieved by KGHM Polska Miedź S.A. on the Polish market accounted for 22% of total copper sales. Silver sales on the Polish market accounted for 1% 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 Polish market are from CENTROZŁOM WROCŁAW S.A. (12%), whose business involves trade in scrap and smelter products. The share of other companies did not exceed 3%.

<u>Other markets</u>

Around 84% of sales revenue of the KGHM Polska Miedź S.A. Group to other countries in 2014 were earned by the Parent Entity. The sales volume of copper and copper products accounted for 78% of total copper sales. During the analysed period, the largest recipients of the copper produced by KGHM Polska Miedź S.A. were China, Germany, the Czech Republic and France. Silver sales accounted for 99% of the total volume of silver sales. The largest recipients of the silver produced by KGHM Polska Miedź S.A. were the United Kingdom, Australia, the USA and Belgium.

Companies belonging to the KGHM INTERNATIONAL LTD. Group accounted for approx. 14% 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.

Suppliers to and customers of Group companies

In 2014, there was no recorded dependence in the Group on a single or multiple customers or suppliers - revenues from no single contracting party exceeded 10% of the Group's revenues.

5.5. Significant commercial contracts for the Group

In 2014, Group companies entered into the following significant contracts, whose value exceeded 10% of the equity of KGHM Polska Miedź S.A.

Table 21. Significant contracts for the activities of the Group entered into in 2014

Date	Description of contract
30.01.2014	**Appendix to a comprehensive contract for the purchase of fuel gas**, signed on 30 July 2010 by KGHM Polska Miedź S.A. with Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG). The contract from 2010 involves the purchase of natural gas for power generation purposes – to supply two gas-steam blocks, each of approx. 45 MWe, and is valid to 30 June 2033. Based on the annex, the annual volume to be supplied was reduced from 266 million m^3 to 41.5 million m^3. This change is due to the limitation by KGHM Polska Miedź S.A. in the generation of electricity in association with heat production due to changes in the system of support for cogeneration in 2013 as well as to low electricity prices. The estimated value of this Contract after signing the annex is approx. **PLN 830 million**. The parties do not preclude a return to the initial volume of supply following improvements in the regulatory environment and in macroeconomic conditions. At the same time, KGHM Polska Miedź S.A. signed annexes for three other contracts for the purchase of fuel gas from PGNiG: a contract dated 25 September 2001, a contract dated 4 January 1999 and a contract dated 1 October 1998. The only change in these contracts involved their period of validity, which was changed from being undefined to 30 June 2033. The estimated value of the three contracts during their period of validity is approx. **PLN 2.8 billion** and exceeds 10% of the Parent Entity's equity value. The highest-value contract is the contract signed on 4 January 1999. The estimated value of this contract is approx. PLN 1.8 billion. This change represents a guarantee of long-term cooperation with the company's main natural gas supplier, PGNiG, with respect to the purchase of nitrogen-enriched natural gas.
11.07.2014	**Agreement for an unsecured, revolving credit facility** in the amount of **USD 2 500 million** (approx. PLN 7 581 million, at the average exchange rate for USD/PLN announced by the National Bank of Poland dated 10 July 2014) signed by KGHM Polska Miedź S.A. with an international syndicate of banks. The Agreement has an initial five-year tenor incorporating two one-year extension options exercisable at the request of KGHM Polska Miedź S.A. (at the discretion of each lender). Details regarding the agreement may be found in Section 6.5.
1.08.2014	**Agreement for an unsecured loan** in the amount of **PLN 2 000 million** signed by KGHM Polska Miedź S.A. with the European Investment Bank. The funds acquired through this loan will be used to finance Parent Entity investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings pond. Details regarding the agreement may be found in Section 6.5.
3.09.2014	**A Shareholders Agreement** signed by KGHM Polska Miedź S.A. with Polska Grupa Energetyczna S.A. („PGE"), TAURON Polska Energia S.A. and ENEA S.A., according to which KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A., as Business Partners, will acquire from PGE, on the basis of a separate agreement, a total of 30% of the shares (each Business Partner will acquire 10% of the shares) in the special purpose company PGE EJ 1 sp. z o.o., which is responsible for preparing and carrying out the investment to build and operate the first Polish nuclear power plant with a capacity of approx. 3 GWe. Details regarding this agreement may be found in Section 4.
1.12.2014	**Contract signed by KGHM Polska Miedź S.A. with Prysmian S.p.A., regarding the sale of copper wire rod in 2015 - 2016** The estimated value of this contract is between **PLN 2 071 million and PLN 2 576 million**. The contract's value depends on the amount of tonnage under option and on the relocation of material between Prysmian S.p.A. and Prysmian Kabel und Systeme GmbH. The contract with Prysmian S.p.A. provides for the relocation of wire rod between Prysmian S.p.A. and Prysmian Kabel und Systeme GmbH – on the basis of a separate contract signed between KGHM Polska Miedź S.A. and Prysmian Kabel und Systeme GmbH (the contract is on a consignment stock basis). The contract's value was calculated based on the forward copper curve and the USD/PLN exchange rate as per the National Bank of Poland from 28 November 2014.
29.12.2014	**Annex to a contract** signed on 16 January 2013 between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. **for the sale of copper wire rod in 2015** The estimated value of the contract for the sale of copper wire rod, including the annex (the sum of the 12 months prior to 29 December 2014, and in 2015) is from PLN 2 522 million to PLN 2 714 million, depending on the volume of options used and the relocation of material between plants belonging to Tele-Fonika Kable S.A. The value of the contract is estimated based on known market prices from 2014, the forward copper price curve and the average USD/PLN exchange rate announced by the National Bank of Poland as at 29 December 2014.

Information on significant transactions entered into between related entities, under other than arm's length conditions

In 2014, neither the Parent Entity nor subsidiaries entered into transactions between related entities under other than arm's length conditions.

Information on the contract with 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 4 April 2013, 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 2013, 2014 and 2015.
PricewaterhouseCoopers Sp. z o.o. was also selected to audit the financial statements of twenty-six subsidiaries of KGHM Polska Miedź S.A. and selected foreign entities.

Remuneration for the years 2013 and 2014 for the review and audit of financial statements and remuneration for other reasons, of the entity entitled to provide the auditing services described above, as well as for Group entities, is shown in the following table.

Table 22. Remuneration of the entity entitled to audit the financial statements of KGHM Polska Miedź S.A. and selected subsidiaries *(in PLN thousands)*

	2013	2014
Companies of the PricewaterhouseCoopers group	**6 597**	**6 047**
Due to the contract for the review and audit of financial statements, of which:	3 888	**3 999**
- audit of annual financial statements	3 036	**3 283**
- review of financial statements	852	**716**
Due to other contracts	2 709	**2 048**

5.6. Claims, disputes, fines and proceedings

As at 31 December 2014, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 303 million, including receivables of PLN 109 million and liabilities of PLN 194 million. The total value of the above disputes did not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables in 2014:
- proceedings by KGHM Polska Miedź S.A. amounted to PLN 41 million,
- proceedings by subsidiaries amounted to PLN 68 million.

Value of proceedings involving liabilities in 2014:
- proceedings against KGHM Polska Miedź S.A. amounted to PLN 97 million,
- proceedings against subsidiaries amounted to PLN 97 million.

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

Table 23. Largest on-going proceedings by and against KGHM Polska Miedź S.A. and its subsidiaries at the end of 2014

Proceedings involving liabilities
Additional amount of 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 claims 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 as they were considered to be groundless. The municipalities submitted claims dated 26 April 2012 to the Minister of the Environment to rehear these proceedings. By decisions from 2012 the Minister of the Environment upheld the appealed decisions. The municipalities submitted claims against the decisions of the Minister of the Environment to the Regional Administrative Court, which in judgments dated 31 January 2013 dismissed the charges of the municipalities.

In April 2013 the municipalities of Polkowice, Jerzmanowa, Lubin and the City of Lubin submitted cassation appeals to the judgments to the Supreme Administrative Court, which were heard in September and October 2014. In all these cases the Supreme Administrative Court issued judgments dismissing the cassation appeals.

In its justifications to the above judgments the Supreme Administrative Court indicated that the Regional Administrative Court properly determined that the administrative body initiated explanatory proceedings, reacting to the written claims of the municipalities, but this was not considered to be taking action „ex officio". In the opinion of the Supreme Administrative Court, the Regional Administrative Court properly determined that there was no breach of the law in the form of a failure to make payment on mining fees or the failure to submit information on the payment of mining fees, as described in art. 84 sec. 9 of the Act dated 4 February 1994.

Administrative proceedings regarding the granting of concessions for exploration and assessment of the Bytom Odrzański copper ore deposit – re-hearing

The Minister of the Environment on 29 July 2014 reversed the following decisions in entirety:

- a decision dated 28 January 2014 declining to grant a concession to KGHM Polska Miedź S.A. for the exploration and assessment of the Bytom Odrzański copper ore deposit,
- Concession no. 3/2014/p dated 28 January 2014 issued to Leszno Copper Spółka z o.o. for the exploration and assessment of the Bytom Odrzański copper and silver ore deposit.

Leszno Copper Spółka z o.o. filed a claim against these decisions with the Regional Administrative Court. KGHM Polska Miedź S.A. is awaiting a hearing date.

Royalties for use of invention project no. 1/97/KGHM

Value of amount under dispute: PLN 42 million. The claim was filed with the District Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. 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 District 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. As the company questioned the opinion, the Court experts prepared a supplementary opinion. The Court ordered the company to respond to the opinion by 22 January 2014, which the company did prior to the deadline set.

In the company's opinion the royalties being pursued through the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project.

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. The parties petitioned for evidence to be presented in the form of testimony by witnesses and in the form of court experts from various fields. Proceedings are in progress. In the company's opinion the probability of the claims being adjudicated against the company is very low.

Payment of contractual penalties

Amount under dispute: PLN 19 million. The Capital City Warsaw, in a suit filed 12 March 2013, is seeking the payment of contractual penalties from Przedsiębiorstwo Robót Górniczych „Metro" Sp. z o. o. and from PeBeKa S.A. (a subsidiary of KGHM Polska Miedź S.A.) – as leader of the consortium due to failure to perform remediation work during construction of a metro station on time.

PeBeKa S.A. has charged that the Capital City Warsaw cannot act as plaintiff in the suit as the entity Metro Warszawskie is the actual investor, and has requested the court to order the company BEM Brudniccy z o.o. (subcontractors) to take part in the proceedings, as it was this company which performed the remediation work.

In the opinion of PeBeKa S.A. it is possible that the imposition of contractual penalties may be waived due to the lack of possibility to remediate defects caused by unfavourable atmospheric conditions, or that contractual penalties may be imposed in an amount up to PLN 0.5 million, representing 10% of the value of the faulty work. At a hearing on 12 November 2013 the District Court ordered the appointment of a court expert. The opinion of the court expert confirmed the lack of possibility to remediate the defects due to the unfavourable atmospheric conditions. The parties to the proceedings decided to work out an agreement. The terms of this agreement are currently being determined. Proceedings are in progress.

Return of costs related to protection against mining damages

Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the District Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of protecting against mine damages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA" in Lubin.

The District Court, by a judgment dated 26 February 2013, ordered KGHM Polska Miedź S.A. to pay the amount of PLN 307 thousand. Both parties filed appeals: the defendant in respect of the amount of PLN 305 thousand, and the plaintiff in respect of the amount of PLN 16 million. The Appeals Court appointed a court expert.

In the company's opinion the claim is unfounded and should be dismissed. However, due to the complex nature of the matter and the judgment made by the District Court, it is difficult to foresee the final resolution. Appeal proceedings are in progress.

Proceedings involving receivables

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 the company for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 million, for joint hearing. In the Parent Entitiy's opinion the payment of royalties to the project's authors was unfounded. Proceedings are in progress.

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 Regional Administrative Court against a decision of the Director of the Customs Office which denied a refund for excess excise taxation from January 2006 to February 2009. The Regional Administrative Court, in a judgment from October 2011, reversed the decision appealed by the subsidiary.
The Director of the Customs Office and „Energetyka" sp. z o.o. in December 2011 filed cassation appeals to the Supreme Administrative Court. The court upheld the cassation appeal of „Energetyka" sp. z o.o., and by a judgment dated 27 November 2013 it reversed the appealed judgment and ordered the matter to be reheard by the Regional Administrative Court ("RAC"). As a result of these proceedings, on 2 September 2014 the RAC in Wrocław reversed the Decision of the Director of the Customs Office. At present, proceedings are in progress with the Director of the Customs Office in Wrocław regarding the entirety of the dispute, i.e. PLN 18 million.

Return of excise tax

The amount of excise tax for 2003 under dispute as at 31 December 2014 amounts in total to PLN 14 million.
POL-MIEDŹ TRANS Sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Regional Administrative Court against a decision of the Director of the Customs Office setting excise taxation for individual months from March to December 2003. The Regional 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, which reversed the judgments of the Regional Administrative Court and ordered the matter to be re-heard by the Regional Administrative Court.
The Regional Administrative Court, in a hearing on 16 January 2014, reversed all of the decisions of the Director of the Customs Office respecting the period from March to December 2003. After re-hearing the matter regarding the months of March to December 2003, the Director of the Customs Office in Wrocław, over the period 28 May 2014 to 6 August 2014, reversed the decisions of the Head of the Customs Office and issued decisions which set new, lower tax liabilities (decreased by PLN 2 164 thousand).
Claims have been filed with the Regional Administrative Court against these decisions. On 2 February 2015 the RAC in Wrocław suspended all proceedings for the period March-December 2003 until a hearing has been held regarding the point of law directed to the Constitutional Tribunal regarding the constitutionality of the clauses of the excise tax which form the basis for making a judgment on the disputed decisions of the customs authorities.
With respect to the clauses for January and February 2003, on 16 December 2011, POL-MIEDŹ TRANS Sp. z o.o. filed a claim with the European Human Rights Tribunal.

5.7. Capital expenditures

In 2014, expenditures on property, plant and equipment and intangible assets in the Group amounted to PLN 3 640 million and were higher by PLN 254 million (7.5%) than those incurred in 2013. This was mainly due to an increase in capital expenditures in the KGHM INTERNATIONAL LTD. Group by PLN 194 million (33.6%). In addition, the most important project being advanced by the Group was the joint venture Sierra Gorda project in Chile. The share of KGHM INTERNATIONAL LTD. in the capital expenditures incurred on this project in 2014 amounted to PLN 3 343 million. Detailed information on this project may be found in Sections 4 and 6.1 of the Management Board's Report.

Expenditures on property, plant and equipment and intangible assets by operating segment are presented in the following table.

Table 24. Expenditures on property, plant and equipment and intangible assets in the KGHM Polska Miedź S.A. Group by operating segment *(in PLN millions)**

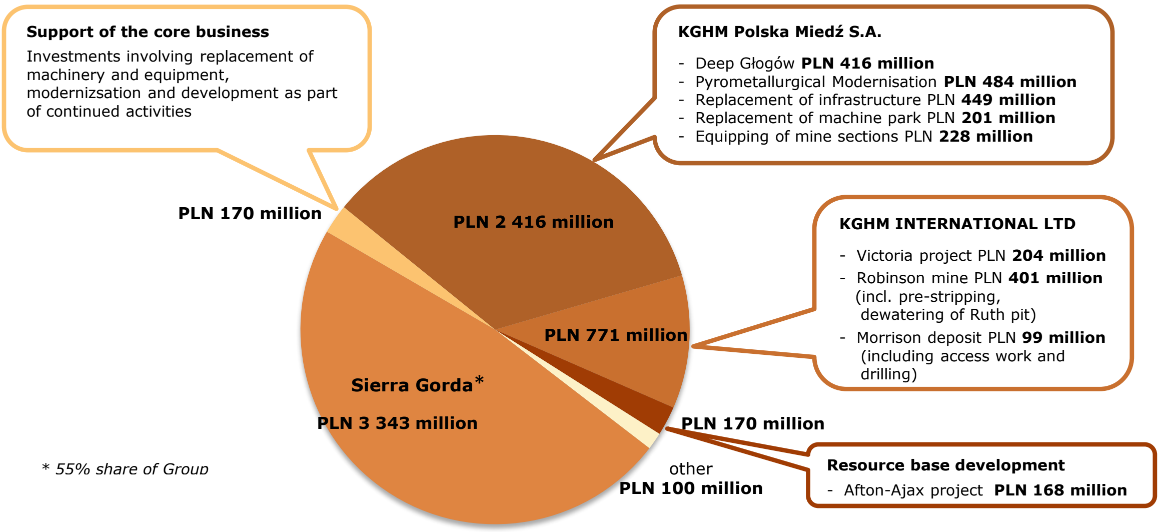
Segment	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
KGHM Polska Miedź S.A.	2 357	**2 416**	102.5	*569*	*457*	*547*	*843*
KGHM INTERNATIONAL LTD. Group	577	**771**	133.6	*141*	*189*	*228*	*213*
Sierra Gorda project **	3 551	**3 343**	94.2	*923*	*838*	*984*	*600*
Resource base development	87	**170**	195.4	*32*	*35*	*43*	*60*
Support of the core business	277	**170**	61.4	*28*	*32*	*37*	*73*
Other segments	100	**100**	100.0	*11*	*19*	*25*	*45*

** prior to consolidation adjustments*

*** 55% share of the Group*

The following chart shows capital expenditures by operating segment, with indication of those projects with the highest expenditures.

Chart 15. Capital expenditures by operating segment in 2014



5.8. Environmental protection

Parent Entity

<u>Activities of KGHM Polska Miedź S.A. related to environmental protection</u>

KGHM Polska Miedź S.A., as one of the most important and socially responsible companies in Lower Silesia, cannot and does not want to avoid its responsibility for the environment in which it operates. The idea of sustainable growth, and in particular respect for the environment, is an important element of the company's strategy. The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the natural environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations protecting the environment, both those built in the past as well as new investments in this area. In 2014, the most important investment project related to environmental protection was the Pyrometallurgy Modernisation Program at the Głogów smelter, which in 2014 incurred PLN 484 million in expenses.

In addition, KGHM Polska Miedź S.A. taking into consideration its corporate social responsibility, in the previous year continued a Program to Promote Health and Prevent Environmental Threats. This program is aimed mainly at children from ages 1 to 16 who live in the vicinity of our metallurgical facilities, and was comprised, among others, of blood testing for lead content, trips to „Green schools", pool-related activities and education related to ecology and health. In 2014 this program covered 695 children and 75 adults.

In accordance with the agreement on sustainable development signed on 20 May 2013 between the Głogów *Powiat* and KGHM Polska Miedź S.A., in 2014 the testing of soil was carried out in the municipalities (*Gmina*) of

Jerzmanowa and the rural *Gmina* of Głogów. The testing was carried out by the Regional Chemical-Agricultural Station in Wrocław. A total of 3 345 soil samples were collected over an area of 4 932 ha.

In addition, in 2014 the liming of soil was performed in the municipalities of Kotla and Żukowice based on dosages of CaO/ha, set on the basis of soil testing performed in 2013. A total of 22.5 kt of commercial lime-megnesium were purchased to cover an area of 2 652 ha.

Environmental fees and fines

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2014 amounted to PLN 30 million. The amount of fees paid was slightly lower than in 2013, despite the annual increase in environmental fee rates. The fees were lower due to a lower amount of tailings produced at the Legnica smelter/refinery than in the prior year, resulting from the maintenance shut-down at the plant.

In 2014 the largest fees paid by the company were for the drainoff of excess water from the Żelazny Most waste treatment tailings pond: PLN 19 million. Another item of costs is the fee for emissions into the atmosphere in the amount of PLN 6 million.

Legal aspect and intentions

KGHM Polska Miedź S.A. operates eight installations whose functioning, in accordance with the Act on Environmental Protection, requires 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/refinery,
- an installation titled The Biechów industrial waste storage facility at the Głogów smelter/refinery,
- an installation titled The Biechów II industrial waste storage facility at the Głogów smelter/refinery,
- an installation for the production of refined lead at the Legnica smelter/refinery,
- 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/refinery,
- an installation for the smelting, continuous casting and drawing of copper rod at the Cedynia Wire Rod Division,
- an installation for the storage of tailings from the flotation of copper ore at the Tailings Division, and
- an installation for the neutralisation of sulphuric acid waste at the Concentrators.

The remaining Divisions of the company possess environmental sector administrative decisions.

In addition, the Głogów and Legnica smelter/refineries and Gas-Steam Blocks have permits to participate in the CO_2 emissions trading system, as since 2013 KGHM Polska Miedź S.A. has been participating in the European Union Emissions Trading System (EU ETS). In 2014, CO_2 emissions from the installations in the ETS system in 2013 were settled. Total CO_2 emissions from these installations, in the amount of 431 kt, were covered by freely-acquired rights to generate these emissions.

Due to changes in environmental law introduced in 2014, the Marshal of the Lower Silesia Voivodeship ordered all of the integrated permits issued to KGHM Polska Miedź S.A. to be reviewed. As a result of this review, the company received decisions which altered the period of validity of the integrated permits to that of an unspecified period.

The most important environmental plans in the near term are as follows:

- continuation of work related to the modernisation of pyrometallurgy at the Głogów smelter/refinery,
- adaptation of administrative decisions held to legal changes,
- overseeing the system for trading CO_2 emissions,
- work related to ensuring the security of the Żelazny Most tailings pond, such as strengthening the containment dam,
- continuation of a program to promote health and prevent environmental threats – aimed at the people living in former protective zones,
- development of the Żelazny Most tailings pond by the so-called southern quarter.

Activities on behalf of meeting REACH requirements

KGHM Polska Miedź S.A. is a member of six international consortia created to meet the requirements of the European Union's REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) decree. In 2014, 14 updates were made to documentation submitted in 2010. 5 of the documentation updates concerned final substances (copper, silver, lead, sulphuric acid and nickel sulphate) and 9 documentation updates concerned intermediate substances.

Cooperation with the consortia involved:

- updating registration documentation related to changes in the classification of substances, a change in the composition of compound substances, a change in the exposure scenario and to a change in the IUCLID system,
- numerous updates to decrees, guidelines and requirements, and,
- the assessment of silver registration documentation conducted by Holland by order of the European Chemicals Agency (ECHA).

In accordance with the REACH decree the deadline for registering substances produced in amounts of less than 100 tonnes per year will expire in May 2018. KGHM Polska Miedź S.A. has until then to register two more substances: gold and bismuth. The registration documentation for gold is currently being developed by the Precious Metals and Rhenium Consortium of which KGHM is a member. The small amount of bismuth contained in the lead-bismuth alloy will be registered by purchasing registration documentation from the Bismuth Consortium based on a letter of access.

Due to the frequent and numerous updates to REACH requirements, all of the consortiums will continue to function at least to 2018.

<u>Financial assets for mine closure and restoration of tailings storage facilities</u>

At 31 December 2014 monetary resources for the decommissioning of mines and the restoration of tailings storage facilities were in the form of cash collected by the Parent Entity on separate bank accounts of the Mine Closure Fund, based on a requirement arising from the Act on geology and mining, and the Tailings Storage Facilities Restoration Fund pursuant to the Act dated 14 December 2012 on waste, to cover the future costs of decommissioning mines and other technological facilities and the restoration of tailings storage facilities. As at 31 December 2014 the monetary resources of these Funds amounted to PLN 206 million, and as at 31 December 2013 to PLN 179 million.

