

**POLISH FINANCIAL SUPERVISION AUTHORITY**

**Consolidated annual report RS 2013**

(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 **2013** comprising the period from **1 January 2013** to **31 December 2013**  
containing the consolidated financial statements according to IFRS in PLN.

publication date: 28 March 2014

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

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

SELECTED FINANCIAL DATA		in M PLN		in M EUR	
		year 2013 period from 1 January 2013 to 31 December 2013	year 2012 restated period from 1 January 2012 to 31 December 2012	year 2013 period from 1 January 2013 to 31 December 2013	year 2012 restated period from 1 January 2012 to 31 December 2012
I.	Sales	24 110	26 705	5 725	6 399
II.	Operating profit	4 372	6 475	1 038	1 551
III.	Profit before income tax	4 235	6 329	1 006	1 516
IV.	Profit for the period	3 033	4 753	721	1 138
V.	Profit for the period attributable to shareholders of the Parent Entity	3 035	4 752	721	1 138
VI.	Profit for the period attributable to non-controlling interests	( 2)	1	-	-
VII.	Other comprehensive income	49	( 486)	12	( 116)
VIII.	Total comprehensive income	3 082	4 267	733	1 022
IX.	Total comprehensive income attributable to the shareholders of the Parent Entity	3 091	4 270	735	1 023
X.	Total comprehensive income attributable to non-controlling interest	( 9)	( 3)	( 2)	( 1)
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	15.18	23.76	3.60	5.69
XIII.	Net cash generated from operating activities	4 924	5 521	1 169	1 323
XIV.	Net cash used in investing activities	( 4 730)	( 10 669)	( 1 123)	( 2 556)
XV.	Net cash used in financing activities	( 1 961)	( 4 522)	( 466)	( 1 083)
XVI.	Total net cash flow	( 1 767)	( 9 670)	( 420)	( 2 316)
		<b>At 31 December 2013</b>	<b>At 31 December 2012</b>	<b>At 31 December 2013</b>	<b>At 31 December 2012</b>
XVII.	Non-current assets	26 488	24 108	6 387	5 897
XVIII.	Current assets	7 977	9 854	1 923	2 410
XIX.	Total assets	34 465	33 962	8 310	8 307
XX.	Non-current liabilities	6 714	7 279	1 619	1 780
XXI.	Current liabilities	4 687	4 769	1 130	1 167
XXII.	Equity	23 064	21 914	5 561	5 360
XXIII.	Non-controlling interest	223	232	54	57

**Average EUR/PLN exchange rate of the National Bank of Poland**

	<u>31 December 2013</u>	<u>31 December 2012</u>
Average exchange rate for the period*	4.2110	4.1736
Exchange rate at the end of the period	4.1472	4.0882

\*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 2013 and 2012

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

**CONSOLIDATED ANNUAL REPORT RS 2013 COMPRISES:**

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

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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**AUDITOR'S OPINION AND REPORT  
ON ITS AUDIT OF THE CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR 2013**

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Lubin, March 2014



## **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 2013, showing total assets and total equity and liabilities of PLN 34.465 million, the consolidated statement of profit or loss for the year from 1 January to 31 December 2013, showing a net profit of PLN 3.033 million, the consolidated statement of comprehensive income for the period from 1 January to 31 December 2013, showing a total comprehensive income of PLN 3.082 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 Group Directors' Report in accordance with the applicable regulations, and for the correctness of the accounting records. The Management Board and Members of the Supervisory Board of the Parent Company are obliged to ensure that the consolidated financial statements and the Group Director's Report 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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Telefon +48 22 523 4000, Faks +48 22 508 4040, [www.pwc.pl](http://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 2013 and of the results of its operations for the year from 1 January to 31 December 2013, in accordance with the International Financial Reporting Standards as adopted by the European Union;
- b. comply in terms of form and content with the applicable laws applicable to the Group;
- c. have been prepared on the basis of properly maintained consolidation documentation.

The information contained in the Group Directors' Report for the year from 1 January to 31 December 2013 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, March 24<sup>th</sup> 2014

*Translation note:*

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**Registered auditor's report on the audit  
of the consolidated financial statements  
for the year from 1 January to 31 December 2013  
to the Shareholders' Meeting and the Supervisory Board  
of KGHM Polska Miedź Spółka Akcyjna**

**This report contains 15 consecutively numbered pages and consists of:**

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IV. The independent registered auditor's statements.....	13
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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

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**I. General information about the Group**

- a. The Parent Company of KGHM Polska Miedź Spółka Akcyjna Group ("the Group") is KGHM Polska Miedź Spółka Akcyjna („the Parent Company”) with its seat in Lubin, ul. Marii Skłodowskiej-Curie 48.
- b. The Parent Company was founded as a result of transformation of a state-owned enterprise, Kombinat Górniczo-Hutniczy Miedzi on the basis of art. 5 of the Act dated 13 July 1990 concerning the privatisation of state-owned enterprises (*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. On 14 June 1993 the Parent Company was assigned the tax identification number (NIP) 692-000-00-13 for the purpose of making tax settlements. On 13 August 2003 the Parent Company was assigned the REGON number 390021764 for statistical purposes.
- e. As at 31 December 2013 the Parent Company registered share capital amounted to PLN 2.000 million and consisted of 200.000.000 shares, with a nominal value of PLN 10 per value.
- f. As at 31 December 2013 and the date of signing this report the Parent Company's shareholders were as follows:

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
	<b>200.000.000</b>	<b>200.000.000</b>		<b>100,00</b>

- 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.

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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

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

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

- Herbert Wirth President,
- Wojciech Kędzia Vice President (Production),
- Włodzimierz Kiciński I Vice President (Finance) (till September 2nd 2013),
- Adam Sawicki Vice President (Corporate) (till September 2nd 2013),
- Dorota Włoch Vice President (Development) (till September 2nd 2013),
- Jarosław Romanowski I Vice President (Finance) (since September 2nd 2013),
- Marcin Chmielewski Vice President (Corporate) (since September 2nd 2013),
- Jacek Kardela Vice President (Development) (since September 2nd 2013).

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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements**  
**for the year from 1 January to 31 December 2013**

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

i. As at 31 December 2013, the KGHM Polska Miedź S.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	-
BAZALT-NITRON Sp. z o.o.	Indirect subsidiary (85%)	Full	ZBR FABER Sp. z o.o.	The opinion has not been issued until the date of signing this report
Bipromet S.A.	Subsidiary (66%)	Full	Ernst & Young Audit Sp. z o.o.	Unqualified
Bipromet Ecosystem Sp. z o.o.	Indirect subsidiary (47,41%)	Full	Not subject to audit	-
CBJ Sp. z o.o.	Subsidiary (100%)	Full	Grant Thornton Frąckowiak Sp. z o.o. Sp.k.	Unqualified
Centrozłom Wrocław S.A.	Indirect subsidiary (98,64%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Ecoren DKE Sp. z o.o. w likwidacji	Indirect subsidiary (100%)	Full	Accord'ab Biegli Rewidenci Sp. z o.o.	Qualified opinion in respect of assets valuation not according to Art. 29 of the Accounting Act and additional emphasis of matter
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 O1 Sp. z o.o.	Indirect subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Fundusz Hotele O1 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 obligation to pass a resolution regarding going concern assumption

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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements**  
**for the year from 1 January to 31 December 2013**

**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 (*)
Polska Grupa Uzdrawisk Sp. z o.o. S.K.A.	Indirect subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
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	PricewaterhouseCoopers LLP	Unqualified
KGHM CUPRUM Sp. z o.o. – CBR	Subsidiary (100%)	Full	4AUDYT Sp. z o.o.	Unqualified
KGHM Ecoren S.A.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	With emphasis of matter concerning business combination and going concern assumption
KGHM Kupfer AG	Subsidiary (100%)	Full	Not subject to audit	-
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 Kupferhandelsges. m.b.H.i.L.	Subsidiary (100%)	Full	Not subject to audit	-

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**KGHM Polska Miedz S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements**  
**for the year from 1 January to 31 December 2013**

**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 LETIA S.A.	Subsidiary (88,58%)	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	Biuro Ekspertyz i Badania Bilansów PIAST Sp. z o.o.	Unqualified
NITROERG S.A.	Subsidiary (85%)	Full	PricewaterhouseCoopers 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
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 Spółka z ograniczoną odpowiedzialnością Sp.k.	With emphasis of matter concerning accrual for litigations
PHU Lubinpex Sp. z o.o.	Indirect subsidiary (100%)	Full	Kancelaria Biegłych rewidentów AKTYWA Sp. z o.o.	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 Bronisława Dydyna	Unqualified
POL-MIEDŹ TRANS Sp. z o.o.	Subsidiary (100%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified

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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements**  
**for the year from 1 January to 31 December 2013**

**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 (*)
Uzdrowisko Cieplice Sp. z o.o. – Grupa PGU	Indirect subsidiary (92,66%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Uzdrowiska Kłodzkie S.A. – Grupa PGU	Indirect subsidiary (92,57%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Uzdrowisko Polczyn Grupa PGU S.A.	Indirect subsidiary (91,38%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU	Indirect subsidiary (87,74%)	Full	PricewaterhouseCoopers Sp. z o.o.	Unqualified
Warszawska Fabryka Platerów Hefra S.A.	Indirect subsidiary (98,5%)	Full	Firma Audytorska INTERFIN Sp. z o.o.	Qualified opinion regarding the going concern assumption and negative equity
Walcownia Metali Nieżelaznych Łabędy S.A.	Indirect subsidiary (84,96%)	Full	PKF Consult Sp. z o.o.	With emphasis of matter concerning missing allowance for overdue accounts receivables
WPEC w Legnicy S.A.	Indirect subsidiary (85,2%)	Full	PricewaterhouseCoopers Sp. z o.o.	The opinion has not been issued until the date of signing this report
Zagłębie Lubin S.A.	Subsidiary (100%)	Full	Ernst & Young Audit Sp. z o.o.	With emphasis of matter concerning obligation to pass a resolution regarding going concern assumption
0929260 B.C U.L.C.	Indirect subsidiary (100%)	Full	Not subject to audit	-
KGHM INTERNATIONAL LTD. Group with KGHM INTERNATIONAL LTD. as parent company(**)	The share percentage of Parent Company in KGHM INTERNATIONAL LTD. is 100%	Full	PricewaterhouseCoopers LLP	The opinion has not been issued until the date of signing this report

(\*) Financial statement of all entities of the Group were prepared as at 31 December 2013.

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

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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

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**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 82 subsidiaries (including 80 consolidated subsidiaries). During the audited period:

- 2 subsidiaries have been established;
- the share in 8 subsidiaries has increased by the purchase of additional shares;
- 1 subsidiary has been taken under control by increasing share in associate entity;
- 6 subsidiaries have been liquidated.

Additionally at the end of the financial year there was one associated entity that has not been presented in the consolidated financial statements under the equity accounting method, because of its immateriality, and 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 85 subsidiaries (including 83 consolidated subsidiaries). Additionally there were two associated entities. The financial data of one of them were presented in the consolidated financial statements under the equity accounting method, and two joint ventures, which financial data have been presented in the consolidated financial statements under the equity accounting method. During the previous year 35 subsidiaries have been taken under control ( including 34 subsidiaries taken under control as a result of acquisition of the company Quadra FNX Mining Ltd. -currently KGHM INTERNATIONAL LTD.), two subsidiaries have been established and the share in one subsidiary 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 the issuer of securities admitted for trading on the Warsaw Stock Exchange and in accordance with the Act it prepares its consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). The Group adopted IFRS in 2005.

**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

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**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 2013 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 Group by Resolution No. 17/VIII/2013 of the 10 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 April 4<sup>th</sup> 2013, in the following periods:
  - interim audit from October 30<sup>th</sup> to November 13<sup>th</sup> 2013;
  - final audit from February 20<sup>th</sup> to March 24<sup>th</sup> 2014.



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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2013 (selected lines)**

	31.12.2013 PLN million	31.12.2012* PLN million	Change		Structure	
			PLN million	(%)	31.12.2013 (%)	31.12.2012* (%)
<b>ASSETS</b>						
Non-current assets	26.488	24.108	2.380	9,9	76,9	71,0
Current assets	7.977	9.854	(1.877)	(19,0)	23,1	29,0
<b>Total assets</b>	<b>34.465</b>	<b>33.962</b>	<b>503</b>	<b>1,5</b>	<b>100,0</b>	<b>100,0</b>
<b>LIABILITIES AND EQUITY</b>						
Equity	23.064	21.914	1.150	5,2	66,9	64,6
Long-term liabilities	6.714	7.279	(565)	(7,8)	19,5	21,4
Short-term liabilities	4.687	4.769	(82)	(1,7)	13,6	14,0
<b>Total liabilities and equity</b>	<b>34.465</b>	<b>33.962</b>	<b>503</b>	<b>1,5</b>	<b>100,0</b>	<b>100,0</b>

\* restated data

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**for the year from 1 January to 31 December 2013 (selected lines)**

	2013 PLN million	2012* PLN million	Change		(% of revenue)	
			PLN million	(%)	2013 (%)	2012* (%)
Revenue	24.110	26.705	(2.595)	(9,7)	100,0	100,0
Costs of sales	(18.101)	(18.235)	134	(0,7)	(75,1)	(68,3)
<b>Gross profit on sales</b>	<b>6.009</b>	<b>8.470</b>	<b>(2.461)</b>	<b>(29,1)</b>	<b>24,9</b>	<b>31,7</b>
<b>Net profit</b>	<b>3.033</b>	<b>4.753</b>	<b>(1.720)</b>	<b>(36,2)</b>	<b>12,6</b>	<b>17,8</b>

\* restated data

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**for the year from 1 January to 31 December 2013 (selected lines)**

	2013 PLN million	2012* PLN million	Change		(% of revenue)	
			PLN million	(%)	2013 (%)	2012* (%)
<b>Net profit</b>	<b>3.033</b>	<b>4.753</b>	<b>(1.720)</b>	<b>(36,2)</b>	<b>12,6</b>	<b>17,8</b>
Other net comprehensive income	49	(486)	535	(110,1)	0,2	(1,8)
<b>Total comprehensive income</b>	<b>3.082</b>	<b>4.267</b>	<b>(1.185)</b>	<b>(27,8)</b>	<b>12,8</b>	<b>16,0</b>

\*) restated data



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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

---

**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:

	<b>2013</b>	<b>2012*</b>
Asset ratios		
- receivables turnover	33 days	24 days
- inventory turnover	71 days	63 days
Profitability ratios		
- net profit margin	13%	18%
- gross margin	19%	26%
- return on capital employed	13%	21%
Liability ratios		
- gearing	33%	35%
- payables turnover	21 days	19 days
	<b>31.12.2013</b>	<b>31.12.2012 *</b>
Liquidity ratios		
- current ratio	1,7	2,1
- quick ratio	1,0	1,3
Other ratios		
- effective tax rate	28,4%	24,9%

\* for restated data

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

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



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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

---

**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 inflation. The consumer price index (on a December to December basis) amounted to 0,7% in the audited year (2,4% in 2012).

The comparability of the consolidated financial statements for 2012 and 2013, and thus the information content of the financial ratios for these years, may be limited due to the impact of the changes in the accounting policy resulted from changed rules of presentation of individual components of equity in the consolidated statement of financial position. The change of comparative data results also from the final settlement of KGHM International Ltd. Group purchase. The changes in the accounting policy have been described in point 2.1.2 of the accounting policies and other explanatory information to the consolidated financial statements.

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

The factors described below had a significant impact on the Group's 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 34.465 million. During the year total assets increased by PLN 503 million (i.e. by 1,5%). This increase was financed mainly by net profit of PLN 3.033 million. At the same time there was a decrease in income tax liabilities of PLN 320 million and long term liabilities due to derivative financial instruments of PLN 213 million. The Parent Company paid out dividend of PLN 1.960 million to its shareholders.
- The Parent Company's liability ratios and the structure of debt have slightly changed. The Parents Company's debt ratio decreased from 35% at the end of the previous year to 33% at the end of audited year. The liabilities turnover increased accordingly from 19 days to 21 days.
- Total revenues amounted to PLN 24.110 million and decreased by 9,7% when compared to the previous year. In 2013 the Group's core activities consisted of production and sale of copper, precious metals and smelter by-products which accounted for 86,4% of total sales revenue (86,1% in previous year). The main factor for the decrease of revenue was average price of copper and silver which decreased by 8% and 24% respectively when compared to 2012. During that time also the average exchange rate of US Dollar decreased compared with the prior year by 3%.
- The amount of current and deferred income tax for the audited period equalled to PLN 1.202 million and decreased by PLN 374 million comparing to 2012 due to lower taxable profit obtained by the Group in 2013. As a result, as at the end of the reporting period the balance of current income tax liabilities amounted to PLN 128 million and decreased by PLN 320 million when compared with the previous accounting period. The increase in effective tax rate was mainly due to implementation in 2012 the mineral extraction tax that is not deductible for corporate income tax purposes but charged the costs of Parent Company.
- Profitability measured with net profit amounted to 13% and was 5 percentage points lower than in the previous year. The change in the Company's profitability was primarily due to decrease of average price of copper and silver and increase of cost due to mineral extraction tax.

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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

---

**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. Changes to accounting policies were properly disclosed in the accounting policies and other explanatory information to the consolidated financial statements.
- d. The calculation of goodwill and the excess of the acquirer's share in the fair value of identifiable assets, liabilities and contingent liabilities of acquire over the acquisition cost and their recognition in the consolidated financial statements complied with IFRSs in all material respects.
- e. The consolidation of equity items and the determination of minority interests were carried out properly in all material respects.
- f. The elimination of intercompany balances (receivables and payables) and transactions (revenue and costs) of the consolidated entities were carried out, in all material respects, in accordance with IFRS.
- g. 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.
- h. 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.
- i. The consolidation documentation was complete and accurate and it is stored in a manner ensuring proper safeguarding.
- j. The consolidated financial statements of the Group for the period from 1 January to 31 December 2012 were approved by Resolution No. 34/2013 passed by the Parent Company's Shareholders' Meeting on 19 June 2013, filed with the National Court Register in Wrocław on 25 June 2013.
- k. The consolidated financial statements for the previous year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.
- l. The notes to the consolidated financial statements present all material information required by the IFRS.

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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

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

- m. The information in the Group Directors' Report for the year from 1 January to 31 December 2013 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.



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**KGHM Polska Miedź S.A. Group**  
**Registered auditor's report on the audit of the consolidated financial statements for the year from 1 January to 31 December 2013**

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**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 March 24<sup>th</sup> 2014.

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 March 24<sup>th</sup> 2014, concerning the said consolidated financial statements. The opinion on the consolidated financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual consolidated financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the consolidated financial statements.

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, March 24<sup>th</sup> 2014



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

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

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

<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
24 March 2014	Herbert Wirth	President of the Management Board	
24 March 2014	Jarosław Romanowski	I Vice President of the Management Board	
24 March 2014	Marcin Chmielewski	Vice President of the Management Board	
24 March 2014	Jacek Kardela	Vice President of the Management Board	
24 March 2014	Wojciech Kędzia	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
24 March 2014	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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

---

Lubin, March 2014

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

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

<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
24 March 2014	Herbert Wirth	President of the Management Board	
24 March 2014	Jarosław Romanowski	I Vice President of the Management Board	
24 March 2014	Marcin Chmielewski	Vice President of the Management Board	
24 March 2014	Jacek Kardela	Vice President of the Management Board	
24 March 2014	Wojciech Kędzia	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
24 March 2014	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	



**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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**PRESIDENT'S LETTER**

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Lubin, March 2014

Dear Stakeholders,

I hereby present you with the Consolidated Annual Report of the KGHM Polska Miedź S.A. Group for 2013. Profit for the period amounted to PLN 3 033 million. The results achieved by KGHM Polska Miedź S.A. continue to be of decisive importance for the consolidated results of the Group, while those of KGHM INTERNATIONAL LTD. are of increasing importance. In 2013 macroeconomic conditions had a major impact on the results of the KGHM Group, i.e. the low commodities prices, and in Poland additionally the unfavourable exchange rate of the Polish zloty versus the USD. Last year the price of silver fell by over 35 percent. This drop was accompanied by the continued fall in copper prices, which during the year amounted to nearly 10 percent. We optimistically expect that future increased demand, resulting from economic revival, will positively affect the prices of our main products.

The lower results of KGHM Polska Miedź SA for 2013 versus the prior year were also impacted by the high minerals extraction tax. The achievement of a good profit for the period given such conditions was thanks to a stable level of production and adherence to rigorous cost discipline. Expenses by nature, excluding purchased copper-bearing materials and the minerals extraction tax, remained at an unchanged level throughout the year. We also maintained a high level of ore extraction and increased sales of copper products. Less favourable in this regard was the situation in KGHM INTERNATIONAL LTD., where sales were lower than in 2012. A positive aspect however was the significantly lower C1 cash cost of copper production by 12 percent.

The year 2013 also saw a continuation of the long-term strategy of KGHM Polska Miedź S.A. An inseparable part of the strategy is the expansion of the resource base beyond Poland. Work on the most important and most advanced mining project, Sierra Gorda in Chile, which is being developed jointly with Sumitomo Metal Mining Co., Ltd. and Sumitomo Corporation, proceeded on schedule. Progress at the end of 2013 was 86 percent. In the course of realising this project there were changes in the external environment which forced a revision of the estimated investment expenditures which had been developed several years earlier. The adjustment made to the plans will not significantly impact the mine's profitability, which means that it will be one of the most profitable mining projects in the world.

Intensive work was also carried out on projects of future significance which are located in Canada, such as the polymetallic underground Victoria mine project, where we are working on an Integrated Development Plan, describing the detailed process of advancing the project. We have appointed a Steering Committee comprised of representatives of KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and the company PeBeKa S.A., whose task is to supervise project realisation. Victoria is the second-most important overseas project after Sierra Gorda. We are also continuing work on building the open-pit Afton-Ajax mine. Last year further exploration work and geotechnical drilling was performed. To maximise the value of the project, as well as to reduce its environmental impact, work is being carried out on changing the siting of some of the mine's facilities.

Being aware that investing in modern technology and expanding the resource base build Company value, we consistently accomplished our strategic assumptions. Amongst key investments were the construction of the SW- 4 shaft and commencement of construction of the GG-1 shaft as part of the Głogów Głęboki Przemysłowy (Deep Głogów) project. In 2013 we also continued the Pyrometallurgy Modernisation Program. Under this program the modernisation of the Głogów II smelter was completed. It is worth pointing out that despite the maintenance and modernisation work, the Głogów II smelter maintained a high level of production.

Last year we completed the process of renewing concessions for extracting copper ore from the existing deposit being mined by KGHM Polska Miedź S.A. The concessions received secure the interests of the Company in Poland for the next 50 years. We obtained concessions for the exploration for and evaluation of the Retków-Ścinawa and Głogów copper ore deposits and commenced geophysical research in the Gawrzyce-Radwanice area.

We continued work on a new concept for the KGHM Group. The basic task of this work is to define the areas representing the main pillars of the Group's activities. We are modeling the Group diagram on strategic companies related to development of the resource base, diversification of revenues and those directly related to the core production business and on companies, whose goal is to undertake actions with respect to corporate social responsibility and to realise the vision of a „good neighbour”. Our goal is to strengthen the companies operating in our core production business, and to improve the organisational structure by combining some companies and separating others held for sale or allocation within the Group.

An important part of long-term plans is the question of energy. We are continuing conceptual analysis related to construction of the first nuclear power plant in Poland. Together with our partners from PGE Polska Grupa Energetyczna S.A, TAURON Polska Energia S.A. and ENEA S.A. we have already initialled a Shareholders

Agreement, assuming the acquisition of shares in PGE EJ1 sp. z o.o – a special purpose company to build and operate a nuclear power plant. The draft Shareholders Agreement assumes the acquisition by KGHM Polska Miedź S.A. of 10% of the share capital of PGE EJ1 sp. z o.o.

KGHM Polska Miedź S.A. is one of the world's leading producers of copper and silver, and also one of the largest Polish companies with participation by the State Treasury. Being aware of the responsibilities and possibilities associated with this, we are truly pleased to support the development of the Poland, Go Global! Think Tank which we initiated. Its goal among others is to promote and disperse practical knowledge on the subject of the global expansion of Polish companies. We encourage other companies, including those outside the KGHM Group, to become involved in realising our foreign projects.

I believe that our work today will bring exceptional results in future years, as the expected improvement in conditions on the world's markets will enable the entire KGHM Group to strengthen its position.

Herbert Wirth

President of the  
Management Board

Lubin, 24 March 2014

**KGHM** POLSKA MIEDŹ S.A.  
GROUP

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**CONSOLIDATED  
FINANCIAL STATEMENTS  
FOR 2013**

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Lubin, March 2014

KGHM Polska Miedź S.A. Group  
Annual consolidated financial statements  
prepared in accordance with IFRS as adopted by the European Union  
for the period from 1 January 2013 to 31 December 2013  
(amounts in tables in PLN million, unless otherwise stated)

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KGHM Polska Miedź S.A. Group  
Annual consolidated financial statements  
prepared in accordance with IFRS as adopted by the European Union  
for the period from 1 January 2013 to 31 December 2013  
(amounts in tables in PLN million, unless otherwise stated)

## Consolidated statement of financial position

	Note	31 December 2013	At 31 December 2012 restated*	1 January 2012 restated*
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	6	15 128	13 971	9 093
Intangible assets	7	2 175	1 989	663
Investment property	8	65	59	60
Investments accounted for using the equity method	9	3 720	3 911	-
Deferred tax assets	23	451	565	272
Available-for-sale financial assets	10	810	892	994
Financial assets for mine closure and restoration of tailing storage facilities	11	323	460	112
Derivatives	12	357	745	899
Trade and other receivables	13	3 459	1 516	40
		<b>26 488</b>	<b>24 108</b>	<b>12 133</b>
<b>Current assets</b>				
Inventories	14	3 397	3 769	2 658
Trade and other receivables	13	3 119	2 846	1 839
Current corporate tax receivables		54	77	8
Available-for-sale financial assets	10	58	149	16
Financial assets for mine closure	11	1	-	2
Derivatives	12	476	382	860
Cash and cash equivalents	15	864	2 629	13 130
Non-current assets held for sale		8	2	4
		<b>7 977</b>	<b>9 854</b>	<b>18 517</b>
<b>TOTAL ASSETS</b>		<b>34 465</b>	<b>33 962</b>	<b>30 650</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to shareholders of the Parent Entity</b>				
Share capital	16	2 000	2 000	2 000
Revaluation reserve from measurement of financial instruments	17	522	235	536
Exchange differences from the translation of foreign operations statements	17	( 267)	19	19
Actuarial gains/losses on post-employment benefits	17	( 132)	( 543)	( 373)
Retained earnings	18	20 718	19 971	20 920
		<b>22 841</b>	<b>21 682</b>	<b>23 102</b>
<b>Non-controlling interest</b>	19	<b>223</b>	<b>232</b>	<b>289</b>
<b>TOTAL EQUITY</b>		<b>23 064</b>	<b>21 914</b>	<b>23 391</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Trade and other payables	20	774	880	142
Borrowings, debt securities and finance lease liabilities	21	1 714	1 783	194
Derivatives	12	17	230	538
Deferred tax liabilities	23	1 726	1 772	129
Employee benefits liabilities	24	1 563	1 615	1 339
Provisions for other liabilities and charges	25	920	999	485
		<b>6 714</b>	<b>7 279</b>	<b>2 827</b>
<b>Current liabilities</b>				
Trade and other payables	20	3 094	3 008	2 249
Borrowings, debt securities and finance lease liabilities	21	1 215	1 075	104
Current corporate tax liabilities		128	448	1 596
Derivatives	12	7	25	331
Employee benefits liabilities	24	131	133	126
Provisions for other liabilities and charges	25	112	80	26
		<b>4 687</b>	<b>4 769</b>	<b>4 432</b>
<b>TOTAL LIABILITIES</b>		<b>11 401</b>	<b>12 048</b>	<b>7 259</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>34 465</b>	<b>33 962</b>	<b>30 650</b>

\* details presented in note 2.1.2

The accounting policies and other explanatory information presented on pages 9 to 133 represent an integral part of these consolidated financial statements

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**Consolidated statement of profit or loss**

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 restated*
<b>Continued operations</b>			
Sales	27	24 110	26 705
Cost of sales	28	(18 101)	(18 235)
<b>Gross profit</b>		<b>6 009</b>	<b>8 470</b>
Selling costs	28	( 426)	( 402)
Administrative expenses	28	( 989)	(1 082)
Other operating income	30	847	1 706
Other operating costs	31	(1 069)	(2 217)
<b>Operating profit</b>		<b>4 372</b>	<b>6 475</b>
Finance costs	32	( 137)	( 146)
<b>Profit before income tax</b>		<b>4 235</b>	<b>6 329</b>
Income tax expense	35	(1 202)	(1 576)
<b>Profit for the period</b>		<b>3 033</b>	<b>4 753</b>
(Loss)/Profit for the period attributable to:			
shareholders of the Parent Entity		3 035	4 752
non-controlling interest		(2)	1
<b>Earnings per share attributable to the shareholders of the Parent Entity for the reporting period</b>			
(in PLN per share)	37		
- basic		15.18	23.76
- diluted		15.18	23.76

\* details presented in note 2.1.2

The accounting policies and other explanatory information presented on pages 9 to 133 represent an integral part of these consolidated financial statements

## Consolidated statement of comprehensive income

	Note	Financial period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 restated*
<b>Profit for the period</b>		<b>3 033</b>	<b>4 753</b>
<b>Other comprehensive income</b>			
<b>Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met:</b>			
<b>Other comprehensive income from measurement of financial instruments:</b>			
Available-for-sale financial assets		79	( 6)
Income tax related to available-for-sale financial assets		( 5)	( 7)
Cash flow hedging instruments		263	( 355)
Income tax related to cash flow hedging instruments		( 50)	67
<b>Total other comprehensive income from measurement of financial instruments</b>		<b>287</b>	<b>( 301)</b>
Exchange differences from the translation of foreign operations statements		( 293)	( 15)
<b>Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met</b>		<b>( 6)</b>	<b>( 316)</b>
<b>Other comprehensive income, which will not be reclassified to profit or loss:</b>			
Actuarial gains/(losses)		68	( 210)
Income tax related to actuarial gains/losses		( 13)	40
<b>Total other comprehensive income which will not be reclassified to profit or loss</b>	17	<b>55</b>	<b>( 170)</b>
<b>Other comprehensive net income for the financial period</b>		<b>49</b>	<b>( 486)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>3 082</b>	<b>4 267</b>
Total comprehensive income attributable to:			
shareholders of the Parent Entity		3 091	4 270
non-controlling interest		( 9)	( 3)

\* details presented in note 2.1.2

The accounting policies and other explanatory information presented on pages 9 to 133 represent an integral part of these consolidated financial statements



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**Consolidated statement of changes in equity**

		Equity attributable to shareholders of the Parent Entity						Equity attributable to non-controlling interest	
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		Total equity	
<b>At 1 January 2013 restated*</b>	<b>2 000</b>	<b>235</b>	<b>19</b>	<b>( 543)</b>	<b>19 971</b>	<b>21 682</b>	<b>232</b>	<b>21 914</b>	
Dividends from profit for 2012 - paid	38	-	-	-	(1 960)	(1 960)	-	(1 960)	
Offsetting of profit from prior years with actuarial gains and losses	17	-	-	356	( 356)	-	-	-	
<b>Total comprehensive income</b>	<b>-</b>	<b>287</b>	<b>( 286)</b>	<b>55</b>	<b>3 035</b>	<b>3 091</b>	<b>( 9)</b>	<b>3 082</b>	
Profit for the period		-	-	-	3 035	3 035	( 2)	<b>3 033</b>	
Other comprehensive income	17	287	( 286)	55	-	56	( 7)	<b>49</b>	
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19.1	-	-	-	28	28	-	<b>28</b>	
<b>At 31 December 2013</b>	<b>2 000</b>	<b>522</b>	<b>( 267)</b>	<b>( 132)</b>	<b>20 718</b>	<b>22 841</b>	<b>223</b>	<b>23 064</b>	
<b>At 1 January 2012</b>	<b>2 000</b>	<b>536</b>	<b>19</b>	<b>-</b>	<b>20 547</b>	<b>23 102</b>	<b>289</b>	<b>23 391</b>	
Change in presentation principles *		-	-	( 373)	373	-	-	-	
<b>At 1 January 2012 restated*</b>	<b>2 000</b>	<b>536</b>	<b>19</b>	<b>( 373)</b>	<b>20 920</b>	<b>23 102</b>	<b>289</b>	<b>23 391</b>	
Dividends from profit for 2011 paid	38	-	-	-	(5 668)	(5 668)	( 1)	(5 669)	
<b>Total comprehensive income</b>	<b>-</b>	<b>( 301)</b>	<b>( 11)</b>	<b>( 170)</b>	<b>4 752</b>	<b>4 270</b>	<b>( 3)</b>	<b>4 267</b>	
Profit for the period – restated*		-	-	-	4 752	4 752	1	<b>4 753</b>	
Other comprehensive income	17	( 301)	( 11)	( 170)	-	( 482)	( 4)	( 486)	
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19.1	-	-	11	( 33)	( 22)	( 53)	( 75)	
<b>At 31 December 2012 restated*</b>	<b>2 000</b>	<b>235</b>	<b>19</b>	<b>( 543)</b>	<b>19 971</b>	<b>21 682</b>	<b>232</b>	<b>21 914</b>	

\* details presented in note 2.1.2

The accounting policies and other explanatory information presented on pages 9 to 133 represent an integral part of these consolidated financial statements

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## Consolidated statement of cash flows

	Note	Financial period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 restated*
<b>Cash flow from operating activities</b>			
Profit for the period		3 033	4 753
<b>Adjustments to profit for the period:</b>		<b>3 347</b>	<b>3 638</b>
Income tax recognised in profit or loss		1 202	1 576
Amortisation/Depreciation	28	1 580	1 724
Impairment losses on goodwill		27	-
Losses on the sale of property, plant and equipment and intangible assets		46	5
Gains on the sale of available-for-sale financial assets		( 24)	-
Impairment loss on property, plant and equipment, intangible assets and available-for-sale financial assets		444	207
Reversal of impairment loss on property, plant and equipment, intangible assets and available-for-sale financial assets		( 36)	( 2)
Interest and share in profits (dividends)		( 116)	8
Foreign exchange losses		4	852
Change in provisions	39	( 19)	68
Change in assets/liabilities due to derivatives		774	( 5)
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives		( 450)	( 333)
Other adjustments		21	( 22)
Changes in working capital:		( 106)	( 440)
Inventories	39	357	( 420)
Trade and other receivables	39	( 242)	( 346)
Trade and other payables	39	( 221)	326
Income tax paid		(1 456)	(2 870)
<b>Net cash generated from operating activities</b>		<b>4 924</b>	<b>5 521</b>
<b>Cash flow from investing activities</b>			
Purchase of subsidiaries, less acquired cash and cash equivalents		( 1)	(6 917)
Purchase of an entity accounted for using the equity method		( 9)	( 33)
Purchase of property, plant and equipment and intangible assets		(3 189)	(2 402)
Advances granted for purchase of property, plant and equipment and intangible assets		( 84)	( 93)
Proceeds from sale of property, plant and equipment and intangible assets	39	56	42
Purchase of available-for-sale financial assets		( 42)	-
Proceeds from sale of available-for-sale financial assets		139	3
Purchase of financial assets from mine closure fund and tailing storage facilities restoration fund		( 63)	( 93)
Proceeds from sale of financial assets purchased from mine closure fund		197	-
Establishment of deposits		-	( 43)
Termination of deposits		40	66
Loans granted		(1 798)	(1 251)
Dividends received		37	57
Other investment expenses		( 13)	( 5)
<b>Net cash used in investing activities</b>		<b>(4 730)</b>	<b>(10 669)</b>

\* details presented in note 2.1.2

The accounting policies and other explanatory information presented on pages 9 to 133 represent an integral part of these consolidated financial statements

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

	Note	Financial period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 restated*
<b>Cash flow from financing activities</b>			
Proceeds from payment to capital of a subsidiary from holders of non-controlling interest		29	17
Acquisition of non-controlling interest		( 30)	( 93)
Proceeds from bank and other loans		1 597	1 439
Repayments of bank and other loans		(1 446)	( 86)
Payments of liabilities due to finance leases		( 16)	( 11)
Interest paid		( 144)	( 139)
Dividends paid to shareholders of the Parent Entity	38	(1 960)	(5 668)
Donations received		10	19
Other financial expences		(1)	-
<b>Net cash used in financing activities</b>		<b>(1 961)</b>	<b>(4 522)</b>
<b>Total net cash flow</b>		<b>(1 767)</b>	<b>(9 670)</b>
Exchange gains/(losses) on cash and cash equivalents		2	( 831)
<b>Movements in cash and cash equivalents</b>		<b>(1 765)</b>	<b>(10 501)</b>
<b>Cash and cash equivalents at beginning of the period</b>	15	<b>2 629</b>	<b>13 130</b>
<b>Cash and cash equivalents at end of the period</b>	15	<b>864</b>	<b>2 629</b>
including restricted cash and cash equivalents		108	99

\* details presented in note 2.1.2

The accounting policies and other explanatory information presented on pages 9 to 133 represent an integral part of these consolidated financial statements

## Accounting policies and other explanatory information

### 1. General information

#### Company name, registered office, activities

KGHM Polska Miedź S.A. (the "Parent Entity") with its registered office in Lubin at 48 M. Skłodowskiej-Curie Street is a 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 Central Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter Division, Legnica Smelter Division, the Cedynia Wire Rod Division), the Concentrator Division, the Tailings Division, the Mine-Smelter Emergency Rescue Division and the Data Center Division.

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

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

The principal activities of the Parent Entity comprise:

- mining of copper and non-ferrous metals ore,
- excavation of gravel and sand,
- production of copper, precious and non-ferrous metals,
- production of salt,
- casting of light and non-ferrous metals,
- forging, pressing, stamping and roll forming of metal - powder metallurgy,
- waste management,
- wholesale based on direct payments or contracts,
- warehousing and storage of merchandise,
- holding management activities,
- geological and exploratory activities,
- general construction activities with respect to mining and production facilities,
- generation and distribution of electricity, steam and hot water, production of gas and distribution of gaseous fuels through a supply network,
- scheduled and non-scheduled air transport, and
- telecommunication and IT 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 KGHM Polska Miedź S.A. involving the mining of the copper ore deposit, salt and common minerals were based on concessions held by KGHM Polska Miedź S.A. which were issued by the Minister of Environmental Protection, Natural Resources and Forestry in the years 1993-2004, most of which expired by December 2013 (concessions for the deposits "Polkowice", "Sieroszowice", "Lubin-Małomice", "Rudna" expired on 31 December 2013, while the concessions for the deposit area "Radwanice-Wschód" would have expired in 2015). In view of the above, in 2010 the Parent Entity commenced the project CONCESSIONS 2013, whose goal was to obtain concessions for the extraction of copper ore for the maximum possible period provided for by law, which is 50 years.

## 1. General information (continued)

On the basis of undertaken action, on 14 August 2013 three concession decisions were issued by the Minister of the Environment for the extraction of copper ore from the deposits: „Polkowice”, „Radwanice-Wschód” and „Rudna”. On the same day three agreements were also signed regarding the granting of mining usufruct rights to the concessions in question and a decision was issued terminating the existing concession for the extraction of copper ore from the deposit „Radwanice-Wschód”.

Two other concessions – for the deposits „Lubin-Małomice” and „Sieroszowice” – were issued by the Minister of the Environment on 12 September 2013. Also signed were two agreements regarding the granting of mining usufruct rights to these deposits. In October 2013 Mine Operating Plans for three mines were submitted for approval by the District Mining Office: Polkowice-Sieroszowice, Rudna and Lubin. Within the deadline, i.e. 31 December 2013, the mining supervisory body approved all three Mine Operating Plans.

Since 1 January 2014, the Parent Entity has continued its core operations based on the new concessions, new mining usufruct agreements and Mine Operating Plans. The new concessions and new mining usufruct agreements for all five 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.

KGHM Kupfer AG held a concession from the Saxon Mining Office (SOBA) which was valid to 31 December 2013 to explore for minerals in the „Weisswasser” area. In 2013, KGHM Kupfer AG commenced an administrative procedure in SOBA aimed at prolonging the existing concession for this area. In October 2013 a decision was issued which prolonged the life of the concession for the Weisswasser area to the end of 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 2013 the composition of the 8th-term Management Board of KGHM Polska Miedź S.A. was as follows:

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

On 2 September 2013 the Supervisory Board dismissed Włodzimierz Kiciński from the function of I Vice President of the Management Board of KGHM Polska Miedź S.A. and Adam Sawicki from the function of Vice President of the Management Board (Corporate Affairs) and accepted the resignation of Dorota Włoch from the function of Vice President of the Management Board (Development).

On 2 September 2013 the Supervisory Board appointed the following persons:

- Jarosław Romanowski to the function of I Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A.
- Marcin Chmielewski to the function of Vice President of the Management Board (Corporate Affairs) of KGHM Polska Miedź S.A.;
- Jacek Kardela to the function of Vice President of the Management Board (Development) of KGHM Polska Miedź S.A.

From 2 September 2013 to 31 December 2013 the composition of the Management Board of the Parent Entity was as follows:

- |                       |  |
|-----------------------|--|
| - Herbert Wirth       | President of the Management Board                          |
| - Jarosław Romanowski | I 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)        |

Up to the date of signing these consolidated financial statements there were no changes in the composition of the Management Board.

## 1. General information (continued)

### Supervisory Board of the Parent Entity

As at 1 January 2013 the composition of the 8th-term Supervisory Board was as follows:

- |                          |                 |
|--------------------------|-----------------|
| - Aleksandra Magaczewska | Chairman        |
| - Krzysztof Kaczmarczyk  | Deputy Chairman |
| - Dariusz Krawczyk       | Secretary       |
| - Paweł Białek           |                 |
| - Krzysztof Opawski      |                 |
| - Ireneusz Piecuch       |                 |
| - Jacek Poświata         |                 |

as well as the following employee-elected member:

- Bogusław Szarek.

On 19 June 2013 Paweł Białek resigned from the function of member of the Supervisory Board.

On 19 June 2013 the General Meeting resolved to:

- dismiss from the Supervisory Board: Dariusz Krawczyk, Ireneusz Piecuch,
- appoint to the Supervisory Board: Andrzej Kidyba, Marek Panfil and Iwona Zatorska – Pańtak.

On 27 November 2013 the mandate of Supervisory Board member Krzysztof Opawski expired due to force majeure.

As at 31 December 2013 the composition of the Supervisory Board was as follows:

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

as well as the following employee-elected member:

- Bogusław Szarek

Up to the date of signing 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 24 March 2014.

## 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, except for the changes described in note 2.1.2.

#### 2.1.1 New standards

**From 1 January 2013 the following new and changed standards and interpretations are binding for the Group:**

- **IFRS 13 Fair Value Measurement,**
- **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine,**
- **Amendments to IFRS 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities,**
- **Amendments to IFRS 1 First-time Adoption of IFRS - Government loans,**
- **Annual Improvements 2009-2011 cycle.**

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. Application of the above standards and changes to standards did not have a material impact on the accounting policy of the Group or on these consolidated financial statements in this scope of disclosure.

The following standards, binding from 1 January 2013, were applied by the Group earlier for purposes of preparing the financial statements for the financial year ending 31 December 2012:

- Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets;;
- Amendments to IAS 1 Presentation of Financial Statements – Presentation of items of Other Comprehensive Income,
- Amended IAS 19 Employee benefits.

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

**IFRS 10 Consolidated Financial Statements** - The new standard supersedes SIC 12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* with regard to consolidated financial statements. The new standard unifies definitions of control and establishes a revised concept of control as being the deciding factor in whether an entity should be consolidated.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014, and its application will not result in changes in the status of subsidiaries consolidated by the Group and investments accounted for using the equity method.

**IFRS 11 Joint Arrangements** - The new standard supersedes IAS 31 *Interests In Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. The new standard describes two types of joint arrangements: joint operations and joint ventures. The type of joint arrangement is determined based on analysis of the rights and obligations of the parties resulting primarily from the structure and legal form of the joint arrangement. If the contractual terms grant the parties the right to the assets of the joint arrangement as well as obligations for the liabilities relating to the arrangement, then we identify the joint arrangement as a joint operation. If however the terms of the arrangement grant the parties the right to the net assets of the joint arrangement, then we identify the joint arrangement as a joint venture, which the parties account for their respective investment using the equity method.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014. These changes do not cause changes in recognition and classification of joint arrangements in which the Group is currently a party.

## 2. Main accounting policies (continued)

**IFRS 12 Disclosure of Interests in Other Entities** - this standard concerns the financial statements of entities having interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. The new standard combines the disclosure requirements regarding interests in other entities which are currently described in IAS 27, IAS 28 and IAS 31, introducing coherence and completeness in disclosures, and also expanding their scope.

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

**IAS 27 Separate Financial Statements** - the IAS 27 *Separate Financial Statements* supersedes 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 will only deal with separate financial statements. Likewise, the requirements regarding separate financial statements set forth in IAS 28 and IAS 31 were transferred to the amended IAS 27.

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

**IAS 28 Investments in Associates and Joint Ventures** - the amended IAS 28 *Investments in associates and Joint Ventures*, superseded the existing IAS 28 *Investments in Associates*. The Board decided to include accounting for joint ventures within the scope of the amended IAS 28, as the new standard IFRS 11 *Joint Arrangements* will only allow for the measurement of interests in joint ventures using the equity method. Although the amended standard introduces no changes in the methodology of measurement using the equity method, it no longer contains requirements concerning disclosures, as these were included in IFRS 12.

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

**Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities** - this document is an amendment to IAS 32. The Board supplemented the Application Guidance accompanying the standard with respect to the conditions for offsetting and presenting financial assets and liabilities in a net amount in the statement of financial position.

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

**Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance** - this document is an amendment aimed at easing principles for the full retrospective application of new IFRS.

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

**Investment Entities - changes to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements.** The requirement was introduced to IFRS 10 for investment entities to measure their subsidiaries at fair value through profit or loss, instead of through their consolidation. Meanwhile in IAS 27, consequent to the changes in IFRS 10, the possibility of allowing investment entities to decide whether an investment in a particular subsidiary will be measured at cost or at fair value in their separate financial statements was removed.

These amendments will be effective for annual periods beginning on or after 1 January 2014 and will not affect the Group's consolidated financial statements.

**Amendments to IAS 36 Impairment of Assets** expand the scope of disclosures related to impairment. In accordance with these amendments, if during a given reporting period an entity recognises or reverses an impairment allowance, it should additionally disclose the recoverable amount and indicate whether it was set at fair value less selling costs or was based on value in use. If the recoverable amount is equal to fair value, then the entity is required to disclose additional information regarding the levels of fair value hierarchy.

The amendments to IAS 36 will be effective for annual periods beginning on or after 1 January 2014.



## 2. Main accounting policies (continued)

**Amendments to IAS 39 Financial Instruments: Recognition and Measurement titled Novation of Derivatives and Continuation of Hedge Accounting.** The goal of these amendments is to introduce simplification in a situation in which a derivative designated by an entity as a hedging instrument is novated from one counterparty to a central counterparty as a consequence of compliance with law in force or the implementing of new statutory regulations.

The amendments to IAS 39 will be effective for annual periods beginning on or after 1 January 2014 and will not affect the Group's financial statements, as the Group does not foresee the necessity to utilise the possibilities described in IAS 39 involving the novation in whole or part of a transaction to a third entity, known as a settlement counterparty or a central counterparty.

### **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 (2009)** The new standard replaces guidelines contained in IAS 39 *Financial Instruments: Recognition and Measurement* regarding the principles for classifying and measuring financial assets. It simplifies the principles for classifying financial assets, introducing only two categories: assets at fair value, and assets at amortised cost. This classification, at the initial recognition, should result from the business model adopted by the entity for managing the assets and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets, their reclassification and the recognition of profits and losses arising from these assets.

On 28 October 2010, the International Accounting Standards Board reissued **IFRS 9 Financial Instruments (2010)**. To IFRS 9 the Board added requirements regarding the classification and measurement of financial liabilities, the majority of which were transferred to the new standard directly from IAS 39.

The standard requires, that any change in fair value, in that part concerning a change in credit risk of a financial liability initially recognised as measured at fair value through profit or loss, be presented in other comprehensive income. The fixed part of profit or loss due to measurement to fair value is recognised in profit or loss of the current period.

On 20 November 2013 the International Accounting Standards Board published for the third time amendments to IFRS 9 *Financial Instruments*, titled *Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39*, as part of the continued project to replace IAS 39 with IFRS 9. In this document, chapter 6 was added regarding hedge accounting and improvements to previously published portions of IFRS 9 and to IFRS 7 and IAS 39 were introduced, updating in them references between standards and adapting the scope of disclosures from IFRS 7 to the amended IFRS 9. In this document the Board also repealed IFRIC 9 and IFRS 9 in the versions published in 2009 and 2010.

In November 2013 the International Accounting Standards Board, in its published amendments to IFRS 9, eliminated the obligatory date for introducing this standard (i.e. 1 January 2015, published by the IASB on 16 December 2011 in a document titled *Mandatory Effective Date and Transition Disclosures*, as amendments to IFRS 9 and IFRS 7) and declared that an obligatory application date would be set once the completed version of IFRS 9 was published. The IASB also allowed the immediate application of the Standard in the version chosen by an entity, from among the following variants of IFRS 9:

- with respect to own credit risk and with respect to classification and measurement of financial assets and liabilities - IFRS 9 (2010),
- with respect to the classification and measurement of financial assets for IFRS 9 (2009), or
- under the full scope of IFRS 9 in the version published in November 2013, i.e. together with hedge accounting, in which case IFRS 9 must be applied retrospectively, and only hedge accounting prospectively.