Other Group companies in Poland

Amongst the remaining Polish companies of the Group, the largest environmental impact comes from the activities of the company „Energetyka" sp. z o.o. In 2014, this company incurred the highest environmental fees. They amounted to PLN 3.5 million and were mainly comprised of payments for water intake and waste discharge (PLN 2.4 million) and for emission of contaminants to the atmosphere (PLN 1 million). The company is pursuing an investment program aimed at reducing its environmental impact.

KGHM INTERNATIONAL LTD. Group

In 2014, entities of the KGHM INTERNATIONAL LTD. Group also engaged in activities related to environmental protection. Activities at the Robinson mine in the USA were aimed at monitoring air and water quality and the restoration of mine facilities (total expenditures amounted to approx. PLN 15 million). At the Carlota mine in the USA, activities were mainly related to closure of the mine and environmental monitoring (total expenditures for this purpose amounted to approx. PLN 13 million). In addition, activities at the Franke mine in Chile were focused on dust control (total expenditures approx. PLN 4 million).

<u>Financial assets for mine closure and restoration of tailings storage facilities</u>

As at 31 December 2014, the balance of funds collected by KGHM INTERNATIONAL LTD. to cover the costs of decommissioning mines and restoring terrain after the closure of tailings facilities amounted to PLN 91 million, and as at 31 December 2013, PLN 76 million.

Pursuant to laws in force in the United States and Canada, the KGHM INTERNATIONAL LTD. Group is obligated to purchase government environmental bonds at the amount of the estimated provision for mine decommissioning. As at 31 December 2014, debt instruments held in the amount of PLN 61 million (as at 31 December 2013, PLN 69 million) represented funds allocated to cover the costs of decommissioning the mines of the KGHM INTERNATIONAL LTD. Group.

5.9. Risk Management

Risk Management in the KGHM Polska Miedź S.A. Group

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to achievement of the business goals. The current, future, actual and potential impact of risk on the KGHM Polska Miedź S.A. Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risks.

Under the Corporate Risk Management Policy and Procedure and the Rules of the Corporate Risk Committee approved in 2013, the process of corporate risk management in the KGHM Polska Miedź S.A. Group is consistently performed. The companies of the Group have implemented rules and procedures to regulate the management of corporate risk which are consistent with those of the Parent Entity. KGHM Polska Miedź S.A. supervises the process of managing corporate risk in the Group.

Risks in various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation.

Key risks in the Group undergo in-depth analysis in order to develop a Risk Response Plan and Corrective Actions. Other risks undergo constant monitoring by the Corporate Risk Management and Conformity Department, and in terms of financial risk by the Market and Credit Risk Management Department, the Treasury Department and the Financial Instruments Control and Reporting Unit.

Presented below is the organisational structure of risk management in the Parent Entity. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Diagram 5. Organisational structure of risk management in KGHM Polska Miedź S.A.

Supervisory Board (Audit Committee)

Performs annual assessment of the effectiveness of the risk management process and monitors the level of key risks and ways to address them.

Management Board

Has ultimate responsibility for the risk management system and supervision of its individual elements.

1st line of defense	2nd line of defense				3rd line of defense
Management	**Risk Committees** – Support effective risk management and ongoing supervision of key risks.				**Internal Audit**
Management staff is responsible for identifying, assessing and analysing risk and for the implementation, within their daily duties, of responses to risk. The task of the management staff is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded	**Market Risk Committee** Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	**Credit Risk Committee** Manages risk of failure of debtors to meet their obligations	**Corporate Risk Committee** Manages corporate risk and continuously monitors key risks	Management of liquidity risk, understood as the ability to pay financial liabilities on time and to gain resources to finance its activities	The Internal Audit Plan is based on assessing risk and subordinated business goals, assessed is the current level of individual risks and the degree of efficiency with which they are managed
	Market Risk Management Policy	*Credit Risk Management Policy*	*Corporate Risk Management Policy*	*Liquidity Management Policy*	*Internal Audit Rules*
	Market and Credit Risk Management Department ***Reports to the First Vice President of the Management Board (Finance)***		Corporate Risk Management and Compliance Department ***Reports to the President of the Management Board***	Treasury Department ***Reports to the Executive Director, Finance***	Internal Audit and Control Department ***Reports to the President of the Management Board***

Corporate risk – key risks and their mitigation

A Risk Model is used in the process of identifying risk in the KGHM Group. It is based on the sources of risk and is divided into five categories: Technological, Values chain, Market, External and Internal. Several dozen sub-categories have been identified and defined covering particular areas of the operations or management.

Following are the key risks in the KGHM Group (with separate identification of Parent Entity and KGHM International Group risks).

Risk factor	Risk - description	Mitigation
Technology		
	(Parent Entity) Technological risk related to the mining of deep underground copper ore, under conditions associated with natural hazards.	R&D work and trials of alternate mining methods to currently-used copper ore mining technology, including among others projects involving alternative mining methods: longwall and room-and-pillar systems using mechanical extraction systems. *More in Section 4 of the Management Board's Report.*
	(Parent Entity) Risk of geological-mining changes in the mines and the associated increase in the calorific value of the copper concentrate produced in the Concentrator plants, resulting in a decrease in the amount of concentrates smelted in the pyrometallurgy process.	Construction of a concentrate roasting installation at the Głogów I smelter/refinery together with associated infrastructure, aimed at reducing the calorific value of smelted concentrates by eliminating excess organic elements in the concentrate produced. *More in Section 4 of the Management Board's Report.*

Value chain		
Planning	(KGHM Group) Risk related to using inappropriate economic parameters related to production, investments, macroeconomics and finance, for preparing forecasts of company results. (KGHM INTERNATIONAL Group) Risk related to the acuracy of estimating closure costs for certain mines.	Forecasts related to specific operational areas are prepared by appropriate specialised units.
Logistics and supply chain	(KGHM Group) The risk of restricted access to transportation infrastructure, which affects the steady flow of resources and materials required in production and the delivery of finished products.	Supply flow management and maintenance of minimum levels of resources and materials inventories required in production.
Resources and reserves	(KGHM Group) Risk related to insufficient knowledge of the parameters and characteristics of a deposit, both for exploration projects (estimated input data for orebody evaluation models), as well as for on-going mining operations.	Additional expenditures on exploratory work to enhance the precision of estimated resources and the level of knowledge of geological-mining conditions, optimisation of the drilling network, geological research, knowledge gained through access drifts, consultations with external experts. *More in Section 4 of the Management Board's Report.*
Waste management	(Parent Entity) Risk of the inability to store mine tailings.	Operation, construction and development of the tailings pond pursuant to the operating rules. Coopperation with a Team of International Experts (TIE) and the General Designer, introduction of Observation Methods during development recommended by the TIE, based on the evaluation of geotechnical parameters obtained from the results of monitoring performed, which allow conclusions to be made regarding the behavior of the facility.
Availability of materials and utilities	(KGHM Group) Risk related to the lack of availability of utilities (electricity, gas, water).	Ensure back-up systems for key utilities and on-going evaluation of the security of power systems. Conduct a variety of investments aimed at strengthening energy security.
Production and infrastructure	(KGHM Group) Risk related to industrial emergencies resulting in a shut-down of production lines, both as a result of natural hazards as well as internal factors related to the applied technology. (KGHM INTERNATIONAL Group) Geotechnical risks in open-pit mines (wall stability) and in underground mines. Risk of not achieving targeted leach recovery parameters.	Preventative management of key elements of infrastructure which impact the smooth flow of operations. On-going analysis of geotechnical risks and reviews of planned recoveries.
Efficiency and costs	(KGHM Group) Risk related to the cost effectiveness of the production process, mining projects and the processing of copper-bearing materials, including the risk of significant increases in the prices of materials, services and utilities and of restoration costs.	Monitoring trends on the copper-bearing materials market and maintaining costs at the planned levels. Creating multi-year plans and budgets to achieve profitability under the given market conditions.
Market		
Market Risk	(KGHM Group) Risk related to volatility in commodity prices (copper, silver and other metals), exchange rates and interest rates.	This risk is actively managed (in the Parent Entity, in accordance with the Market Risk Management Policy currently in force). A basic technique for managing market risk in the company are hedging strategies utilising derivative instruments. Natural hedging is also applied. *More in Section 5.9 of the Management Board's Report (Market, credit and liquidity risk).*
Credit Risk related to trade receivables	(KGHM Group) Risk related to the lack of paid receivables by commercial customers and financial institutions.	This risk is actively managed (in the Parent Entity, in accordance with the Credit Risk Management Policy currently in force). Exposure to credit risk is limited by evaluating and monitoring the financial condition of customers, setting credit limits and applying creditor security. *More in Section 5.9 of the Management Board's Report (Market, credit and liquidity risk).*

Liquidity Risk	(KGHM Group) Risk related to the loss of liquidity, understood as a loss of the ability to pay liabilities on time and to obtain financing for operations.	This risk is actively managed (in the Parent Entity, in accordance with the Financial Liquidity Risk Management Policy currently in force). *More in Section 5.9 of the Management Board's Report (Market, credit and liquidity risk).*
Equity investments and divestments	(KGHM Group) The risk of not receiving the expected return on an equity investment. Risk of loss of company value, the failure to achieve assumed synergies, the loss of alternative profits, a fall in the price of shares of listed companies.	Detailed analysis of the effectiveness and justification of equity investment plans; feasibility studies of investment projects and on-going monitoring of the value of assets owned.
External		
Administrative proceedings	(KGHM Group) The risk of restricting or suspending operations as a result of administrative and/or legal proceedings: administrative decisions not received, withdrawn or which undergo unfavourable changes.	The process of obtaining administrative decisions is conducted with an appropriate level of prudence and care. Deadlines are met. Being proactive (initiating procedures at an early stage and executing decisions with a margin of safety in terms of time). Legal counsel is employed when the company is engaged in administrative proceedings. Appeals procedures are followed. The opinions of external experts are sought.
Natural hazards	(KGHM Group) The risk of employees' loss of life or health. Disruptions or restrictions in production in the mines as a result of seismic events and associated roof collapses, or destressings of the rock mass and the occurance of uncontrolled rock bursts.	A wide variety of technological and organisational solutions and other active and passive methods are applied to prevent roof collapses enabling restriction of the effects of dynamic events (roof collapses or rock mass destressings) in the mines. Preparation of reserve fields in the orebody which could handle reduced production. *More in Section 2.6 of the Management Board's Report.*
	(Parent Entity) Risk related to gas hazards (methane and hydrogen sulphide).	The risk of gas hazards occuring is being assessed and principles are being developed for working under the risk of such hazards. Individual employee safety measures are applied as well as equipment and means for reducing concentrations of hydrogen sulphides and neutralising oppressive odors.
	(Parent Entity) Risk related to underground climate risk, which increases in tandem with increasing mine depth.	The construction of additional ventilation shafts, the use of centralised, workplace and individual air cooling systems as well as reduced working time.
Natural environment and climate change	(KGHM Group) The extraction and processing of copper ore at all stages has an unavoidable impact on various parts of the natural environment. Risk related to pricing and the placing of limits on CO_2 emissions.	Compliance with rigorous environmental standards imposed by law is possible thanks to the systematic modernisation of environmental protection installations, both those built in the past as well as new investments in this regard. (In the Parent Entity a CO_2 Emissions Management Sysytem has been implemented as well as environmental management standards ISO 14001.) *More in Section 5.8 of the Management Board's Report.*
Law and regulations	(KGHM Group) The risk of changes in the regulatory environment in areas such as geological-mining law, environmental protection and energy.	Monitoring of legal changes in individual jurisdictions and active participation in legislative processes. Taking preemptive actions to adapt to organisational, infrastructural and technological changes. *More in Section 6.6 of the Management Board's Report.*
Taxes	(Parent Entity) The risk of there being no change in the royalty formula (the minerals extraction tax) and the risk of taxation arising from other regulations. (KGHM INTERNATIONAL Group) Tax risk related to operating in numerous jurisdictions.	
Internal		
Work Safety	(KGHM Group) The risk of serious accidents or industrial illnesses caused by improper workplace organisation, the failure to follow procedures or the use of improper safety devices. The risk of temporary work stoppages caused by serious accidents.	(In the Parent Entity occupational health and safety standards 18001/OHSAS are in force); regular training in occupational health and safety standards, programs to identify potential accidents. *More in Section 2.6 of the Management Board's Report.*

Information policy	(KGHM Group) The risk of the unintended disclosure of sensitive or confidential information.	Internal procedures for managing insider information, confidential information, trade secrets, information security; confidentiality clauses and limits on the number of persons having access to sensitive information.
Global corporation	(KGHM Group) Risk related to the process of integrating and creating a global organisation, with the potential to cause interruptions in operations as a result of changes in the structure and business model.	An appropriate governance and management structure, elimination of barriers which might arise, assurance of a mobile and experienced staff for a model international organisation, systematic reviews of the results of integration and the strengthening of changes already introduced. *More in Section 4 of the Management Board's Report.*
Stakeholders	(KGHM Group) The risk of negative ad campaigns and the risk of lack of acceptance by the public, local governments or other stakeholders for the conduct of development and exploration work.	Execution of the CSR Strategy, close cooperation with government bodies; meetings and negotiations with stakeholders, informational campaigns, conferences, publications. *More in Section 4 of the Management Board's Report.*
Human resources	(KGHM Group) The risk of not being able to acquire and keep human resources, for example in order to properly support development projects.	Programs aimed for example at raising the effectiveness of the processes of recruitment, finding successors and maintaining key positions. Employee mobility program. *More in Section 2.6 of the Management Board's Report*
Security, IT and data protection	(KGHM Group) The risk of theft of assets of significant value, physical attacks, intentional unauthorised disclosures, unauthorised changes to or destruction of key data and information.	Strict adherence to and application of the principles, among others, of the Information Security Policy and Facility Protection Plans.
Project management	(KGHM Group) The risk of exceeding project/program budgets and schedules, exceeding defined scopes and failing to meet defined quality parameters as a result of the improper management of portfolios and projects. (KGHM INTERNATIONAL Group) Risk related to the operational management and development of key mining projects, including issues related to costs incurred, permitting and infrastructural requirements.	Project Management in accordance with Methodology and on-going monitoring and updating of schedules. On-going evaluation of the economic effectiveness of existing and anticipated development projects.

Market, credit and liquidity risk

The goal of market, credit and liquidity risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and financial results in the short and medium terms and to enhance the Group's value over the long term. The management of these risks includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures. In the Parent Entity these issues are covered in the following documents:

- Market Risk Management Policy and the Rules of the Market Risk Management Committee,
- Credit Risk Management Policy and the Rules of the Credit Risk Committee, and
- Financial Liquidity Management Policy.

The „Market Risk Management Policy in the KGHM Polska Miedź S.A. Group" approved in 2014 covers selected mining companies in the Group (KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD., FNX Mining Company inc., Robinson Nevada Mining Company, KGHM AJAX MINING Inc. and Sociedad Contractual Minera Franke), with representatives of the Parent Entity and KGHM INTERNATIONAL LTD. serving as members of the Market Risk Management Committee.

Financial liquidity management in the Parent Entity is carried out in accordance with the Management Board-approved „Financial Liquidity Management Policy". In KGHM INTERNATIONAL LTD. the principles of liquidity management have been set forth in the "Investment Policy". The Parent Entity supervises the process of liquidity management and borrowing in the Group.

Credit risk management in the Parent Entity is carried out in accordance with the Management Board-approved Credit Risk Management Policy. The Parent Entity serves as an advisor to the Group's companies with respect to managing credit risk. In 2014 work began on the development and implementation of consistent credit risk management principles in selected mining companies in the Group.

Market risk management

Market risk is understood as the possible negative impact on the results of the Group resulting from changes in the market prices of commodities, exchange rates and interest rates, as well as the share prices of listed companies.

In terms of market risk management (in particular the risk of changes in metals prices and exchange rates) of greatest significance and impact on the results of the Group are the scale and nature of the activities of the Parent Entity and the mining companies of KGHM INTERNATIONAL LTD.

In 2014, key tasks were centralised in the Parent Entity related to the process of market risk management in the Group (such as coordination of the identification of sources of exposure to market risk, proposing hedging strategies, contacting financial institutions in order to sign, confirm and settle derivatives transactions, and calculating measurement to fair value).

The Parent Entity actively manages the market risk to which it is exposed, taking into consideration that actions and decisions in this regard should be considered within the context of the global exposure to market risk throughout the KGHM Polska Miedź S.A. Group.

The Management Board is responsible for market risk management in the Parent Entity and for adherance to policy in this regard. The main body involved in performing market risk management is the Market Risk Committee, which makes recommendations to the Management Board in this area.

Commodity risk, Currency risk	In 2014, the Group was mainly exposed to the risk of the changes in the prices of metals it sells: copper and silver. In addition, of major significance for Parent Entity was the risk of changes in currency rates, in particular the USD/PLN exchange rate. Other Group companies are additionally exposed to the risk of volatility in the prices of nickel, lead, molybdenum, platinum and palladium. Market risk related to changes in metals prices arises from the formula for setting prices in physical metals sales contracts, which are usually based on the average monthly market prices for the relevant future month. In accordance with the Market Risk Management Policy, in 2014 the Parent Entity continuously identified and measured market risk related to changes in metals prices and exchange rates. Monitoring the size of market risk was based on analyses of the impact of market risk factors on the Parent Entity's operations (profit, balance sheet, cash flow), among others using the market risk measure Earnings-at-Risk, based on Corporate Metrics methodology. This measure indicates, for a given probability, the bottom level of net profit (e.g. with 95% probability, net profit in a given year will not be lower than…). EaR methodology allows the calculation of net profit reflecting the impact of changes in market prices of copper, silver and the exchange rate in the context of planned budgets. For the KGHM INTERNATIONAL LTD. Group and the JV Sierra Gorda S.C.M. EBITDA-at-Risk was calculated. The primary technique for market risk management is the use of hedging strategies involving derivatives. Natural hedging is also used. The Parent Entity considers the following factors in selecting a hedging strategy or when restructuring a hedged position: current and forecasted market conditions, the internal situation of the Parent Entity and the effective level and cost of hedging. In 2014, the Parent Entity implemented a strategy hedging the copper price covering a total volume of 11 thousand tonnes with a time horozon falling in the period from August 2014 to June 2015. During this period silver price hedging strategies were not implemented. However, in the first quarter of 2014, favourable market conditions on the currency market were taken advantage of (strengthening of the PLN versus the USD) and a restructure was performed of the hedging position for the period from April to December 2014, which was reflected in revenues from sales in 2014 in the amount of PLN 204 million. In the first quarter of 2014, a restructure was performed of the hedging position on the currency market for 2015. The closure of the position and un-designation of the hedging transactions was reflected in the revaluation reserve from the measurement of financial instruments in the amount of PLN 93 million, which will increase revenues from sales for 2015 regardless of the USD/PLN exchange rate in this period. In addition, in the second half of 2014, planned revenues from sales were hedged with a total notional amount of USD 1 710 million with a time horizon falling in the period from October 2014 to December 2017. The effective strike price for the transaction for 2016 is around USD/PLN 3.25, while for 2017 it is around USD/PLN 3.30. As at 31 December 2014, the Parent Entity held an open hedged position on the copper market of 48 thousand tonnes and on the currency market of USD 2 220 million in planned revenues from sales. Due to the fact that a portion of the expenditures related to advancement of the Sierra Gorda project were incurred in the Chilean peso, in January 2014 KGHM INTERNATIONAL LTD. acquired put options with a strike price of USD/CLP 525 for the notional amount of USD 200 million for the first quarter of 2014. The purpose of engaging in these derivatives transactions was to limit the risk of appreciation of the Chilean peso versus the USD. Taking into consideration the estimated cost exposure in the Canadian dollar, in August 2014 KGHM INTERNATIONAL LTD. implemeted a derivatives strategy to hedge the USD/CAD exchange rate for the period from August to December 2014 for the total notional amount of USD 62.5 million. Asian put options were acquired. As at 31 December 2014 KGHM INTERNATIONAL LTD. did not hold open hedging positions on the metals and currency markets. Some of the Group's Polish companies managed the currency risk related to their core businesses by opening hedging positions on the USD/PLN and EUR/PLN markets.

The total impact of hedging instruments on the Group's profit or loss in 2014 amounted to PLN 359 million, of which:

- PLN 531 million was recognised in revenues from sales, and
- PLN 172 million decreased other operating activities (wherein: the loss from realisation of derivatives amounted to PLN 68 million, and the loss from the measurement of derivatives amounted to PLN 104 million).

As at 31 December 2014, the fair value of open positions in derivatives (including derivatives embedded in contracts for the supply of acid and water, PLN 32 million) amounted to PLN 331 million, while PLN 330 million was recognised in the revaluation reserve from the measurement of financial instruments.

With respect to managing currency risk whose source is bank loans, the Parent Entity applies natural hedging, based on the drawing of credit in those currencies in which it earns revenues. All liabilities which comprised the balance of bank loans as at 31 December 2014 were drawn in USD, and following their translation to PLN they amounted to PLN 2 108 million.

Interest rate risk	Interest rate risk is the possibility of the negative impact of changes in interest rates on the Group's results. In 2014, the Group was exposed to such risk due to loans granted, free cash invested on deposits and borrowings. As at 31 December 2014, the following positions were exposed to interest rate risk due to the amount of income impacted and the amount of interest costs: – cash and cash equivalents: PLN 475 million, – bank loans: PLN 1 925 million. As at 31 December 2014, the following positions were exposed to interest rate risk due to changes in the measurement of instruments with fixed interest rates: – payables due to loans granted by the KGHM INTERNATIONAL LTD. Group arising from the financing of a joint mining venture in Chile: PLN 6 231 million (or USD 1 777 million), – liabilities due to senior notes issued by KGHM INTERNATIONAL LTD.: PLN 1 775 million (nominal value of the senior notes USD 494 million, while fair value after final settlement of the acquisition price is USD 506 million), – liabilities due to loans drawn: PLN 1 066 million, including loans received by the Parent Entity from the European Investment Bank in the amount of PLN 1 058 million (or USD 302 million).
Price risk related to the purchase of shares of listed companies and investments in debt instruments	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 2014, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 978 million. As at 31 December 2014, the Group held United States government bonds in the amount of PLN 61 million, or USD 17 million, which are only minimally exposed to price risk.

Credit risk management

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. In 2014, the KGHM Polska Miedź S.A. Group was exposed to this risk, mainly in four areas:

Credit risk related to trade receivables	Group companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables. The Parent Entity limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial standing of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Parent Entity is the on-going monitoring of receivables and the internal reporting system. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments or commercial financing instruments which transfer all of the credit risk to financial institutions. In 2014, the Parent Entity secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages, documentary collection and letters of credit. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain. To reduce the risk of insolvency by its customers, the 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 2014 the Parent Entity had secured 95% of its trade receivables (as at 31 December 2013: 74%). The concentration of credit risk in the Group is related to the terms of payment granted to key clients. Consequently, as at 31 December 2014 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 60% of the trade receivables balance (as at 31 December 2013: 49%). 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 clients, as well as above all due to the hedging used, the level of credit risk is low.