As at the date of publication of these financial statements the EU did not approve any part of this standard. Also, there has been no official information as to the future date of approval of IFRS 9 by the EU.

Due to the very broad scope of changes in IFRS 9 versus IAS 39, a cautious and comprehensive approach is required to assess the impact of such a decision on the consolidated financial statements of the Group. Also of significance to estimate the impact of changes on the consolidated financial statements is the intention of the Board to publish subsequent parts of IFRS 9 with respect to impairment and macrohedging, which additionally increases uncertainty of assessment of the future impact of implementing IFRS 9.

Currently the Group is analysing the impact of the new standard and its amendments on the consolidated financial statements of the Group.

## 2. Main accounting policies (continued)

**IFRIC 21 Levies.** These Interpretations provide guidance as to the moment of arising of the obligation to recognise in the accounts a liability for a levy imposed by a government, other than those currently covered by IFRS, e.g. IAS 12 *Income Taxes*. In certain jurisdictions, regulations regarding specific levies indicate a relationship between the arising of a liability to pay taxes and the occurrence of specific events. As these regulations are of a very complex nature, it was not always clear for entities as to the proper moment to recognise the liability in the accounts. According to the new interpretation, the obligating event for the recognition of a liability to pay a levy imposed by a government is the activity that directly triggers such an obligation. If for example the obligation to pay a levy depends on gaining revenues in a given period, then the obligating event for recognising the liability is the generation of revenues in the current period. As the Interpretations Committee indicated, an entity is not usually obligated to pay a liability due to its future operations, despite the fact that the entity does not have the real possibility to cease its operations in the future. It was emphasised that the obligation to pay a levy should be recognised progressively, if the obligating event occurs over a period of time.

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. Beginning from this moment, 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 remuneration payable to the State Treasury.

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

Liabilities due to the variable part of the fee will be 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 payment to the State Treasury is actual extraction, the liability will be recognised progressively over subsequent reporting periods. The Group estimates that in 2014 profit will be decreased in this regard in the amount of PLN 30 million. The application of IFRIC 21 will not affect the application of existing principles for recognising other levies.

**Annual Improvements to IFRSs, 2010-2012 Cycle.** As a result of a review of IFRS the following minor amendments were made to 7 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 judgments made by management in applying the aggregation criteria to operating segments, as mentioned in para. 12 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,
- in IFRS 13 *Fair Value Measurement* amendments were introduced to the Basis of Conclusions for IFRS 13, clarifying that the removal of paragraph B5.4.12 from IFRS 9 and AG79 from IAS 39 should not be interpreted as an intention by the IASB to remove the ability to measure short-term trade receivables and payables measured at their nominal invoiced amounts as is currently the case,
- 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 property, plant and equipment measured at the end of subsequent reporting periods,
- in IAS 24 *Related Party Disclosures* a clause was added clarifying the definition of relations between related entities.

These amendments will be effective for annual periods beginning on or after 1 July 2014, and the Group will apply them starting with the annual period beginning on 1 January 2015. The Group believes that the above amendments will have an impact on additional disclosures from IFRS 8 *Operating Segments*.

**Annual Improvements to IFRSs, 2011-2013 Cycle** As a result of a review of IFRS the following minor amendments were made to the following standards:

- in IFRS 1 *First-time Adoption of International Financial Reporting Standards*,
- in IFRS 3 *Business Combinations*,
- in IFRS 13 *Fair Value Measurement*,
- in IAS 40 *Investment Property*.

These amendments will be effective for annual periods beginning on or after 1 July 2014, and the Group will apply them starting with the annual period beginning on 1 January 2015. These amendments will not affect the consolidated financial statements of the Group.

## 2. Main accounting policies (continued)

**IFRS 14 Regulatory Deferral Accounts** In IFRS 14 the IASB introduced the requirement to present separately in the financial statements amounts arising due to the providing of goods or services by an entity, for which prices or rates are subject to price/rate regulation and to separate deferred recognition.

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

### 2.1.2 Changes in the principles of presentation and impact of final accounting for acquisition of shares in a subsidiary

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

Due to the restatement of comparable data, the data in the consolidated statement of financial position at 1 January 2012 conforms to IAS 1. In the explanatory notes to the consolidated financial statements items in which the change in accounting policies did not impact the amounts presented in the comparable period, the name of the comparable period will not be referred to as "restated".

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

1. Changes in presentation of equity items. Taking into consideration the nature of individual items of equity and the transparency of the financial data presented, the following actions were performed:
  - (a) the equity item „Actuarial gains/losses on post-employment benefits“ was separated from „Retained earnings“,
  - (b) the combination in the statement of financial position and the consolidated statement of changes in equity of homogenous items of equity, i.e. "Revaluation reserve from the measurement of available-for-sale financial assets" and "Revaluation reserve from the measurement of cash flow hedging instruments", into a single item - "Revaluation reserve from the measurement of financial instruments", (classification of revaluation reserves from the measurement of financial instruments is presented in note 17),
2. In the statement of financial position, under non-current assets, the name of the item „Mine closure financial assets“ was changed to „Financial assets for mine closure and restoration of tailings storage facilities“. This change was due to the obligation to create a Tailings Storage Facilities Restoration Fund by the Parent Entity, in accordance with article 137 section 2 of the Waste Act from 14 December 2012 (Journal of laws 2013.21).

#### **Changes in comparable data due to accounting for the acquisition of KGHM INTERNATIONAL LTD.**

In the first quarter of 2013 a final accounting for the Quadra FNX Mining Ltd. ("Quadra FNX", currently "KGHM INTERNATIONAL LTD.") Group acquired on 5 March 2012 was performed.

The shares of Quadra FNX were purchased in execution of the agreement dated 6 December 2011 signed by the Parent Entity of the KGHM Polska Miedź S.A. Group and Quadra FNX under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX. The shares purchased represent 100% of the share capital of Quadra FNX and 100% of the votes at the General Meeting of this company.

The consideration comprises:

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

5 March 2012 was assumed as the date of obtaining control. Until the moment of obtaining control by the KGHM Polska Miedź S.A. Group, the shares of Quadra FNX were listed on the TSX Venture Exchange in Toronto.

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

Activities of the acquired Group also include mining projects at the pre-operational stage at various stages of development, including Sierra Gorda in Chile - the major development project, involving one of the largest new copper and molybdenum deposits in the world. In addition, exploration projects are conducted in the companies of the KGHM INTERNATIONAL LTD. Group.

The signing of the Agreement is consistent with the strategy of the KGHM Polska Miedź S.A. Group aimed at increasing the resource base as well as copper production.

At the date control was obtained, the KGHM Polska Miedź S.A. Group performed an initial recognition of assets and liabilities of the acquired business, and accounted for them at the acquisition date in the consolidated financial statements for 2012 in provisionally-determined amounts. The accounting data were based on the consolidated financial statements of KGHM INTERNATIONAL LTD. as at 29 February 2012, and were updated in respect of significant operations which occurred in the period from 29 February 2012 to 5 March 2012, i.e. to the date control was obtained.

## 2. Main accounting policies (continued)

In the first quarter of 2013 in accordance with IFRS 3, a final accounting for the acquired business was performed. Details regarding the finally-determined fair value of the net assets acquired, the gain on a bargain purchase and the purchase price at the date control was obtained and their impact on the comparable data are presented below :

	Carrying amount according to the consolidated financial statements of the acquired group	Adjustments to arrive at fair value and other adjustments	Finally determined fair value at the date control was obtained	Provisionally determined fair value at the date control was obtained	Impact of final accounting in the consolidated statement of financial position
Mineral properties, property, plant and equipment and other intangible assets	3 526	1 560	5 086	5 299	( 213)
Investment in Sierra Gorda joint venture	1 616	2 264	3 880	3 047	833
Intangible assets due to signed services sales contracts	-	105	105	107	( 2)
Financial assets for mine closure	256	-	256	256	-
Inventories	487	87	574	700	( 126)
Trade and other receivables	757	-	757	757	-
Cash and cash equivalents	2 806	-	2 806	2 806	-
Other assets**	1 480	( 533)	947	1 194	( 247)
Bonds	(1 515)	( 76)	(1 591)	(1 591)	-
Liabilities due to Franco Nevada streaming contract	( 578)	( 198)	( 776)	( 664)	( 112)
Provisions	( 314)	13	( 301)	( 301)	-
Trade and other liabilities	( 599)	177	( 422)	( 422)	-
Deferred tax	( 411)	(1 166)	(1 577)	(1 428)	( 149)
<b>Acquired net assets</b>	<b>7 511</b>	<b>2 233</b>	<b>9 744</b>	<b>9 760</b>	<b>( 16)</b>
Gain on bargain purchase recognised in other operating income*			( 37)	( 53)	16
<b>Purchase consideration</b>			<b>9 707</b>	<b>9 707</b>	<b>-</b>
Paid in cash			9 707	9 707	-
Acquired cash and cash equivalents, of which:			(2 806)	(2 806)	-
- restricted cash and cash equivalents			74	74	-
<b>Cash expense due to acquisition</b>			<b>6 901</b>	<b>6 901</b>	<b>-</b>

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

\*\*The fair value of the item „other assets” includes:

- loans granted in the amount of PLN 575 million,
- available-for-sale financial assets in the amount of PLN 196 million,
- current corporate tax receivables in the amount of PLN 68 million,
- other intangible assets in the amount of PLN 28 million,
- other receivables in the amount of PLN 80 million.

## 2. Main accounting policies (continued)

Methods and key assumptions used in the final fair value measurement of the net assets of KGHM INTERNATIONAL LTD. are presented in the following table.

Items adjusted to fair value	Description	Method/key assumption
Mineral properties, property, plant and equipment	Assets held by acquired entities	Fair value set by the discounted cash flow method
Investment in Sierra Gorda	Investment in joint venture	Fair value set by the discounted cash flow method
Intangible assets due to signed services sales contracts	Recognised intangible assets	Fair value set by the discounted cash flow method
Inventories	Inventories held by acquired entities	Method based on net realisable value (assuming a rational level of profit on sales) less the costs necessary to make the sale
Issued bonds	Senior notes for financing a share of the Sierra Gorda project	Method based on determining the amount of the debt portion together with adjustment due to issuer options
Liabilities due to Franco Nevada streaming contract	Recognised liabilities due to supply of metal (deferred income in this regard was presented in the financial statements of the acquired Group)	Fair value set by the discounted cash flow method (using contractual clauses involving contracted metals prices and forecast metals market price)
Provisions	Provision for site closure and other	Adjustment to the applied discount rate
Trade and other liabilities	Derivatives related to the supply of water and sulphuric acid	Separation of embedded instruments pursuant to the terms of the host contract and based on forward copper market prices as at the date control was obtained, fair value equal to zero at the date of separation
Deferred tax	Recognised deferred tax from adjustment to fair value	Tax rates were applied which are in force in the countries where the Group operates (Canada – 33%, USA – 35%, Chile – 22%)

Based on final accounting for the acquisition, an adjustment was also made in the comparable period respecting a change in depreciation of the assets measured at fair value.

The impact of the depreciation of non-current assets and the realisation of inventories and liabilities decreased profit before taxation for 2012 in the amount of PLN 156 million, but profit for the period was decreased by PLN 87 million.

Due to the final accounting for acquisition of the shares of KGHM INTERNATIONAL LTD. in the consolidated statement of financial position as at 31 December 2012, there were changes in the following items:

## 2. Main accounting policies (continued)

	Adjustment due to final accounting for the acquisition	Depreciation of non-current assets and realisation of inventories and liabilities	Impact of final accounting on consolidated statement of financial position as at 31 December 2012
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	133	( 278)	( 145)
Intangible assets	( 287)	17	( 270)
Investments accounted for using the equity method	833	-	833
Deferred tax assets	(79)	7	(72)
	<b>600</b>	<b>( 254)</b>	<b>346</b>
<b>Current assets</b>			
Inventories	( 126)	126	-
	<b>( 126)</b>	<b>126</b>	<b>-</b>
	<b>474</b>	<b>( 128)</b>	<b>346</b>
<b>TOTAL ASSETS</b>			
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to shareholders of the Parent Entity</b>			
Exchange differences from the translation of foreign operations	255	( 1)	254
Retained earnings	37	( 87)	( 50)
	<b>292</b>	<b>( 88)</b>	<b>204</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Trade and other payables	161	( 14)	147
Deferred tax liabilities	70	( 58)	12
	<b>231</b>	<b>( 72)</b>	<b>159</b>
<b>Current liabilities</b>			
Trade and other payables	( 49)	32	( 17)
	<b>( 49)</b>	<b>32</b>	<b>( 17)</b>
	<b>474</b>	<b>( 128)</b>	<b>346</b>
<b>TOTAL EQUITY AND LIABILITIES</b>			

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

Revenues of the KGHM INTERNATIONAL LTD. Group recognised in the consolidated statement of profit or loss of the KGHM Polska Miedź S.A. Group for the period from the moment of acquisition to 31 December 2012 amounted to PLN 3 836 million, while the profit for this same period amounted to PLN 231 million at the level of the carrying amount (before the fair value adjustments).

Had the KGHM INTERNATIONAL LTD. Group been acquired on 1 January 2012, the consolidated statement of profit or loss of the KGHM Polska Miedź S.A. Group for 2012 would have shown revenues in the amount of PLN 27 341 million and a profit for the period in the amount of PLN 4 854 million.

As a result of above changes there was a decrease in basic and diluted earnings per share attributable to the shareholders of the Parent Entity for the period from 1 January 2012 to 31 December 2012 from PLN 24.01 per share to PLN 23.76 per share.

Final accounting for the acquisition of KGHM INTERNATIONAL LTD. did not affect the data as at 1 January 2012, and consequently data as at 1 January 2012 was not reflected in the explanatory notes to the financial statements.

## 2. Main accounting policies (continued)

### 2.2 Accounting policies

#### 2.2.1 Property, plant and equipment

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.

Borrowing costs incurred for the purchase or construction of a qualifying item of property, plant and equipment are recognised in the cost. Upon initial recognition, in the costs of the property, plant and equipment are included the anticipated costs of future assets' dismantling and removal and cost of restoring the sites on which they are located, the obligation for which an entity incurs either when the item is installed or as a consequence of having used the item for purposes other than to produce inventories. In particular, 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.

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. (Detailed description in note 2.2.3)

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.

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

- **using the straight-line method**, for those assets used in production on a systematic basis throughout their entire useful life, and
- **using the natural depreciation method (units of production method)**, for those assets in respect of which the consumption of economic benefits is directly related to the amount of mineral extracted from deposit (or to the amount of cathodes produced) and this extraction or processing is not the same throughout their entire useful life. 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,
- 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 2013 are presented in this report in note 3 point c.

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.

## 2. Main accounting policies (continued)

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.

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

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

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

### Stripping costs in the production phase of a surface mine

In the open-pit mines operated by Group subsidiaries, activities are undertaken involving stripping the overburden 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 realised by:

- 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 Group recognises the costs of work to gain access to deeper areas of ore under non-current assets as "Open pit 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 an allocation basis that 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 Intangible assets

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

- goodwill,
- development costs,
- software,
- acquired concessions, patents, licenses,
- 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).

Upon 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. (Detailed description in note 2.2.3).

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 concessions, patents, licenses: 5 – 50 years,
- other intangible assets, including the right to geological information: 50 years.



## 2. Main accounting policies (continued)

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), as well as goodwill are not subject to amortisation, however they 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 works, sampling, the topographical, geological, geochemical and geophysical analysis of deposits, remuneration and related costs and other benefits of employees, teams or designated units or those delegated to the supervision or operation of individual projects and other direct costs related to the acquisition or 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; geologica, analytical and geotechnical services, etc.),
- the purchase of geological information from the State Treasury,
- the preparation of geological documentation and its confirmation,
- the execution of economic and technical assessments of resources for the purpose of obtaining decisions on the application for mine operating concessions,
- equipment usage costs (property, plant and equipment) used in exploratory work.

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 those used in the exploration for and evaluation of mineral resources), 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 due to 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.

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

### **2.2.3 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 the Group's companies listed on active markets are the continuation over the long term of a situation in which the carrying amount of the Group's companies net assets exceeds their market value. Additionally, amongst the most significant indications are unfavourable technical, market and economic changes to the environment in which the Group's companies operate, including on the destination markets for products of the Group's companies, as well as an increase in market interest rates and premiums for risk reflected in calculations of the discount rates used to calculate the value in use of the Group's 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.

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.

### **2.2.4 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.

### **2.2.5 Investments in subsidiaries**

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

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

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

## 2. Main accounting policies (continued)

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 a cost of the period in which they are incurred, while costs of issuing debt securities and equities are recognised in accordance with IAS 32 and IAS 39.

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

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

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

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

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

### 2.2.6 Investments accounted for using the equity method

The Group classifies shares in associates and interest in joint ventures as investments accounted for using the equity method.

Associated entities are those entities over which the Group has significant influence but not control, through its influence in setting both the financial and operating policies of the entity. Interests in a joint venture refers to joint ventures based on contractually-specified divisions of control over the economic activities of such entities, in respect of which strategic financial and operational decisions require the joint consent of the controlling parties (venture partners).

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

### 2.2.7 Financial Instruments

#### 2.2.7.1 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.

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

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 to the above specified categories of financial assets and liabilities:

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

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

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

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

Available-for-sale financial assets and liabilities include derivatives, unless they have been designated as hedging instruments 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 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 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. Main accounting policies (continued)**

### **2.2.7.2 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.

### **2.2.7.3 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.

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.
- financial guarantee agreements, 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*.

### **2.2.7.4 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 in relation to 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 another 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 fair valued financial instrument and the situation of the issuer.

## 2. Main accounting policies (continued)

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 fair valued based on market prices. In the case of purchase or sale of commodity forwards, fair value was estimated based on forwards prices for the maturity dates of specific transactions. In 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 Garman-Kohlhagen model is used for European options pricing on currency markets.

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

### 2.2.7.5 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 a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

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

Loans and receivables 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.

### 2.2.7.6 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.

Financial assets which are not derivatives, or financial liabilities which are not derivatives, may be designated as hedging instruments only for the currency risk hedging relationships.

The Group uses hedge accounting for cash flow hedges.

## 2. Main accounting policies (continued)

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

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

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

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

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

When entering into hedging transactions, the Group documents the relationship between hedging instruments and the 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.

#### **2.2.8 Inventories**

Inventories consist of the following items:

- materials,
- half-finished products and work in progress, including mainly copper ore, copper concentrate being processed, copper ore undergoing leaching, copper blister, and convertor and anode copper,
- finished goods, including mainly copper concentrate designated for sale, copper cathode, silver, copper rod and
- merchandise.

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

Inventory additions are measured in accordance with the following principles:

- materials and merchandise – at cost,
- finished goods, half-finished products – at actual manufacturing cost,
- work in progress – based on weighted average actual manufacturing costs,

## 2. Main accounting policies (continued)

Inventory disposals are measured as follows :

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

Inventories are measured as follows:

- materials and merchandise – at average cost as set for inventory disposal,
- finished goods, half-finished products and work in progress – based on weighted average manufacturing costs, 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.

### 2.2.9 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.

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 in subsidiaries, co-subsiidiaries and associates, receivables from employees, if they are settled other than by cash payment, and also government receivables, and
  - prepayments.

### 2.2.10 Cash and cash equivalents

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



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

### **2.2.11 Equity**

Equity consists of:

- 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
- actuarial gains/losses on post employment benefits,
- retained earnings, composed of:
  - undistributed profit or unabsorbed losses from previous years including capital from valuation of the put option for employee shares,
  - reserve capital created in accordance with the Commercial Partnerships and Companies Code,
  - reserve capital created and used in accordance with the Statutes,
  - profit or loss for the period.

### **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 securities, other loans (borrowings) and finance lease liabilities,
- trade payables,
- other financial liabilities, and
- other non-financial liabilities.

Liabilities are measured at amortised cost in accordance with IAS 39. Current trade payables are recognised in the statement of financial position at their nominal value. The carrying amount of these liabilities 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.

### **2.2.13 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 territorial self-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,
- accrued taxes and local fees,
- short-term accruals for unused annual leave,
- provisions for costs resulting from the requirement to redeem property rights resulting from certificates of origin of energy from renewable resources and cogeneration, and
- provisions for costs of redeeming CO<sub>2</sub> emissions allowances.

## 2. Main accounting policies (continued)

### 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.

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,
- 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 exploitation forecasts (for mining facilities), and technical-economic expertise prepared either by specialist firm or in the Parent Entity. Provisions are reviewed at the end of the reporting period.

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

Revaluations of the provision reflect:

- decreases due to its utilisation,
- increases due to the 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 of the item of property, plant and equipment. Any surplus above this amount is immediately recognised in profit or loss of the current period in other operating income.

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

### 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.

## 2. Main accounting policies (continued)

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.i.

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

### 2.2.18 Income taxes

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

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

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

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

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

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

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

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

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

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

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

### 2.2.19 Contingent liabilities and assets

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. Main accounting policies (continued)

The Group recognises as a contingent asset amounts arising from past events, in respect of which it is probable that future economic benefits will be derived by the Group, in case of the occurrence or non-occurrence of uncertain future events which are not wholly within the control of the Group. The Group recognises as contingent assets among others claims being pursued, the amounts of guarantees received and promissory notes receivables.

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

**The statement of comprehensive income** presents profit or loss for the period in a single amount as well as items of other comprehensive income. Under other comprehensive income the Group recognises gains and losses which, under individual standards, should be recognised apart from the statement of profit or loss. In addition the Group presents items of other comprehensive income in two groups, separating those items which, under other 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 other 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
  - 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

Revenues from sales 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. Revenues from sales which are recognised at such an amount are adjusted at the end of each reporting period by any change in the fair value of embedded derivatives, which are separated from the host sales contract. Sales revenues are adjusted for 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 includes also:**

**other operating income**, indirectly associated with the conducted activities i.e.:

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

## 2. Main accounting policies (continued)

**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.),
- income from realisation and fair value measurement of derivatives related to liabilities financing the Group's activities.

### **Moment of recognition of revenues**

Revenues from the sale of 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 usually associated with inventory management function, 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 in respect of the transaction can be measured reliably.

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

Revenues from the sale of services are 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.

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 contract 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.

## 2. Main accounting policies (continued)

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

### 2.2.23 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,
- 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 preceding 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.

## 2. Main accounting policies (continued)

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.

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

A grant that becomes due as compensation for expenses is recognised as income of the period in which it becomes due.

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

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

### 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 Capital management

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

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

- the equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets, and
- the ratio showing the relationship of borrowings and finance lease liabilities less cash and cash equivalents to EBITDA. EBITDA is operating profit increased by 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 assumptions, and the estimates on which they are based, result from historical experience and the analysis of various factors which are considered as prudent, while their results represent the basis for professional 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.

#### (a) Accounting for the acquisition of subsidiaries

In the current reporting period, the KGHM Polska Miedź S.A. Group performed in accordance with IFRS 3 a final identification of the assets and liabilities of the acquired KGHM INTERNATIONAL LTD. Group and recognised them in the consolidated financial statements. Estimates and assumptions related to the identification and fair value measurement of the acquired assets and liabilities of the KGHM INTERNATIONAL LTD. Group are described in note 2.1.2.

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

In the current period the Group classified as joint ventures under IAS 31 the „JV Sierra Gorda” agreement, in which the share of KGHM INTERNATIONAL LTD. equals to 55%, entered into to develop the extraction of copper and molybdenum in the Sierra Gorda (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.

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

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.

#### (c) 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.

The depreciation methods used reflect the pattern in which an asset's economic benefits are consumed. As a result of a review of the useful life of the Group's fixed assets as at 31 December 2013 versus those used as at 31 December 2012, there was a prolongation of the useful lives of property, plant and equipment and consequently there was a decrease in depreciation costs in the amount of PLN 69 million.

For assets which, in the opinion of companies' management boards, are used on a systematic basis, the straight-line method of depreciation is applied. Depreciation 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 2013 amounted to PLN 8 929 million (as at 31 December 2012, PLN 8 110 million).

For assets whose utilisation, in the opinion of company management boards, is directly related to the amount of mineral extracted from ore or the amount of cathodes produced, and extraction or production is not evenly distributed during their useful lives, the natural depreciation method (units of production method) is applied. Depreciation are estimated based on the expected amount of mineral reserves tonnage to be extracted, or based on the expected amount of copper cathodes to be produced. The net value of property, plant and equipment subject to depreciation using the units of production method as at 31 December 2013, amounted to PLN 3 015 million (as at 31 December 2012, PLN 3 323 million) and represented the assets of KGHM INTERNATIONAL LTD.



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

#### (d) Testing for impairment

##### 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 66 million.

Cash-generating unit	Goodwill
„Energetyka” Sp. z o.o.	PLN 32 million
NITROERG S.A.	PLN 15 million
other	PLN 19 million

For the purpose of estimating the recoverable amount of the cash-generating units, their fair value 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. The measurement was classified to level 2 of the fair value hierarchy in accordance with IFRS 13.