Credit risk related to cash and cash equivalents and bank deposits	The Group periodically allocates free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income. Credit risk related to bank deposits is continuously monitored by the on-going review of the financial standing of those financial institutions with which the Group cooperates, and by maintaining an appropriately low level of concentration in individual financial institutions.
Credit risk related to derivatives transactions	All of the entities with which the Group enters into derivative transactions operate in the financial sector. These are mainly financial institutions, with the highest and medium-high ratings. According to fair value as at 31 December 2014, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Group and from unsettled derivatives amounted to 44%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.
Credit risk related to loans granted	As at 31 December 2014, the balance of loans granted by the Group amounted to PLN 6 231 million, or USD 1 777 million. These are long-term loans based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a joint mining venture in Chile. Credit risk related to the loans granted is dependent on the risk connected with mine project advancement and is considered by the Group to be moderate.

The Management Board is responsible for credit risk management in the Parent Entity and for adherance to policy in this regard. The main body involved in realising credit risk management is the Credit Risk Committee.

Financial liquidity risk and management of capital

The management of capital in the Group aims at providing both relevant funding capabilities for business development and at securing relevant liquidity.

Financial liquidity management	Financial liquidity is managed in the Parent Entity in accordance with the Management Board-approved „Financial Liquidity Management Policy". In KGHM INTERNATIONAL LTD., the principles of liquidity management have been set forth in the Investment Policy. These documents describe the process of financial liquidity management considering the nature of the Company, indicating best practice procedures and instruments. The basic principles resulting from these documents are: – the investment of financial surpluses in safe financial instruments, – limits for individual financial investment categories, – limits for the concentration of resources for financial institutions, and – the need to ensure stable and effective financing for the Group's operations. Borrowing by the Group is based on four pillars: – an unsecured, revolving syndicated credit facility in the amount of USD 2 500 million with a maturity of 11 July 2019 (with the option to extend for another 2 years) obtained by the Parent Entity, – an investment loan granted to the Parent Entity by the European Investment Bank in the amount of PLN 2 000 million with a financing period of 12 years, – bank loans in the amount of over PLN 4 600 million, to finance working capital and support current liquidity in companies, along with investment loans drawn by the company to finance investment goals; and – the bond issuance program of KGHM INTERNATIONAL LTD. to the amount of USD 500 million. These sources of financing fully cover the short, medium and long-term liquidity needs of the Group. In 2014, the Group made use of borrowing which was available from all of the above pillars. As at 31 December 2014, the Parent Entity held liabilities due to short-term bilateral bank loans and an investment loan in the amount PLN of 2 108 million (or USD 601 million).
Management of capital	In order to maintain the ability to operate, taking into consideration the execution of planned investments, the Group manages capital so as to be able to generate returns for shareholders and provide benefits for other stakeholders. The Group 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.

6. Review of financial performance

Principles for the preparation of the consolidated financial statements

During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of the Group, consolidated 74 subsidiaries, and used the equity method to account for the shares of three jointly-controlled entities – Sierra Gorda S.C.M., „Elektrownia Blachownia Nowa" sp. z o. and NANO CARBON Sp. z o.o.

The subsidiary TUW–CUPRUM was not consolidated, as the assets, revenues and financial result of this entity do not materially impact the consolidated statement of financial position and the consolidated statement of comprehensive income.

Detailed principles adopted when preparing the Consolidated Financial Statements for 2014 are presented in Note 2 of this document.

6.1. Operating segments

Within the activities of the KGHM Polska Miedź S.A. Group five operating segments have been identified which are analysed in detail by management bodies. The identified operating segments are simultaneously reporting segments:

1/ **KGHM Polska Miedź S.A.**,

2/ **KGHM INTERNATIONAL LTD. Group**,

3/ **Sierra Gorda Project**,

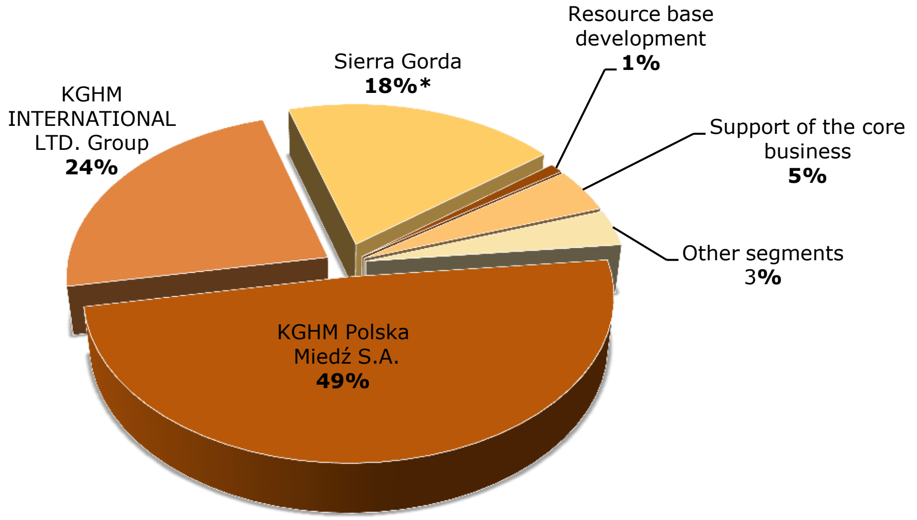
4/ **Development of the resource base -** segment comprised of companies involved in the exploration for and evaluation of mineral resources, whose purpose is to conduct mining operations,

5/ **Support of the core business -** segment comprised of companies directly related to the core business of the Parent Entity,

6/ **Other segments -** all remaining Group companies, unrelated to the mining industry.

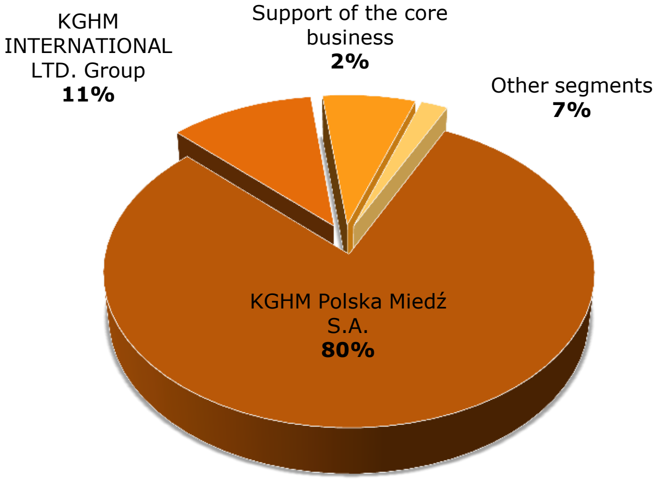
Presented below are the structure of assets and revenues from sales of the KGHM Polska Miedź S.A. Group by segment.

Chart 16. Structure of Group assets by operating segment



** proportionally to the share in the company (55%)*

Chart 17. Sales revenue breakdown by operating segment



The segment Resource base development is not shown on the chart due to its immaterial share of Group revenues.

KGHM POLSKA MIEDŹ S.A.

The Parent Entity represents the most important production segment in the Group. The segment KGHM Polska Miedź S.A. generates the highest results in the Group.

The mining assets of KGHM Polska Miedź S.A. are comprised of deposits of copper ore which are extracted by the following mines: Lubin, Polkowice-Sieroszowice and Rudna, as well as the Głogów Głęboki Przemysłowy (Deep Głogów) mine project to access ore in this area. KGHM Polska Miedź S.A. also owns exploration projects involved in the exploration for and evaluation of deposits of copper ore in the region.

Processing of the copper ore extracted and the production of copper concentrate is performed by the Concentrator Division, comprised of three installations located at each of the mines (Lubin, Polkowice-Sieroszowice and Rudna). The production of electrolytic copper, silver and other products produced from copper concentrate takes place at two metallurgical facilities, the Głogów and Legnica smelters, while numerous products are produced at the Cedynia wire rod plant from the electrolytic copper, including various types of wire rod and granulate.

KGHM Polska Miedź S.A. conducts mining and exploration activities on one of the largest copper ore deposits in the world. The copper ore owned ensures continuity of operations in Poland for the next 40 years.

Production and operating results

Table 25. Production results of KGHM Polska Miedź S.A. *(metallurgical production)*

	Unit	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Payable copper	kt	565.2	**576.9**	102.1	*143.2*	*139.7*	*146.2*	*147.7*
- from own concentrate	kt	430.3	**420.4**	97.7	*105.7*	*104.2*	*102.3*	*108.2*
- from purchased copper-bearing materials	kt	134.8	**156.5**	116.1	*37.6*	*35.5*	*44.0*	*39.5*
Wire rod, OFE and CuAg rod	kt	243.7	**257.9**	105.8	*67.1*	*67.5*	*69.7*	*53.6*
Round billets	kt	17.0	**8.8**	51.8	*0.5*	*1.3*	*3.8*	*3.2*
Metallic silver	t	1 161	**1 256**	108.2	*278*	*328*	*325*	*326*
Metallic gold	kg	1 066	**2 575**	x2.4	*246*	*566*	*822*	*940*
	koz t	34.3	**82.8**	x2.4	*7.9*	*18.2*	*26.4*	*30.3*
Refined lead	kt	26.6	**26.1**	98.1	*6.1*	*6.7*	*5.7*	*7.7*

The production of electrolytic copper as compared to 2013 increased by 11.7 thousand tonnes, or by 2% and was the highest result in the history of the company: 576.9 thousand tonnes. This high level of metallurgical production was achieved despite the maintenance shutdown of smelter equipment at the Legnica smelter/refinery. The level of production increased thanks to the higher processing of own concentrate as well as of purchased copper-bearing materials in the form of scrap, copper blister and imported concentrate. Existing production capacity was efficiently utilised thanks to the processing of purchased copper-bearing materials in addition to concentrates produced from the company's own mines.

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

In comparison to 2013, there was a substantial increase in the amount of metallic gold produced (1 509 kg, a 2.4-fold increase) and for the first time in the company's history reached the level of 2 575 kg. The company also produced 95 tonnes more metallic silver, closing the year at 1 256 t.

Table 26. Cash cost of producing copper in KGHM Polska Miedź S.A.

	Unit	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Cash cost of producing copper – C1*	USD/lb	1.78	**1.82**	102.2	*1.77*	*1.82*	*1.88*	*1.82*
Production of payable copper in concentrate	kt	412.7	**404.4**	98.0	*105.5*	*101.8*	*100.3*	*96.8*

** unit cost of producing copper C1 - cash cost of producing payable copper, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products*

C1 cost was negatively impacted by the lower valuation of precious metals (silver and gold) due to lower prices (+0.18 USD/lb). However the increase in the C1 cash cost was limited by the lower amount of minerals extraction tax paid (-0.10 USD/lb) and the lower cost of producing concentrates from ore mined by the company.

C1 cost was also negatively impacted by the relatively low USD/PLN exchange rate in the first half of 2014.

Table 27. Results of the operating segment KGHM Polska Miedź S.A. *(in PLN millions)*

	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Sales revenue	18 579	**16 633**	89.5	*3 800*	*3 927*	*4 116*	*4 790*
Total costs of products, merchandise and materials sold	(13 970)	**(13 120)**	93.9	*(3 024)*	*(3 103)*	*(3 214)*	*(3 779)*
Operating profit	4 208	**3 545**	84.2	*718*	*828*	*953*	*1 046*
Profit for the period	**3 058**	**2 414**	**78.9**	***507***	***612***	***629***	***666***
Depreciation	768	**818**	106.5	*206*	*213*	*210*	*189*
Capital expenditure *	2 357	**2 416**	102.5	*570*	*458*	*545*	*843*
EBITDA	**4 976**	**4 363**	**87.7**	***924***	***1 041***	***1 163***	***1 235***

** expenditures on property, plant and equipment and intangible assets*

Revenues from sales by KGHM Polska Miedź S.A. in 2014 were lower than those achieved in 2013 by PLN 1 946 million, or by 11%, mainly as a result of a lower volume of copper sales by 21 thousand tonnes and to a fall in the prices of copper and silver.

The value of revenues from sales in 2014 reflects the positive result from the settlement of hedging instruments in the amount of PLN 531 million (in the prior year PLN 450 million).

The company's operating costs (total cost of sales, selling costs and general administrative expenses) in 2014 amounted to PLN 13 120 million and were lower as compared to 2013 by 6% or PLN 851 million. The decrease in costs was mainly due to the lower volume of copper sales by around 21.2 thousand tonnes and to lower expenses by nature.

In 2014, total expenses by nature as compared to 2013 were lower by PLN 161 million, or 1%, mainly due to the lower minerals extraction tax (-PLN 336 million) alongside a higher value of purchased copper-bearing materials by PLN 217 million due to the higher volume consumed by 15 thousand tonnes of Cu with a lower purchase price. The total amount of purchased copper-bearing materials consumed was PLN 3 688 million, of which PLN 3 475 million were used to produce electrolytic copper with the rest used to produce wire rod and refined lead.

In 2014, KGHM Polska Miedź S.A. earned a profit in the amount of PLN 2 414 million, or a decrease by PLN 644 million (21%) as compared to profit earned in 2013. Apart from the changes in revenues and costs mentioned above, profit was significantly affected by the change in the result on other operating activities due to the measurement and realisation of derivatives (an increase by PLN 198 million).

KGHM INTERNATIONAL LTD. GROUP

This segment comprises the company KGHM INTERNATIONAL LTD. and its 25 subsidiaries, presented in Appendix 2 of the Management Board's Report. In this group, apart from companies fulfilling an operational role, are also companies created to optimise functionality.

KGHM INTERNATIONAL LTD. has been a subsidiary of KGHM Polska Miedź S.A. since March 2012. Until control was gained by KGHM Polska Miedź S.A. the company had been listed on the Toronto stock exchange (previous name Quadra FNX Mining Ltd).

The KGHM INTERNATIONAL LTD. Group represents the second-largest, after KGHM Polska Miedź S.A., production segment in the Group.

This segment comprises the operation of functioning mines extracting copper (and other metals) located in Canada (McCreedy West, Morrison), 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.

Companies of the KGHM INTERNATIONAL LTD. Group also provide services under the brand DMC Mining Services in shaft sinking, development work, above-ground and underground mine facilities, drilling, civil underground construction, and feasibility analyses and design work.

Under the segment KGHM INTERNATIONAL LTD., the share of the Group (55%) in the Sierra Gorda project is shown as an investment accounted for using the equity method. This project, due to its importance, represents a separate operating segment.

Production and operating results

Table 28. Production results of KGHM INTERNATIONAL LTD.

Mine	Unit	2013	2014	Change 2013=100	IQ'14	IIQ'14	IIIQ'14	IVQ'14
Robinson								
Payable copper	kt	48.9	**39.3**	80.3	7.8	11.2	9.9	10.4
Precious metals	koz t	45.1	**25.0**	55.4	5.9	6.2	5.5	7.4
Carlota								
Payable copper	kt	9.7	**10.5**	108.0	2.6	2.6	2.6	2.6
Franke								
Payable copper	kt	19.9	**19.3**	97.0	4.9	4.3	5.3	4.7
Morrison								
Payable copper	kt	18.8	**15.6**	83.0	3.5	3.9	3.9	4.3
Nickel	kt	2.9	**2.8**	96.6	0.7	0.6	0.7	0.8
Precious metals*	koz t	44.5	**41.0**	92.1	9.3	10.5	10.6	10.6
McCreedy								
Payable copper	kt	1.4	**1.3**	92.9	0.3	0.3	0.4	0.3
Nickel	kt	1.7	**0.4**	23.5	0.3	0.0	0.0	0.1
Precious metals*	koz t	4.0	**4.1**	102.5	0.7	1.1	1.1	1.2
Podolsky**								
Payable copper	kt	2.1	**-**	x	-	-	-	-
Nickel	kt	0.1	**-**	x	-	-	-	-
Precious metals*	koz t	4.7	**-**	x	-	-	-	-
Total Mines								
Payable copper	kt	100.8	**86.0**	85.3	19.1	22.3	22.2	22.4
Nickel	kt	4.7	**3.2**	68.1	1.0	0.7	0.7	0.9
Precious metals*	koz t	98.3	**70.1**	71.3	15.9	17.8	17.2	19.2

* *precious metals – gold, platinum, palladium*
*** mine closed in 2013*

The decrease in copper production by 14.8 thousand tonnes (14.7%) as compared to the analogous prior year period, was mainly due to the Robinson and Morrison mines.

In the first half of 2014, the Robinson mine processed ore which mainly came from the Kimbley pit, which was of a much lower quality than that from the Ruth pit, mined during the same period in 2013. This led to a deterioration in the recovery of copper and gold as well as the content of these metals in concentrate. As a result production was lower and unit costs were higher.

Starting from the second quarter of 2014, the mine began the process of mixing ore from two pits, which led to better production results and consequently stabilisation of production at the level of around 10 thousand tonnes in subsequent quarters.

The slight drop in copper production in the third quarter of 2014 was due to the 26-day maintenance shut-down of the mill.

The drop in copper production from the Morrison mine was due to increased seismic activity, which restricted access to certain mining areas. As a result the mine produced ore from lower quality regions than in 2013 (an 8% drop in content).

The other mines (Carlota, Franke and McCreedy) achieved copper production at higher or similar levels to those in 2013.

The decrease in precious metals production by 28.2 koz t (28.7%) and nickel by 1.5 thousand tonnes (31.9%) was also due to mining in lower-grade areas as compared to 2013. In addition, with respect to nickel, there was a significant drop in production by the McCreedy mine as a result of insufficient processing capacity by a customer and the cessation of extraction by the Podolsky mine.

Table 29. Cash cost of producing copper in KGHM INTERNATIONAL LTD.*

	Unit	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Cash cost of producing copper - C1**	USD/lb	2.15	**2.26**	105.1	*2.74*	*2.03*	*2.25*	*2.11*
Production of payable copper sold	kt	100.8	**80.1**	79.5	*16.1*	*19.1*	*24.8*	*20.2*

* *excluding adjustments due to final accounting for acquisition*

** *unit cost of producing copper C1 - cash cost of producing payable copper, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products*

In 2014, C1 cash cost in KGHM INTERNATIONAL LTD. amounted to 2.26 USD/lb and was higher by 5.1% than that achieved in 2013. The main causes of the increase in unit cost were:

- the aforementioned deterioration of technological parameters at Robinson, adversely impacting the amount of production sold and the cost of processing ore,
- the decrease in revenues from sales of precious metals due to lower metals prices and to lower gold production at Robinson (the revenue from sale of by-products decreases the C1 cost of copper production).

At the Robinson mine, which has the greatest impact on the level of unit cost in the KGHM INTERNATIONAL LTD. Group, C1 cost increased from 1.83 USD/lb in 2013 to 2.52 USD/lb in 2014. However, aggregate C1 cost for the remaining mines decreased by 15.5%.

Table 30. Results of the operating segment KGHM INTERNATIONAL LTD. *(in PLN millions)**

	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Sales revenue	3 364	**2 229**	66.3	*452*	*544*	*657*	*576*
Total costs of products, merchandise and materials sold	(3 287)	**(2 388)**	72.6	*(558)*	*(497)*	*(671)*	*(662)*
Operating profit	212	**190**	89.6	*(32)*	*126*	*88*	*8*
Profit for the period	**30**	**54**	**180.0**	*(63)*	*68*	*37*	*12*
Depreciation	536	**525**	97.9	110	92	128	195
Capital expenditure **	577	**771**	133.6	141	189	228	213
EBITDA	**748**	**715**	**95.6**	78	218	216	203

* *data do not reflect adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD.*
** *expenditures on property, plant and equipment and intangible assets*

The decrease in sales revenue in 2014 as compared to 2013 by 33.7% was due to:

- lower production, and consequently a lower sales volume by the Robinson mine,
- lower metals prices, including the effective price of copper sold by 8.5%,
- a decrease in revenues from mining services performed by the company DMC Mining Services Ltd. from PLN 681 million in 2013 to PLN 340 million in 2014, due to the slower pace and lower number of projects carried out as compared to 2013.

The decrease in basic operating costs by PLN 899 million was mainly due to the lower volume of copper production and the deterioration in operating parameters at Robinson related to the processing of low-quality ore, alongside the impact of cost cutting initiatives. Costs were also significantly impacted by a one-off event concerning the Carlota mine:

- an impairment loss on property, plant and equipment, which after translation at the average exchange rate for 2013 increased costs for 2013 by PLN 174 million (USD 55 million),
- reversal of an impairment loss on the value of inventories due to the implementation of new underground leaching technology, which positively impacted costs in 2014 – a decrease by PLN 38 million (USD 12 million).

With respect to other operating activities, the KGHM INTERNATIONAL LTD. Group earned a profit of PLN 349 million (PLN 135 million in 2013). The increase in the result by PLN 214 million was mainly due to:

- the increase in accrued interest income on a loan granted to finance the Sierra Gorda project in Chile, which in 2014 amounted to PLN 282 million (PLN 189 million in 2013),
- impairment losses on available-for-sale financial assets, which did not occur in 2014 (costs of other operating activities in 2013 decreased in this regard by USD 35.1 million, or PLN 111 million after translation based on the exchange rate for 2013),
- a better result on exchange differences, which amounted to –PLN 17 million in 2014 (-PLN 51 million in 2013).

The above factors resulted in a lower operating result and EBITDA, respectively by 10.4% and 4.4% as compared to 2013.

After accounting for finance costs and taxation, profit for 2014 amounted to PLN 54 million and was higher than that recorded in 2013 by PLN 24 million. It should be stressed that the slight change in the exchange rate, representing the basis for calculation, was too small to have a significant impact on the results as expressed in the Polish zloty (3.18 USD/PLN in 2014 versus 3.17 USD/PLN in 2013).

Major production assets

Robinson mine	
Location	Nevada, the USA
Ownership	100% owned by Robinson Nevada Mining Company
Type of mine	open pit
Main ore type	copper ore
Associated metals	gold
Type of orebody	porphyry/skarn
End product	copper concentrate
Production	39.3 kt Cu; 25 koz TPM*
Employment (2014)	595

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

The mine is located in White Pine County, Nevada, USA, around 11 km west of Ely (approx. 400 km north of Las Vegas), in the Egan Range, at an average altitude of 2 130 m a.s.l., near Highway 50.

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

Morrison mine	
Location	Sudbury Basin, Ontario, Canada
Ownership	100% owned by FNX Mining Company
Type of mine	underground
Main ore type	copper ore
Associated metals	nickel, platinum, palladium, gold
Type of orebody	footwall/contact Ni
End product	copper ore
Production	15.6 kt Cu, 2.8 kt Ni, 41.0 koz TPM*
Employment (2014)	317

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

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

The ore is accessed and mined with the aid of leased infrastructure belonging to the Craig mine owned by Xstrata Nickel. Mineralisation in the Morrison deposit most commonly occurs in the form of ore veins.

Mining is carried out at the 4030 level (approx. 1228 m) using mining techniques adapted to the deposit's geometry - mainly this is a mechanised method of selective extraction using undercutting of successive levels from bottom to top. Drilling is being carried out to define the lower portions of the orebody above the 4700 level (approx. 1433 m).

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

Franke mine	
Location	Antofagasta region, Chile
Ownership	100% owned by Sociedad Contractual Minera Franke
Type of mine	Open-pit
Main ore type	copper ore
Associated metals	None
Type of orebody	IOCG (iron oxide copper gold)
End product	copper cathodes
Production	19.3 kt Cu
Employment (2014)	563

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

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

DMC – mining services

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

One of the most important assets in the pre-production stage is the Victoria project.

Victoria project	
Location	Sudbury Basin, Ontario, Canada
Ownership	100% owned by KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper-nickel ore
Associated metals	precious metals (gold) and platinum group metals (platinum, palladium)
Mine life	15 years
End product	copper concentrate, nickel concentrate
Forecasted production	16 kt Ni, 15 kt Cu
Start of production	start of mining in 2020, full production by 2022

This project is located in the Canadian province of Ontario, around 35 km west of the town of Sudbury. In 2002 KGHM INTERNATIONAL LTD. acquired rights to the Victoria mineral deposit and commenced a campaign of exploration in this terrain. Resources are estimated at 13.6 million tonnes of ore, with average grade of 2.6% Cu, 2.7% Ni and 8.3 g/t of associated metals.

The current development scenario for the project calls for the sinking of an exploration shaft with four operating levels, from which additional drilling will be conducted as part of an advanced exploration campaign. This will provide more detailed geological information within the current project resources, as well as the documentation of additional mineral resources. Sinking of the shaft is planned to begin in the second quarter of 2016 and will last to 2019, while the exploration program will be completed in 2020. Ultimately the exploration shaft will serve as a ventilation-production shaft.

Information on progress regarding this project in 2014 may be found in Section 4 of the Management Board's Report.

SIERRA GORDA PROJECT

KGHM INTERNATIONAL LTD. acquired the project in 2008. Since September 2011 the Sierra Gorda project has been a joint venture (under the company JV Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group. This is a key development project in the KGHM Polska Miedź S.A. Group due to its scale – construction of one of the world's largest mines of copper, molybdenum and gold is being created, which will improve the Group's position on the cost curve.

Sierra Gorda project	
Location	Region II, Chile
Ownership	55% KGHM INTERNATIONAL LTD, 45% Sumitomo group companies - Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%)
Type of mine	Open-pit
Main ore type	copper ore
Associated metals	molybdenum, gold
Mine life	23 years, with option to prolong to 42 years
End product	copper concentrate, molybdenum concentrate
Forecasted production	approx. 220 kt Cu, 11 kt Mo, 2 tonnes Au
Start of production	2014

The Sierra Gorda mine is located in the Atacama desert, in the Sierra Gorda administrative area in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The mine is situated at an altitude of 1 700 m a.s.l. and 4 km from the town of Sierra Gorda, having a communications network with direct access to a highway and railway connections. Power for the mine is supplied from a plant in Mejillones, as well as from a local power plant. The water supplied by pipeline to the Sierra Gorda project comes from the cooling systems of a power plant located in the coastal city of Mejillones.

The copper and molybdenum concentrates produced are transported to the port of Antofagasta, and from there by sea to smelters around the world.

The Sierra Gorda orebody is one of the largest deposits of copper and molybdenum in the world, comprising both sulphide copper ore as well as oxide copper ore located above the sulphide level. The Sierra Gorda mine assumes two investment stages. The first stage is the construction of a conventional open-pit mine (extraction using blasting materials and dump trucks, loading and ore transport to a processing plant), development of infrastructure (among others a tailings pond, power line, salt water pipeline) and a processing plant with an installation to separate the molybdenum (high-pressure crushers, ball mills and conventional flotation) with processing capacity of 110 thousand tonnes of ore per day. In the second stage, the capacity of the processing plant will be increased to at least 190 thousand tonnes of ore per day. In addition, we expect the life of the mine to be prolonged as a result of mining of the mineralized areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, based on the infrastructure of the investment's second stage.

The Sierra Gorda Oxide project is aimed at processing the oxide ore obtained during the pre-stripping phase in an installation for the recovery of metal using SX/EW technology. Oxide ore is stored separately for later heap leaching. Under this project, stacking tests are being conducted as well as semi-industrial tests, whose results will enable selection of an optimum means of utilising all of the oxide ore.

On 30 July 2014 the Sierra Gorda mine commenced production. Following the ramp-up period which will be completed in mid-2015, it is planned that the mine will produce annually around 120 thousand tonnes of copper, 50 million pounds of molybdenum and 60 thousand ounces of gold in its first years of operation. On 25 October 2014, the first shipment to the Toyo Smelter and Refinery in Japan (with approx. 6 thousand tonnes of copper concentrate from the Sierra Gorda mine) left the Port of Antofagasta.

The value of the investment in the joint venture Sierra Gorda S.C.M. in the consolidated financial statements at the end of 2014 increased by PLN 647 million and amounted to PLN 4 333 million (at the end of 2013: PLN 3 686 million). The reasons for this increase are described in Section 6.2 of the Management Board's Report.

The share of the Group in expenditures on property, plant and equipment and intangible assets incurred in 2014 amounted to PLN 3 343 million.

As at 31 December 2014, the share of the Group in the contractual obligations of Sierra Gorda S.C.M. related to its investments and operations amounted to PLN 4 038 million (as at 31 December 2013 PLN 5 605 million).The share of the Group in the total value of future minimum payments due to leases of mining equipment entered into by Sierra Gorda S.C.M. in 2014 amounted to PLN 862 million (in 2013 they amounted to PLN 103 million). In addition, the Group has granted guarantees in the amount of PLN 823 million to secure the proper performance of agreements entered into by Sierra Gorda S.C.M. (detailed description in Section 6.4 of this report).

DEVELOPMENT OF THE RESOURCE BASE

This segment comprises the following companies engaged in exploration-evaluation activities:

- KGHM AJAX MINING INC. – this company is advancing the Ajax copper and gold resource project in British Columbia, Canada (also known as the Afton-Ajax project), (the Group's share: 80%, Abacus Mining & Exploration Corp.: 20%),
- Sugarloaf Ranches Ltd. – this company owns land designated for future mining activities related to the Ajax project,
- KGHM Kupfer AG – this company is advancing a resource project – exploration for a copper deposit in Weisswasser in Germany.

Due to the current stages of work by the aforementioned projects, this segment does not generate income, and the companies are of a cost-generating nature. The loss of this segment for 2014 was PLN (3) million.

Capital expenditure in this segment in 2014 amounted to PLN 170 million and was due to advancement of the Ajax project (PLN 168 million).

The Ajax project, located south of the town of Kamloops in British Columbia, Canada, assumes the construction and operation of an open-pit copper and gold mine and an ore processing plant, with associated infrastructure.

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 project is being realised by a direct subsidiary of KGHM Polska Miedź S.A. - KGHM Kupfer AG.
Information on activities regarding these projects may be found in Section 4 of the Management Board's Report.

SUPPORT OF THE CORE BUSINESS

This segment is comprised of companies related directly to the core business of KGHM Polska Miedź S.A.:

- KGHM Metraco S.A. – this company secures supplies of copper scrap for KGHM Polska Miedź S.A., and sells the by-products of the Parent Entity's core business to external markets,
- 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.,
- KGHM ZANAM 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 of electrotechnical products and services and automatic devices and is a service provider for the underground radio communication system for the mines of KGHM Polska Miedź S.A.,
- BIPROMET S.A. – among others, this company prepares 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.,
- „Energetyka" sp. z o.o., and subsidiaries: WPEC w Legnicy S.A., and „BIOWIND" sp. z o.o. in liquidation – 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.

Operating results

Table 31. Operating results of the segment Support of the core business *(in PLN millions)**

	2013	2014	Change '2013=100	IQ'14	IIQ'14	IIIQ'14	IVQ'14
Sales revenue	5 174	**4 667**	90.2	*1 271*	*759*	*1 400*	*1 237*
Total costs of products, merchandise and materials sold	(5 159)	**(4 602)**	89.2	*(1 240)*	*(992)*	*(1 135)*	*(1 235)*
Operating profit	87	**86**	98.9	*34*	*34*	*13*	*5*
Profit for the period	**62**	**63**	**101.6**	*22*	*23*	*9*	*9*
Depreciation	137	**163**	119.0	*40*	*41*	*41*	*41*
Capital expenditure **	277	**170**	61.4	*28*	*32*	*37*	*73*
EBITDA	**224**	**249**	**111.2**	*74*	*75*	*54*	*46*

** prior to consolidation adjustment*

*** expenditures on property, plant and equipment and intangible assets*

The sales revenues of this segment for 2014 were lower as compared to the prior year by PLN 507 million, or by 9.8% (mainly due to a decrease in the volume and price of sales of copper scrap sold by KGHM Metraco S.A. to KGHM Polska Miedź S.A.). Around 87% of the segment's sales revenues for 2014 were earned from sales to other segments of the Group. Consequently, the results of this segment do not have a material impact on the consolidated results of the KGHM Polska Miedź S.A. Group.

Significant events occuring in 2014 amongst the companies of this segment include the start of negotiations with PKP CARGO as a potential sector partner in POL-MIEDŹ TRANS Sp. z o.o.

At the beginning of 2015, PKP CARGO and KGHM Polska Miedź S.A. signed a preliminary, un-binding agreement regarding the potential acquisition by PKP CARGO of a 49% stake in POL-MIEDŹ TRANS Sp. z o.o. (in exchange for a cash contribution and aport in the form of locomotives). This transaction is prior to separation of those areas of the company's activities unrelated to railway transport which will be transferred to other companies in the Group. On 25 February 2015 the Management Board of POL-MIEDŹ TRANS Sp. z o.o. announced an agreed, approved and signed company Division Plan (detailed information in Section 8 of the Management Board's Report).

Acquiring a strategic partner for the railway business of POL-MIEDŹ TRANS Sp. z o.o. is the result of the consistent performance of the strategy of concentration by KGHM Polska Miedź S.A. on its core business. By gaining a sector partner for its railway activities the Group is able to reduce capital expenditures in this area, while at the same time strengthening the position of POL-MIEDŹ TRANS Sp. z o.o. on the railway transportation market.

OTHER SEGMENTS

This segment is comprised of all other companies of the KGHM Polska Miedź S.A. Group unrelated to the mining industry, with the exception of the companies Fermat 1 S. á r. l., Fermat 2 S. á r. l., Fermat 3 S. á r. l. and 0929260 B.C.U.L.C. These entities were not recognised in this segment due to their nature – they were created as part of a holding structure for the purpose of acquiring KGHM INTERNATIONAL LTD. The subject of their activities is the foundation, development, management and supervision of other companies within this structure. They do not engage in operations which have an impact on the results achieved by individual segments, which is why they were not classified to any of the presented segments while their data was recognised under consolidation adjustments and under adjustments of the value of the segments to consolidated amounts.

Companies in the remaining segments are very diversified in their operations. Among others they are of an equity investment nature, as well as fulfilling corporate social responsibility. This segment includes companies which are to be restructured and divested.

The segment also includes closed-end investment funds and their portfolio companies (including those forming the Polska Grupa Uzdrowisk (Polish Spa Group)).

Operating results

Table 32. Operating results of other segments *(in PLN millions)**

	2013	2014	Change 2013=100	IQ'14	IIQ'14	IIIQ'14	IVQ'14
Sales revenue	2 880	**2 475**	85.9	*569*	*615*	*643*	*648*
Total costs of products, merchandise and materials sold	(2 859)	**(2 478)**	86.7	*(574)*	*(604)*	*(626)*	*(674)*
Operating profit	11	**175**	x15.9	*33*	*82*	*77*	*(17)*
Profit for the period	**3**	**156**	**x52**	***30***	***77***	***71***	***(22)***
Depreciation	79	**67**	84.8	*18*	*17*	*17*	*15*
Capital expenditure **	100	**100**	100.0	*11*	*19*	*25*	*45*

** prior to consolidation adjustment*

*** expenditures on property, plant and equipment and intangible assets*

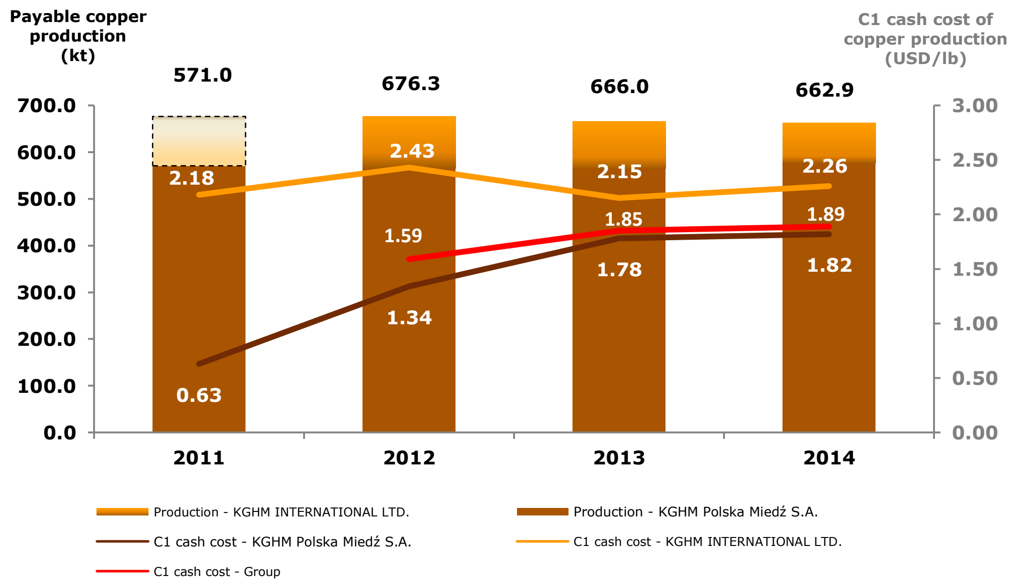
Profit of this segment for 2014 increased substantially as compared to profit for 2013 (by PLN 153 million, or by 52x), due to an increase in the value of assets belonging to the KGHM I FIZAN Fund, specifically assets of the companies forming the Polska Grupa Uzdrowisk (Polish Spa Group) (in 2014 these assets were valued at PLN 530 million, and in 2013 at PLN 361 million). This does not however have a material impact on the Group's consolidated results.

Group production volumes and C1 cash costs

The following chart shows the volume of payable copper production and the C1 cash cost of copper production in the KGHM Polska Miedź S.A. Group. The increase in copper production since 2012 is due to the acquisition of the Quadra FNX Mining Ltd. Group (today KGHM INTERNATIONAL LTD.) The production volume of KGHM INTERNATIONAL LTD. in 2011 (prior to gaining control) is indicated by the broken line.

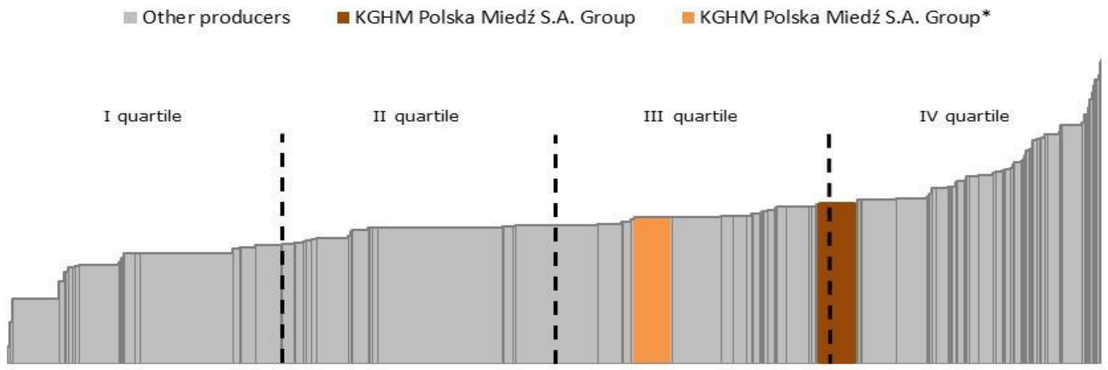
The substantial increase in the C1 copper production cost in 2012 in the Parent Entity was due to the introduction of the minerals extraction tax.

Chart 18. Copper production and C1* costs in the Group



* *C1 cost - cash cost of producing payable copper, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative expenses during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products*

Chart 19. Cost of producing copper in concentrate – C1 vs the sector *(USD/lb)* **- source: Wood Mackenzie**



** Estimated position of the Group on the cost curve based on exchange rates from 31 December 2014*

The level of C1 cost in 2014 placed the Group between the third and fourth quartiles on the cost curve (as estimated by Wood Mackenzie). The median C1 cost for the sector – 1.79 USD/lb – was similar to that recorded by the Group, mainly due to the large number of small, high-cost copper producers. The average weighted global C1 cost of paid metal production amounted to 1.55 USD/lb.

The Group's position on the cost curve was negatively affected by the relatively low USD/PLN exchange rate in the first half of 2014 (this relationship is based on average exchange rates for the entire year and is illustrated by the brown column on the above chart). The weakening of the Polish zloty versus the American dollar in the second half of 2014 had a positive impact on the Group's competitive cost position. If the position on the cost curve were based on the exchange rates from 31 December 2014, the Group's position would be substantially better.

6.2. Review of financial performance

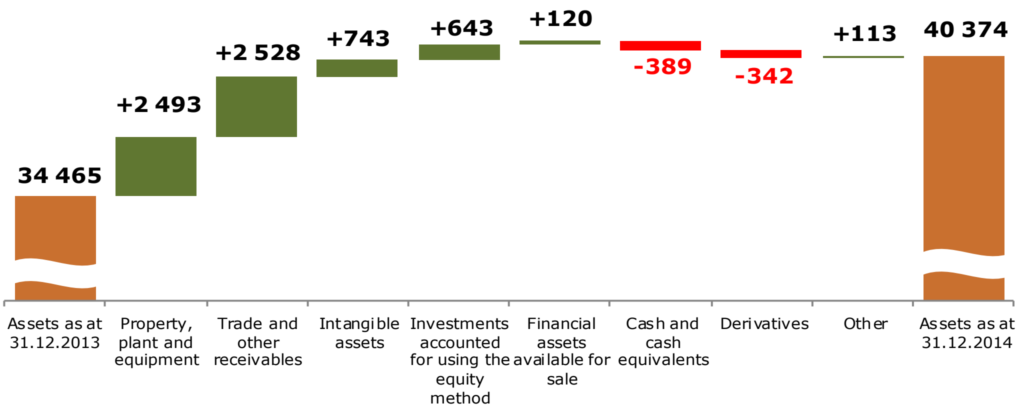
Assets

At the end of 2014, total assets in the consolidated statement of financial position increased versus the end of 2013 by PLN 5 909 million (or 17%).

Table 33. Current and non-current assets *(in PLN millions)*

	31.12.2013	31.12.2014	Change 31.12.13=100	*31.03.2014*	*30.06.2014*	*30.09.2014*
Property, plant and equipment	15 128	**17 621**	116.5	*15 313*	*15 759*	*16 582*
Intangible assets	2 175	**2 918**	134.2	*2 378*	*2 476*	*2 717*
Investment property	65	**60**	92.3	*65*	*67*	*64*
Investments accounted for using the equity method	3 720	**4 363**	117.3	*3 708*	*3 677*	*4 426*
Deferred tax assets	451	**535**	118.6	*460*	*468*	*471*
Available-for-sale financial assets	868	**988**	113.8	*1 026*	*1 020*	*1 047*
Financial assets for mine closure and restoration of tailings storage facilities	324	**360**	111.1	*350*	*335*	*346*
Derivatives	833	**491**	58.9	*846*	*563*	*450*
Inventories	3 397	**3 362**	99.0	*3 731*	*3 842*	*3 889*
Trade and other receivables	6 578	**9 106**	138.4	*6 419*	*7 273*	*8 130*
Current corporate tax receivables	54	**87**	161.1	*83*	*93*	*31*
Cash and cash equivalents	864	**475**	55.5	*1 211*	*894*	*786*
Non-current assets held for sale	8	**8**	100.0	*7*	*7*	*8*
TOTAL ASSETS	**34 465**	**40 374**	**117.1**	*35 597*	*36 474*	*38 947*

Chart 20. Change in assets in 2014 *(in PLN millions)*

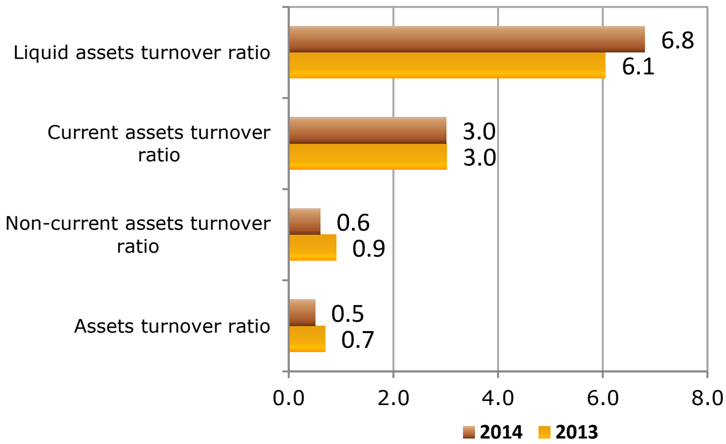


Major changes in the value of assets at the end of 2014 as compared to the end of 2013:

Property, plant and equipment	An increase by PLN 2 493 million mainly due to investments – total expenditures on property, plant and equipment in the Group amounted to PLN 3 073 million, of which the highest expenditures, in the amount of PLN 2 165 million, were incurred by the Parent Entity (details provided in point 5.7 of the Management Board's Report); Investment expenditures in 2014 include borrowing costs in the amount of PLN 42 million; The increase in property, plant and equipment in 2014 was also due to an increase in the provision for mine closure in the amount of PLN 520 million (of which PLN 519 million was with respect to mining and metallurgical assets). During the reporting period the costs incurred to gain access to a deposit involving pre-stripping during the production stage in open-pit mines belonging to KGHM INTERNATIONAL LTD. were recognised as property, plant and equipment (mining and metallurgical assets). The amount of these costs incurred in 2014 amounted to PLN 183 million (in 2013: PLN 282 million). The balance of non-current assets related to pre-stripping as at 31 December 2014 amounted to PLN 598 million, or USD 170 million (as at 31 December 2013: PLN 340 million, or USD 113 million).
Trade and other receivables	An increase by PLN 2 528 million. Receivables were impacted by: – an increase by PLN 2 853 million in the amount of loans granted by KGHM INTERNATIONAL LTD. to the company Sierra Gorda S.C.M.; at the end of 2014 the carrying amount of receivables due to loans granted amounted to PLN 6 231 million (at the end of 2013 PLN: 3 378 million); – a decrease by PLN 356 million in trade receivables; – a decrease by PLN 274 million in non-financial receivables (mainly due to taxation and other benefits);
Intangible assets	An increase by PLN 743 million, mainly due to an increase in assets due to the exploration for and evaluation of mineral resources, by PLN 576 million, and to an increase in the value of purchased concessions, patents and licenses by PLN 163 million (with respect to the Parent Entity); Significant expenditures in respect of the exploration for and evaluation of mineral resources were incurred in the following companies: – KGHM INTERNATIONAL LTD. (Victoria project) expenditures as at 31 December 2014 amounted to PLN 1 346 million, including expenditures incurred in 2014 of PLN 204 million, – KGHM AJAX MINING INC. (Ajax project) expenditures as at 31 December 2014 amounted to PLN 430 million, including expenditures incurred in 2014 of PLN 168 million, – KGHM Kupfer AG – The project „Exploration and evaluation of the copper ore deposit in the areas Weisswasser I and II" - expenditures as at 31 December 2014 amounted to PLN 58 million, including expenditures incurred in 2014 of PLN 3 million, – KGHM Polska Miedź S.A. - The project „Exploration and evaluation of copper mineralisation in the Synklina Grodziecka area in terms of economic viability" - expenditures as at 31 December 2014 amounted to PLN 104 million, including expenditures incurred in 2014 of PLN 34 million; – KGHM Polska Miedź S.A. - The project "Evaluation of the possibilities of mining the Radwanice-Gaworzyce deposit" - expenditures as at 31 December 2014 amounted to PLN 37 million, including expenditures incurred in 2014 of PLN 12 million.