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

	„Energetyka” Sp. z o.o.	NITROERG S.A.
Period of projected cash flows	2014-2020	2014-2020
Rate of EBIT increase in the period of projection	24%,	10%
Rate of cash flow increase following the period of projection	2%	2%
Discount rate	4.62% (real)	9.15%
Investments	Realisation of investment – construction of a wind farm (CAPEX PLN 320 million)	Investment expenditures in the period of projection PLN 174 million
Other	Recoverable amount of the investment in the subsidiary WPEC S.A. PLN 201 million	-

The key assumptions were based on sector parameters and on the market and internal conditions of an entity, 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 1 075 million and the recoverable amount of NITROERG S.A. (EV) at the level of PLN 158 million.

By comparing the recoverable amounts of cash-generating units with their carrying amounts, the total impairment loss on goodwill was determined to be PLN 27 million, which was allocated to the following units:

- NITROERG S.A. – PLN 15 million,
- Other – PLN 12 million.

Other assets (apart from goodwill) were not identified as impaired.

##### Water rights – intangible assets with indefinite useful lives

IAS 36 requires annual testing for impairment of intangible assets with indefinite useful lives. As at 31 December 2013 the Group classified to this group the water rights held in Chile with a carrying amount of PLN 181 million (USD 58 million). 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, using assumptions on the market price of a liter of water recovered from the source per second at the level of USD 150 thousand (the equivalent of PLN 451.8 thousand, at the USD/PLN average price set by the National Bank of Poland from 31 December 2013). The measurement was classified to level 2 of the fair value hierarchy in accordance with IFRS 13.

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

##### Testing of assets for impairment, for which impairment indicators existed

As a result of the arising during the reporting period of indications of an impairment of assets, in accordance with IAS 36 the Management Board of the Parent Entity performed testing for impairment of the cash-generating units to which the assets were allocated. Testing for impairment in the current period was with respect to:

- the joint venture Sierra Gorda S.C.M. accounted for using the equity method, which represents the separate operating segment „Sierra Gorda Project”. In the first half of 2013, due to changes in macro- and microeconomic conditions, the Group prepared a definitive cost estimate for realisation of the Sierra Gorda S.C.M. project, as a result of which total capital expenditure to commence the project amounted to USD 3.9 billion versus USD 2.9 billion forecast in a prior period.

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

This was the indicator for performing the impairment test of the joint venture, whose carrying amount as at 30 June 2013 amounted to USD 1 224 million (PLN 3 686 million). In order to estimate the recoverable amount in the testing performed, the fair value less cost to sell was measured using the DCF method, i.e. the discounted cash flow method for the net present value of the tested asset. Key assumptions used in the estimation:

Start of production	2014
Life of mine/forecast period	20 years
Payable metals to be sold	4.2 million tonnes of copper (77% of revenues), 1.1 billion ounces of gold (4% of revenues), 227 tonnes of molybdenum (19% of revenues)
Average operating margin during the life of the mine	50.5%
Capital expenditure (together with second stage of the mine's development)	USD 4 552 million to be incurred mainly in the period 2013-2018 (of which: USD 3 917 million to 2018, USD 635 million in the period 2019-2033)
Applied income tax rate	20%
Applied discount rate	8.0%

The measurement was classified to level 2 of the fair value hierarchy in accordance with IFRS 13.

As a result of the impairment test performed on Sierra Gorda, the fair value less cost to sell was determined to be USD 1 367.7 million (PLN 4 119.5 million, based on the average exchange rate as at 31 December 2013 announced by the NBP), which exceeded the carrying amount of the investment and therefore did not justify recognition of an impairment loss.

Pursuant to International Financial Reporting Standards, an analysis was also performed on the sensitivity of the recoverable amount to key parameters which have a significant impact on the results of measuring the Sierra Gorda investment. Six key factors were identified as having a significant impact on the recoverable amount of the tested investment:

- copper price,
- discount rate,
- processing cost,
- initial capital expenditure,
- extraction cost,
- molybdenum price.

For the sensitivity analysis, each of the above parameters was increased and decreased by 5% versus the base value used in the test. This sensitivity analysis showed that changes in the copper price have the greatest impact on the recoverable amount of the tested assets. Given a long term change in the copper price by 5% versus the base value, the recoverable amount of the investment in Sierra Gorda ranged between USD 1 211.1 million and USD 1 523.6 million (from PLN 3 647.8 million to PLN 4 589.1 million, based on the average exchange rate of the NBP as at 31 December 2013).

For the remaining parameters, a change of 5% versus the base value would not result in a decrease of the recoverable amount below the carrying amount of the investment.

- Carlota mine from the KGHM INTERNATIONAL LTD. Group. (operating segment of „KGHM INTERNATIONAL LTD.“) For this asset, there was a significant change in expected cash flow during the reporting period, due to verification of mine life which justified the performance of impairment testing on this asset. The following key assumptions were used in the test:

Life of mine	4 years, restoration beginning in 2017
Payable metals to be sold	51 million lbs of copper
Average operating margin during the life of the mine	23.9%
Capital expenditure	USD 13 million during the life of the mine
Applied income tax rate	US federal income tax (35%, with due regard to AMT) and state income tax of Arizona (7%)
Applied discount rate	10%

As a result of the testing it was determined, on the basis of fair value, that the recoverable amount for the Carlota mine amounted to zero, which resulted in the recognition of an impairment loss in the amount of USD 71 million (PLN 228 million) recognised in expenses by nature (note 28).

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

The fair value of the tested asset was estimated using the DCF method, i.e. the discounted cash flow method.

#### **(e) Stripping costs**

In the reporting period the Group recognised as property, plant and equipment (mining and metallurgical assets) costs incurred in 2013 to access ore through the stripping of overburden during the production phase in open-pit mines belonging to KGHM INTERNATIONAL LTD. in the amount of PLN 282 million. 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. Application of IFRIC 20 did not cause a change in applied accounting principles (therefore there are no changes in comparative data) due to the application by the KGHM INTERNATIONAL LTD. Group of principles for the recognition of stripping costs in accordance with IFRIC 20 prior to the date on which the interpretations came into force, i.e. prior to 1 January 2013 (the balance of non-current assets due to stripping costs as at 31 December 2013 amounted to PLN 340 million, i.e. USD 113 million).

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

As at 31 December 2013, in accordance with accounting policy, the Group analysed indications for the impairment 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. In 2013 the most important changes were with respect to the following:

- Investment in Tauron Polska Energia S.A. In 2012 an impairment loss was recognised on the shares in the amount of PLN 151 million due to prolonged significant decrease of the fair value of the investment below its cost. During the reporting period significant changes in the share price of Tauron resulted in a further recognition of an impairment loss in the amount of PLN 85 million in other operating costs, and a recognition of gains on measurement following the prior recognition of an impairment loss in the amount of PLN 16 million due to an increase in the share price during the reporting period as compared to the prior reporting period ending date, which increased other comprehensive income.
- Investment in a group of companies listed on the TSX Venture Exchange. The fair value of the investment in 2013 remained at a level significantly lower than its carrying amount, which formed the basis for recognising an impairment loss in the amount of PLN 92 million, of which PLN 26 million was recognised directly in profit or loss, while PLN 66 million was transferred from other comprehensive income to profit or loss as a reclassification adjustment.

As at 31 December 2013, the carrying amount of available-for-sale financial assets amounted to PLN 868 million (as at 31 December 2012, PLN 1 041 million).

#### **(g) 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 2013 the provisionally-set value of inventories amounted to PLN 276 million (as at 31 December 2012, PLN 225 million). In 2013 there was no adjustment of inventories arising from the leaching process (in 2012 the adjustment amounted to PLN 84 million).

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

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

Future employee benefits, 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.

### 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 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 2013 may be found in note 24.

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

	<b>At</b>	
	<u><b>31 December 2013</b></u>	<u><b>31 December 2012</b></u>
an increase in the discount rate by 1%	( 168)	( 178)
a decrease in the discount rate by 1%	215	230
an increase in the coal price and salary increase rates by 1%	214	227
a decrease in the coal price and salary increase rates by 1%	( 172)	( 181)

A change in the main actuarial assumptions (discount rate, salary increase rate and coal price increase rate) as at 31 December 2013 versus assumptions applied as at 31 December 2012 caused a decrease in liabilities due to employee benefits in the amount of PLN 84 million.

As at 31 December 2013 the carrying amount of employee benefits liabilities was PLN 1 694 million (as at 31 December 2012, PLN 1 748 million).

#### (i) 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 real discount rate calculated based on the yield of treasury bonds with the maturities nearest to planned financial outflow (nominal discount rate) and the forecasted rate of inflation.

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. one, two and three 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:

- 4.5% - in Poland,
- 1.8% - 3.4% - in the United States,
- 2.6% - 2.8 in Canada,
- 2.3% in Chile

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

As at 31 December 2013, the value of provisions was reassessed, applying the discount rate as in the model for provisions for future employee benefits (note 24).

	At	
	31 December 2013	31 December 2012
an increase in the discount rate by 1%	( 205)	( 171)
a decrease in the discount rate by 1%	278	223

Extension of the discount periods of provisions as at 31 December 2013 (resulting from the new concessions granted to the Parent Entity valid until 2063) and application of the discount rate used for calculation of the provision as at 31 December 2012 caused a decrease in the value of provisions by PLN 96 million.

An increase in the estimated costs of decommissioning technological facilities as at 31 December 2013 by 10% would cause an increase in the provision by PLN 66 million, while a decrease in the estimate of decommissioning costs by 10% would cause a decrease in the provision by PLN 40 million.

The estimated change in the amount of the provision for costs of decommissioning technological facilities as at 31 December 2013, given the adopted assumption for the forecasted discount rate applied in the calculation of the provision as at 31 December 2012, would cause an increase in the provision by PLN 69 million.

Details related to reassessment of this provision are described in note 25.

As at 31 December 2013 the carrying amount of the provision for decommissioning costs of mines and other technological facilities amounted to PLN 960 million (as at 31 December 2012, PLN 1 015 million).

The program and schedule of decommissioning of technological facilities of KGHM Polska Miedź S.A. and estimates of decommissioning costs of mines and technological facilities have been developed since 2001 in cooperation with the subsidiary, KGHM Cuprum sp. z o.o. CBR. In 2013 there was a revaluation of the decommissioning costs. Update of the program and schedule of decommissioning of technological facilities was made assuming the time period of realisation of production in the mines of KGHM Polska Miedź S.A. Group in the current concession areas to be until 2060.

The planned date of decommissioning mines and technological facilities developed in 2011, in cooperation with the subsidiary, KGHM Cuprum sp. z o.o. CBR, which was in force in 2012, comprised the years from 2036 to 2043, while the current study comprises the years from 2060 to 2063. A significant extension of the useful life of the mines results in an increase in discount periods of the estimated provision and results in its decrease.

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

#### (j) Deferred tax assets/liabilities

The deferred tax assets/liabilities are measured using the tax rates which are expected to apply at the moment when the 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 in amounts to which it is probable that they will achieve taxable profit which will enable the deduction of deductible temporary differences.

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

#### 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 2013	31 December 2012
"BIOWIND" sp. z o.o. in liquidation	Lubin	generation, transfer and distribution of electricity	100	100
BAZALT-NITRON Sp. z o.o.	Wilków	sale and transport of explosives, work related to drilling and blasting	85	-
BIPROMET S.A.	Katowice	construction, urban planning, and technology design; erection of complete facilities or parts thereof; civil and water engineering; property leasing	66	66
Bipromet Ecosystem Sp. z o.o.	Katowice	execution of central heating and ventilation installations	47.41	33.66
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	98.64	85
Ecoren DKE sp. z o.o. in liquidation	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	100	100
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat; water-sewage management	100	100
Fermat 1 S.á r.l.	Luxembourg	foundation, development, management or exercise of control over other companies	100	100
Fermat 2 S.á r.l.	Luxembourg	foundation, development, management or exercise of control over other companies	100	100
Fermat 3 S.á r.l.	Luxembourg	foundation, development, management or exercise of control over other companies	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
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
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

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

Entity	Head office	Scope of activities	% of Group's share as at	
			31 December 2013	31 December 2012
KGHM Ecoren S.A.	Lubin	production of ammonium perrhenate and road-building material; sale of raw materials for the production of abrasives; the processing and recovery of metals from ores, mineral resources and industrial waste	100	100
KGHM Kupfer AG	Berlin	exploration for and evaluation of deposits of copper and other metals in Europe	100	100
KGHM I FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM II FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	-	100
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	-
KGHM V FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	-
KGHM Kupferhandelsges. m.b.H.i L.	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation; technology transfer; operation of a technology park; property sale and rental	88.58	85.45
KGHM Metraco S.A.	Legnica	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt, spedition services	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	wholesale activities, import/export of copper/silicon products and chemicals, mechanical and electrical equipment, office materials, commercial consulting services	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
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; physician practice; activities related to protecting human health; occupational medicine	100	100
NITROERG S.A.	Bieruń	production of explosives and detonation agents used in mining	85	85
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
Przedsiębiorstwo Budowlane Katowice S.A. in liquidation	Katowice	construction of complete facilities or parts thereof, general and specialty construction	58.14	58.08
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
Sugarloaf Ranches Ltd.	Vancouver	agricultural activity	100*	100*

\* actual Group share

#### 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 2013	31 December 2012
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
„Uzdrowisko Cieplice” Sp. z o.o. – Grupa PGU	Jelenia Góra	spa services	92.66	91.67
Uzdrowiska Kłodzkie S.A. – Grupa PGU	Polanica Zdrój	spa services, production and sale of mineral water	92.57	91.80
Uzdrowisko Połczyn S.A. – Grupa PGU	Połczyn Zdrój	spa services	91.38	90.45
Uzdrowisko „Świeradów-Czerniawa” Sp. z o.o. – Grupa PGU	Świeradów Zdrój	spa services	87.74	87.74
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics	98.5	98.5
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
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
<b>KGHM INTERNATIONAL LTD. Group</b>				
KGHM INTERNATIONAL LTD.	Vancouver	foundation, development, management or exercise of control over other companies	100	100
Quadra FNX Moly Holdings (Barbados) Ltd.	Barbados	management and exercise of control over other companies	-	100
Quadra FNX Intermoly Holdings Limited	Barbados	management and exercise of control over other companies	-	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 Holdings (Barbados) Ltd. (formerly Quadra FNX Holdings (Barbados) 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
Quadra FNX Water Holdings (Barbados) Ltd.	Barbados	management and exercise of control over other companies	-	100
Aguas de la Sierra Limitada	Chile	ownership and exercise of water rights in Chile	100	100



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

Entity	Head office	Scope of activities	% of Group's share as at	
			31 December 2013	31 December 2012
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 Transshipment Company	Nevada, USA	loading services for the Robinson mine	100	100
Robinson Nevada Mining Company	Nevada, USA	copper ore mining, copper production and sale	100	100
Robinson Nevada Railroad Company	Nevada, USA	railway services for the Robinson mine	-	100
Carlota Holdings Company	Arizona, USA	management and exercise of control of other companies	100	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	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	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	100
0899196 B.C. Ltd.	British Columbia, Canada	management and exercise of control of other companies	100	100
Quadra Mining Australia PTY Limited	Australia	activities related to the acquisition of a subsidiary in Australia	-	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**

###### **Acquisition of employee shares**

In 2013 KGHM Ecoren S.A. acquired 1 500 590 employee shares, 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., representing 13.64 % of the company equity.

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.

KGHM Polska Miedź S.A. in its consolidated financial statements accounted for the acquisition of a total of 13.64% of non-controlling interest of CENTROZŁOM WROCŁAW S.A through a decrease in the equity attributable to non-controlling interest in the amount of PLN 22 million and an increase in equity on valuation of employee shares put options in the amount of PLN 22 million (a transfer of equity from initial recognition of put option liabilities in retained earnings). Profit on this transaction with non-controlling interest in the amount of PLN 5 million was recognised as an increase in retained earnings attributable to the shareholders of the Parent Entity.

Acquisition of these shares represents realisation of an obligation due to an irrevocable purchase offer submitted as part of a sales agreement by the State Treasury of all remaining shares acquired by employees during the privatisation of the aforementioned companies.

###### **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 fund 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 impact the consolidated financial statements.

###### **Liquidation of KGHM II FIZAN**

On 18 June 2013 the General Meeting of the closed-end non-public investment fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN), 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. The liquidator of KGHM II FIZAN is KGHM TFI S.A.

The liquidation of the closed-end non-public investment fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych was accounted for in the consolidated financial statements as at 30 September 2013 by settlement of the Fund's cash and cash equivalents with equity.

The aforementioned transaction did not 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.

##### **Significant changes in the structure of KGHM Polska Miedź S.A. Group during the period from 1 January 2012 to 31 December 2012**

- On 5 March 2012, 100% of the shares of KGHM INTERNATIONAL LTD. (formerly Quadra FNX Mining Ltd.) were acquired; details of accounting for this acquisition are presented in note 2.2 of this report.

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

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

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

#### 5. Information on operating segments

The main impact on the structure of assets and the generation of revenues in the KGHM Polska Miedź S.A. Group is from the Parent Entity and the KGHM INTERNATIONAL LTD. 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.

As a result of significant changes in the structure of the KGHM Polska Miedź S.A. Group in 2012 and the new manner of perceiving areas of activities by the bodies making operating decisions, new solutions were introduced on 1 January 2012 in the way the Group is managed, in force to the moment of preparing these financial statements.

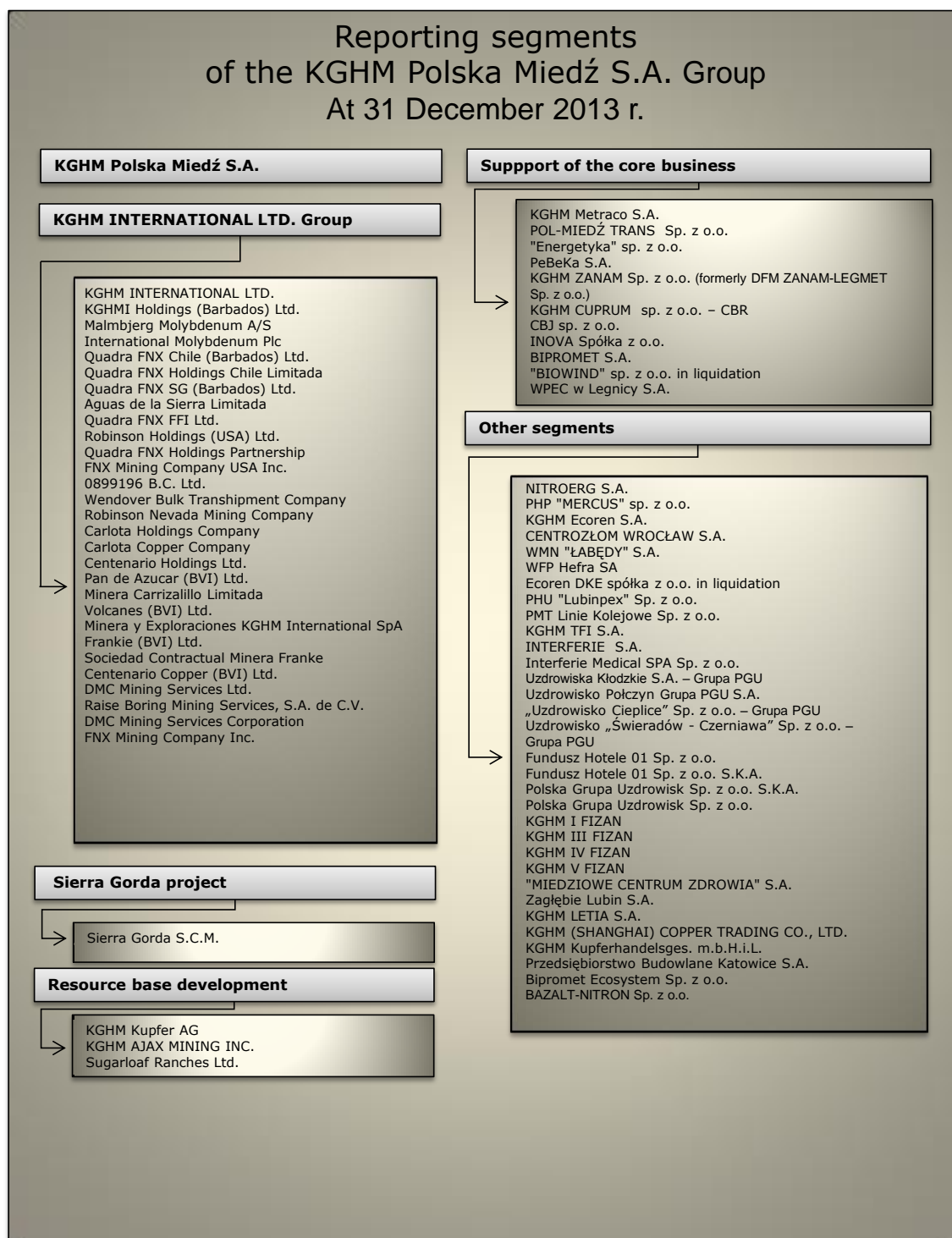
In the process of identifying operating segments and developing a new model for managing the Group's structure, and also taking into account the principles of IFRS 8, as well as the usefulness of the information to users of the financial statements, five operating segments were identified which are analysed 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, companies intended to carry out mining,
- support of the core business – this segment comprises companies directly related to the core business of the Parent Entity\*.
- Other segments – included are the companies of the Group not related to the mining industry.

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

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

## 5. Information on operating segments (continued)



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

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

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

**For the period from 1 January to 31 December 2013**

	<b>KGHM Polska Miedź S.A.</b>	<b>KGHM INTERNATIONAL LTD.</b>	<b>Sierra Gorda Project ***</b>	<b>Resource base development</b>	<b>Support of the core business</b>	<b>Other segments</b>	<b>Adjustment restating to measurement/principles under IFRS</b>	<b>Consolidation adjustments</b>	<b>Total</b>
Sales	18 579	3 364	-	1	5 174	2 880	-	(5 888)	<b>24 110</b>
Inter-segment sales	278	-	-	-	4 481	1 111	-	(5 870)	-
External sales	18 301	3 364	-	1	693	1 769	-	( 18)	<b>24 110</b>
Operating costs	(13 970)	(3 287)	-	( 5)	(5 159)	(2 859)	( 218)	5 982	<b>(19 516)</b>
Depreciation/Amortisation	( 768)	( 536)	-	( 1)	( 137)	( 79)	( 176)	117	<b>(1 580)</b>
Operating profit/(loss)	4 208	212*	-	( 4)	87*	11*	( 218)	76	<b>4 372</b>
<b>Profit/(loss) before income tax</b>	<b>4 196</b>	<b>56</b>	-	<b>( 4)</b>	<b>80</b>	<b>2</b>	<b>( 159)</b>	<b>64</b>	<b>4 235</b>
Income tax expense	(1 138)	( 26)	-	( 16)	( 18)	1	43	( 48)	<b>(1 202)</b>
<b>Profit/(loss) for the period</b>	<b>3 058*</b>	<b>30*</b>	-	<b>( 20)</b>	<b>62</b>	<b>3*</b>	<b>( 116)</b>	<b>16</b>	<b>3 033</b>
<b>As at 31 December 2013</b>									
<b>Segment assets</b>	<b>29 038</b>	<b>11 270</b>	<b>7 381</b>	<b>484</b>	<b>2 647</b>	<b>2 365</b>	<b>(4 726)</b>	<b>(13 994)</b>	<b>34 465</b>
<b>Liabilities</b>	<b>5 740</b>	<b>3 652</b>	<b>5 828</b>	<b>33</b>	<b>1 234</b>	<b>573</b>	<b>(4 727)</b>	<b>( 932)</b>	<b>11 401</b>
<b>Other information</b>									
Investments accounted for using the equity method	32	1 488**	-	-	-	2	2 198	-	<b>3 720</b>
Capital expenditures	2 357	577	3 551	87	277	100	(3 551)	( 12)	<b>3 386</b>
<b>EBITDA</b> (operating profit plus depreciation/amortisation)	<b>4 976</b>	<b>748</b>			<b>224</b>				
<b>% of sales to KGHM Polska Miedź S.A.</b>					<b>82%</b>				
<b>Production and cost data</b>									
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 (k troz)	34.3	53.2							
Platinum (k troz)	-	13.3							
Palladium (k troz)	-	31.8							
C1 cash cost of copper in concentrate production (USD/lb) ****	1.78	2.15							

„Adjustment restating to measurement/principles under IFRS” – 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 revenues.