Investments accounted for using the equity method	An increase by PLN 643 million, mainly with respect to the Sierra Gorda S.C.M. investment (an increase by PLN 647 million from PLN 3 686 million at the end of 2013 to PLN 4 333 million at the end of 2014). The change in the value of the investment in Sierra Gorda S.C.M. was due to: – the acquisition of shares - an increase by PLN 490 million, – exchange differences from the translation of foreign operations at the end of the period - an increase by PLN 608 million (a change in the exchange rate from 3.012 USD/PLN as at 31 December 2013 to 3.5072 USD/PLN as at 31 December 2014), – an adjustment in deferred income tax recognised at fair value at inception, due to a change in tax rates in Chile – a decrease by PLN 251 million (detailed information in Section 6.3 of the Management Board's Report), – the exclusion of unrealised gains due to a transaction between the Group and Sierra Gorda (55% - proportionally to the Group's share) - a decrease by PLN 201 million. –
Available-for-sale financial assets	An increase by PLN 120 million, mainly due to the partial reversal of an impairment loss in the amount of PLN 124 million in the value of the shares of TAURON Polska Energia S.A. As at 31 December 2014, the carrying amount of the shares of this entity amounted to PLN 920 million (as at 31 December 2013: PLN 796 million).
Cash and cash equivalents	A decrease in cash and cash equivalents by PLN 389 million, which was mainly due to the higher cash outflows from investment activities (- PLN 5 544 million) than inflows from operating and financing activities (+PLN 5 097 million)
Derivatives	A decrease by PLN 342 million, mainly due to hedging instruments in the Parent Entity.

Chart 21. Assets effectiveness ratios



Assets effectiveness ratios were at the same level as recorded in 2013. The slight deterioration in the assets turnover ratio and in the non-current assets turnover ratio was due to the increase in the value of non-current assets by 16.5% as a result of investments and loans granted to the company Sierra Gorda S.C.M., alongside a decrease in revenues from sales by 15%.

Cash flow

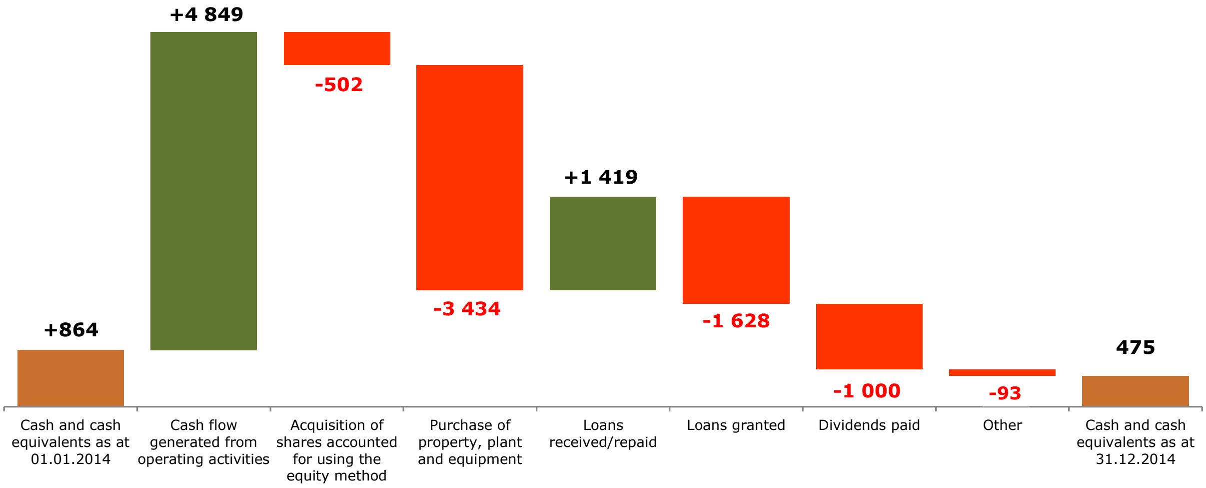
Table 34. Cash flow *(in PLN millions)*

	2013	2014	Change 31.12.13 =100	IQ'14	IIQ'14	IIIQ'14	IVQ'14
Profit for the period	**3 033**	**2 451**	**80.8**	*417*	*684*	*679*	*671*
Adjustment to profit for the period:	3 347	**3 266**	97.6	*1 577*	*164*	*480*	*1 045*
Income tax recognised in profit or loss	1 202	**647**	53.8	*208*	*235*	*262*	*(58)*
Depreciation/Amortisation	1 580	**1 635**	103.5	*401*	*392*	*403*	*439*
Impairment loss on property, plant and equipment, intangible assets, investments accounted for using the equity method and available-for-sale financial assets	408	**56**	13.7	*(3)*	-	*3*	*56*
Share in losses of investments accounted for using the equity method	-	**252**	-	-	-	*1*	*251*
Interest and share in profits (dividends)	(116)	**(175)**	150.9	*(19)*	*(42)*	*(53)*	*(61)*
Adjustments related to derivatives	324	**192**	59.3	*388*	*(35)*	*(117)*	*(44)*
Other adjustments	55	**63**	114.5	*32*	*27*	*63*	*(59)*
Change in working capital	(106)	**596**	x	*570*	*(413)*	*(82)*	*521*
Income tax paid	(1 456)	**(868)**	59.6	*(328)*	*(132)*	*(175)*	*(233)*
Net cash generated from operating activities	**4 924**	**4 849**	**98.5**	*1 666*	*716*	*984*	*1 483*
Purchase of shares in the increased share capital of an investment accounted for using the equity method	(9)	**(502)**	x55.8	-	-	*(478)*	*(24)*
Purchase of property, plant and equipment and intangible assets	(3 189)	**(3 434)**	107.7	*(901)*	*(724)*	*(773)*	*(1 036)*
Purchase/sale of financial assets from mine closure fund and tailing storage facilities restoration fund	134	**(15)**	x	*(25)*	*15*	*(1)*	*(4)*
Expenses due to loans granted	(1 798)	**(1 628)**	90.5	*(404)*	*(507)*	*(219)*	*(498)*
Other	132	**35**	26.5	(6)	(22)	46	17
Net cash used in investing activities	**(4 730)**	**(5 544)**	**117.2**	*(1 336)*	*(1 238)*	*(1 425)*	*(1 545)*
Proceeds from bank and other loans	1 597	**2 641**	165.4	*298*	*281*	*862*	*1 200*
Repayments of bank and other loans	(1 446)	**(1 222)**	84.5	*(275)*	*(16)*	*(3)*	*(928)*
Dividends paid to shareholders of the Parent Entity	(1 960)	**(1 000)**	51.0	-	-	*(500)*	*(500)*
Other	(152)	**(171)**	112.5	*(24)*	*(64)*	*(55)*	*(28)*
Net cash used in financing activities	**(1 961)**	**248**	**x**	*(1)*	*201*	*304*	*(256)*
Total net cash flow	**(1 767)**	**(447)**	**25.3**	*329*	*(321)*	*(137)*	*(318)*
Exchange gains on cash and cash equivalents and from the translation of foreign operations statements	**2**	**58**	**x29.0**	*18*	*4*	*29*	*7*
Movements in cash and cash equivalents	**(1 765)**	**(389)**	**22.0**	347	(317)	(108)	(311)
Cash and cash equivalents at beginning of the period	**2 629**	**864**	**32.9**	*864*	*1 211*	*894*	*786*
Cash and cash equivalents at end of the period	**864**	**475**	**55,0**	*1 211*	*894*	*786*	*475*

In 2014, the difference between the cash flow from operating activities and the cash flow used in investing activities was PLN 695 million. 49% of the cash flow from operating activities was due to the income tax paid (PLN 868 million) and the minerals extraction tax (PLN 1 520 million).

Investing activities were mainly impacted by expenditures on property, plant and equipment and intangible assets (PLN 3 434 million) and loans granted to the jointly-controlled entity Sierra Gorda S.C.M. (PLN 1 628 million). Cash used in financing activities was mainly composed of the higher amount of loans received than loans repaid (PLN 1 419 million) and the paid dividend (PLN 1 000 million).

Chart 22. Cash flow in 2014 *(in PLN millions)*



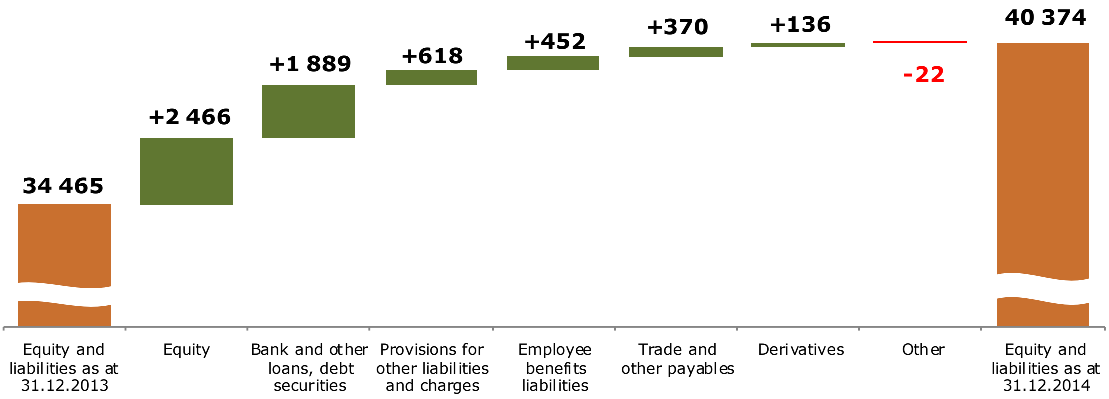
6.3. Equity and liabilities

The share of equity in total equity and liabilities decreased from 66.9% in 2013 to 63.2% in 2014.

Table 35. Equity and liabilities *(in PLN millions)*

	31.12.2013	31.12.2014	Change 31.12.13 =100	*31.03.2014*	*30.06.2014*	*30.09.2014*
EQUITY	**23 064**	**25 530**	**110.7**	*23 742*	*23 161*	*24 464*
Share capital	2 000	**2 000**	100.0	*2 000*	*2 000*	*2 000*
Other capital	390	**(53)**	x	*598*	*279*	*151*
Exchange differences from the translation of foreign operations	(267)	**1 171**	x	*(208)*	*(159)*	*583*
Retained earnings	20 718	**22 184**	107.1	*21 151*	*20 833*	*21 511*
Equity attributable to shareholders of the Parent Entity	**22 841**	**25 302**	**110.8**	*23 541*	*22 953*	*24 245*
Non-controlling interest	**223**	**228**	**102.2**	*201*	*208*	*219*
LIABILITIES (current and non-current)	**11 401**	**14 844**	**130.2**	*11 855*	*13 313*	*14 483*
Trade and other payables	3 868	**4 238**	109.6	*3 956*	*4 871*	*4 600*
Borrowings, debt instruments and finance lease liabilities	2 929	**4 810**	164.2	*2 981*	*3 217*	*4 341*
Derivatives	24	**160**	666.7	*338*	*250*	*97*
Deferred tax liabilities	1 726	**1 676**	97.1	*1 721*	*1 740*	*1 875*
Current corporate tax liability	128	**164**	128.1	*104*	*136*	*129*
Employee benefits liabilities	1 694	**2 146**	126.7	*1 716*	*1 872*	*2 010*
Provisions for other liabilities and charges	1 032	**1 650**	159.9	*1 039*	*1 227*	*1 431*
TOTAL EQUITY AND LIABILITIES	**34 465**	**40 374**	**117.1**	*35 597*	*36 474*	*38 947*

Chart 23. Change in equity and liabilities in 2014 *(in PLN millions)*



The main changes in equity and liabilities at the end of 2014 as compared to the end of 2013 were as follows:

EQUITY	An increase by PLN 2 466 million, due to: – profit for 2014 in the amount of PLN 2 451 million, – the dividend paid by the Parent Entity for 2013 in the amount of PLN 1 000 million, – a change in exchange differences from the translation of foreign operations (+PLN 1 438 million, including from the translation of the Sierra Gorda investment +PLN 608 million), – a change in equity from actuarial gains and losses due to measurement of post-employment employee benefits (-PLN 302 million), – a decrease in equity due to the measurement of financial instruments (-PLN 145 million).
Borrowings and debt instruments	An increase by PLN 1 889 million, due to: – an increase in debt due to borrowings by PLN 1 636 million, including: ▪ an increase in debt in the Parent Entity by PLN 985 million (at the end of 2014: PLN 2 108 million, at the end of 2013: PLN 1 123 million, ▪ the use of a working capital facility by KGHM INTERNATIONAL LTD.: PLN 701 million), – an increase in debt instruments – senior notes issued by KGHM INTERNATIONAL LTD., by PLN 253 million.
Provisions for other liabilities and charges	An increase by PLN 618 million, mainly due to an increase in the provision for decommissioning costs of mines and other technological facilities and of fixed assets in the amount of PLN 602 million.
Employee benefits liabilities	An increase by PLN 452 million, in respect of the Parent Entity and is mainly due to an increase in liabilities due to the coal equivalent resulting from a decrease in the discount rate (PLN 343 million).
Trade and other payables	An increase by PLN 370 million, mainly due to an increase in long-term deferred income as a result of advances from customers (PLN 217 million) and to an increase in liabilities related to the purchase and construction of property, plant and equipment and intangible assets (PLN 152 million).
Derivatives	An increase by PLN 136 million, of which PLN 135 million is in respect of the Parent Entity (liabilities due to derivatives in respect of the currency market increased by PLN 147 million, while liabilities in respect of the copper market decreased by PLN 12 million.

Deferred tax liabilities

In 2014 a change was announced in the Chilean tax system. This change will come into force from 1 January 2017. In accordance with these regulations, the company Sierra Gorda S.C.M. was obliged to select a new corporate income tax model. The company chose the taxation model which sets the target corporate income tax rate at 27% starting from 2018, which will be paid on taxable income earned by the company for a given year as well as additional taxation on foreign companies equal to the difference between the 35% tax rate and the paid tax rate of 27% (effectively 8% of income, representing 11% of taxable income less income tax paid by the company) paid when profit is distributed. In order to make use of this taxation option the foreign shareholder must meet the condition of tax residency in a country with which Chile has an agreement to avoid double taxation. KGHM Polska Miedź S.A. is in the process of creating an organisational structure which will allow this option to be chosen, while achievement of these changes is not restricted by any external factors.

In consideration of the above, the Group remeasured the value of the deferred tax liabilities, which had the following effect:

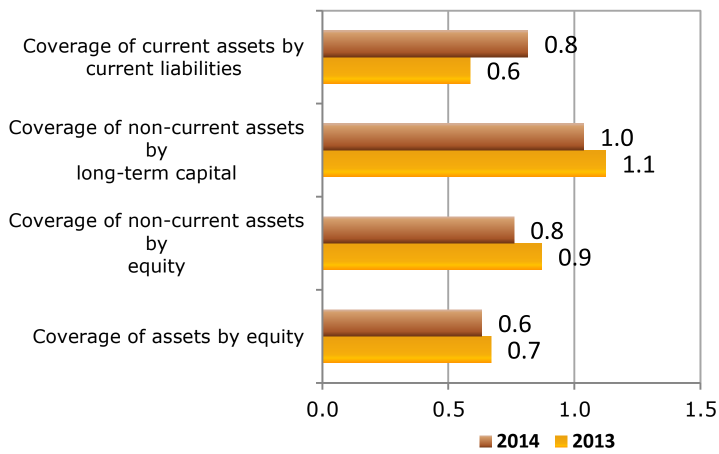
- a decrease in deferred tax liabilities as a result of temporary differences on payable profit from the Sierra Gorda investment in the amount of USD 91 million (PLN 290 million based on the arithmetic average of the current exchange rates announced by the NBP at the end of each month in 2014), and
- a decrease in the value of the Sierra Gorda investment in the amount of USD 79 million (PLN 251 million based on the arithmetic average of the current exchange rates announced by the NBP at the end of each month in 2014) due to the estimated taxation of dividends recognised in the value of the Sierra Gorda investment.

Liabilities not recognised in the statement of financial position

As at 31 December 2014, the Group held liabilities not recognised in the statement of financial position in the amount of PLN 244 million, including liabilities of the Parent Entity towards local governments related to the development of the tailings pond in the amount of PLN 120 million and liabilities due to an operating lease in the amount of PLN 124 million.

Assets financing ratios in 2014 as compared to 2013 are presented below:

Chart 24. Assets financing ratios



The ratios were calculated based on year-end balances, in accordance with methodology described in Appendix 4 of the Management Board's Report.

6.4. Guarantees and collateral

As at 31 December 2014, contingent assets amounted to PLN 474 million and related mainly to guarantees received by the Group (mainly with respect to the proper performance of agreements) in the amount of PLN 223 million and promissory notes receivable in the amount of PLN 109 million.

As at 31 December 2014, contingent liabilities amounted to PLN 1 720 million and mainly concerned guarantees granted in the amount of PLN 1 429 million, of which:

- a letter of credit in the amount of PLN 482 million granted as security for the proper execution of a long-term contract for the supply of electricity to the Sierra Gorda S.C.M.,
- guarantees in the amount of PLN 341 million set as additional security for the proper performance of lease agreements entered into by the Sierra Gorda S.C.M.,
- a guarantee in the amount of PLN 320 million securing the proper performance of future environmental liabilities of the Parent Entity related to the obligation to restore terrain around the Żelazny Most tailings pond following the conclusion of its operations, and
- a letter of credit in the amount of PLN 272 million securing the proper performance by KGHM INTERNATIONAL LTD. of future environmental liabilities related to the obligation to restore terrain around the Robinson mine following the conclusion of its operations.

Detailed information regarding contingent assets and liabilities may be found in note 43 of the consolidated financial statements.

6.5. Borrowings and debt instruments

Total debt of the Group due to borrowings and debt instruments at the end of 2014 amounted to PLN 4 767 million and increased as compared to 2013 by PLN 1 889 million (66%). This increase was due to an increase in liabilities due to borrowing KGHM Polska Miedź S.A. (an increase by PLN 985 million mainly due to drawing on an investment loan) and by KGHM INTERNATIONAL LTD. (an increase by PLN 701 million). In addition, in 2014 there was an increase in debt instruments by PLN 253 million as compared to 2013.

Table 36. Liabilities of the Group due to borrowings and debt instruments *(in PLN millions)*

	31.12.2013	31.12.2014	Change 2013=100	*31.03.2014*	*30.06.2014*	*30.09.2014*
Non-current borrowings:	**1 680**	**3 969**	**176.7**	***1 977***	***2 047***	***2 362***
− bank loans	162	**143**	88.3	*449*	*511*	*697*
− other loans	5	**1 057**	x211.4	*4*	*4*	*4*
− debt instruments	1 513	**1 769**	116.9	*1 524*	*1 532*	*1 661*
Current borrowings	**1 198**	**1 798**	**150.1**	***956***	***1 126***	***1 934***
− bank loans	1 186	**1 782**	150.3	*916*	*1 117*	*1 893*
− other loans	3	**10**	x3.3	*3*	*3*	*3*
− debt instruments (interest)	9	**6**	66.7	*37*	*6*	*38*
Total	**2 878**	**4 767**	**165.6**	***2 933***	***3 173***	***4 296***

The item debt instruments refers to the senior notes issued by KGHM INTERNATIONAL LTD. in 2011, with maturity in 2019 and a fixed interest rate.

In 2014 KGHM Polska Miedź S.A. began the process of debt consolidation in the Group by acquiring medium- and long-term financing. The consolidation of debt in the Group at the Parent Entity level is the basic tenet of the new financing strategy. This strategy will lead to substantial savings in the costs of servicing Group debt and conforms to best market practice as regards financing in large international groups. In addition, it will enhance the efficiency of liquidity management, simplify the borrowing structure and optimise financial and non-financial covenants in the Group.

Borrowing by the Group is based on four pillars:

Unsecured, revolving syndicated credit facility

On 11 July 2014, KGHM Polska Miedź S.A. signed an agreement for an unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion with a five-year tenor with the option of extending for another 2 years. The option of extending may be exercised at the request of the company on the first and second anniversaries of signing the agreement.

The credit was granted by a group of banks, including the largest Polish banks (such as PKO BP, Pekao SA, BZ WBK, Bank Handlowy, ING Bank Śląski, BGK and mBank) as well as banks from Europe, Canada, USA and Japan which until now have cooperated with KGHM Polska Miedź S.A.

The financial resources from the credit facility will be used in financing general corporate purposes, including expenditures related to the continued advancement of investment projects and for refinancing the debt of KGHM INTERNATIONAL LTD. in the amount of USD 700 million.

The company expects to make gradual use of the loan. The flexible structure of the transaction gives the possibility of multiple borrowing and repaying of the loan instalments, depending on the current liquidity needs of the KGHM Polska Miedź S.A. Group. Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA ratio. The credit facility agreement obliges KGHM Polska Miedź S.A. to comply with the financial and non-financial covenants standard for this type of transaction. As at 31 December 2014 there were no instances of violation of the covenants stipulated in the aforementioned agreement.

Investment bank loan

On 1 August 2014, KGHM Polska Miedź S.A. signed an agreement for financing from the European Investment Bank for PLN 2 billion with a maximum repayment period for the instalments drawn of 12 years from the drawing date. The loan is available for a period of 22 months from the date of signing the agreement.