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## 5. Information on operating segments (continued)

### Information on segments for the comparable period

	For the period from 1 January to 31 December 2012 – restated*****									
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda Project ***	Resource base development	Support of the core business	Other segments	Adjustment restating to measurement/principles under IFRS	Consolidation adjustments		Total
Sales	20 737	3 836	-	1	6 195	2 859	-	(6 923)		<b>26 705</b>
Inter-segment sales	626	-	-	-	5 132	1 024	-	(6 782)		-
External sales	20 111	3 836	-	1	1 063	1 835	-	( 141)		<b>26 705</b>
Operating costs	(13 602)	(3 535)	-	( 9)	(6 191)	(2 827)	( 447)	6 892		<b>(19 719)</b>
Depreciation/Amortisation	( 772)	( 394)	-	-	( 107)	( 67)	( 421)	37		<b>(1 724)</b>
Operating profit/(loss)	6 426	448*	-	( 10)	81*	91*	( 410)	( 151)		<b>6 475</b>
<b>Profit/(loss) before income tax</b>	<b>6 417</b>	<b>328</b>	<b>-</b>	<b>( 9)</b>	<b>68</b>	<b>88</b>	<b>( 410)</b>	<b>( 153)</b>		<b>6 329</b>
Income tax expense	(1 549)	( 97)	-	-	( 21)	( 13)	124	( 20)		<b>(1 576)</b>
<b>Profit/(loss) for the period</b>	<b>4 868*</b>	<b>231*</b>	<b>-</b>	<b>( 9)</b>	<b>47</b>	<b>75*</b>	<b>( 286)</b>	<b>( 173)</b>		<b>4 753</b>

	As at 31 December 2012 – restated*****									
<b>Segment assets</b>	<b>28 177</b>	<b>11 416</b>	<b>4 689</b>	<b>375</b>	<b>2 341</b>	<b>2 290</b>	<b>(1 476)</b>	<b>(13 850)</b>		<b>33 962</b>
<b>Liabilities</b>	<b>6 254</b>	<b>3 674</b>	<b>3 092</b>	<b>17</b>	<b>1 080</b>	<b>628</b>	<b>(1 995)</b>	<b>( 702)</b>		<b>12 048</b>
<b>Other information</b>										
Investments accounted for using the equity method	33	1 615**	-	-	-	-	2 263	-		<b>3 911</b>
Capital expenditures	1 766	348	2 371	86	253	125	(2 371)	( 62)		<b>2 516</b>
<b>EBITDA</b> (operating profit plus depreciation/amortisation)	<b>7 198</b>	<b>842</b>			<b>188</b>					
<b>% of sales to KGHM Polska Miedź S.A.</b>					<b>79%</b>					

#### Production and cost data

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

Payable copper (kt)	565.8	110.5
- including from purchased copper-bearing materials (kt)	146.7	-
Nickel (kt)	-	4.8
Molybdeum (kt)	-	0.1
Silver (t)	1 273.8	3.8
Gold (k troz)	29.5	47.9
Platinum (k troz)	-	17.3
Palladium (k troz)	-	30.0
C1 cash cost of copper in concentrate production (USD/lb) ****	1.34	2.43

„Adjustment restating to measurement/principles under IFRS” – 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 2012 for an item in consolidated statement of financial position and from 1 January to 31 December 2012 for an item of 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 revenues.

\*\*\*\*\* Details presented in note 2.1.2

## 5. Information on 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 to 31 December 2013	From 1 January to 31 December 2012
Poland	4 837	5 309
Germany	4 315	4 564
China	3 379	3 047
The United Kingdom	2 581	3 950
The Czech Republic	1 547	1 604
Canada	1 199	1 431
The USA	1 144	758
France	815	872
Italy	774	1 217
Hungary	733	750
Turkey	507	269
Switzerland	372	404
Austria	269	357
Japan	220	317
Belgium	158	407
Slovakia	142	155
Denmark	110	120
South Korea	93	200
Netherlands	35	246
Other countries (dispersed sale)	880	728
<b>Total</b>	<b>24 110</b>	<b>26 705</b>

### Main customers

During the period from 1 January 2013 to 31 December 2013, and in the comparable period, the revenues from no single customer exceeded 10% of the revenues of the Group.

59.44% of the non-current assets of the Group are located in Poland. The remaining 40.56% of the non-current assets are located in the following countries: Chile – 19.53%; Canada – 13.68%; the USA – 4.77%; other countries – 2.57%.

## 6. Property, plant and equipment

	At	
	31 December 2013	31 December 2012 restated*
<b>Mining and metallurgical assets, of which:</b>	<b>12 229</b>	<b>11 368</b>
Buildings and land**	5 270	5 435
Technical equipment and machinery, motor vehicles and other fixed assets	4 057	3 728
Fixed assets under construction	2 902	2 205
<b>Other assets not related to mining and metallurgical activities, of which:</b>	<b>2 899</b>	<b>2 603</b>
Buildings and land	1 513	1 483
Technical equipment and machinery, motor vehicles and other fixed assets	1 239	907
Fixed assets under construction	147	213
<b>Total</b>	<b>15 128</b>	<b>13 971</b>

\*details presented in note 2.1.2

\*\*In the item buildings and land, the costs of stripping of overburden to enable extraction, the construction of mines and metallurgical facilities and the value of acquired deposits during the process of acquiring mining assets in the Group were recognised.

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

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

	Note	Mining and metallurgical assets			Other assets not related to mining and metallurgical activities			Total
		Buildings and land	Technical equipment and machinery, motor vehicles and other fixed assets	Fixed assets under construction	Buildings and land	Technical equipment and machinery, motor vehicles and other fixed assets	Fixed assets under construction	
<b>At 1 January 2013 – restated*</b>								
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		<b>5 435</b>	<b>3 728</b>	<b>2 205</b>	<b>1 483</b>	<b>907</b>	<b>213</b>	<b>13 971</b>
<b>Changes in 2013 net</b>								
Settlement of fixed assets under construction		299	1 134	(1 651)	176	399	( 357)	-
Purchase		92	14	2 311	14	11	351	2 793
Capitalised stripping costs of surface mines		282	-	-	-	-	-	282
Self-constructed items		-	-	34	-	-	20	54
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		117	( 33)	9	( 135)	27	( 80)	( 95)
<b>At 31 December 2013</b>								
Gross carrying amount		10 360	8 519	2 902	1 968	1 931	149	25 829
Accumulated depreciation		(4 904)	(4 475)	2	( 418)	( 672)	( 2)	(10 469)
Impairment losses		( 186)	13	( 2)	( 37)	( 20)	-	( 232)
Net carrying amount		<b>5 270</b>	<b>4 057</b>	<b>2 902</b>	<b>1 513</b>	<b>1 239</b>	<b>147</b>	<b>15 128</b>

\*details presented in note 2.1.2



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

### Changes in property, plant and equipment in the period from 1 January 2012 to 31 December 2012 - restated

	Note	Mining and metallurgical assets			Other assets not related to mining and metallurgical activities			Total
		Buildings and land	Technical equipment and machinery, motor vehicles and other fixed assets	Fixed assets under construction	Buildings and land	Technical equipment and machinery, motor vehicles and other fixed assets	Fixed assets under construction	
<b>At 1 January 2012</b>								
Gross carrying amount		6 080	6 545	1 726	1 676	1 464	163	17 654
Accumulated depreciation		(3 594)	(3 775)	-	( 487)	( 673)	-	(8 529)
Impairment losses		-	-	( 3)	( 21)	( 7)	( 1)	( 32)
Net carrying amount		<b>2 486</b>	<b>2 770</b>	<b>1 723</b>	<b>1 168</b>	<b>784</b>	<b>162</b>	<b>9 093</b>
<b>Changes in 2012 net</b>								
Settlement of fixed assets under construction		358	883	(1 298)	164	224	( 331)	-
Purchase		68	37	1 763	34	11	381	2 294
Self-constructed items		-	-	42	-	-	1	43
Changes due to decommissioning/scrapping, sale, donations and no-cost transfer		( 7)	( 13)	-	( 3)	( 7)	-	( 30)
Changes due to acquisition/transfer of assets used based on lease agreement		-	-	-	-	12	-	12
Purchase of a subsidiary		2 967	675	159	169	2	-	3 972
Change in amount of provisions for costs of decommissioning		242	-	-	30	-	-	272
Depreciation	28	( 728)	( 744)	-	( 67)	( 116)	-	(1 655)
Impairment losses	26	( 16)	( 9)	( 2)	( 13)	( 6)	-	( 46)
Other changes		65	129	( 182)	1	3	-	16
<b>At 31 December 2012 – restated*</b>								
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		<b>5 435</b>	<b>3 728</b>	<b>2 205</b>	<b>1 483</b>	<b>907</b>	<b>213</b>	<b>13 971</b>

\*details presented in note 2.1.2

## 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 1 462 million (for the period from 1 January 2012 to 31 December 2012, PLN 1 570 million). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 23 million (for the period from 1 January 2012 to 31 December 2012, PLN 22 million), in selling costs in the amount of PLN 32 million (for the period from 1 January 2012 to 31 December 2012, PLN 9 million) and in the value of production inventories in the amount of PLN 6 million (for the period from 1 January 2012 to 31 December 2012, PLN 54 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 2013			31 December 2012		
	Initial cost	Accumulated depreciation	Net carrying amount	Initial cost	Accumulated depreciation	Net carrying amount
<b>Technical equipment and machinery, motor vehicles and other fixed assets</b>	<b>89</b>	<b>24</b>	<b>65</b>	<b>66</b>	<b>22</b>	<b>44</b>

### 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 2013				31 December 2012			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
<b>Buildings and land</b>	56	1	28	28	46	1	25	21
<b>Technical equipment and machinery, motor vehicles and other fixed assets</b>	38	3	4	34	1	-	-	1
<b>Total</b>	<b>94</b>	<b>4</b>	<b>32</b>	<b>62</b>	<b>47</b>	<b>1</b>	<b>25</b>	<b>22</b>

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

The amount of collateral for the repayment of liabilities of the KGHM Polska Miedź S.A. Group established on property, plant and equipment was presented in note 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 2013	31 December 2012
Program of Pyrometallurgy Modernisation	609	195
Deep Głogów (Głogów Głęboki – Przemysłowy)	552	419
Construction of the SW-4 shaft	534	438
Construction of gas-steam blocks	269	345
Investments related to mining region infrastructural development in mines	222	189
Power and teletechnical infrastructure	96	47

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

	At	
	31 December 2013	31 December 2012
Capital commitments due to purchase of:		
- property, plant and equipment	2 711	2 167
- intangible assets	38	40
<b>Total capital commitments</b>	<b>2 749</b>	<b>2 207</b>

## 7. Intangible assets

	At	
	31 December 2013	31 December 2012 restated*
Development costs	11	3
Goodwill	39	66
Software	29	27
Acquired concessions, patents, licenses	106	47
Other intangible assets, including:	392	476
- water rights**	181	183
- intangible assets due to service sales contracts**	52	65
- management fee for Sierra Gorda S.C.M.**	24	27
Exploration and evaluation assets	1 529	1 334
Other intangible assets not yet available for use	69	36
<b>Total</b>	<b>2 175</b>	<b>1 989</b>

\*Details presented in note 2.1.2

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

As at 31 December 2013, the largest item within intangible assets not yet available for use is exploration and evaluation assets in the amount of PLN 1 529 million (as at 31 December 2012, PLN 1 334 million).

Significant expenditures incurred on exploration and evaluation recognised in the 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 2013 amounts to PLN 963 million, including expenditures incurred in 2013 in the amount of PLN 16 million - (operating segment "KGHM INTERNATIONAL LTD."),
- KGHM AJAX MINING INC. – expenditures related to exploratory work within the Afton – Ajax project. Balance of expenditures as at 31 December 2013 amounts to PLN 262 million, including expenditures incurred in 2013 in the amount of PLN 43 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" area, located within the so-called "Old Copper Belt". The balance of expenditures incurred as at 31 December 2013 amounts to PLN 70 million, including expenditures incurred in 2013 in the amount of PLN 29 million - (operating segment "KGHM Polska Miedź S.A.),
- KGHM Polska Miedź S.A. – the project „Assessment of the feasibility of exploiting 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 incurred as at 31 December 2013 amounts to PLN 25 million, including expenditures incurred in 2013 in the amount of PLN 4 million - (operating segment "KGHM Polska Miedź S.A.),

As at 31 December 2013 liabilities related to investing activities due to exploration for and evaluation of mineral resources amounted to PLN 31 million (as at 31 December 2012, PLN 16 million). Information on cash flows concerning exploration and evaluation of mineral resources is presented in note 39.

Goodwill as at 31 December 2013 was tested for impairment, which is described in detail in note 3d.

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**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		Total
							Exploration and evaluation assets	Other intangible assets not yet available for use	
<b>At 1 January 2013 – restated*</b>									
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)
<b>Net carrying amount</b>		<b>3</b>	<b>66</b>	<b>27</b>	<b>47</b>	<b>476</b>	<b>1 334</b>	<b>36</b>	<b>1 989</b>
<b>Changes in 2013 net</b>									
Settlement of intangible assets not yet available for use		2	-	2	11	11	-	( 26)	-
Purchases		8	-	5	1	5	176	51	246
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer		-	-	-	-	( 7)	-	-	( 7)
Amortisation	28	( 2)	-	( 8)	( 7)	( 40)	-	-	( 57)
Impairment losses	26	-	( 27)	-	-	-	( 5)	-	( 32)
Reversal of impairment losses	26,28	1	-	-	-	1	-	-	2
Utilisation of impairment losses	26	-	-	-	-	-	5	-	5
Exchange differences from the translation of foreign operations		-	-	( 1)	-	( 5)	( 41)	-	( 47)
Other changes		( 1)	-	4	54	( 49)	60	8	76
<b>At 31 December 2013</b>									
Gross carrying amount		21	70	74	196	476	1 529	69	2 435
Accumulated amortisation		( 10)	-	( 45)	( 90)	( 84)	-	-	( 229)
Impairment losses		-	( 31)	-	-	-	-	-	( 31)
<b>Net carrying amount</b>		<b>11</b>	<b>39</b>	<b>29</b>	<b>106</b>	<b>392</b>	<b>1 529</b>	<b>69</b>	<b>2 175</b>

\*details presented in note 2.1.2

## 7. Intangible assets (continued)

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

	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Intangible assets not yet available for use		Total
							Exploration and evaluation assets	Other intangible assets not yet available for use	
<b>At 1 January 2012</b>									
Gross carrying amount		12	70	48	117	269	250	28	794
Accumulated amortisation		( 11)	-	( 34)	( 65)	( 13)	-	-	( 123)
Impairment losses		( 1)	( 4)	-	-	( 2)	-	( 1)	( 8)
<b>Net carrying amount</b>		<b>-</b>	<b>66</b>	<b>14</b>	<b>52</b>	<b>254</b>	<b>250</b>	<b>27</b>	<b>663</b>
<b>Changes in 2012 net</b>									
Settlement of intangible assets not yet available for use		2	-	3	4	1	-	( 10)	-
Purchases		-	-	5	1	11	139	20	176
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer		-	-	-	-	( 12)	-	-	( 12)
Purchase of subsidiaries		-	-	12	-	316	973	-	1 301
Amortisation	28	-	-	( 7)	( 9)	( 53)	-	-	( 69)
Impairment losses	26,28	-	-	-	-	( 1)	-	-	( 1)
Reversal of impairment losses	26,28	-	-	-	-	2	-	-	2
Other changes		1	-	-	( 1)	( 42)	( 28)	( 1)	( 71)
<b>At 31 December 2012 – restated*</b>									
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)
<b>Net carrying amount</b>		<b>3</b>	<b>66</b>	<b>27</b>	<b>47</b>	<b>476</b>	<b>1 334</b>	<b>36</b>	<b>1 989</b>

\*details presented in note 2.1.2

## 7. Intangible assets (continued)

### Perpetual usufruct of land

At 31 December 2013, the Group entities used land under perpetual usufruct rights comprising a total area of 6 548 ha (at 31 December 2012: 6 999 ha).

	At	
	<u>31 December 2013</u>	<u>31 December 2012</u>
	(ha)	(ha)
KGHM Polska Miedź S.A.	5 703	5 703
Subsidiaries of the Group	845	1 296

The Parent Entity and Polish subsidiaries of the Group received perpetual usufruct rights free of charge based on laws in force. The land held under perpetual usufruct comprises industrial terrain related to the principal 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 at 31 December 2013.

### Future fees due to perpetual usufruct of land

	At	
	<u>31 December 2013</u>	<u>31 December 2012</u>
Under one year	12	12
From one to five years	52	50
Over five years	691	668
<b>Total value of future conditional fees due to perpetual usufruct of land</b>	<b>755</b>	<b>730</b>

	For the period	
	<u>from 1 January 2013 to 31 December 2013</u>	<u>from 1 January 2012 to 31 December 2012</u>
<b>Fees due to perpetual usufruct of land recognised in profit or loss</b>	10	16

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

## 8. Investment property

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Beginning of financial period</b>	<b>59</b>	<b>60</b>
Purchase of subsidiaries	1	-
Fair value measurement	3	-
Reclassification from properties for internal use to investment properties	6	1
Reclassification to assets held for sale	(4)	-
Sale of properties	-	(2)
<b>End of financial period</b>	<b>65</b>	<b>59</b>

Investment property of PLN 65 million was set based on the valuation by a valuer as at 31 December 2013.

## 9. Investments accounted for using the equity method

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Beginning of financial period</b>	<b>3 911</b>	-
At the date of obtaining control of a subsidiary	-	3 880
Purchase of shares	9	33
Elimination of unrealised profits	( 93)	-
Exchange differences from the translation of foreign operations shares at the end of the reporting period	( 107)	( 2)
<b>End of financial period</b>	<b>3 720</b>	<b>3 911</b>

In 2013 significant changes in the value of investments accounted for using the equity method concerned:

- a decrease in the value of the Sierra Gorda investment 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 as at 31 December 2013),
- a decrease in the value of the Sierra Gorda investment due to the elimination of unrealised profits, proportionally to the Group share (55%), due to transactions between the Group and Sierra Gorda of PLN 93 million.

In 2012 the increase in investments accounted for using the equity method in the reporting period concerned:

- acquisition of the KGHM INTERNATIONAL LTD. Group, which holds a 55% interest in the Sierra Gorda joint venture in the amount of PLN 3 878 million.  
Sierra Gorda is a mine development project at the pre-operational stage located in Chile. It is a joint venture of KGHM INTERNATIONAL LTD. and companies of the Sumitomo Group – Sumitomo Metal Mining Co, Ltd. and Sumitomo Corporation.  
The Sierra Gorda project comprises the construction of an open-pit mine in one of the largest new deposits of copper and molybdenum in the world. The start of production at Sierra Gorda is projected in 2014.
- the founding on 5 September 2012 by the Parent Entity and TAURON Wytwarzanie SA of a special purpose company called "Elektrownia Blachownia Nowa" sp. z o.o. in which the Parent Entity acquired 50% of the share capital in the amount of PLN 33 million.  
On 30 December 2013, an agreement was signed by the parties of the agreement, based on which it was decided to temporarily suspend realisation of the project. 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. A decision to re-commence realisation of the Project will be made in the form of a separate agreement which should be signed by 31 December 2016.



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

### Information concerning entities accounted for using the equity method

	% of share capital held by the Group	% of voting power	Investment value in the consolidated financial statements as at	
			31 December 2013	31 December 2012
<b>Jointly-controlled entities</b>				
Sierra Gorda S.C.M.	55	50	3 686	3 878
"Elektrownia Blachownia Nowa sp. z o.o."	50	50	32	33
NANO CARBON sp. z o.o.	49	50	2	-
<b>Associate</b>				
BAZALT-NITRON Sp. z o.o.*	26	26	-	-

\* As a result of the acquisition of additional interest the company BAZALT-NITRON Sp. z o.o., control was obtained over the company on 31 December 2013. The transaction did not have a significant impact on this consolidated financial statements.

### 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

	<b>"Elektrownia Blachownia Nowa"</b>		
	<b>Sierra Gorda S.C.M.</b>	<b>Blachownia Nowa" Sp. z o.o.</b>	<b>NANO CARBON Sp. z o.o.</b>
Non-current assets	11 763	28	1
Current assets	1 656	37	3
Non-current liabilities	9 442	-	-
Current liabilities	1 155	-	-

### Condensed financial data of entities accounted for using the equity method as at 31 December 2012 as shown in the financial statements of these entities

	<b>Jointly controlled entities</b>		<b>Associate</b>
	<b>Sierra Gorda S.C.M.</b>	<b>"Elektrownia Blachownia Nowa" Sp. z o.o.</b>	<b>BAZALT-NITRON Sp. z o.o.</b>
Non-current assets	6 186	28	2
Current assets	2 341	39	2
Non-current liabilities	4 907	-	1
Current liabilities	715	2	1

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) The share of the Group in the carrying amount of the net assets of Sierra Gorda S.C.M. as at 31 December 2013 amounted to PLN 1 553 million. The fair value of the investment accounted for using the equity method as at the date control was obtained over the KGHM INTERNATIONAL LTD. Group was set at PLN 3 880 million.
- b) 31 December 2013, the share of the Group in contractual liabilities of Sierra Gorda S.C.M. related to investment and operating activities amounted to PLN 5 605 million (as at 31 December 2012, PLN 7 093 million).
- c) 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 2013 amounted to PLN 103 million.
- d) On 26 February 2014, at the request of the local community, the Appeals Court in Antofagasta invalidated the environmental permits issued by the Environmental Office of Region II for the transportation and storage of copper concentrate belonging to Sierra Gorda S.C.M. at the port of Antofagasta. The defendants, i.e. the Environmental Office of Region II in Chile, Antofagasta Railway Company PLC and Sierra Gorda S.C.M., as well as the International Port of Antofagasta, hold the position that the environmental permits were obtained in accordance with the law, and that the claims of the plaintiffs are legally unjustified. An appeal was submitted to this decision with a judgment expected by a court of second instance.

## 10. Available-for-sale financial assets

	Note	At	
		31 December 2013	31 December 2012
Shares in unlisted companies		11	11
Shares in listed companies		799	873
Debt securities		-	8
<b>Non-current available-for-sale financial assets</b>		<b>810</b>	<b>892</b>
Shares in unlisted companies		1	-
Shares in listed companies		57	149
<b>Current available-for-sale financial assets</b>		<b>58</b>	<b>149</b>
<b>Total available-for-sale financial assets:</b>	<b>33.1</b>	<b>868</b>	<b>1 041</b>

The main changes in available-for-sale financial assets in the reporting period related to:

- a decrease in non-current assets due to impairment of shares in listed companies in the amount of PLN 85 million (details described in note 3.f),
- a decrease in current assets due to impairment of shares in listed companies in the amount of PLN 92 million (details described in note 3.f),
- a decrease in current assets in the amount of PLN 42 million due to the sale of shares by KGHM INTERNATIONAL LTD., resulting in gains in the amount of PLN 24 million recognised in other operating income,
- an increase in current assets in the amount of PLN 42 million due to the acquisition of new shares.

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

	Note	At	
		31 December 2013	31 December 2012
Cash held in the Mine Closure Fund and Tailings Storage Facilities Restoration Fund		254	164
Debt securities		69	296
<b>Non-current financial assets for mine closure and restoration of tailings storage facilities</b>		<b>323</b>	<b>460</b>
Cash held in the Mine Closure Fund		1	-
<b>Current mine closure financial assets</b>		<b>1</b>	<b>-</b>
<b>Financial assets for mine closure and restoration of tailings storage facilities, total:</b>	<b>33.1</b>	<b>324</b>	<b>460</b>

As at 31 December 2013, 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 2013 – PLN 179 million, as at 31 December 2012 – PLN 141 million).
- (b) Cash accumulated by KGHM INTERNATIONAL LTD. to cover the costs of restoration of areas degraded by the activities of the mines of this Group. (balance as at 31 December 2013 – PLN 76 million, as at 31 December 2012- PLN 23 million).

As at 31 December 2013, debt securities in the amount of PLN 69 million represented funds to cover the 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 estimated provision for decommissioning of mines and other facilities.

The significant decrease in debt securities during the reporting period was due to the withdrawal by the KGHM INTERNATIONAL LTD. Group of part of its investment in debt securities, representing security on mine decommissioning costs, in exchange for establishing a letter of credit in the amount of PLN 184 million as security on environmental requirements regarding mine decommissioning costs, as part of a line of credit granted to KGHM INTERNATIONAL LTD. by the Bank of Nova Scotia (Note 42 Assets and liabilities not recognised in the statement of financial position).

Details of the planned decommissioning of mines are described in note 3i.