For each of these loan instalments the Parent Entity has the option of drawing the instalment in PLN, EUR or USD, with either a fixed or variable interest rate of WIBOR, LIBOR or EURIBOR plus a margin.

The funds acquired through this loan will be used to finance investment projects of KGHM Polska Miedź S.A., related to modernisation of metallurgy and development of the Żelazny Most tailings pond. The loan agreement obliges KGHM Polska Miedź S.A. to comply with the financial and non-financial covenants standard for this type of transaction. As at 31 December 2014 there were no instances of violation of the covenants stipulated in the aforementioned agreement.

Bank loans

The Group has also drawn bank loans in a total amount exceeding PLN 4 600 million, used to finance working capital and to support liquidity management amongst Group companies, as well as investment loans drawn by Group companies to finance their investments.

The Group holds open lines of credit in the form of short- and long-term bank loan agreements. The funds available through these agreements are available in PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR plus a margin. The funds obtained under these agreements are used to finance working capital and are a tool in managing short-term financial liquidity.

As at 31 December 2014, the Parent Entity held open lines of credit and an investment loan with total available borrowing capacity of PLN 14 081 million, out of which PLN 2 108 million has been drawn. The following table presents a breakdown of these sources of financing.

Table 37. Available financing and loans drawn as at 31 December 2014 *(in PLN millions)*

Type of loan	Currency	Amount available	Amount drawn
Working capital facility and overdraft facility	USD, EUR, PLN	3 313	1 050*
Unsecured, revolving syndicated credit facility	USD	8 768	0
Investment loan	USD, EUR, PLN	2 000	1 058*
Total		**14 081**	**2 108**

* *liabilities due to bank and other loans includes accrued interest due as at the balance sheet date*

As at 31 December 2014, all of the loans drawn, in the amount of PLN 2 108 million, were in USD.

As at 31 December 2014, the KGHM INTERNATIONAL LTD. Group held an open line of credit in the amount of USD 200 million (PLN 701 million), with a variable interest rate set as the sum of LIBOR reference rates and a margin set at the level of net debt /EBITDA. At the end of the reporting period this credit was fully drawn.

In order to finance investments whose purpose is to replace, modernise or increase the value of property, plant and equipment, the companies of the Group make use of investment loans. These loans are drawn in either PLN or EUR, with collateral in the form of mortgages on assets, the surrender of rights to commercial contracts or the surrender of rights to insurance policies.

Senior notes program of KGHM INTERNATIONAL LTD.

KGHM INTERNATIONAL LTD. benefits from external financing in the form of issued long-term senior notes with a fixed interest rate and a maturity falling in 2019. As at 31 December 2014 the value of the senior notes was measured at PLN 1 774 million (nominal value of the senior notes: USD 494 million; fair value due to final accounting for the acquisition: USD 504 million). These notes, issued in 2011 give KGHM INTERNATIONAL LTD. the opportunity for early repurchase at their nominal price, plus a premium if repurchase is made prior to 15 June 2017.

Debt position as at 31 December 2014

The following table presents the bank and other loans of Group companies which at the end of 2014 held debt balances of over PLN 10 million.

Table 38. Borrowings in the Group as at 31 December 2014

Company	Loan currency	Type of bank/other loan	Maturity	Balance as at 31.12.2014
KGHM Polska Miedź S.A.	USD	Investment loan	30.10.2026	USD 302 million (PLN 1 058 million)
	USD	Working capital facility	06.01.2015	USD 162 million (PLN 567 million)
	USD	Overdraft facility	30.04.2015	USD 99 million (PLN 347 million)
	USD	Overdraft facility	21.10.2015	USD 24 million (PLN 85 million)
	USD	Overdraft facility	21.10.2015	USD 14 million (PLN 51 million)
KGHM INTERNATIONAL LTD.	USD	Working capital facility	19.06.2017	USD 200 million (PLN 701.4 million)
Interferie Medical SPA Sp. z o.o.	EUR	Investment loan	31.12.2021	EUR 12 million (PLN 53 million)
„Energetyka" sp. z o.o.	PLN	Investment loan	31.08.2018	PLN 21 million
POL-MIEDŹ TRANS Sp. z o.o.	PLN	Investment loan	31.08.2021	PLN 13 million
	PLN	Investment loan	15.02.2021	PLN 5 million
KGHM CUPRUM sp. z o.o. - CBR	PLN	Investment loan	30.09.2021	PLN 13 million
INTERFERIE S.A.	EUR	Investment loan	30.11.2021	EUR 2 million (PLN 10 million)
	EUR	Investment loan	04.06.2018	EUR 0.3 million (PLN 2 million)
	EUR	Investment loan	28.12.2017	EUR 0.3 million (PLN 1 million)
	PLN	Overdraft facility	28.08.2015	PLN 0.4 million
KGHM LETIA S.A.	PLN	Investment loan	30.06.2026	PLN 12 million
Uzdrowiska Kłodzkie S.A. – Grupa PGU	PLN	Investment loan	25.12.2019	PLN 8 million
	PLN	Investment loan	28.12.2018	PLN 2 million
	PLN	Investment loan	31.11.2019	PLN 2 million
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. - Grupa PGU	PLN	Investment loan	30.11.2020	PLN 5 million
	PLN	Overdraft facility	04.12.2015	PLN 2 million
	PLN	Investment loan	31.12.2020	PLN 2 million
	PLN	Overdraft facility	31.01.2016	PLN 1 million
	PLN	Investment loan	14.10.2017	PLN 1 million

Cash pool

KGHM Polska Miedź S.A. makes use of instruments which enhance the efficiency of the liquidity management process. One of the basic instruments used by the Group is the cash pool management system implemented in 2012.

In 2014 the process continued of including further participants in the cash pool management system – amongst the companies which joined the system were KGHM INTERNATIONAL LTD. The total limit of available funds under these services as at 31 December 2014 was PLN 696 million. Interest on the funds available under these services is based on variable WIBOR (in PLN) and LIBOR (in USD).

As at 31 December 2014, 29 companies participated in the cash pool services as well as the Parent Entity as coordinator.

The cash pool system is aimed at optimising cash management and enables interest costs to be limited, working capital needs to be efficiently financed and financial liquidity to be supported in the Group.

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

All of the entities in which the Group deposits periodically free cash as well as cash collected in special purpose funds operate in the financial sector. These are solely banks with the highest, medium-high and medium 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.
[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; medium-high - a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moody's; medium - a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moody's].

Loans granted within the Group

The following table shows the outstanding loans granted to Group companies, which at the end of 2014 held a total amount of debt exceeding PLN 10 million.

Table 39. Loans granted to Group companies as at 31 December 2014

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2014	Maturity
Loans granted by KGHM Polska Miedź S.A.				
„Energetyka" sp. z o.o.	2009	PLN 50 million	PLN 25.2 million	31.12.2019
Zagłębie Lubin S.A.	2013	PLN 5 million	PLN 5 million	31.12.2022
	2014	PLN 7.5 million	PLN 6 million	31.12.2026
0929260 B.C. Unlimited Liability Company	2014	USD 66 million	USD 66.9 million (PLN 234.7 million)	31.12.2024
Fermat 1 S.à r.l.	2013	USD 71.9 million	USD 77.1 million (PLN 270.5 million)	28.02.2018
	2014	USD 420.7 million	USD 429.4 million (PLN 1 506.0 million)	31.12.2024
Loans granted by Fermat 1 S.à r.l.				
Fermat 2 S.à r.l.	2013	USD 71.9 million	USD 77.5 million (PLN 271.8 million)	28.02.2018
	2014	USD 23.8 million	USD 24.2 million (PLN 84.9 million)	31.12.2024
Fermat 3 S.à r.l.	2012	USD 1 873.1 million	USD 1 872.4 million (PLN 6 566.9 million)	04.03.2020
	2012	USD 0.2 million	USD 0.2 million (PLN 0.5 million)	25.04.2017
	2014	USD 0.1 million	USD 0.1 million (PLN 0.2 million)	31.12.2015

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2014	Maturity
Loans granted by Fermat 3 S.à r.l.				
Fermat 2 S.à r.l.	2012	USD 2 825.1 million	USD 2 507.0 million (PLN 8 792.5 million)	04.03.2020
Loans granted by Fermat 2 S.à r.l.				
0929260 B.C. Unlimited Liability Company	2012	USD 1 873.1 million	USD 2 119.0 million (PLN 7 431.7 million)	05.03.2020
Loans granted by KGHM INTERNATIONAL LTD.				
Sociedad Contractual Minera Franke	2010	USD 100 million	USD 99.0 million (PLN 347.2 million)	on demand
Sociedad Contractual Minera Franke	2012	USD 30 million	USD 7.0 million (PLN 24.6 million)	on demand
Malmbjerget Molybdenum A/S	2011	USD 20 million	USD 4.0 million (PLN 14.0 million)	on demand, no later than to 31.12.2014
Quadra FNX FFI Ltd.	2012	USD 483 million	USD 483.0 million (PLN 1 694.0 million)	on demand
Quadra FNX FFI Ltd.	2013	USD 472 million	USD 805.0 million (PLN 2 823.3 million)	on demand
Loans granted by KGHM AJAX MINING INC.				
Sugarloaf Ranches Ltd.	2012	CAD 6 million	CAD 3.2 million (PLN 9.6 million)	Indefinite

Other loans, not shown in the above table, were granted to 6 companies in the Group in the total amount of PLN 4.5 million.

Table 40. Loans granted to other entities as at 31 December 2014

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2014	Maturity
Loans granted by KGHM INTERNATIONAL LTD.				
Sierra Gorda S.C.M.*	2012	USD 1 700 million	USD 1 776.6 million (PLN 6 230.9 million)	2024

** loan amended by appendices in 2013 and 2014 (increase in loan amount)*

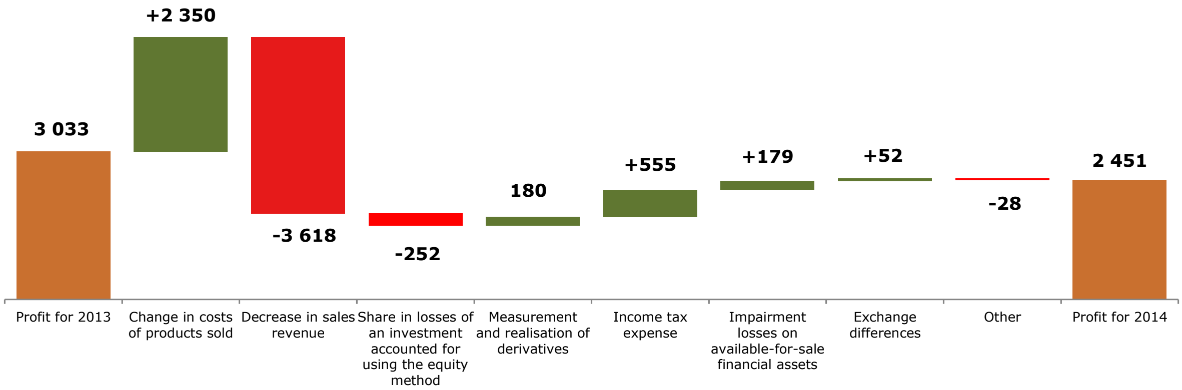
The loan liabilities of Sierra Gorda S.C.M. at the end of 2014 increased as compared to the end of 2013 by PLN 2 853 million (at the end of 2013: PLN 3 378 million).

6.6. Statement of profit or loss

Table 41. Consolidated statement of profit or loss *(in PLN millions)*

	2013	**2014**	**Change** 31.12.13 =100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Sales revenue	24 110	**20 492**	85.0	*4 650*	*4 878*	*5 188*	*5 776*
Total costs of products, merchandise and materials sold	(19 516)	**(17 139)**	87.8	*(3 989)*	*(3 970)*	*(4 266)*	*(4 914)*
Sales revenue minus total costs of products, merchandise and materials sold	**4 594**	**3 353**	**73.0**	*661*	*908*	*922*	*862*
Result on other operating activities, of which:	**(222)**	**323**	**x**	*13*	*61*	*148*	*101*
- Measurement and realisation of derivatives	(352)	**(172)**	48.9	*(67)*	*(37)*	*(4)*	*(64)*
- Interest income and costs	224	**305**	136.2	*63*	*70*	*79*	*93*
- Exchange differences	(58)	**146**	x	*(9)*	*3*	*55*	*97*
- Impairment losses on available-for-sale financial assets	(182)	**(3)**	-	*(1)*	*-*	*(2)*	*-*
- Dividends	37	**35**	94.6	*-*	*35*	*-*	*-*
- Fee for managing Sierra Gorda S.C.M.	49	**50**	102.0	*12*	*11*	*13*	*14*
- Other	60	**(38)**	x	*15*	*(21)*	*7*	*(39)*
Operating profit (EBIT)	**4 372**	**3 676**	**84.1**	*674*	*969*	*1 070*	*963*
Finance costs, of which:	**(137)**	**(326)**	**x2.4**	*(49)*	*(50)*	*(128)*	*(99)*
- Interest on bonds	(81)	**(92)**	113.6	*(29)*	*(30)*	*(29)*	*(4)*
- Interest on bank and other loans	(18)	**(30)**	166.7	*(8)*	*(9)*	*(12)*	*(1)*
- Exchange differences	26	**(126)**	x	*5*	*3*	*(70)*	*(64)*
- Other	(64)	**(78)**	121.9	*(17)*	*(14)*	*(17)*	*(30)*
Share in losses of an investment accounted for using the equity method	-	**(252)**	x	*-*	*-*	*(1)*	*(251)*
Profit before income tax	**4 235**	**3 098**	**73.2**	*625*	*919*	*941*	*613*
Income tax expense	(1 202)	(647)	53.8	*(208)*	*(235)*	*(262)*	*58*
Profit for the period	**3 033**	**2 451**	**80.8**	*417*	*684*	*679*	*671*
EBITDA (EBIT + depreciation/amortisation)	**5 952**	**5 311**	**89.2**	*1 075*	*1 361*	*1 473*	*1 402*

Chart 25. Change in profit



Profit for 2014 was mainly impacted by the following factors:

Sales revenue	A decrease by PLN 3 618 million, mainly due to a lower volume of copper sales by 41.9 thousand tonnes and lower metals prices (described in detail in Section 5.3 of the Management Board's Report).
Cost of products sold	A decrease by PLN 2 350 million, mainly due to lower copper sales and: – the lower value of merchandise and materials sold by PLN 439 million; – a lower minerals extraction tax by PLN 336 million, – a lower allowance for impairment losses on property, plant and equipment and intangible assets by PLN 214 million;
Share in losses of an investment accounted for using the equity method	A decrease by PLN 252 million (of which PLN 251 million is with respect to a decrease in the value of the Sierra Gorda investment due to an adjustment related to changes in tax rates in Chile);
Derivatives	A decrease in losses on other operating activities due to the measurement and realisation of derivatives by PLN 180 million (in 2014 a loss of PLN 172 million, in 2013 a loss of PLN 352 million)
Impairment losses on available-for-sale financial assets	A decrease by PLN 179 million; In 2014 losses were recognised in the amount of PLN 3 million, in 2013 in the amount of PLN 182 million (with respect to shares of TAURON Polska Energia S.A. and companies listed on the TSX Venture Exchange);
Exchange differences	An increase in the result by PLN 52 million, of which: – an increase in the result due to exchange differences in other operating activities by PLN 204 million; – an increase in finance costs due to net exchange differences arising from sources of financing by PLN 152 million.
Income tax expense	Lower tax by PLN 555 million due to a lower tax base and a change in the amount of deferred tax.

Due to a change in tax rates in Chile in 2014 (described in more detail in Section 6.3), the Parent Entity credited to profit in the consolidated financial statements the amount of PLN 290 million to due to temporary differences from dividends income of the the Sierra Gorda investment.

In 2014, total expenses by nature were lower as compared to 2013 by PLN 1 191 million, or by 6.2%. The decrease in total costs was due to the lower sales of products than in 2013, mainly copper (by 41.9 thousand tonnes) and the lower value of the minerals extraction tax by PLN 336 million (in 2014 PLN 1 520 million, in 2013 PLN 1 856 million).

Chart 26. Group expenses by nature in 2014

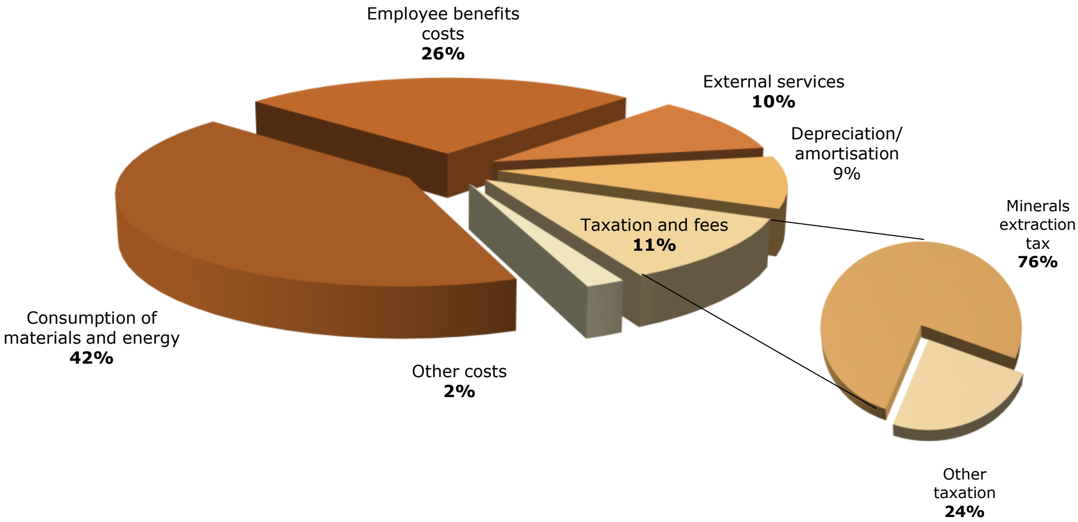
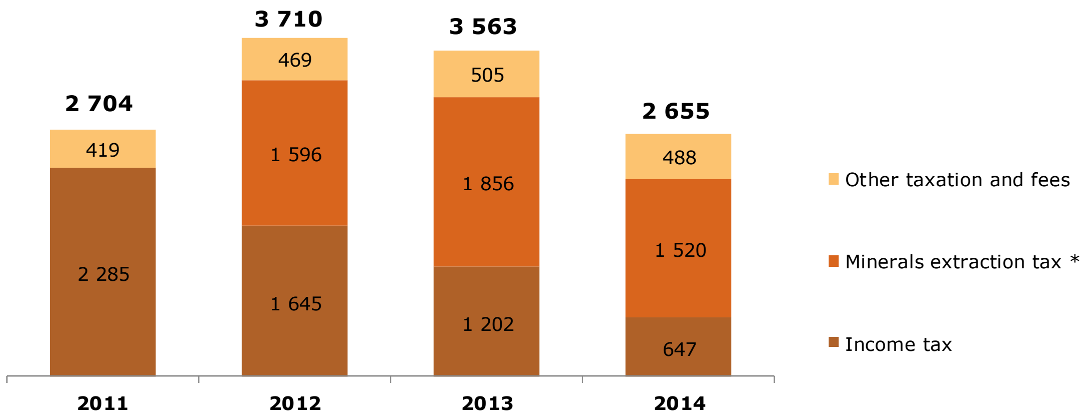


Chart 27. Taxation and fees paid by the Group *(in PLN millions)*



** concerns KGHM Polska Miedź S.A.*

The vast majority of taxation and fees are paid by the Parent Entity to the Polish national government. The full amount of the minerals extraction tax introduced in 2012 is paid to the national government, and is unaffected by the amount of other tax liabilities which the Parent Entity is required to pay.

The minerals extraction tax paid by the Parent Entity 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 of basic products and is not deductible for corporate income tax purposes.

Royalties on the extraction of minerals also exist in the USA and Canada. However, in these countries such taxes are paid on income. In the United States the rate on this type of tax is 5%, in Canada 10% (in 2014 there was no tax, while in 2013 it amounted in total to PLN 17 million).

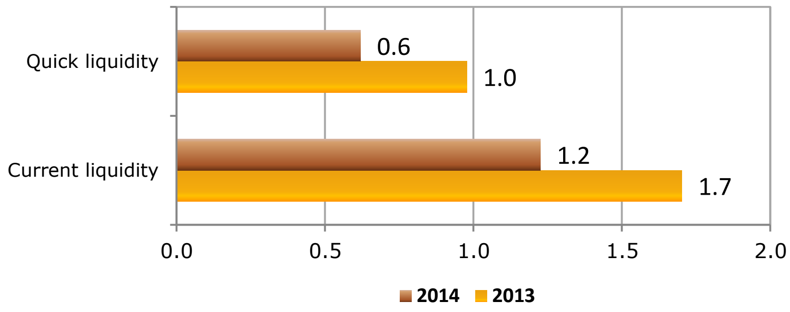
With respect to other taxation and fees incurred in 2014 only 8.6% were with respect to overseas companies.

Table 42. Structure of finacial result *(in PLN millions)*

Description	Profit for 2014
KGHM Polska Miedź S.A.	**2 414**
Subsidiaries	**(61)**
of which:	
The KGHM INTERNATIONAL LTD. Group*	54
Other companies of the KGHM Polska Miedź S.A. Group	(115)
Total profit of Group entities	**2 353**
Consolidation adjustment	97
Group profit attributable to shareholders of the Parent Entity	**2 450**
Profit attributable to non-controlling interest	1
Total profit for the period	**2 451**

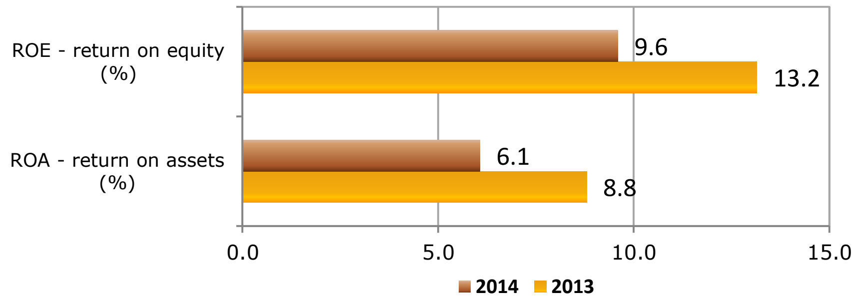
** data do not include adjustments due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. – adjustments in this regard were recognised in the item „Consolidation adjustment"*

Chart 28. Liquidity ratios



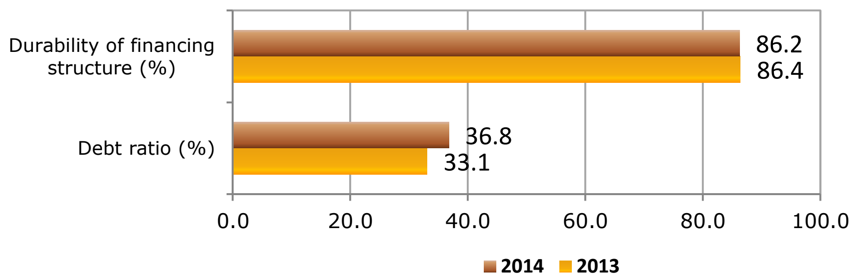
Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The decrease in these ratios as compared to 2013 was mainly due to the decrease in current assets, in particular trade receivables and derivatives. The liquidity ratios are currently at a safe level.

Chart 29. Profitability ratios



The decrease in profit, whose cause was described above, was the main reason for the deterioration in the ratios describing the return on assets (ROA) and the return on equity (ROE).

Chart 30. Financing ratios



The increase in the debt ratio reflects the increase in the use of leverage. The high level of the durability of the financing structure ratio confirms the long-term nature of the borrowing structure.

6.7. Achievement of 2014 targets and expected 2015 developments

Achievement of 2014 targets

The greatest impact on the results of the KGHM Polska Miedź S.A. Group is from the Parent Entity and, to a lesser degree, the KGHM INTERNATIONAL LTD. Group. The future results of the Group will be substantially impacted by the development of the Sierra Gorda project. The 2014 project targets (i.e. completion of phase I construction and the start of production) were achieved. Production commenced in mid-2014.

The 2014 production and copper sales targets set by the Parent Entity were achieved. In the case of silver the targets were substantially exceeded (production higher by 10%, sales by 13%). Thanks to continued cost discipline, the unit costs recorded were better than planned. The only elements which underperformed were the metals prices, although they were to a large extent offset by the more favourable USD/PLN exchange rate.

Achievement of the targets of KGHM Polska Miedź S.A. is described in detail in the Report of the Management Board on the activities of the company in 2014.

Expected developments in 2015

At Sierra Gorda we are expecting to reach full phase I production capacity - 120 thousand tonnes of copper per year (processing of 110 thousand tonnes of ore daily) by mid-2015. In addition, in 2015 we also expect to complete work on a feasibility study for the oxide ore project.

In terms of the Group we also assume continued development of the current resource projects.

In the Parent Entity we intend to maintain electrolytic copper production volume at the level similar to the one achieved in 2014. As for silver production we expect the volume to be lower by 8% than in 2014, due to the lower content of silver in ore. As a result of the higher level of expenses by nature, we expect that the C1 cash cost of producing copper in concentrate will be higher by 2% and the pre-precious metals credit unit cost of copper production from own concentrate by 4%, mainly due to higher depreciation and a higher scope of mine development work than in 2014.

We assume that 2015 metals prices will be similar to those recorded last year with a more favourable USD/PLN exchange rate. As a result, we expect copper prices expressed in PLN to be higher than in 2014 by 4%, and silver lower by 1%. The higher rate of increase in the total unit cost of electrolytic copper production from own concentrate (8%) is due to the lower amount and lower price of silver, and consequently the lower valuation of anode slimes.

Strategic priorities for 2015 are described in Section 2.7 of the Management Board's Report.

6.8. Future equity investments

Our future equity investments are mainly related with the Strategy of KGHM Polska Miedź S.A., which includes development of the resource base to increase copper production.

Investments related to the development of resources and reserves will be focused on selected copper-related exploration activities. At the Group level we will be focused on advancement of the projects in our portfolio – above all of the projects Sierra Gorda (stage II as well as the oxide ore project), Victoria and Ajax.

In terms of domestic equity investments related to our resource base development strategy, KGHM Polska Miedź S.A. intends to conduct further exploration activities to assess deposits of potassium-magnesium salt, phosphorous minerals, rock salt and non-ferrous metals in the Zatoka Pucka region. Companies from the Azoty Group (Grupa Azoty) are partners in the project.

KGHM Polska Miedź S.A., as one of the largest consumers of electricity in Poland, plans to secure its energy supply by actively participating in the advancement of projects in the energy sector, which will reduce exposure to changes in fuel and electricity prices and reduce liabilities related to climate change regulations. KGHM Polska Miedź S.A. is participating in the project to build the first nuclear power plant in Poland. The company's partners in the project are ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A.

Information regarding progress in the above projects may be found in Section 4 of the Management Board's Report.

As part of our investment strategy, KGHM Polska Miedź S.A. also intends to provide equity support to entities of the Group whose strategies and scopes of operation are closely connected with the core business of KGHM Polska Miedź S.A. This support will be aimed to a large extent at maintaining production capacity and ensuring continuous operations by KGHM Polska Miedź S.A.

Our investment strategy also includes plans to purchase certificates issued by the closed-end investment funds managed by KGHM TFI S.A.

In addition, we will continue steps aimed at optimising the structure of the KGHM Polska Miedź S.A. Group, through the processes of restructuring and divestment.

Assessment of investment capabilities in terms of available funds, reflecting potential changes in the structure of financing these activities

We have sufficient funds (cash and available credit) to carry out our investments.

7. Corporate governance statement

In accordance with §91 sec. 5 point 4 of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of recognising information as equivalent as required by the laws of a non-member state and §29 sec. 5 of the Bylaws of the Warsaw Stock Exchange, the Management Board of KGHM Polska Miedź S.A. herein presents the Report on the application of corporate governance principles in 2014.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in 2014 was subject to the corporate governance principles described in the document „Code of Best Practice for WSE Listed Companies" (an appendix to Resolution No. 19/1307/2012 of the Warsaw Stock Exchange Supervisory Board dated 21 November 2012). These principles are available at the official website of the Warsaw Stock Exchange devoted to this subject (www.corp-gov.gpw.pl), as well as at the company's website in the section devoted to corporate governance (http://kghm.com/en/investors/corporate-governance/governance-compliance).

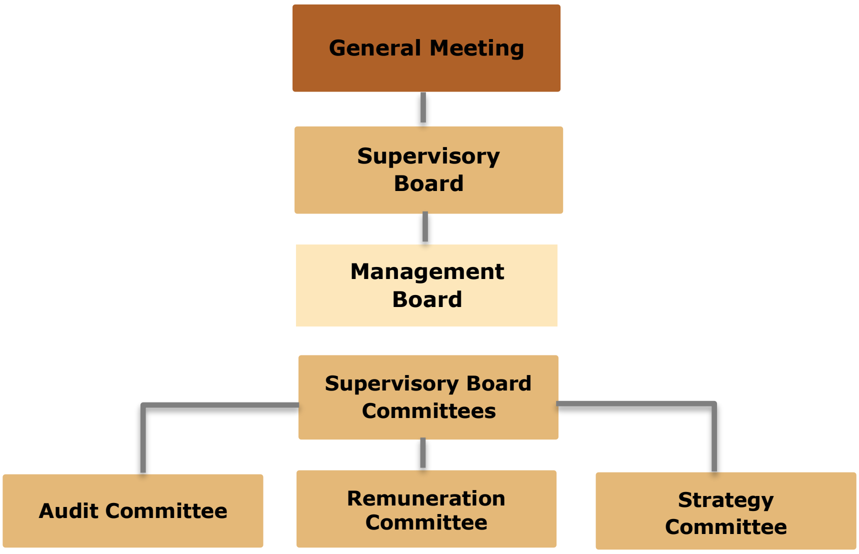
KGHM Polska Miedź S.A., has endeavoured at every stage of its operations to carry out the recommendations and principles respecting best practice for listed companies.

In 2014, KGHM Polska Miedź S.A. did not comply with the recommendation described in chapter I point 12 of the „Code of Best Practice for WSE Listed Companies", regarding providing assurance by the company that its shareholders will have the possibility to personally, or through a proxy, exercise their voting rights during General Meetings from a location other than that of the Meeting, using electronic means of communication.

The company also refrained from application of the principle set forth in Section IV point 10 of the „Code of Best Practice for WSE Listed Companies", according to which the company should provide its shareholders with the possibility to participate in General Meetings using electronic means of communication, based on real-time webcasts of General Meetings as well as real-time bilateral communication, based on which shareholders may take the floor during a General Meeting from a location other than that of the Meeting.

In the company's opinion, introduction of the possibility of participation in General Meetings using electronic means of communication may carry risks of a legal and technical nature leading to interference with the efficient conduct of General Meetings, and as a result to the possible questioning of any resolutions adopted. In the company's opinion, current principles of participation in the General Meetings of KGHM Polska Miedź S.A. enable all shareholders to exercise the rights attached to the owning of shares and protect the interests of all shareholders. The company is considering introducing the aforementioned principle and recommendation in situations when their technical and legal aspect no longer raise any doubts, and when such introduction will be justified by a real need for this form of communication with shareholders.

Diagram 6. Corporate governance structure of KGHM Polska Miedź S.A.



7.1. General Meeting

The General Meeting of KGHM Polska Miedź S.A. is the company's highest authority. It meets at least once a year, with any additional meetings in extraordinary form, based on generally prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A. General Meetings are convened by the company's Management Board. In situations defined by the Commercial Partnerships and Companies Code, General Meetings may be convened by the Supervisory Board or by shareholders. The Statutes of KGHM Polska Miedź S.A. also authorise the Polish State Treasury to convene a General Meeting.

The General Meeting of the company is convened by an announcement published on the company website and in the manner set forth in the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies. A General Meeting may adopt resolutions if at least one-fourth of the share capital is represented. Resolutions are usually adopted by a simple majority of votes cast, unless the law or the company's Statutes state otherwise. The principles for conducting a General Meeting are set forth by the Commercial Partnerships and Companies Code and the company's Statutes. Additional questions related to the functioning of the General Meeting are regulated by the Bylaws of the General Meeting of KGHM Polska Miedź S.A. adopted by the General Meeting on 17 May 2010, which are available on the company's website, www.kghm.com.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the company's activity and the financial statements, including the consolidated financial statements of the company Group, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the company,
- changing the subject of the company's activity,
- changes in the company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the company,
- dissolving and liquidating the company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the foundation of the company, or from management or supervisory activities,
- purchase of the company's own shares, which are to be offered to employees or persons who were employed by the company or by related companies for a period of at least three years,
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.

The introduction of changes to the company Statutes requires a resolution by the General Meeting and an entry in the National Court Register. Changes in the company Statutes are made by the General Meeting in conformance with generally prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code, by a majority three-fourths of the votes cast in the presence of persons representing at least half of the share capital.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and materials for the General Meeting on the company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

7.2. Shareholders and their rights

The only shareholder of KGHM Polska Miedź S.A. holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting on both 1 January 2014 and 31 December 2014 was the Polish State Treasury.

This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A. and the same numer of votes at the General Meeting, representing 31.79% of the share capital and of the total number of votes.

136 410 100 of the shares and voting rights, i.e. 68.21% of the share capital and of the total number of votes, were held by other institutional and individual shareholders (see also Section 3.2).

Shareholders of the company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A.

Shareholders are entitled to exercise their voting rights either personally or through a proxy. The authority to participate in a General Meeting and to exercise voting rights should be granted in writing or in electronic form.

All of the shares are bearer shares. Each share grants the right to one vote.

There is no limitation to the transferral of ownership rights to the shares of the company or with respect to the execution of voting rights on the shares of the company, other than those generally prescribed by laws in force.

The company has not issued securities which would grant special control rights in respect of the company.

A shareholder is entitled in particular to the following:

- to convene an Extraordinary General Meeting if the said shareholder represents at least half of the share capital or has been authorised by a court of registration and represents at least one-twentieth of the share capital,
- to announce draft resolutions during a General Meeting which are in regard to matters introduced to the agenda,
- in accordance with the Statutes, the Polish State Treasury as a shareholder may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted,
- to request that a matter included in the agenda be removed or not considered,
- to order the convening of an Extraordinary General Meeting and to include specified matters on the agenda of this General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital,
- to order the inclusion of specified matters on the agenda of the next General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital.

7.3. 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. At present, the Supervisory Board has 9 members appointed by the General Meeting, and 3 of them were 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 selects from among its members a Chairman of the Supervisory Board, his Deputy and a Secretary. The Supervisory Board should meet no less than once a quarter. For resolutions of the Supervisory Board to be valid all of the members of the Supervisory Board must be invited to attend and resolutions must be adopted by an absolute majority of votes in the presence of at least one-half of the members.

The duties of the Supervisory Board include in particular the following:

- evaluating the separate and consolidated financial statements and the report of the Management Board on the activity of the company and the Group for the given financial year,
- evaluating the proposals of the Management Board with respect to the distribution of profits or coverage of losses,
- submitting to the General Meeting an annual written report on the results of the evaluation of the documents referred to in the first two points above,
- submitting to the General Meeting annual requests for granting approval of the Management Board's members with respect to their activities,
- examining and controlling the activity and financial condition of the company, and submitting to the Ordinary General Meeting an annual, brief assessment of the standing of the company,
- choosing an auditor to audit the statements referred to in point 1,
- suspending from their duties for important reasons some or all of the members of the Management Board,
- temporarily delegating a member or members of the Supervisory Board to carry out the duties of members of the Management Board who are unable to carry out their duties,
- establishing the remuneration of members of the Management Board, as well as the other conditions of agreements or contracts concluded with them,
- approving the Bylaws of the Management Board of the company,
- approving the company's annual and long-term operating plans,
- stating its opinion on any request of the Management Board addressed to the General Meeting,
- at the request of the Management Board, expressing its consent to:
    - the purchase and sale of real estate, of perpetual usufruct or of a stake in real estate (this does not require a resolution of the General Meeting),
    - the granting of guarantees and loans to commercial entities in which the company owns less than 1/3 of the voting rights at the General Meeting of such entities,
    - establishing and acceding to commercial partnerships and companies,
    - disposing of shares in subsidiaries of the company,
    - establishing branches, companies, representative offices and other organizational or economic entities abroad,
    - obtaining or acquiring shares of another company,
    - the establishment and liquidation of foundations,
- appointing and recalling members of the Management Board, with due regard being given to § 12 of the Statutes of the company,
- expressing an opinion on investments by the company in fixed assets, which meet one of the following conditions:
    - investments having a value of more than 10% of the budget for expenditures on investments in tangible assets of the company for a given financial year,
    - investments of more than 5% of the budget for expenditures on investments in tangible assets of the company for a given financial year, if the investment does not meet the criteria for planned effectiveness in comparison to the accepted rate of return on equity in the company.

The Supervisory Board operates on the basis of generally prevailing law, the Statutes of the company and the Bylaws of the Supervisory Board. The Bylaws and Statutes of the company are available on the company's website, www.kghm.com.

The composition of the 8th-term Supervisory Board as at 1 January 2014 was as follows:

- Aleksandra Magaczewska - Chairwoman,
- Krzysztof Kaczmarczyk - Deputy Chairman,
- Marek Panfil - Secretary,
- Andrzej Kidyba,
- Jacek Poświata,
- Iwona Zatorska-Pańtak,
- Bogusław Szarek.

In 2014 the following changes were made to the composition of the Supervisory Board:

- On 23 June 2014, the General Meeting appointed the following persons to the 9th-term Supervisory Board: Tomasz Cyran, Bogusław Fiedor, Andrzej Kidyba, Marcin Moryń, Jacek Poświata and Barbara Wertelecka–Kwater, as well as the following persons elected by the employees of the company: Józef Czyczerski, Leszek Hajdacki and Bogusław Szarek.
- On 15 July 2014, the Supervisory Board appointed the following members of the Supervisory Board to the positions of Chairman, Deputy Chairman and Secretary:
  - Marcin Moryń - Chairman,
  - Tomasz Cyran - Deputy Chairman,
  - Bogusław Szarek - Secretary.

Following these changes, the composition of the 9th-term Supervisory Board as at 31 December 2014 and at the date of signing of this report was as follows:

- Marcin Moryń - Chairman,
- Tomasz Cyran - Deputy Chairman,
- Bogusław Szarek - Secretary,
- Bogusław Fiedor,
- Andrzej Kidyba,
- Jacek Poświata,
- Barbara Wertelecka-Kwater,
- Józef Czyczerski,
- Leszek Hajdacki.

Tomasz Cyran, Bogusław Fiedor, Andrzej Kidyba 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

Though the Board performs its tasks collectively, it delegates some of the work. The persons and committees to whom these tasks are delegated are described below:

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 performance of the duties set forth in the contracts signed with the Management Board, the remuneration system and benefits paid out in the company 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 company strategy, the company's annual and long-term operating plans, supervising the coherence of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the company and any changes thereto, as well as on the company's annual and long-term operating plans.

The detailed rights, scope of activities and manner of work of these Committees are described by bylaws approved by the Supervisory Board.

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 evaluation of the accounting principles adopted by the company,
- review of transactions carried out by the company which the Audit Committee regards as important,
- analysis and monitoring of the conclusions resulting from control of the risk management processes in the company,
- conduct of the process of selection of independent auditors to audit the financial statements of the company in order to recommend the choice made to the Supervisory Board, and participation in the commercial negotiations held prior to the company's signing of the agreement with the auditor,

- on-going cooperation with the independent auditor of the company during the audit, analysis and drawing of conclusions from the audit and opinion of the auditor regarding the financial statements, the auditor's letter to the Management Board and/or the Supervisory Board, and the preparation of draft reports and assessments required under the regulations for the company's bodies or other administrative institutions,
- issuing an opinion on the company's internal audit plan and on the rules of the internal audit, and on any changes in the position of the internal audit director,
- analysis of the conclusions and recommendations of the company's internal audit including the monitoring of the degree of implementation of recommendations by the company's Management Board,
- monitoring of the rules applied in the company in the areas of accounting, finances and hedging against the trade and financial risks and the risk of exposing the company to serious harm, and
- other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Audit Committee as at 1 January 2014:

- Marek Panfil - Committee Chairman,
- Krzysztof Kaczmarczyk,
- Iwona Zatorska–Pańtak.

Following changes in the Supervisory Board, from 15 July 2014 the composition of the Audit Committee was as follows (as at 31 December 2014 and as at the date of signing of this report):

- Bogusław Fiedor - Committee Chairman,
- Bogusław Szarek - Deputy Committee Chairman,
- Tomasz Cyran,
- Leszek Hajdacki (appointed on 18 December 2014).

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 Management Board members by preparing and arranging the draft documents and processes to be submitted for the acceptance by the Supervisory Board,
- preparation of the draft agreements and other model documents in relation to the employment relationship established with the Management Board members and supervision of the execution of contractual obligations of the parties,
- supervision of implementation of the Management Board remuneration system, specifically the preparation of payment documents as regards variable elements and bonus-based remuneration in order to submit recommendations to the Supervisory Board,
- monitoring and periodic analyses of the remuneration system of senior management of the company and, if necessary, the preparation of recommendations for the Supervisory Board,
- supervision of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, apartments, etc., and
- other tasks ordered by the Supervisory Board.

As at 1 January 2014 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:

- Iwona Zatorska – Pańtak - Committee Chairwoman,
- Krzysztof Kaczmarczyk,
- Andrzej Kidyba,
- Bogusław Szarek.

Following changes in the Supervisory Board, from 15 July 2014 the composition of the Remuneration Committee was as follows (as at 31 December 2014 and as at the date of signing of this report):

- Tomasz Cyran - Committee Chairman,
- Leszek Hajdacki - Deputy Committee Chairman,
- Józef Czyczerski,
- Marcin Moryń,
- Barbara Wertelecka-Kwater.

Strategy Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

- on behalf of the Parent Entity's Supervisory Board, performing tasks related to the supervision of issues associated with the company's strategy and with the annual and long-term operating plans of the company,
- monitoring implementation of the company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
- monitoring implementation of the company's annual and long-term operating plans by the Management Board, and assessment of whether these plans need to be modified,
- assessment of the conformity of the annual and long-term operating plans of the company to the company's strategy as implemented by the Management Board, and the presentation of any proposed changes in all such company documents,

- submission to the company's Supervisory Board of its opinions regarding the draft strategies of the company and any changes thereto, and regarding the annual and long-term operating plans of the company as presented by the company's Management Board, and
- other tasks ordered by the Supervisory Board.

As at 1 January 2014 the following Members of the Supervisory Board served on the Strategy Committee:
- Aleksandra Magaczewska - Committee Chairwoman,
- Krzysztof Kaczmarczyk - Deputy Committee Chairman,
- Bogusław Szarek.

Following changes in the Supervisory Board, from 15 July 2014 the composition of the Strategy Committee was as follows (as at 31 December 2014 and as at the date of signing of this report):
- Barbara Wertelecka-Kwater - Committee Chairwoman,
- Andrzej Kidyba - Deputy Committee Chairman,
- Józef Czyczerski,
- Leszek Hajdacki,
- Marcin Moryń,
- Jacek Poświata,
- Bogusław Szarek.

After the end of the year the Audit, Remuneration and Strategy Committees submit a report of their activities to the Supervisory Board.

7.4. Management Board

The duties of the Management Board include all matters pertaining to the functioning of the company which have not been reserved by the Commercial Partnerships and Companies Code and the Statutes of the company to the duties of General Meeting and Supervisory Board. The Management Board operates in compliance with the Regulations of the Management Board, which describe the Board's specific scope of duties and obligations and the manner in which it functions.

Currently the Management Board is composed of 5 members, appointed for a mutual mandate. The mandate 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, with due regard to §12 sec. 5 and sec. 7 to 12 of the company Statutes, regarding the appointment and dismissal of an employee-elected Member of the Management Board. Members of the Management Board, including any employee-elected Member of the Management Board, may be dismissed by the Supervisory Board prior to the completion of their mandate, which does not impair their rights resulting from employment contracts or other legal relationships involving fulfilling their functions as members of the Management Board. The result of elections for an employee-elected member of the Management Board, or the result of voting in the matter of his dismissal, is binding for the Supervisory Board, if at least 50% of the company's employees took part in the voting for his election or dismissal. The election and dismissal of an employee-elected Member of the Management Board requires an absolute majority of the votes cast.

The Management Board operates based on generally prevailing law, the Statutes of the company and the Regulations of the Management Board of KGHM Polska Miedź S.A. For resolutions of the Management Board to be valid at least two-thirds of the members of the Management Board must be present. Resolutions of the Management Board are usually approved by a simple majority of the votes cast.
In the case of a tie vote being cast for a given resolution either for or against, the President of the Management Board casts the deciding vote.

A detailed list of the matters requiring a resolution of the Management Board is included in the Regulations of the Management Board of KGHM Polska Miedź S.A. approved by the Supervisory Board.
The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The shares of the company may be redeemed given shareholder consent through their acquisition by the company. A resolution of the General Meeting on the redemption of shares may be preceeded by an agreement entered into with a shareholder. In accordance with §29 sec. 1 point 6 of the Statutes of the company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the company). The Management Board of the company does not have the authority to increase the share capital or issue the shares of the company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The composition of the 8th-term Management Board and the delegation of duties amongst its Members in 2014 was as follows:
- Herbert Wirth President of the Management Board,
- Jarosław Romanowski First Vice President of the Management Board (Finance),
- Wojciech Kędzia Vice President of the Management Board (Production),
- Jacek Kardela Vice President of the Management Board (Development),
- Marcin Chmielewski Vice President of the Management Board (Corporate Affairs).

On 18 December 2014 Wojciech Kędzia submitted his resignation from the function of Member of the Management Board, effective as at 31 January 2015, and on 18 December 2014 the Supervisory Board appointed Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A. in the function of Vice President of the Management Board, with an effective date of 1 February 2015.