## 12. Derivatives

	Note	At	
		31 December 2013	31 December 2012
<b><u>Non-current assets</u></b>			
Hedging instruments		342	742
Trade and embedded instruments		15	3
<b>Non-current assets due to derivatives, total</b>		<b>357</b>	<b>745</b>
<b><u>Current assets</u></b>			
Hedging instruments		472	381
Trade and embedded instruments		4	1
<b>Current assets due to derivatives, total</b>		<b>476</b>	<b>382</b>
<b>Total assets due to derivatives</b>		<b>833</b>	<b>1 127</b>
<b><u>Non-current liabilities</u></b>			
Hedging instruments		15	197
Trade and embedded instruments		2	33
<b>Non-current liabilities due to derivatives, total</b>		<b>17</b>	<b>230</b>
<b><u>Current liabilities</u></b>			
Hedging instruments		3	21
Trade and embedded instruments		4	4
<b>Current liabilities due to derivatives, total</b>		<b>7</b>	<b>25</b>
<b>Total liabilities due to derivatives</b>		<b>24</b>	<b>255</b>
<b>Derivatives, net assets/(liabilities)</b>	<b>33.1</b>	<b>809</b>	<b>872</b>
including:			
Derivatives- currency -net		538	446
Derivatives-metals-net		255	425
Embedded derivatives		16	1

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**12. Derivatives (continued)**

TRADE INSTRUMENTS	Volume/ Notional	Avg. weighted price/ex. rate	At 31 December 2013 [PLN '000]				At 31 December 2012 [PLN '000]			
			Financial assets		Financial liabilities		Financial assets		Financial liabilities	
			Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>Type of derivative</b>	Cu [t] Ag ['000 troz] Currency ['000 USD] ['000 EUR] ['000 CZK]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN] [EUR/PLN] [CZK/PLN]								
<b>Derivatives – Commodity contracts – Metals - Copper</b>										
Options										
Sold put options	123 000	4 659			(138)	(1 651)			(49)	(17 909)
<b>TOTAL</b>			-	-	<b>(138)</b>	<b>(1 651)</b>	-	-	<b>(49)</b>	<b>(17 909)</b>
<b>Derivatives – Commodity contracts – Metals - Silver</b>										
Options										
Sold put options									(315)	(142)
<b>TOTAL</b>			-	-	-	-	-	-	<b>(315)</b>	<b>(142)</b>
<b>Derivatives – Currency contracts</b>										
Forwards/swaps										
Forwards/swaps – sold USD	500	3.1121	46				481			
Forwards/swaps – sold EUR	22 185	4.1930-4.3267	964	253	(9)		867			
Forwards/swaps – sold CZK	5 495	0.1511			(2)					
Options										
Purchased put options- USD	180 000	2.7000	407							
Sold put options - USD	360 000	2.7000			(3 885)				(2 017)	(15 174)
Purchased put options - EUR	2 600	4.2000	160							
Purchased call options – EUR							22			
Collar – EUR	8 850	4.2474-4.4248	628	413	(198)	(226)	199		(127)	
<b>TOTAL</b>			<b>2 205</b>	<b>666</b>	<b>(4 094)</b>	<b>(226)</b>	<b>1 569</b>	-	<b>(2 144)</b>	<b>(15 174)</b>
<b>TOTAL TRADE INSTRUMENTS</b>			<b>2 205</b>	<b>666</b>	<b>(4 232)</b>	<b>(1 877)</b>	<b>1 569</b>	-	<b>(2 508)</b>	<b>(33 225)</b>

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**12. Derivatives (continued)**

HEDGING INSTRUMENTS	Volume/ Notional	Avg. weighted price/ ex. rate	Maturity/ settlement period		Period of profit/loss impact		At 31 December 2013 [PLN '000]				At 31 December 2012 [PLN '000]			
							Financial assets		Financial liabilities		Financial assets		Financial liabilities	
							Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>Type of derivative</b>	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	<b>From</b>	<b>Till</b>	<b>From</b>	<b>Till</b>	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
<b>Derivatives – Commodity contracts - Metals - Copper</b>														
Options														
Collar											108 590	16 008	(12 596)	(3 587)
Seagull	123 000	7 749-9 963	Jan-14	Dec-15	Feb-14	Jan-16	128 863	140 117	(2 129)	(9 343)	47 040	351 772	(6 255)	(170 461)
<b>TOTAL</b>							<b>128 863</b>	<b>140 117</b>	<b>(2 129)</b>	<b>(9 343)</b>	<b>155 630</b>	<b>367 780</b>	<b>(18 851)</b>	<b>(174 048)</b>
<b>Derivatives – Commodity contracts - Metals - Silver</b>														
Options														
Seagull											102 955	9 585	(5)	(5)
<b>TOTAL</b>							<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>102 955</b>	<b>9 585</b>	<b>(5)</b>	<b>(5)</b>
<b>Derivatives – Currency contracts</b>														
Options USD														
Collar	1 200 000	3.3400-4.3000	Jan-14	Dec-15	Jan-14	Dec-15	178 648	202 452	(183)	(5 681)	67 936	229 980	(571)	(19 046)
Collar-seagull	180 000	3.5000-4.5000	Jan-14	Jun-14	Jan-14	Jun-14	83 985							
Seagull	180 000	3.5000-4.5000	Jul-14	Dec-14	Jul-13	Dec-14	80 057		(12)		54 503	134 855	(1 479)	(3 877)
<b>TOTAL</b>							<b>342 690</b>	<b>202 452</b>	<b>(195)</b>	<b>(5 681)</b>	<b>122 439</b>	<b>364 835</b>	<b>(2 050)</b>	<b>(22 923)</b>
<b>TOTAL HEDGING INSTRUMENTS</b>							<b>471 553</b>	<b>342 569</b>	<b>(2 324)</b>	<b>(15 024)</b>	<b>381 024</b>	<b>742 200</b>	<b>(20 906)</b>	<b>(196 976)</b>

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**12. Derivatives (continued)**

EMBEDDED INSTRUMENTS	At 31 December 2013 [PLN `000]				At 31 December 2012 [PLN `000]			
	Financial assets		Financial liabilities		Financial assets		Financial liabilities	
	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
<b>Embedded instruments, based on copper price:</b>								
Long-term contracts for the supply of sulphuric acid	2 006	10 927			2 525		(1 594)	
Long-term contracts for the supply of water	174	3 212			605		(546)	
<b>TOTAL EMBEDDED INSTRUMENTS*</b>	<b>2 180</b>	<b>14 139</b>			<b>3 130</b>		<b>(2 140)</b>	

\* relates to KGHM INTERNATIONAL LTD.

### 13. Trade and other receivables

	Note	At	
		31 December 2013	31 December 2012
<b>Trade and other non-current receivables</b>			
Deposits of over 12 months		2	1
Loans granted*	33.1	3 378	1 470
Other financial receivables		51	20
<b>Total loans and financial receivables, net</b>		<b>3 431</b>	<b>1 491</b>
Other non-financial receivables		5	-
Prepayments		23	25
<b>Total non-financial receivables, net</b>		<b>28</b>	<b>25</b>
<b>Trade and other non-current receivables, net</b>		<b>3 459</b>	<b>1 516</b>
<b>Trade and other current receivables</b>			
Trade receivables		2 281	2 248
Amount retained (collateral) due to long-term construction contracts		65	31
Unsettled derivative receivables	33.4	41	22
Loans granted		2	1
Deposits of over 3 up to 12 months		6	47
Other financial receivables		63	33
Impairment allowances	34.2.5	( 90)	( 70)
<b>Total loans and financial receivables, net</b>		<b>2 368</b>	<b>2 312</b>
Other non-financial receivables, including:		687	507
- due to taxes and other charges		585	415
- advances granted		-	80
Prepayments		89	53
Impairment allowances		( 25)	( 26)
<b>Total non-financial receivables, net</b>		<b>751</b>	<b>534</b>
<b>Trade and other current receivables, net</b>		<b>3 119</b>	<b>2 846</b>
<b>Total trade and other non-current and current receivables, net</b>		<b>6 578</b>	<b>4 362</b>

\* relates to a loan granted by KGHM INTERNATIONAL LTD. to Sierra Gorda S.C.M. Details presented in note 34.2.3.

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

As at 31 December 2013, the gross amount due from clients due to work based on construction contracts amounted to PLN 44 million (as at 31 December 2012, PLN 165 million).

#### 14. Inventories

	Note	At	
		31 December 2013	31 December 2012
Materials		727	669
Half-finished products and work in progress		1 967	2 162
Finished goods		438	811
Merchandise		265	127
<b>Total carrying amount of inventories, net</b>		<b>3 397</b>	<b>3 769</b>

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Write-down of inventories in the financial period</b>			
Write-down of inventories recognised in cost of sales	28	( 15)	( 8)
Reversal of write-down recognised in cost of sales	28	3	2

#### 15. Cash and cash equivalents

	Note	At	
		31 December 2013	31 December 2012
Cash in hand		1	1
Cash at bank		524	562
Other cash		68	28
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		271	2 038
<b>Total cash and cash equivalents</b>	<b>33.1</b>	<b>864</b>	<b>2 629</b>

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

#### 16. Share capital

As at 31 December 2013, the share capital of the Parent Entity, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All of the shares are bearer shares. The Parent Entity has not issued preference shares. Each share gives the right to one vote at the general meeting. The Parent Entity does not have treasury shares.

Subsidiaries and jointly-controlled entities do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2013 and 31 December 2012 there were no changes in the registered share capital or in the number of shares.

In 2013 and in 2012 there were no changes in ownership of significant blocks of shares of KGHM Polska Miedź S.A.

The only shareholder of the Parent Entity, owning in 2013 and 2012 a number of shares granting the right to at least 5% of the share capital and total number of votes, was the State Treasury.

At 31 December 2013 and at the date of preparation of these financial statements, the shareholder structure of the Parent Entity is as follows:

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



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

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

\* details presented in note 2.1.2

\*\* 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.

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

		<b>Revaluation reserve from measurement of financial instruments</b>					
		<b>Revaluation reserve from measurement of available-for-sale financial assets</b>	<b>Revaluation reserve from measurement of cash flow hedging instruments</b>	<b>Revaluation reserve from measurement of financial instruments, Total</b>	<b>Exchange differences from the translation of foreign operations statements</b>	<b>Actuarial gains/losses on post-employment benefits</b>	<b>Retained earnings</b>
<b>At 1 January 2012</b>		<b>( 38)</b>	<b>574</b>	<b>536</b>	<b>19</b>	<b>-</b>	<b>20 547</b>
Change in presentation policies*		-	-	-	-	<b>( 373)</b>	<b>373</b>
<b>At 1 January 2012 restated*</b>		<b>( 38)</b>	<b>574</b>	<b>536</b>	<b>19</b>	<b>( 373)</b>	<b>20 920</b>
Dividends from profit for 2011 - paid		-	-	-	-	-	<b>(5 668)</b>
<b>Total comprehensive income</b>		<b>( 13)</b>	<b>( 288)</b>	<b>( 301)</b>	<b>( 11)</b>	<b>( 170)</b>	<b>4 752</b>
Profit for the period restated*		-	-	-	-	-	4 752
Other comprehensive income restated*		( 13)	( 288)	<b>( 301)</b>	( 11)	( 170)	-
Fair value losses on available-for-sale financial assets		( 163)	-	<b>( 163)</b>	-	-	-
Amount transferred to profit or loss due to settlement of available-for-sale financial assets		( 1)	-	<b>( 1)</b>	-	-	-
Amount transferred to profit or loss due to impairment of available-for-sale financial assets		158	-	<b>158</b>	-	-	-
Impact of effective cash flow hedging transactions	34.1.5	-	( 22)	<b>( 22)</b>	-	-	-
Amount transferred to profit or loss due to the settlement of hedging instruments	34.1.5	-	( 333)	<b>( 333)</b>	-	-	-
Actuarial losses on post-employment benefits	24,39	-	-	-	-	( 210)	-
Exchange differences from the translation of foreign subsidiaries statements		-	-	-	( 9)	-	-
Exchange differences from the translation of investment in Sierra Gorda S.C.M.	9	-	-	-	( 2)	-	-
Deferred income tax	23	( 7)	67	<b>60</b>	-	40	-
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	-	11	-	( 33)
<b>At 31 December 2012 restated*</b>		<b>( 51)</b>	<b>286</b>	<b>235</b>	<b>19</b>	<b>( 543)</b>	<b>19 971</b>

\* details presented in note 2.1.2

## 18. Retained earnings

	At	
	31 December 2013	31 December 2012 restated*
Undistributed profit/(loss) from prior years	( 679)	( 187)
including valuation of the employee shares put option	( 47)	( 70)
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	720	720
Reserve capital created and utilised in accordance with the Statutes of Group entities	17 642	14 686
Profit for the current period	3 035	4 752
<b>Total retained earnings</b>	<b>20 718</b>	<b>19 971</b>

\* details presented in note 2.1.2.

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 2013, this statutory reserve capital in the Group entities amounts to PLN 720 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 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>As at the beginning of the period</b>		<b>232</b>	<b>289</b>
Non-controlling interest in profits of subsidiaries		( 2)	1
Dividend paid to non-controlling shareholders		-	( 1)
Changes in ownership shares in subsidiaries which do not result in loss of control	19.1	-	( 53)
Changes in equity attributable to non-controlling interest due to exchange differences from the translation of foreign operations statements		( 7)	( 4)
<b>As at the end of the period</b>		<b>223</b>	<b>232</b>

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

### 19.1 Transactions with non-controlling interest and transactions of obtaining control

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
<b>Changes in ownership shares in subsidiaries which do not result in loss of control</b>	<b>19</b>			<b>58</b>	<b>58</b>	<b>-</b>	<b>28</b>
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	-
<hr/>							
For the period from 1 January 2012 to 31 December 2012	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
<b>Changes in ownership shares in subsidiaries which do not result in loss of control</b>	<b>19</b>			<b>89</b>	<b>3</b>	<b>(53)</b>	<b>(22)</b>
Acquisition of non-controlling shares in KGHM AJAX MINING INC.		243	29%	71	93	(71)	(22)
Increase in share capital in KGHM AJAX MINING INC.		92	-	18	18	18	-

## 20. Trade and other payables

	Note	At	
		31 December 2013	31 December 2012 restated*
<b>Trade and other non-current payables</b>			
Trade payables	33.1	16	5
Put option liabilities for employee shares		27	85
Other financial liabilities		11	30
<b>Total financial liabilities (scope of IFRS 7)</b>		<b>54</b>	<b>120</b>
Deferred income		720	760
including liabilities due to Franco Nevada streaming contract**		668	716
<b>Total non-financial liabilities</b>		<b>720</b>	<b>760</b>
		<b>774</b>	<b>880</b>
<b>Total trade and other non-current payables</b>			
<b>Trade and other current payables</b>			
Trade payables	33.1	1 275	1 273
including payables due to purchase, construction of property, plant and equipment and intangible assets		414	292
Payables due to unsettled derivatives	33.4	19	16
Put option liabilities for employee shares		3	-
Other financial liabilities		120	54
<b>Total financial liabilities (scope of IFRS 7)</b>		<b>1 417</b>	<b>1 343</b>
Employee benefits liabilities		213	198
Liabilities due to taxes and social security		486	524
Other non-financial liabilities		61	49
Special funds		206	169
Deferred income		47	79
Accruals		664	646
of which bonus paid on a one-off basis together with the related surcharges accounted for in the costs of financial year		343	353
<b>Total non-financial liabilities</b>		<b>1 677</b>	<b>1 665</b>
<b>Total trade and other current payables</b>		<b>3 094</b>	<b>3 008</b>
		<b>3 868</b>	<b>3 888</b>
<b>Total trade and other non-current and current payables</b>			

\* details presented in note 2.1.2

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

As at 31 December 2013, accruals consisted mainly of the one-off bonus paid after the approval of the annual financial statements and other employee benefits resulting from the collective labour agreements in the amount of PLN 343 million (PLN 353 million as at 31 December 2012) and costs due to unused annual leave in the amount of PLN 53 million (PLN 44 million as at 31 December 2012).

## 20. Trade and other payables (continued)

Details on the valuation of put option liabilities for employee shares are presented in the table below.

Companies, whose employees have the right to receive shares free of charge pursuant to the Act dated 30 August 1996 on the commercialisation and privatisation of companies	Number of employee shares	share price (PLN)	Amount of liability at	
			31 December 2013	31 December 2012
WPEC w Legnicy S.A.	1 770 000	3.00	5	32
"Uzdrowisko Cieplice" Sp. z o.o.	11 546	256.50	3	3
Uzdrowiska Kłodzkie S.A.	343 892	40.06	13	13
Uzdrowisko Połczyn S.A.	162 029	16.51	3	3
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	1 881	1 560.30	3	3
CENTROZŁOM WROCŁAW S.A.	149 410	18.87	3	31
<b>Put option liabilities for employee shares</b>			<b>30</b>	<b>85</b>

The decrease in put option liabilities for employee shares concerns:

- acquisition of employee shares of subsidiaries by the Group, details presented in note 4,
- change in valuation of put option liabilities for employee shares of WPEC w Legnicy S.A. due to a decrease in value from PLN 20 per share to PLN 3 per share.

Put option liabilities for employee shares represent liabilities due to an irrevocable purchase offer submitted as part of a sales agreement by the State Treasury of shares of the aforementioned companies, all other shares held by the State Treasury and not acquired by the entitled employees of these companies and shares acquired by employees (shares acquired from the State Treasury during the privatisation of these companies). The liabilities were valued at the best estimate of the discounted amount payable, based on contractual provisions respecting the acquisition price of these shares; the acquisition price was similar to the fair value of these shares. The put option liabilities for employee shares were discounted by applying a discount rate at the level of 4.5%. The put option liabilities for employee shares were recognised at the moment of initial recognition in 2009 and in 2010 with debit entry in retained earnings in the item of „Valuation of the employee shares put options”.

## 21. Borrowings, debt securities and finance lease liabilities

	Note	At	
		31 December 2013	31 December 2012
Bank loans		162	165
Loans		5	8
Finance lease liabilities		34	17
Debt securities*		1 513	1 593
<b>Total non-current borrowings, debt securities and finance lease liabilities</b>		<b>1 714</b>	<b>1 783</b>
Bank loans**		1 186	1 057
Loans		3	3
Finance lease liabilities		17	10
Debt securities - interest		9	5
<b>Total current borrowings, debt securities and finance lease liabilities</b>		<b>1 215</b>	<b>1 075</b>
<b>Total borrowings, debt securities and finance lease liabilities</b>	<b>33.1</b>	<b>2 929</b>	<b>2 858</b>

\* relates to senior notes issued by KGHM INTERNATIONAL LTD. (details in note 34.3).

\*\* including PLN 1 123 million as at 31 December 2013 (PLN 1 013 million as at 31 December 2012), which relates to bank loans of KGHM Polska Miedź S.A.

### 21.1 Borrowings

#### Bank and other loans as at 31 December 2013

Bank loan currency	Interest rate	In currency [million]	The value of the bank and other loans at the end of the reporting period (in PLN million)	Payable in:				
				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
<b>Total bank and other loans</b>		<b>-</b>	<b>1 356</b>	<b>1 189</b>	<b>37</b>	<b>23</b>	<b>41</b>	<b>66</b>

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

### Bank and other loans as at 31 December 2012

Bank loan currency	Interest rate	in currency [million]	Value of bank and other loans at the end of the reporting period (in PLN million)	Payable in:				
				2013 (current)	2014	2015	2016- 2017	2017 and beyond
EUR	Variable	64	264	197	11	7	20	29
USD	Variable	265	822	822	-	-	-	-
PLN	Variable	-	136	33	23	16	25	39
PLN	Fixed	-	11	8	1	2	-	-
<b>Total bank and other loans</b>		-	<b>1 233</b>	<b>1 060</b>	<b>35</b>	<b>25</b>	<b>45</b>	<b>68</b>

### 21.2 Finance lease liabilities

#### Finance lease liabilities as at 31 December 2013

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

#### Finance lease liabilities as at 31 December 2012

	2013 (current)	2014	2015	2016-2017	Total
<b>Nominal value of minimum lease payments</b>	<b>11</b>	<b>8</b>	<b>2</b>	<b>7</b>	<b>28</b>
Future finance costs due to finance leases	(1)	-	-	-	(1)
<b>Present value of minimum lease payments</b>	<b>10</b>	<b>8</b>	<b>2</b>	<b>7</b>	<b>27</b>

## 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 an existing insurance contract and future contracts,
- mortgages to the total amount of PLN 210 million,
- contractual mortgage on properties and on investment properties of PLN 114 million,
- blank promissory notes with promissory declarations,
- statement on submitting to the enforcement regime,
- assignment of rights under insurance policies,
- assignment of receivables,



## 22. Collateral for the repayment of liabilities (continued)

- registered pledge on technical equipment and machinery, with assignment of rights under insurance agreement on these machines and equipment up to PLN 14 million,
- registered pledge on motor vehicles up to PLN 24 million,
- registered pledge and agreements for ownership transfer on inventories of finished goods, half-finished products, merchandise and materials up to PLN 15 million,
- assignment of rights under movable assets insurance agreement (assignment of rights under insurance policy against fire and other accidents for PLN 16 million).

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

	At	
	31 December 2013	31 December 2012
Property, plant and equipment, including:	<b>275</b>	<b>404</b>
Fixed assets under construction	10	10
Buildings	177	273
Motor vehicles <sup>1)</sup>	28	54
Technical equipment and machinery <sup>1)</sup>	60	67
Investment property	7	17
Inventories	4	23
Trade receivables <sup>2)</sup>	10	14
Other financial and non-financial receivables	8	9
Cash and cash equivalents	1	1
<b>Total carrying amount of assets which are pledged as collateral for financial liabilities</b>	<b>305</b>	<b>468</b>

<sup>1)</sup> including those used based on a finance lease

<sup>2)</sup> including those under a pledge or assignment of receivables

### 23. Deferred tax

	Note	At	
		31 December 2013	31 December 2012 restated*
<b>Net deferred tax assets at the beginning of the period, of which:</b>		<b>(1 207)</b>	<b>143</b>
<b>Deferred tax assets at the beginning of the period</b>		<b>565</b>	<b>272</b>
<b>Deferred tax liabilities at the beginning of the period</b>		<b>(1 772)</b>	<b>( 129)</b>
(Charged)/Credited to profit	35	( 42)	140
(Decrease)/Increase in other comprehensive income	17	( 68)	100
Deferred tax liabilities at the date of obtaining control of subsidiaries		-	(1 584)
Exchange differences from the translation of deferred tax of foreign operations		42	( 6)
<b>Net deferred tax assets/(liabilities) at the end of the period, of which:</b>		<b>(1 275)</b>	<b>(1 207)</b>
<b>Deferred tax assets at the end of the period</b>		<b>451</b>	<b>565</b>
<b>Deferred tax liabilities at the end of the period</b>		<b>(1 726)</b>	<b>(1 772)</b>

\* details presented in note 2.1.2

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

#### Realisation periods of deferred tax assets/liabilities

	At	
	31 December 2013	31 December 2012 restated*
<b>Deferred tax assets</b>		
in the period of over 12 months from the end of the reporting period	270	341
in the period of 12 months from the end of the reporting period	181	224
<b>Total</b>	<b>451</b>	<b>565</b>

	At	
	31 December 2013	31 December 2012 restated*
<b>Deferred tax liabilities</b>		
in the period of over 12 months from the end of the reporting period	1 699	1 714
in the period of 12 months from the end of the reporting period	27	58
<b>Total</b>	<b>1 726</b>	<b>1 772</b>

\* details presented in note 2.1.2

### 23. Deferred tax (continued)

#### Deferred tax assets prior to offsetting

	At 1 January 2013 restated*	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 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
<b>Total</b>	<b>1 538</b>	<b>( 74)</b>	<b>( 137)</b>	<b>( 11)</b>	<b>1 316</b>

\* details presented in note 2.1.2

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.

Expiry dates of unused tax losses and tax allowance as at 31 December 2013 by countries are 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	indefinite
Chile	745	indefinite	-	-
<b>Total</b>	<b>906</b>		<b>110</b>	

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

### 23. Deferred tax (continued)

#### Deferred tax assets prior to offsetting

	At 1 January 2012	Acquisition of business	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 2012 restated*
Short-term accruals for remuneration	60	-	8	-	-	68
Provision for decommissioning of mines and other technological facilities	95	-	48	-	-	143
Measurement of forward transactions	427	-	40	-	-	467
Re-measurement of hedging instruments	79	-	-	13	-	92
Differences between depreciation rates for accounting purposes and for tax purposes	33	349	( 153)	-	-	229
Adjustment due to fair value measurement of KGHM INTERNATIONAL LTD. and an outcome of realisation in the reporting period	-	( 149)	85	-	( 8)	( 72)
Future employee benefits liabilities	277	-	14	40	-	331
Unpaid remuneration with surcharges	14	-	3	-	-	17
Measurement of available-for-sale financial assets	14	-	-	19	-	33
Other	125	2	100	3	-	230
<b>Total</b>	<b>1 124</b>	<b>202</b>	<b>145</b>	<b>75</b>	<b>( 8)</b>	<b>1 538</b>

\* details presented in note 2.1.2

As at 31 December 2012, the Group did not recognise a deferred tax asset on unused tax losses and tax allowances representing the amount of PLN 941 million, as it is unlikely that a taxable profit would be earned in the future against which the carryforward of unused tax losses and tax allowances can be utilised.

Expiry dates of unused tax losses and tax allowance as at 31 December 2012 by country are presented in the following table:

	Unused tax losses	Expiry date	Unused tax allowance	Expiry date
Poland	-	-	2	2013
Canada	83	2023-2027	94	indefinite
Chile	762	indefinite	-	-
<b>Total</b>	<b>845</b>		<b>96</b>	

Tax rates binding in individual countries in 2012 are presented in note 35.

### 23. Deferred tax (continued)

#### Deferred tax liabilities prior to offsetting

	At 1 January 2013 restated*	(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)	-	-	<b>163</b>
Re-measurement of hedging instruments	160	-	( 42)	-	<b>118</b>
Differences between depreciation rates for accounting purposes and for tax purposes	959	6	-	( 11)	<b>954</b>
Realisation of adjustment to fair value measurement as at the date of obtaining control of KGHM INTERNATIONAL LTD.	263	( 5)	-	( 31)	<b>227</b>
Temporary differences from dividends income of the Sierra Gorda investment	688	-	-	1	<b>689</b>
Measurement of available-for-sale financial assets	32	-	( 27)	-	<b>5</b>
Other	390	57	-	( 12)	<b>435</b>
<b>Total</b>	<b>2 745</b>	<b>( 32)</b>	<b>( 69)</b>	<b>( 53)</b>	<b>2591</b>

\* details presented in note 2.1.2

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.

### 23. Deferred tax (continued)

#### Deferred tax liabilities prior to offsetting

	At 1 January 2012	Acquisition of businesss	(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 2012 restated*
Measurement of forward transactions	181	-	72	-	-	253
Re-measurement of hedging instruments	214	-	-	( 54)	-	160
Differences between depreciation rates for accounting purposes and for tax purposes	440	597	( 78)	-	-	959
Adjustments due to fair value measurement as at the date of obtaining control of KGHM INTERNATIONAL LTD. and an outcome of realisation in the reporting period	-	304	(37)	-	(4)	263
Temporary differences from dividends income of the Sierra Gorda investment	-	688	-	-	-	688
Measurement of available-for-sale financial assets	5	-	-	27	-	32
Other	141	197	48	2	2	390
<b>Total</b>	<b>981</b>	<b>1 786</b>	<b>5</b>	<b>( 25)</b>	<b>( 2)</b>	<b>2 745</b>

\* details presented in note 2.1.2

As at 31 December 2012, the Parent Entity did not recognise a deferred tax liability on taxable temporary differences in the amount of PLN 264 million related to investments in subsidiaries, associates and shares in joint ventures, as the conditions described in IAS 12.39 were met.

## 24. Employee benefits

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

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

### Change in liabilities due to future employee benefits

		<b>TOTAL liabilities</b>	<b>Jubilee awards</b>	<b>Retirement and disability benefits</b>	<b>Coal equivalent</b>	<b>Other benefits</b>
<b>At 1 January 2013</b>		<b>1 748</b>	<b>348</b>	<b>258</b>	<b>1 077</b>	<b>65</b>
Total costs recognised in profit or loss:	29	<b>126</b>	<b>30</b>	<b>25</b>	<b>62</b>	<b>9</b>
Interest costs		<b>74</b>	14	12	45	3
Current service cost		<b>53</b>	18	13	17	5
Past service cost		-	( 1)	-	-	1
Actuarial gains recognised in profit or loss		<b>( 1)</b>	( 1)	-	-	-
Actuarial gains recognised in other comprehensive income	17	<b>( 68)</b>	-	( 14)	( 49)	( 5)
Benefits paid	29	<b>( 112)</b>	( 50)	( 19)	( 40)	( 3)
<b>At 31 December 2013</b>		<b>1 694</b>	<b>328</b>	<b>250</b>	<b>1 050</b>	<b>66</b>
of which:						
Carrying amount of non-current liabilities		<b>1 563</b>	281	213	1 008	61
Carrying amount of current liabilities		<b>131</b>	47	37	42	5

KGHM Polska Miedź S.A. Group  
Annual consolidated financial statements  
prepared in accordance with IFRS as adopted by the European Union  
for the period from 1 January 2013 to 31 December 2013  
(amounts in tables in PLN million, unless otherwise stated)

**24. Employee benefits (continued)**

		<b>TOTAL liabilities</b>	<b>Jubilee awards</b>	<b>Retirement and disability benefits</b>	<b>Coal equivalent</b>	<b>Other benefits</b>
<b>At 1 January 2012</b>		<b>1 465</b>	<b>314</b>	<b>245</b>	<b>850</b>	<b>56</b>
Total costs recognised in profit or loss:	29	<b>173</b>	<b>76</b>	<b>25</b>	<b>67</b>	<b>5</b>
Interest costs		<b>86</b>	16	13	54	3
Current service cost		<b>50</b>	23	12	13	2
Past service cost		<b>1</b>	1	-	-	-
Actuarial losses recognised in profit or loss		<b>36</b>	36	-	-	-
Actuarial losses recognised in other comprehensive income	17	<b>210</b>	-	6	198	6
Benefits paid	29	<b>( 100)</b>	( 42)	( 18)	( 38)	( 2)
<b>At 31 December 2012</b>		<b>1 748</b>	<b>348</b>	<b>258</b>	<b>1 077</b>	<b>65</b>
of which:						
Carrying amount of non-current liabilities		<b>1 615</b>	301	219	1 036	59
Carrying amount of current liabilities		<b>133</b>	47	39	41	6



## 24. Employee benefits (continued)

<b>At</b>	<b>Present value of employee benefits</b>
31 December 2013	1 694
31 December 2012	1 748
31 December 2011	1 465
31 December 2010	1 338
31 December 2009	1 298

### Main actuarial assumptions at 31 December 2013

	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018 and beyond</b>
- 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%

### Main actuarial assumptions at 31 December 2012

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017 and beyond</b>
- discount rate	4.20%	4.20%	4.20%	4.20%	4.20%
- rate of increase in coal prices	3.30%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.70%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	2.00%	2.50%	2.50%	2.50%	2.50%

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

For purposes of 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.

## 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
<b>Provisions at 1 January 2013</b>	<b>1 079</b>	<b>1 021</b>	<b>58</b>
Provisions recognised in other operating costs	23	-	23
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	( 26)	( 26)	-
Decreases in provisions arising from updating of estimates recognised in fixed assets*	( 170)	( 170)	-
Increases 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)
Transfer to Mine Closure Fund	( 33)	( 33)	-
Other	( 20)	( 18)	( 2)
<b>Provisions at 31 December 2013</b>	<b>1 032</b>	<b>964</b>	<b>68</b>
of which:			
<b>Non-current provisions</b>	<b>920</b>	<b>906</b>	<b>14</b>
<b>Current provisions</b>	<b>112</b>	<b>58</b>	<b>54</b>

\* Decrease in provisions due to extension of mine life in the Parent Entity as a result of new concessions obtained

\*\* Relates to provisions recognised in KGHM International LTD. arising from updating of estimates concerning future mine decommissioning costs

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
<b>Provisions at 1 January 2012</b>	<b>511</b>	<b>483</b>	<b>28</b>
Provisions recognised in other operating costs	38	4	34
Provisions transferred due to business combinations	301	261	40
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	( 2)	5	( 7)
Changes in provisions arising from updating of estimates recognised in fixed assets	272	272	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	32 38	38	-
Utilisation of provisions	( 37)	( 10)	( 27)
Release of provisions, recognised in other operating income	( 15)	( 6)	( 9)
Transfer to Mine Closure Fund	( 25)	( 25)	-
Other	( 2)	( 1)	( 1)
<b>Provisions at 31 December 2012</b>	<b>1 079</b>	<b>1 021</b>	<b>58</b>
of which:			
<b>Non-current provisions</b>	<b>999</b>	<b>983</b>	<b>16</b>
<b>Current provisions</b>	<b>80</b>	<b>38</b>	<b>42</b>

## 25. Provisions for other liabilities and charges (continued)

As at 31 December 2013, the largest provision for other liabilities is an estimate for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying amount of PLN 960 million (as at 31 December 2012: PLN 1 015 million).

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 in the model the discounting ratios described in Note 3.i. At the end of the reporting period the provision was reassessed, applying a discount rate as in the model for the provision for future employee benefits (note 24), which is similar to the yield of long-term government bonds. Risk related to the provision was reflected in forecasts of cash flow through the indicator of changes in prices in the construction and assembly sector.

## 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 are described in point 2.2.4 of note 2. Disclosures of impairment losses are presented in note 3.

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

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
<b>Mining and metallurgical assets, of which:</b>	6	<b>228</b>	<b>26</b>	-
Buildings and land	6	228	17	-
Technical equipment and machinery, motor vehicles and other fixed assets	6	-	9	-
<b>Other assets not related to mining and metallurgical activities, of which:</b>	6	<b>29</b>	<b>8</b>	<b>4</b>
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
<b>Total</b>		<b>289</b>	<b>36</b>	<b>9</b>

### Impairment losses by segment during the financial 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
<b>Total consolidated value</b>	<b>289</b>	<b>36</b>	<b>9</b>

## 26. Impairment losses (continued)

### Impairment losses by asset class during the financial period from 1 January to 31 December 2012

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
<b>Mining and metallurgical assets, of which:</b>	6	<b>27</b>	-	<b>3</b>
Buildings and land	6	16	-	-
Technical equipment and machinery, motor vehicles and other fixed assets	6	9	-	-
Fixed assets under construction	6	2	-	3
<b>Other assets not related to mining and metallurgical activities, of which:</b>	6	<b>19</b>	-	-
Buildings and land	6	13	-	-
Technical equipment and machinery, motor vehicles and other fixed assets	6	6	-	-
Other intangible assets	7	1	2	-
Other intangible assets not yet available for use	7	-	-	1
<b>Total</b>		<b>47</b>	<b>2</b>	<b>4</b>

### Impairment losses by segment during the financial period from 1 January to 31 December 2012

	Impairment loss recognised	Impairment loss reversed	Impairment loss used
KGHM Polska Miedź S.A.	27	-	3
Support of the core business	3	-	-
Other segments	17	2	1
<b>Total consolidated value</b>	<b>47</b>	<b>2</b>	<b>4</b>

## 27. Sales

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

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
Copper, precious metals, smelter by-products	20 823	22 988
Salt	109	47
Energy	68	81
Services	1 222	1 402
Mining machinery, transport vehicles for mining and other	37	47
Electro-mechanical products	96	238
Merchandise – smelting products	495	549
Other merchandise	454	359
Scrap and materials	118	83
Other finished goods	688	911
<b>Total</b>	<b>24 110</b>	<b>26 705</b>

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

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>domestic</b>	<b>4 837</b>	<b>5 311</b>
Copper, precious metals, smelter by-products	3 134	3 158
Salt	80	37
Energy	68	81
Services	534	467
Mining machinery, transport vehicles for mining and other	36	46
Electro-mechanical products	91	234
Merchandise – smelting products	184	211
Other merchandise	175	314
Wastes and materials	112	80
Other finished goods	423	683
<b>foreign</b>	<b>19 273</b>	<b>21 394</b>
Copper, precious metals, smelter by-products	17 689	19 830
Salt	29	10
Services	688	935
Mining machinery, transport vehicles for mining and other	1	1
Electro-mechanical products	5	4
Merchandise – smelting products	311	338
Other merchandise	279	45
Scrap and materials	6	3
Other finished goods	265	228
<b>Total</b>	<b>24 110</b>	<b>26 705</b>

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
Average copper price on LME (USD/t)	7 322	7 950
Average exchange rate (USD/PLN) per NBP	3.16	3.26

## 27. Sales (continued)

### Construction services contracts

	<b>For the period</b>	
	<b>from 1 January 2013 to 31 December 2013</b>	<b>from 1 January 2012 to 31 December 2012</b>
Revenues due to realisation of contracts recognised for the given period	664	896

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

### Data for contracts being realised at the end of the reporting period

	<b>At</b>	
	<b>31 December 2013</b>	<b>31 December 2012</b>
Total revenues due to realisation of contracts	1 214	1 523
Total costs incurred to date due to realisation of contracts	1 033	1 317
Gains due to realisation of contracts	<b>181</b>	<b>206</b>

## 28. Expenses by nature

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 restated*
Depreciation of property, plant and equipment and amortisation of intangible assets	6, 7	1 580	1 724
Employee benefits expenses	29	4 702	4 570
Materials and energy		7 899	8 597
External services		2 280	2 754
Taxes and charges		2 360	2 051
including the minerals extraction tax**	36.1	1 856	1 596
Advertising costs and representation expenses		65	75
Property and personal insurance		33	37
Research and development costs not capitalised in intangible assets		8	9
Other costs, of which:		377	169
Impairment losses on property, plant and equipment, intangible assets	6,7	257	45
Impairment losses on goodwill	7	27	-
Write-down of inventories	14	15	8
Allowance for impairment of receivables	34.2.5	10	4
Reversal of impairment of property, plant and equipment, intangible assets	6, 7	( 36)	( 2)
Reversal of write-down of inventories	14	( 3)	( 2)
Reversal of allowance for impairment of receivables	34.2.5	( 1)	( 7)
Losses from the disposal of financial instruments	33.3	9	9
Other operating costs		99	114
<b>Total expenses by nature</b>		<b>19 304</b>	<b>19 986</b>
Cost of merchandise and materials sold (+)		973	793
Allowance for impairment of receivables	34.2.5	8	3
Reversed allowance for impairment of receivables	34.2.5	( 1)	-
Change in inventories of finished goods and work in progress (+/-)		546	( 164)
Cost of manufacturing products for internal use (-)***		(1 307)	( 896)
<b>Total cost of sales, selling costs and administrative expenses</b>		<b>19 516</b>	<b>19 719</b>
of which:			
Cost of sales		18 101	18 235
Selling costs		426	402
Administrative expenses		989	1 082

\* details presented in note 2.1.2

\*\*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 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.e.

## 29. Employee benefits expenses

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
Remuneration		3 509	3 388
Costs of social security		1 179	1 109
Costs of future benefits	24	14	73
<b>Total</b>	28	<b>4 702</b>	<b>4 570</b>

## 30. Other operating income

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 *restated
Income and gains from financial instruments classified under other operating activities, resulting from:	33.3	612	1 491
Measurement and realisation of derivatives		324	1 185
Interest		225	246
Dividends received		37	57
Gains on sale		24	2
Reversal of allowance for impairment of loans and receivables		2	1
Increase in fair value of investment property		5	1
Gains on a bargain purchase of KGHM INTERNATIONAL LTD.	2.1.2	-	37
Gains from the sale of intangible assets		1	3
Interest on non-financial receivables		2	2
Reversal of allowance for impairment of other non-financial receivables		2	2
Government grants and other donations received		46	27
Release of unused provisions due to:		35	25
Decommissioning of mines		32	8
Disputed issues, pending court proceedings		1	3
Other		2	14
Surpluses identified in current assets		4	3
Penalties and compensation received		16	17
Management fee for Sierra Gorda S.C.M.**		49	68
Change in estimated put option liabilities for employee shares		23	-
Other operating income/gains		52	30
<b>Total</b>		<b>847</b>	<b>1 706</b>

\* details presented in note 2.1.2

\*\* KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have signed a contract for providing services, according to which KGHM INTERNATIONAL LTD. supports the process of managing Sierra Gorda S.C.M., in particular with respect to operational and technical support throughout the life of the mine, in exchange for the annual fee specified in the contract.



### 31. Other operating costs

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
Costs and losses on financial instruments classified under other operating activities, resulting from:	33.3	921	2 007
Measurement and realisation of derivatives		676	1 246
Interest		1	1
Foreign exchange losses		58	592
Losses on measurement of non-current liabilities		1	-
Allowances for impairment of receivables		3	8
Impairment losses on available-for-sale financial assets		182	160
Losses on the sale of property, plant and equipment, and intangible assets		47	8
Impairment losses on fixed assets under construction and intangible assets not yet available for use		5	2
Interest on overdue non-financial liabilities		-	3
Donations granted		17	93
Provisions for:		27	46
Decommissioning of mines		3	11
Disputed issues, pending court proceedings		6	3
Other		18	32
Penalties and compensation		5	6
Non-culpable shortages in tangible current assets, cash and losses due to force majeure		4	1
Contributions to a voluntary organisation		15	10
Other operating costs/losses		28	41
<b>Total</b>		<b>1 069</b>	<b>2 217</b>

### 32. Finance costs

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
Interest due to:	33.3	101	126
Bonds		81	107
Bank and other loans		18	17
Finance leases		2	2
Foreign exchange gains on borrowings	33.3	(26)	(33)
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	25	42	38
Measurement of provisions for decommissioning of mines		41	38
Measurement of other provisions		1	-
Changes in liabilities due to measurement of put options for employee shares arising from the approach of the maturity date of a liability (unwinding of discount effect)	33.3	1	10
Changes in other liabilities arising from the approach of the maturity date of liabilities (unwinding of discount effect)	33.3	(2)	1
Other finance costs		21	4
<b>Total</b>		<b>137</b>	<b>146</b>

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**33. Financial instruments**  
**33.1 Carrying amount**

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

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**33. Financial instruments (continued)**

**At 31 December 2012 – restated\***

**Categories of financial instruments**

Classes of financial instruments	Note	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss**	Other financial liabilities		Hedging instruments	Total
						Financial liabilities measured at amortised cost	Financial liabilities beyond the scope of IAS 39		
Debt securities		8	-	296	-	-	-	-	<b>304</b>
Available-for-sale financial assets	10	8	-	-	-	-	-	-	<b>8</b>
Financial assets for mine closure	11	-	-	296	-	-	-	-	<b>296</b>
Listed shares	10	1 022	-	-	-	-	-	-	<b>1 022</b>
Unlisted shares	10	11	-	-	-	-	-	-	<b>11</b>
Trade receivables (net)		-	-	2 196	-	-	-	-	<b>2 196</b>
Cash and cash equivalents and deposits		-	-	2 841	-	-	-	-	<b>2 841</b>
Financial assets for mine closure	11	-	-	164	-	-	-	-	<b>164</b>
Trade and other receivables		-	-	48	-	-	-	-	<b>48</b>
Cash and cash equivalents	15	-	-	2 629	-	-	-	-	<b>2 629</b>
Loans granted	13	-	-	1 470	-	-	-	-	<b>1 470</b>
Other financial assets (net)		-	-	90	-	-	-	-	<b>90</b>
Derivatives – Currency (net)	12	-	1	-	( 17)	-	-	462	<b>446</b>
Derivatives - Commodity contracts – metals (net)	12	-	-	-	( 18)	-	-	443	<b>425</b>
Embedded derivatives		-	3	-	( 2)	-	-	-	<b>1</b>
Trade payables	20	-	-	-	-	(1 278)	-	-	<b>(1 278)</b>
Borrowings	21	-	-	-	-	(1 233)	-	-	<b>(1 233)</b>
Debt securities – issued bonds	21	-	-	-	-	(1 598)	-	-	<b>(1 598)</b>
Other financial liabilities		-	-	-	-	( 185)	( 27)	-	<b>( 212)</b>
Trade and other payables		-	-	-	-	( 185)	-	-	<b>( 185)</b>
Finance lease liabilities	21	-	-	-	-	-	( 27)	-	<b>( 27)</b>
<b>Total</b>		<b>1 041</b>	<b>4</b>	<b>6 893</b>	<b>( 37)</b>	<b>(4 294)</b>	<b>( 27)</b>	<b>905</b>	<b>4 485</b>

\* details presented in note 2.1.2

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

### 33. Financial instruments (continued)

#### 33.2 Fair value

Classes of financial instruments	Note	At 31 December 2013		At 31 December 2012 restated*	
		Carrying amount	Fair Value	Carrying amount	Fair Value
		33.1		33.1	
Debt securities		69	69	304	304
Listed shares		856	856	1 022	1 022
Unlisted shares		12	2	11	-
Trade receivables (net)		2 219	2 219	2 196	2 196
Cash and cash equivalents and deposits		1 127	1 127	2 841	2 841
Loans granted		3 378	3 378	1 470	1 470
Other financial assets (net)		194	194	90	90
Derivatives - Currency, of which:		538	538	446	446
Assets		548	548	489	489
Liabilities		( 10)	( 10)	( 43)	( 43)
Derivatives - Commodity contracts - metals, of which:		255	255	425	425
Assets		268	268	637	637
Liabilities		( 13)	( 13)	( 212)	( 212)
Embedded derivatives - Assets		16	16	1	1
Trade payables		(1 291)	(1 291)	(1 278)	(1 278)
Borrowings		(1 356)	(1 356)	(1 233)	(1 233)
Debt securities – issued bonds		(1 522)	(1 626)	(1 598)	(1 617)
Other financial liabilities		( 231)	( 231)	( 212)	( 212)

The methods and assumptions used by the Group for measuring the fair values are presented in note 2.2.7.4.

\* details presented in note 2.1.2

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**33. Financial instruments (continued)**

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

<b>For the period from 1 January 2013 to 31 December 2013</b>	<b>Note</b>	Financial assets/ liabilities measured at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Other financial liabilities		Hedging instruments	<b>Total</b>
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities beyond the scope of IAS 39		
Interest income/(costs) recognised in:		-	-	<b>225</b>	<b>( 100)</b>	<b>( 2)</b>	-	<b>123</b>
Other operating income	30	-	-	225	-	-	-	<b>225</b>
Other operating costs	31	-	-	-	( 1)	-	-	<b>( 1)</b>
Finance costs	32	-	-	-	( 99)	( 2)	-	<b>( 101)</b>
Foreign exchange gains/(losses) recognised in:		-	-	<b>112</b>	<b>( 144)</b>	-	-	<b>( 32)</b>
Other operating income	30	-	-	123	( 123)	-	-	-
Other operating costs	31	-	-	( 11)	( 47)	-	-	<b>( 58)</b>
Finance costs	32	-	-	-	26	-	-	<b>26</b>
Gains/(Losses) on measurement of non-current liabilities recognised in finance costs:		-	-	-	-	-	-	-
Other operating costs	31	-	-	-	( 1)	-	-	<b>( 1)</b>
Finance costs	32	-	-	-	1	-	-	<b>1</b>
Impairment allowances recognised in:		-	<b>( 182)</b>	<b>( 21)</b>	-	-	-	<b>( 203)</b>
Expenses by nature	28	-	-	( 18)	-	-	-	<b>( 18)</b>
Other operating costs	31	-	( 182)	( 3)	-	-	-	<b>( 185)</b>
Reversal of impairment losses recognised in:		-	-	<b>4</b>	-	-	-	<b>4</b>
Expenses by nature	28	-	-	2	-	-	-	<b>2</b>
Other operating income	30	-	-	2	-	-	-	<b>2</b>
Adjustment to sales due to hedging transactions	34.1.5	-	-	-	-	-	( 450)	<b>( 450)</b>
Gains/(losses) from disposal of financial instruments recognised in:		-	<b>24</b>	<b>( 9)</b>	-	-	-	<b>15</b>
Expenses by nature	28	-	-	( 9)	-	-	-	<b>( 9)</b>
Other operating income	30	-	24	-	-	-	-	<b>24</b>
Gains on measurement and realisation of derivatives recognised in other operating income	<b>30</b>	<b>324</b>	-	-	-	-	-	<b>324</b>
Losses on measurement and realisation of derivatives recognised in other operating costs	<b>31</b>	<b>( 676)</b>	-	-	-	-	-	<b>( 676)</b>
<b>Total net gain/(loss) from continued operations</b>		<b>( 352)</b>	<b>( 158)</b>	<b>311</b>	<b>( 244)</b>	<b>( 2)</b>	<b>( 450)</b>	<b>( 895)</b>

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### 33. Financial instruments (continued)

For the period from 1 January 2012 to 31 December 2012		Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Other financial liabilities		Hedging instruments	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:			-	-	246	( 125)	( 2)	-	119
Other operating income		30	-	-	246	-	-	-	246
Other operating costs		31	-	-	-	( 1)	-	-	( 1)
Finance costs		32	-	-	-	( 124)	( 2)	-	( 126)
Foreign exchange gains/(losses) recognised in:			-	-	( 377)	( 182)	-	-	( 559)
Other operating costs		31	-	-	( 377)	( 215)	-	-	( 592)
Finance costs		32	-	-	-	33	-	-	33
Gains/(Losses) on measurement of non-current liabilities recognised in finance costs			-	-	-	( 11)	-	-	( 11)
Impairment allowances recognised in:			-	( 160)	( 15)	-	-	-	( 175)
Expenses by nature		28	-	-	( 7)	-	-	-	( 7)
Other operating costs		31	-	( 160)	( 8)	-	-	-	( 168)
Reversal of impairment allowances recognised in:			-	-	9	-	-	-	9
Expenses by nature		28	-	-	8	-	-	-	8
Other operating income		30	-	-	1	-	-	-	1
Adjustment to sales due to hedging transactions		34.1.5	-	-	-	-	-	333	333
Gains/(losses) from disposal of financial instruments recognised in:			-	-	( 7)	-	-	-	( 7)
Expenses by nature		28	-	-	( 9)	-	-	-	( 9)
Other operating income		30	-	-	2	-	-	-	2
Gains on measurement and realisation of derivatives recognised in other operating income		30	1 185	-	-	-	-	-	1 185
Losses on measurement and realisation of derivatives recognised in other operating costs		31	(1 246)	-	-	-	-	-	(1 246)
<b>Total net gain/(loss) from continued operations</b>			<b>( 61)</b>	<b>( 160)</b>	<b>( 144)</b>	<b>( 318)</b>	<b>( 2)</b>	<b>333</b>	<b>( 352)</b>

### 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 2013		31 December 2012	
		Level 1	Level 2	Level 1	Level 2
<b>Classes of financial instruments</b>					
Listed shares	33.2	856	-	1 022	-
Other financial receivables	13	-	41	-	22
Derivatives - currency, of which:	33.2	-	538	-	446
Assets		-	548	-	489
Liabilities		-	( 10)	-	( 43)
Derivatives financial instruments – metals, of which:	33.2	-	255	-	425
Assets		-	268	-	637
Liabilities		-	( 13)	-	( 212)
Embedded derivatives - assets	33.2	-	16	-	1
Other financial liabilities	20	-	( 19)	-	( 16)

#### 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

Both in 2013 and the comparable period there were no 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**

The main financial risks to which the Group is exposed in the conduct of its business are:

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

The Parent Entity based on the Market Risk Management Principles, the Financial Liquidity Management Policy and the Credit Risk Management Policy, in a conscious and responsible manner, manages the identified types of financial risk. In the KGHM INTERNATIONAL LTD. Group (KGHM INTERNATIONAL LTD.) the financial risk management principles are described in the Investment Policy.