7.5. Internal control and risk management systems as applied by the company in the process of preparing separate and consolidated financial statements

KGHM Polska Miedź S.A. system of internal control and risk management in the process of preparing financial statements is performed in the following manner:

Supervision of the application of uniform accounting principles by the Parent Entity and the companies of the KGHM Polska Miedź S.A. Group during the process of preparing reporting packets to prepare the consolidated financial statements of the KGHM Polska Miedź S.A. Group

In order to ensure truth and accuracy in the keeping of the accounting records of the Parent Entity and the uniformity of the accounting principles applied when preparing the financial statements of Group subsidiaries, the Management Board of the Parent Entity has introduced an Accounting Policy for the Group in accordance with International Financial Reporting Standards approved by the European Union which is regularly updated in compliance with new regulations.

Control over the accounting principles applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and of Group subsidiaries is based on the control mechanisms embedded in the functioning of the reporting systems.

The reporting packets of subsidiaries are also reviewed by appropriate units in the Parent Entity as well as by an independent auditor during the process of reviewing and auditing the consolidated financial statements of the Group.

Centralised financial and accounting services

KGHM Polska Miedź S.A. performs its accounting activities within a centralised financial and accounting services structure. Bookkeeping in the Parent Entity is performed by the Accounting Services Center under the Head Office of KGHM Polska Miedź S.A. The centralisation of accounting services under a model which provides for the transparent breakdown of duties and responsibilities ensures minimisation of the risk of bookkeeping errors and high-quality financial statements.

The accuracy and security of the accounting procedures was confirmed by an external audit aimed at „Assessment of the functioning of the financial and accounting control procedures as a result of the centralisation of these processes". Further actions are being taken aimed at optimising the functioning of the accounting services and enhancing the security of the process of bookkeeping accounting services.

Finance and accounting systems

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control over ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Parent Entity continuously adapts the IT information system to changing accounting principles or other legal standards. The solutions chosen by the Parent Entity are implemented in the systems of Group entities.

To ensure the legitimate utilisation and protection of systems, data, secure access to data and computer equipment, appropriate organisational and systemic solutions have been introduced. Access to the resources of the financial and accounting system, as well as accounting during the process of separate and consolidated financial reporting, is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular review and audits. As a result of the centralisation of financial and accounting systems, an external audit was performed called the „Review of the delegation of responsibilities under the SAP system", which was aimed at eliminating the potential risk of improper delegation of responsibilities and the potential for conflicts between authorised persons. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

A key element helping to limit the risk of errors and improprieties when accounting for economic activities are the actions taken which are aimed at increasing the use of IT tools to automate control over and the settlement of purchases by the Parent Entity. These actions include:

- on-going expansion of the scope of the Workflow system of electronic document settlement and approval,
- implementation of the EDI system for the electronic transmission of data between the system in the Parent Entity and IT systems in Group companies,
- customer settlement based on e-invoices for procurement and sales.

Corporate risk management

Under the Corporate Risk Management Policy and Procedures and the Corporate Risk Committee Rules adopted in 2013, corporate risk management is an on-going process in the KGHM Polska Miedź S.A. Group. Risks associated with the Group's various operations are continuously identified, assessed and analysed in terms of their possible restriction.

The Corporate Risk Management and Conformity Department is responsible for coordination of the entire corporate risk management process and for developing the methods and tools used by managers in the Parent Entity, its subsidiaries and projects. This Department is responsible for risk monitoring and escalation, and for reporting incidents.

These activities also comprise risk management with respect to the process of preparing the separate financial reports of the Parent Entity and the consolidated financial reports of the Group.

Internal audit

A fundamental element of risk management with respect to the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A. is the work carried out by the Department of Auditing and Internal Control. Consequently this work indirectly augments the process of preparing financial statements as well as their accuracy.

The Department of Auditing and Internal Control carries out its tasks based on the "Integrated Audit Plan of KGHM Polska Miedź S.A. for the years 2011-2015" approved by the Management Board of KGHM Polska Miedź S.A. and the annual „Integrated Audit and Internal Control Plan" for the given calendar year. These documents were developed in conformity with the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors and approved by the Supervisory Board.

The goal of internal auditing and internal control is to provide the Management Board and Supervisory Board of the Parent Entity with independent and objective information on internal control and risk management systems as well as with analyses of business processes within KGHM Polska Miedź S.A. and Group companies. Apart from internal audit and institutional control, the obligation fully remains in the Parent Entity for each employee to exercise self-control in respect of their duties and for every level of management staff to perform their control as part of the supervisory duties.

External audit

In accordance with prevailing law, KGHM Polska Miedź S.A. submits its separate financial statements and consolidated financial statements to review and auditing by a certified auditor. The Supervisory Board selects the certified auditor through a tender process, based on the recommendations of the Audit Committee and the report on the tender conducted by the Committee. The appropriate entity to audit the separate and consolidated financial statements of KGHM Polska Miedź S.A. for the years 2013-2015 is PricewaterhouseCoopers Sp. z o.o. As part of the audit work performed the certified auditor performs an independent evaluation of the accounting principles applied by Parent Entity in preparing the financial statements and the accuracy and truthfulness of the separate and consolidated financial statements. The effectiveness of the internal control system and the risk management system in the process of preparing the financial statements is regularly confirmed by the unqualified opinions issued by the certified auditor from its audit of the separate and consolidated financial statements of KGHM Polska Miedź S.A.

Supervision over the process of financial reporting

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of the Parent Entity. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the KGHM Polska Miedź S.A. Group and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- 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.

Proper management of the process of keeping records and preparing financial statements ensures the security of the data and the high quality of the information provided.

8. Significant subsequent events

Extension of working capital facility

In 2015, the Parent Entity extended access to a working capital facility in the amount of USD 162 million under an Agreement for a Multi-Purpose Credit Limit with the bank PEKAO S.A. from 6 January to 3 April 2015. Interest is based on LIBOR plus a margin. The Agreement defines the period of availability of the credit as being to 8 August 2016.

Extension of guarantee towards the Lower Silesia Voivodeship

On 12 January 2015, at the request of KGHM Polska Miedź S.A., a bank which cooperates with the company extended a guarantee in the amount of PLN 320 million by a further 2 months. The guarantee is now valid until 31 March 2015. The guarantee serves as collateral for the company's liabilities towards the Lower Silesia Voivodeship.

The guarantee was issued is accordance with art. 32 sec. 1 of the Act dated 10 July 2008 on mining waste, for the purpose of ensuring the proper performance of obligations, arising from the operation of a tailings pond by the owner of such a facility, to close the said facility and to restore the terrain.

Unsecured, revolving syndicated credit facility

On 20 January 2015, KGHM Polska Miedź S.A. drew an instalment of the unsecured, revolving syndicated credit facility. The loan in the amount of USD 200 million (or PLN 747 million at the exchange rate of the NBP on the date the funds were drawn) was drawn for a period of three months, with the intention of prolonging it for further periods. Interest is based on LIBOR, plus a bank margin. The funds obtained were used to refinance the debt of KGHM INTERNATIONAL LTD. The consolidation of borrowing by the Group at the Parent Entity level is the basic tenet of the new financing strategy. This strategy will lead to substantial savings in the costs of servicing Group debt and conforms to best market practice as regards financing in large international groups.

On 26 January 2015, KGHM Polska Miedź S.A. granted a loan to the subsidiary 0929260 B.C. Unlimited Liability Company in the amount of USD 200 million to be used to refinance the debt of KGHM INTERNATIONAL LTD.

On 28 January 2015, KGHM INTERNATIONAL LTD. repaid USD 200 million in debt arising from a credit facility agreement signed with a syndicate of banks, and as at that date the agreement expired.

De-registration of the company „BIOWIND" sp. z o.o. in liquidation

On 8 January 2015, as a result of conclusion of the process of liquidation, the company „BIOWIND" sp. z o.o. in liquidation, which had been wholly-owned by the subsidiary „Energetyka" sp. z o.o., was de-listed from the National Court Register.

Strategy for the years 2015 – 2020 with an outlook to 2040

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

Dividend Policy

On 26 January 2015 the Management Board of KGHM Polska Miedź S.A. adopted a Dividend Policy. The Dividend Policy of KGHM Polska Miedź S.A. is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the Parent Entity's funds.

The Dividend Policy of KGHM Polska Miedź S.A. assumes that the Management Board will recommend allocation of up to one-third of the net profit for the previous financial year as a dividend, while taking into account the current and anticipated financial situation of the Parent Entity and the Group. In particular, in making its recommendation the Management Board will take into account the KGHM Polska Miedź S.A.'s anticipated requirements for capital to complete the Parent Entity's development program as well as a safe debt level for the Group. The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

Call for the sale of shares of BIPROMET S.A.

On 29 January 2015, KGHM Polska Miedź S.A. announced (as Bidder) a tender offer to purchase 2 107 932 ordinary bearer shares of BIPROMET S.A. representing 34% of this entity's outstanding shares. KGHM Polska Miedź S.A. currently owns 66% of the shares of BIPROMET S.A. and as a result of the tender intends to acquire 100% ownership of this company. The tender opened on 19 February 2015, with conclusion set for 20 March 2015.

Act on Controlled Foreign Corporations ("CFC")

On 1 January 2015 tax rules came into force regarding the taxation in Poland of controlled foreign corporations, whose direct or indirect shareholders are Polish payers of corporate income tax (art. 24a of the Act dated

15 February 1992 on corporate income tax (unified text, Journal of Laws from 2014, item 851 with subsequent amendments; hereafter: Act on CIT)).

The rules regarding CFC are applicable to foreign corporations with their registered head office or management board based within the territory of a country which either practices harmful tax competition, or with which Poland has not signed an international agreement, or the European Union has not signed an international agreement on the exchange of information. The rules regarding CFC are also applicable to entities from the EU/EEA (or from other countries with which Poland has signed an agreement), if the following conditions are met:

- a resident of Poland owns indirectly or directly at least 25% of the share capital, 25% of the voting rights or 25% of the income of a foreign corporation for at least 30 consecutive days;
- the foreign corporation has mainly (i.e., at least 50%) passive income (eg., dividends earned otherwise than in a manner based on EU directives on parent entities, interest, intellectual property rights and capital gains); and
- the income of a foreign corporation is taxable based on nominal rates lower than 14.25% (i.e., 75% of the income tax rate in force in Poland) or the given income is not taxable or takes advantage of tax-exempt status, unless this income is exempt from taxation in the home country or that of the management board receiving it on the basis of EC directive 2011/96/UE dated 30 November 2011.

The taxable base is the income of a controlled foreign corporation in that part respecting the interest held related to the right to participate in the profits of the said corporation, after deducting the dividends received by the Polish corporate taxpayer from the controlled foreign corporation, and the amount received from the sale of shares in a controlled foreign corporation. The amount which is not deducted in a given tax year may be deducted over the next five consecutive fiscal years. In accordance with CFC rules, the income earned in a given tax year is the sum of the excess of revenues over deductible costs, which are set by the Polish Act on CIT, regardless of the source of the revenues, set on the last day of the fiscal year of the controlled foreign corporation.

Income earned by a controlled foreign corporation is subject to corporate income tax in Poland at the rate of 19%. In principle, tax which is payable in Poland may be reduced by the amount of tax paid abroad by a controlled foreign corporation, as long as there is an international agreement, to which Poland is a party, based on which Polish tax authorities may receive tax information from the tax authority of the country in which the controlled foreign corporation has tax residency.

The rules regarding CFC introduce the following additional administrative and reporting obligations:

- keeping a register of foreign companies,
- keeping track of economic events which take place in the controlled foreign corporations, and
- the obligation to file a separate declaration on the income of each controlled foreign corporation earned in a given fiscal year – by the end of the ninth month of the subsequent fiscal year – and to pay within this period the tax due.

Appropriate procedures are being implemented in the KGHM Polska Miedź S.A. Group in order to meet the obligations with respect to CFC rules (maintaining the required data, maintaining a register, documentation, tax calculation, filing CFC tax declarations in Poland).

Announcement of Plan to reorganise POL-MIEDŹ TRANS Sp. z o.o.

On 25 February 2015, the Management Board of POL-MIEDŹ TRANS Sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A.) announced an agreed, approved and signed company Division Plan for POL-MIEDŹ TRANS Sp. z o.o. (a company in the course of being divided) under art. 529 § 1 point 4 of the Commercial Partnerships and Companies Code, by splitting off assets representing an organised part of the company POL-MIEDŹ TRANS Sp. z o.o. and transferring them to the following Group entities (acquirees): PHP „MERCUS" sp. z o.o., KGHM ZANAM Sp. z o.o. and „Energetyka" sp. z o.o., as well as a newly-founded company which will operate under the name PMT Linie Kolejowe 2 Sp. z o.o.

The details of the Division Plan have been made publically available at the website www.pmtrans.pl.

Recommendation on payment of dividend

On 16 March 2015, the Management Board of KGHM Polska Miedź S.A. resolved to recommend the payment of a dividend from profit for financial year 2014 in the amount of PLN 800 million (or PLN 4.00 per share).
In developing this recommendation, the Management Board of KGHM Polska Miedź S.A. took the following into consideration:

- the principles of the adopted Dividend Policy;
- the level of capital expenditures in the Group which must be incurred to meet the targets set forth in the Company Strategy for the years 2015 – 2020; and
- a safe level of debt.

Below are the dates described in the recommendation and related to payment of the dividend from profit for financial year 2014:

- a dividend date (the day on which the right to dividend is set) of 27 May 2015;
- the day on which the first instalment on the dividend is paid in the amount of PLN 2.00 per share of 18 June 2015; and
- the day on which the second instalment on the dividend is paid in the amount of PLN 2.00 per share of 19 October 2015.

The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

Appendix 1 Structure of the KGHM Polska Miedź S.A. Group as at 31.12.2014

The percentages shown in the diagram represent the total interest of the Group in the share capital of the given company. In every Group company, the share held is equal to the number of votes.

1/ unconsolidated subsidiary
2/ joint venture accounted for using the equity method
3/ actual Group share
4/ removed from the Companies Register on 8 Jan 2015

Appendix 2 Structure of the KGHM INTERNATIONAL LTD. Group as at 31.12.2014

KGHM INTERNATIONAL LTD.

- **FNX Mining Company Inc.** 100%
  - DMC Mining Services Ltd. 100%
  - Quadra FNX Holdings Partnership 100%
    - Raise Boring Mining Services S.A. de C.V. 100%
    - FNX Mining Company USA Inc. 100%
      - DMC Mining Services Corporation 100%
  - Centenario Holdings Ltd. 100%
    - Minera Carrizalillo Limitada 100%
    - Mineria y Exploraciones KGHM International SpA 100%
    - Frankie (BVI) Ltd. 100%
      - Sociedad Contractual Minera Franke 100%
- **0899196 B.C. Ltd.** 100%
  - KGHMI (Barbados) Holdings Ltd. 100%
    - Malmbjerg Molybdenum A/S 100%
    - Quadra FNX FFI Ltd. 100%
    - International Molybdenum Plc 100%
    - Quadra FNX SG (Barbados) Ltd. 100%
    - Aguas de la Sierra Limitada 100%
    - Quadra FNX Chile (Barbados) Ltd. 100%
      - Quadra FNX Holdings Chile Limitada 100%
        - Sierra Gorda S.C.M. /1 55%
- **Robinson Holdings (USA) Ltd.** 100%
  - Wendover Bulk Transhipment Company 100%
  - Robinson Nevada Mining Company 100%
  - Carlota Holdings Company 100%
    - Carlota Copper Company 100%

1/ joint venture accounted for using the equity method

Appendix 3 Subsidiaries and joint ventures of the KGHM Polska Miedź S.A. Group

Entity	Head Office	Activities
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka" sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy, water-sewage management;
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction, drilling services (geological-exploration drilling);
KGHM ZANAM Sp. z o.o.	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; objects made of steel;
KGHM CUPRUM sp. z o.o. - CBR	Poland	design and R&D activities
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research;
INOVA Spółka z o.o.	Poland	design and production – innovative solutions in electronics, automated equipment and communication systems; certification and attestation of machinery and equipment
KGHM Metraco S.A.	Poland	wholesale of scrap and waste, lead, non-ferrous metals, chemicals and salt; the processing of industrial acid waste to produce rhenium-based products; production of road-building material; the processing and recovery of metals
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport, passenger and cargo road transport; trade in oil-based fuels;
NITROERG S.A.	Poland	production of explosives and Nitrocet 50 as well as of detonation agents;
PHP „MERCUS" sp. z o.o.	Poland	materials logistics; trade in consumer goods; production of bundled electrical cables and hydraulic cables
NITROERG SERWIS Sp. z o.o.	Poland	comprehensive drilling and blasting work for mines, sale of explosives and detonators
CENTROZŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminium and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
WFP Hefra SA	Poland	production and sale of rust-proof, silver-plated and semi-silver-plated table settings
PHU „Lubinpex" Sp. z o.o.	Poland	gastronomic, commercial 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;
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. in liquidation	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
Uzdrowiska Kłodzkie S.A. – Grupa PGU	Poland	spa-healing, sanatorium and tourism-recreation services;
Uzdrowisko Połczyn Grupa PGU S.A.		
Uzdrowisko Cieplice sp. z o.o. – Grupa PGU		
Uzdrowisko Świeradów -Czerniawa Sp. z o.o. - Grupa PGU		
Fundusz Hotele 01 Sp. z o.o.	Poland	special-purpose companies operating within the structures of the KGHM I FIZAN investment fund
Fundusz Hotele 01 Sp. z o.o. S.K.A.		
Polska Grupa Uzdrowisk Sp. z o.o.		
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.		

Entity	Head Office	Activities
KGHM I FIZAN	Poland	closed-end, non-public investment funds – cash depositing
KGHM III FIZAN		
KGHM IV FIZAN		
KGHM V FIZAN		
„MCZ" S.A.	Poland	hospital services; medical practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events
KGHM LETIA S.A.	Poland	operation of a technology park; promotion of scientific achievements; technology transfer; property sale and leasing
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work; general realisation of investments;
Przedsiębiorstwo Budowlane Katowice S.A. in liquidation	Poland	comprehensive construction and specialist work
Cuprum Nieruchomości sp. z o.o.	Poland	activities related to real estate market services, construction services, design work and financing
Cuprum Development sp. z o.o.	Poland	
NANO CARBON Sp. z o.o.		production of epitaxial graphene
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	China	commercial activities involving copper/silicon merchandise, mine products (copper/silicon) and related services;
KGHM Kupfer AG	Germany	exploration for and assessment of deposits of copper and other minerals;
Fermat 1 S.à r.l.	Luxembourg	the founding, development, management or control of other companies (holding-type companies)
Fermat 2 S.à r.l.		
Fermat 3 S.à r.l.		
KGHM AJAX MINING INC.	Canada	exploration for and evaluation of mineral deposits;
0929260 B.C. U.L.C.	Canada	management and control of other companies
Sugarloaf Ranches Ltd.	Canada	agricultural activities (this company owns assets in the form of land designated for future mining activities related to the Ajax project)
KGHM INTERNATIONAL LTD. Group		
KGHM INTERNATIONAL LTD.	Canada	the founding, development, management or control of other companies
FNX Mining Company Inc.	Canada	mining of copper and nickel ore, production and sale of copper and nickel,
DMC Mining Services Ltd.	Canada	contracted mining services
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 BC Ltd.		
Sierra Gorda S.C.M.	Chile	the construction and operation of an open-pit copper and molybdenum mine
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
Minera Carrizalillo Limitada		
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Mineria y Exploraciones KGHM International SpA	Chile	exploration services for the Sierra Gorda project
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper
Robinson Holdings (USA) Ltd.	USA	technical and management services
Wendover Bulk Transhipment Company	USA	shipment services
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper

Entity	Head Office	Activities
Carlota Holdings Company	USA	the management and control of other companies
FNX Mining Company USA Inc.		
Carlota Copper Company	USA	copper ore leaching, production and sale of copper
DMC Mining Services Corporation	USA	contract mining services
KGHMI (Barbados) Holdings Ltd.	Barbados	the management and control of other companies
Quadra FNX Chile (Barbados) Ltd.		
Quadra FNX SG (Barbados) Ltd.		
Quadra FNX FFI Ltd.	Barbados	financial 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
Frankie (BVI) Ltd.		
Malmbjerg Molybdenum A/S	Greenland	development of the Malmbjerg molybdenum project
International Molybdenum Plc	United Kingdom	financial services

Appendix 4 Methodology of calculating ratios used in the report

Assets effectiveness ratios

$$\text{Assets turnover ratio} = \frac{\text{sales revenue}}{\text{total assets}}$$

$$\text{Non-current assets turnover ratio} = \frac{\text{sales revenue}}{\text{non-current assets}}$$

$$\text{Current assets turnover ratio} = \frac{\text{sales revenue}}{\text{current assets}}$$

$$\text{Liquid assets turnover ratio} = \frac{\text{Sales revenue}}{\text{current receivables + cash and cash equivalents}}$$

Assets financing ratios

$$\text{Coverage of assets by equity} = \frac{\text{equity}}{\text{total assets}}$$

$$\text{Coverage of non-current assets by equity} = \frac{\text{equity}}{\text{non-current assets}}$$

$$\text{Coverage of non-current assets by long-term capital} = \frac{\text{equity + non-current liabilities}}{\text{non-current assets}}$$

$$\text{Coverage of current assets by current liabilities} = \frac{\text{current liabilities}}{\text{current assets}}$$

Economic activity ratios

$$\text{Current liquidity} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{current assets – inventories}}{\text{current liabilities}}$$

$$\text{ROA (return on assets)} = \frac{\text{profit for the period}}{\text{total assets}} \times 100$$

$$\text{ROE (return on equity)} = \frac{\text{profit for the period}}{\text{equity}} \times 100$$

$$\text{Debt ratio} = \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{equity + non-current liabilities}}{\text{equity and liabilities}} \times 100$$

Financial ratios

$$\text{EPS} = \frac{\text{profit for the period}}{\text{number of issued shares}}$$

$$\text{P/CE} = \frac{\text{price per share}}{\text{financial surplus per share *}}$$

$$\text{P/E} = \frac{\text{price per share}}{\text{earnings per share}}$$

$$\text{MC/S} = \frac{\text{market capitalisation}}{\text{sales revenue}}$$

$$\text{P/BV} = \frac{\text{price per share}}{\text{book value (carrying amount) per share}}$$

** financial surplus per share = net profit + depreciation/amortisation*

Appendix 5 List of tables, charts, diagrams and drawings

TABLES

CHARTS

DIAGRAMS

DRAWINGS

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last name**	**Position/Function**	**Signature**
16 March 2015	Herbert Wirth	President of the Management Board	
16 March 2015	Jarosław Romanowski	First Vice President of the Management Board	
16 March 2015	Marcin Chmielewski	Vice President of the Management Board	
16 March 2015	Jacek Kardela	Vice President of the Management Board	
16 March 2015	Mirosław Laskowski	Vice President of the Management Board	