The Parent Entity supervises the process of managing liquidity and obtaining external financing in the Group.

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

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

In 2013 the process continued of implementing the market risk management model<sup>1</sup> in selected mining companies of the KGHM Polska Miedź S.A. Group. The adoption of a joint model is aimed at increasing the effectiveness of market risk management at the Group scale.

#### **34.1 Market risk**

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

##### **34.1.1. Principles of market risk management**

As a part of 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. In accordance with applied policy, the objectives of the market risk process are:

- to limit fluctuations in financial result,
- to increase the probability of meeting budget assumptions,
- to maintain a healthy financial condition,
- to support the process of undertaking strategic decisions relating to investing activity, with attention to sources of capital for this activity.

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

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

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<sup>1</sup> In particular – commodity risk, currency risk and interest rate change risk.

### 34. Financial risk management (continued)

The Parent Entity applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented, embracing an increasing share of production and sales revenues as well as an extended time horizon. Consequently, hedging is possible against unexpected changes in both copper and silver prices as well as rapid appreciation of the PLN versus the USD. Thanks to this approach, it is also possible to avoid engaging significant volumes or notional amounts at a single price level.

The Parent Entity continuously analyses metal and currency markets. These analyses are the basis for decisions on implementing hedging strategies.

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

The Parent Entity considers the following factors in selecting a hedging strategy: current and forecasted market conditions, the internal situation, and the cost of hedging. It applies only those derivatives for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Parent Entity makes use of information obtained from leading information services, banks, and brokers.

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

- Swaps,
- Forwards and futures,
- Options,
- Structures combining the above instruments.

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments). Primarily applied are cash flow hedging instruments meeting the requirements for effectiveness as understood by hedge accounting. The effectiveness of the financial hedging instruments applied by the Parent Entity in the reporting period is continually monitored and assessed (details in Note 2.2.7.6 Accounting policy – Hedge accounting).

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

In 2013 identification and measurement of market risk for KGHM INTERNATIONAL LTD. was undertaken.

One of the measures used as an auxiliary tool in making decisions in the market risk management in the Parent Entity and KGHM INTERNATIONAL LTD. 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.

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

- up to 85% of monthly sales volume of copper from own concentrates,
- up to 85% of monthly sales volume of silver from own concentrates,
- up to 85% of monthly foreign-currency revenues from the sale of products from own concentrates.

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

The maximum time horizon within which the Parent Entity makes decisions concerning the hedging of market risk is set up in accordance with the technical and economic planning process, and amounts to 5 years.

### 34. Financial risk management (continued)

#### 34.1.2 Commodity risk

The Parent Entity is exposed to the risk of changes in market prices of the metals it sells: copper, lead, silver and gold. KGHM INTERNATIONAL LTD. is additionally 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 Association (LBMA) for precious metals. The Parent Entity and KGHM INTERNATIONAL LTD. set the price base for physical delivery contracts as the average price of the appropriate future month. As a result they are exposed to the risk of decline in metals prices from the moment of entering into a sale contract until the moment of setting the contractual average metal price from the contracted month

There are also other formulas in the Group for setting metals sales prices.

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<sup>2</sup>:

	from 1 January 2013 to 31 December 2013			For the period from 1 January 2012 to 31 December 2012		
	Net	Sales	Purchases	Net	Sales	Purchases
Copper [tonnes]	<b>525 239</b>	704 880	179 641	<b>490 296</b>	685 408	195 112
Silver [tonnes]	<b>1 235</b>	1 266	31	<b>1 232</b>	1 267	35
Nickel [tonnes]	<b>4 672</b>	4 672	-	<b>4 781</b>	4 781	-

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

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 34.1.6 Sensitivity analysis of commodity and currency risk.

#### 34.1.3. Currency risk

Some Group companies are exposed to the risk of changes in currency rates, as it is generally accepted that physical contracts are either concluded or denominated in USD, although in the companies of the Group costs are also incurred in base currencies other than the USD – mainly the Polish złoty (PLN), the Canadian dollar (CAD) and the Chilean peso (CLP). This leads to the arising of risk related to volatility in the USD/PLN, USD/CAD and USD/CLP exchange rates, from the moment a commercial contract is signed until the moment the exchange rate is set. Additionally, in a situation where a foreign customer pays in local currency for the metal they import, there also arises risk related to volatility in other exchange rates, for example: EUR/PLN and GBP/PLN.

Moreover, Group companies are exposed to the risk of changes in foreign exchange rates due to the fact of drawing loans and incurring other liabilities (for example from the import of goods and services) which are denominated in currencies other than the currencies in which these companies achieve revenues.

Sensitivity of the Group's financial instruments to currency risk at the end of the reporting period is presented in Note 34.1.6 Sensitivity analysis of the Group to commodity and currency risk.

<sup>2</sup> Tonnage relates to amounts of payable metal in sold and purchased products.

### 34. Financial risk management (continued)

#### 34.1.4. Commodity and currency risk management

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 the 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.

The nominal amount of copper price hedging strategies settled in 2013 represented approx. 23% (in 2012 35%) of the total<sup>3</sup> sales of this metal realised by the Parent Entity. With respect to silver sales this figure amounted to approx. 9% (in 2012 27%). In the case of the currency market, hedged revenues from sales represented approx. 18% (in 2012 16%) of total revenues from sales of metals realised by the Parent Entity.

In the reporting period the Parent Entity did not implement copper and silver price hedging strategies. However, in the second quarter of 2013 there was a restructuring of a hedging position on the silver market by repurchasing a seagull option structure for the second half of 2013, with the exercise prices of the options at 20-40-65 USD/troz, and a total nominal amount of 1.8 million troz.

The closure of the hedging position on the silver market with profitable prices guaranteed the Parent Entity increased revenues from sales in the second half of 2013 by PLN 95 million.

In the case of the forward currency market, in 2013 the Parent Entity implemented revenues hedging transactions from sales with a total nominal amount of USD 480 million and a time horizon falling in the years 2014-2015. Additionally, in the reporting period the Parent Entity performed a restructure of the seagull option strategy for the first half of 2014 of a total nominal amount of USD 180 million through the repurchase of sold put options. This restructure in derivatives allows the full utilisation of put options purchased within this structure in case of any eventual strengthening of the Polish currency in the first half of 2014.

In 2013 no transactions in derivatives as a part of commodity and currency risk management took place in the mining companies of the KGHM INTERNATIONAL LTD. Group.

#### Condensed table of open transactions in derivatives of the Parent Entity<sup>4</sup>

##### COPPER MARKET

	Instrument	Volume [tonnes]	Option execution price [USD/t]			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t]	
			Sold call option	Purchased put option	Sold put option <sup>5</sup>			Participation limited to	Hedge limited to
I half of 2014	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	-281	7 419	9 300	5 000
	<b>Total</b>	<b>40 500</b>							
II half of 2014	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	-281	7 419	9 300	5 000
	<b>Total</b>	<b>40 500</b>							
<b>TOTAL 2014</b>		<b>81 000</b>							
I half of 2015	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	<b>Total</b>	<b>21 000</b>							
	II half of 2015	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200
Seagull		15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
<b>Total</b>		<b>21 000</b>							
<b>TOTAL 2015</b>		<b>42 000</b>							

<sup>3</sup> Relates to the sales of products from own concentrates and from purchased copper-bearing materials.

<sup>4</sup> Classified as type of hedged assets and utilised instruments as at 31 December 2013; hedged volume is equally balanced in monthly increments.

<sup>5</sup> Due to current hedge accounting laws, transactions included in the seagull structure – purchased put options and sold call options – are shown in the table containing a detailed list of derivative positions - "Hedging instruments" (Note 12), while sold put options of seagull structure are shown in the table "Trade instruments" (Note 12).

### 34. Financial risk management (continued)

#### CURRENCY MARKET

	Instrument	Volume [USD million]	Option execution price [USD/PLN]			Average weighted premium [USD/PLN]	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 2014	Collar	180	4.5000	3.5000	-	-0.0641	3.4359	4.5000	-
	Collar	180	4.5000	3.4000	-	-0.0093	3.3907	4.5000	-
	Collar	120	4.0000	3.2000	-	-0.0574	3.1426	4.0000	-
	<b>Total</b>	<b>480</b>							
II half of 2014	Seagull	180	4.5000	3.5000	2.7000	-0.0345	3.4655	4.5000	2.7000
	Collar	180	4.5000	3.4000	-	-0.0093	3.3907	4.5000	-
	Collar	120	4.0000	3.2000	-	-0.0554	3.1446	4.0000	-
	<b>Total</b>	<b>480</b>							
<b>TOTAL 2014</b>		<b>960</b>							
I half of 2015	Collar	180	4.5000	3.4000	-	-0.0080	3.3920	4.5000	-
	Collar	120	4.0000	3.3000	-	-0.0694	3.2306	4.0000	-
	<b>Total</b>	<b>300</b>							
II half of 2015	Collar	180	4.5000	3.4000	-	-0.0080	3.3920	4.5000	-
	Collar	120	4.0000	3.3000	-	-0.0694	3.2306	4.0000	-
	<b>Total</b>	<b>300</b>							
<b>TOTAL 2015</b>		<b>600</b>							

As at 31 December 2013, the Parent Entity remains hedged for a portion of copper sales planned in 2014 (81 kt) and in 2015 (42 kt). The Parent Entity does not hold any open hedging transactions on the silver market. With respect to revenues from sales (currency market) the Parent Entity holds a hedging position in 2014 (USD 960 million) and in 2015 (USD 600 million).

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.

#### 34.1.5. Impact of derivatives on the Group's financial statement

The impact of derivatives on the profit or loss items in the current and comparable periods:

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Impact on sales</b>	<b>33.3</b>	<b>450</b>	<b>333</b>
<b>Impact on other operating activities</b>		<b>(352)</b>	<b>(61)</b>
Losses from realisation of derivatives		(177)	(267)
(Losses)/gains from measurement of derivatives		(175)	206
<b>Total impact of derivatives on profit or loss:</b>		<b>98</b>	<b>272</b>

Impact of derivatives on the revaluation reserve from measurement of cash flow hedging instruments.

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2013 to 31 December 2013
<b>As at the beginning of the period (excluding the deferred tax effects)</b>		<b>354</b>	<b>709</b>
Amount recognised in the reporting period due to cash flow hedging transactions	17	713	( 22)
Amount transferred to revenues from sales – reclassification adjustment	17	( 450)	( 333)
<b>As at the end of the period (excluding the deferred tax effects)</b>		<b>617</b>	<b>354</b>

### 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<sup>6</sup>:

	At 31 December 2013		At 31 December 2012	
	Derivatives	Receivables / (liabilities) due to unsettled derivatives <sup>7</sup>	Derivatives	Receivables / (liabilities) due to unsettled derivatives <sup>8</sup>
Financial assets	833	41	1 127	22
Financial liabilities	(24)	(19)	(255)	(16)
<b>Fair value</b>	<b>809</b>	<b>22</b>	<b>872</b>	<b>6</b>

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

#### 34.1.6. Sensitivity analysis of the Group to commodity and currency risk

Sensitivity analysis for significant types of market risk to which the Group is exposed presents the estimated impact of potential changes in individual risk factors (at the end of the reporting period) on profit or loss and on other comprehensive income. Possible changes in prices and exchange rates have been presented in percentage terms to the prices and exchange rates used to measure financial instruments to fair value at the end of the reporting period:<sup>9</sup>

#### Potential metal price and exchange changes

	As at 31 December 2013				As at 31 December 2012			
	SPOT / FIX	UP 95%	DOWN 95%		SPOT / FIX	UP 95%	DOWN 95%	
<b>Copper [USD/t]</b>	7 376	9 510 29%	5 336 -28%		7 907	10 435 32%	5 570 -30%	
<b>Silver [USD/troz]</b>	19.50	28.30 45%	12.69 -35%		29.95	43.44 45%	18.72 -37%	
<b>USD/PLN</b>	3.0120	3.5829 19%	2.5358 -16%		3.0996	3.7349 20%	2.5687 -17%	
<b>EUR/PLN</b>	4.1472	4.6570 12%	3.7519 -10%		4.0882	4.6345 13%	3.6603 -10%	
<b>GBP/PLN</b>	4.9828	5.7616 16%	4.3527 -13%		5.0119	5.6764 13%	4.4796 -11%	
<b>CAD/PLN</b>	2.8297	3.2686 16%	2.4731 -13%		3.1172	3.6343 17%	2.6980 -13%	

<sup>6</sup> Including embedded derivatives.

<sup>7</sup> Settlement date falls on 3 January 2014.

<sup>8</sup> Settlement date falls on 3 January 2013.

<sup>9</sup> For setting the potential scope of price/exchange rates changes for sensitivity analysis of commodity risk factors (copper and silver) the mean reverting Schwartz model (the geometrical Ornstein-Uhlenbeck process) is used, while the Black-Scholes model (the geometrical Brownian motion) is used for the USD/PLN, EUR/PLN, GBP/PLN and CAD/PLN exchange rates.

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 commodity risk

Financial instruments	Value at Risk as at 31 December 2013					Value at Risk as at 31 December 2012				
	Total PLN million	USD million	EUR million	GBP million	CAD million	Total PLN million	USD million	EUR million	GBP million	CAD million
Debt securities	-	-	-	-	-	20	-	-	-	6
Shares	3	-	-	-	1	145	-	-	-	47
Trade receivables (net)	1 417	359	66	5	12	1 075	187	111	8	-
Cash and cash equivalents and deposits	322	2	26	-	74	772	83	40	1	111
Other financial assets (net)	113	38	-	-	-	41	8	3	-	-
Derivatives – Currency	538	-	-	-	-	446	-	-	-	-
Derivatives – Metals	255	85	-	-	-	425	137	-	-	-
Embedded derivatives	16	5	-	-	-	1	-	-	-	-
Trade payables	(216)	(27)	(21)	-	(17)	(205)	(26)	(13)	-	(22)
Borrowings	(1 193)	(373)	(17)	-	-	(1 085)	(265)	(65)	-	-
Other financial liabilities	(21)	(6)	(1)	-	-	(27)	(8)	(1)	-	-

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**34. Financial risk management (continued)**

**SENSITIVITY ANALYSIS OF THE GROUP TO CURRENCY RISK as at 31 December 2013**

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2013 CARRYING AMOUNT	USD/PLN		EUR/PLN		GBP/PLN		CAD/PLN									
			3.58		2.54		4.66		3.75		5.76		4.35		3.27		2.47	
			+19%	-16%	+12%	-10%	+16%	-13%	+16%	-13%	+16%	-13%						
	[PLN million]	[PLN million]	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income		
Shares	3	868	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Trade receivables (net)	1 417	2 219	166	-	(139)	-	27	-	(21)	-	3	-	(3)	-	4	-	(3)	-
Cash and cash equivalents and deposits	322	1 127	1	-	(1)	-	11	-	(8)	-	-	-	-	-	26	-	(21)	-
Other financial assets (net)	113	194	7	-	(6)	-	-	-	-	-	-	-	-	-	8	-	(7)	-
Derivatives – Currency contracts	538	538	(40)	(455)	(105)	741	(15)	-	13	-	-	-	-	-	-	-	-	-
Derivatives – Commodity contracts - Metals	255	255	18	31	(15)	(25)	-	-	-	-	-	-	-	-	-	-	-	-
Trade payables	(216)	(1 291)	(12)	-	10	-	(9)	-	7	-	-	-	-	-	(6)	-	5	-
Borrowings	(1 193)	(1 356)	(173)	-	144	-	(7)	-	5	-	-	-	-	-	-	-	-	-
Other financial liabilities	(21)	(230)	(3)	-	2	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>IMPACT ON PROFIT OR (LOSS)</b>			<b>(36)</b>		<b>(110)</b>		<b>7</b>		<b>(4)</b>		<b>3</b>		<b>(3)</b>		<b>32</b>		<b>(26)</b>	
<b>IMPACT ON OTHER COMPREHENSIVE INCOME</b>				<b>(424)</b>		<b>716</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>



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**34. Financial risk management (continued)**

**SENSITIVITY ANALYSIS OF THE GROUP TO CURRENCY RISK as at 31 December 2012**

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2012 CARRYING AMOUNT	USD/PLN		EUR/PLN		GBP/PLN		CAD/PLN									
			3.73		2.57		4.63		3.66		5.68		4.48		3.63		2.70	
			+ 20%	- 17%	+ 13%	- 10%	+13%	-11%	+17%	-13%								
	[PLN million]	[PLN million]	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income		
Debt securities	20	304	-	-	-	-	-	-	-	-	3	-	(2)	-				
Shares	145	1 022	-	-	-	-	-	-	-	-	20	-	(16)	-				
Trade receivables (net)	1 075	2 196	96	-	(81)	-	49	-	(38)	-	4	-	(4)	-	-	-		
Cash and cash equivalents and deposits	772	2 841	43	-	(36)	-	18	-	(14)	-	1	-	(1)	-	46	-	(38)	-
Other financial assets (net)	41	90	4	-	(3)	-	1	-	(1)	-	-	-	-	-	-	-	-	-
Derivatives – Currency contracts	446	446	(334)	(191)	(315)	1 064	(7)	-	6	-	-	-	-	-	-	-	-	-
Derivatives – Commodity contracts - Metals	425	425	54	33	(45)	(28)	-	-	-	-	-	-	-	-	-	-	-	-
Trade payables	(205)	(1 278)	(14)	-	11	-	(6)	-	5	-	-	-	-	-	(9)	-	8	-
Borrowings	(1 085)	(1 233)	(136)	-	114	-	(29)	-	22	-	-	-	-	-	-	-	-	-
Other financial liabilities	(27)	(212)	(4)	-	3	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>IMPACT ON PROFIT OR (LOSS)</b>			<b>(291)</b>		<b>(352)</b>		<b>26</b>		<b>(20)</b>		<b>5</b>		<b>(5)</b>		<b>60</b>		<b>(48)</b>	
<b>IMPACT ON OTHER COMPREHENSIVE INCOME</b>				<b>(158)</b>		<b>1 036</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>		<b>-</b>

### 34. Financial risk management (continued)

#### SENSITIVITY ANALYSIS OF THE GROUP TO COMMODITY RISK as at 31 December 2013

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2013 CARRYING AMOUNT	COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			9 510		5 336		28.30		12.69	
			+29%		-28%		+45%		-35%	
	[PLN million]	[PLN million]	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income
Derivatives – Commodity contracts – Metals	255	255	(189)	(180)	(132)	745	-	-	-	-
Embedded derivatives	16	16	(114)	-	58	-	-	-	-	-
<b>IMPACT ON PROFIT OR (LOSS)</b>			<b>(303)</b>		<b>(74)</b>		<b>-</b>		<b>-</b>	
<b>IMPACT ON OTHER COMPREHENSIVE INCOME</b>			<b>(180)</b>		<b>745</b>		<b>-</b>		<b>-</b>	

#### SENSITIVITY ANALYSIS OF THE GROUP TO COMMODITY RISK as at 31 December 2012

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2012 CARRYING AMOUNT	COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			10 435		5 570		43.44		18.72	
			+32%		-30%		+45%		-37%	
	[PLN million]	[PLN million]	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income
Derivatives – Commodity contracts – Metals	425	425	(677)	(461)	(314)	1 654	12	(110)	(11)	112
Embedded derivatives	1	1	(132)	-	56	-	-	-	-	-
<b>IMPACT ON PROFIT OR (LOSS)</b>			<b>(809)</b>		<b>(258)</b>		<b>12</b>		<b>(11)</b>	
<b>IMPACT ON OTHER COMPREHENSIVE INCOME</b>			<b>(461)</b>		<b>1 654</b>		<b>(110)</b>		<b>112</b>	

#### 34.1.7 Price risk related to investments in debt securities

As at 31 December 2013, the Group held Treasury bonds in the amount of PLN 69 million, i.e. USD 23 million (as at 31 December 2012 PLN 304 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 securities are slightly exposed to price risk.

#### 34.1.8 Price risk related to the purchase of shares of listed companies

Price risk related to the shares of listed companies held by the Group is understood as the change in their fair value due to changes in their quoted share prices.

As at 31 December 2013, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange, held by the Group, was PLN 856 million.

#### Sensitivity analysis of listed companies shares to price changes as at 31 December 2013

	31 December 2013 CARRYING AMOUNT	Percentage change of share price				31 December 2012 CARRYING AMOUNT	Percentage change of share price			
		+24%		-11%			+22%		-13%	
		PROFIT OR (LOSS)	OTHER COMPREH. INCOME	PROFIT OR (LOSS)	OTHER COMPREH. INCOME		PROFIT OR (LOSS)	OTHER COMPREH. INCOME	PROFIT OR (LOSS)	OTHER COMPREH. INCOME
	[PLN million]				[mln zł]					
<b>Listed shares</b>	<b>856</b>	-	208	(70)	(28)	<b>1 022</b>	-	288	(116)	(19)

### 34. Financial risk management (continued)

#### 34.1.9 Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the Group's results. The Group is exposed to this risk due to loans granted, deposits, and borrowing.  
As at 31 December 2013, the balances of the above items are as follows:

- loans granted: PLN 3 378 million<sup>10</sup> this item is mainly loans granted by KGHM INTERNATIONAL LTD. for the financing of a joint venture, created with companies of the Sumitomo Group to realise a mining project in Chile. This loan is based on a fixed interest rate.
- cash and cash equivalents: PLN 864 million<sup>11</sup>,
- borrowings: PLN 2 878 million:
  - loans received: PLN 8 million<sup>12</sup>, Based on a fixed interest rate.
  - senior notes issued: PLN 1 522 million<sup>13</sup>, The issuer of the senior notes is KGHM INTERNATIONAL LTD., they are based on a fixed interest rate of 7.75%, with a maturity falling in 2019
  - bank loans: PLN 1 348 million<sup>14</sup> The Group financed its current operations using borrowing in the form of working capital facilities and overdraft facilities. Open lines of credit are available in PLN, USD and EUR. Interest is based on variable WIBOR, LIBOR and EURIBOR plus a margin.

The following table presents the aging and currency structure of the Group's liabilities due to bank loans as at 31 December 2013.

<b>BANK LOANS LIABILITIES</b>				
<b>Bank loan currency</b>	<b>Balance of bank loan drawn in original currency [million]</b>	<b>Balance of bank loan drawn in PLN [million]</b>	<b>Of which bank loans:</b>	
			<b>Short-term</b>	<b>Long-term</b>
PLN	155	155	57	98
USD	373	1 123	1 123	-
EUR	17	70	6	64
	<b>-</b>	<b>1 348</b>	<b>1 186</b>	<b>162</b>

The Group, both during the reporting period as well as the comparable period, did not make use of interest rate risk hedging instruments.

The impact of changes in interest rates on the Group's results due to financial liabilities and financial receivables is considered to be immaterial, due to the scale of the Group's operations.

#### 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. Exposure to credit risk is related to three main areas:

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

<sup>10</sup> As at 31 December 2012 - PLN 1 470 million,  
<sup>11</sup> As at 31 December 2012 - PLN 2 629 million,  
<sup>12</sup> As at 31 December 2012 - PLN 8 million,  
<sup>13</sup> As at 31 December 2012 - PLN 1 598 million,  
<sup>14</sup> As at 31 December 2012 - PLN 1 222 million.

### 34. Financial risk management (continued)

In particular, the source of the exposure to credit risk is as follows:

- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- loans granted,
- debt securities,
- guaranties granted.

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

All entities with which deposit transactions are entered into by the Group operate in the financial sector. These are solely banks with the highest<sup>15</sup>, medium-high<sup>16</sup> and medium<sup>17</sup> ratings, an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD. credit risk in this regard is continuously monitored through the on-going review of the financial condition and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the levels of concentration:

- as at 31 December 2013 for 94%,
- as at 31 December 2012 for 92%.

of the periodically unallocated cash and cash equivalents, showing the assessed creditworthiness of the financial institutions<sup>18</sup>

Rating levels	At	
	31 December 2013	31 December 2012
Highest	36%	32%
Medium-high	51%	51%
Medium	13%	17%

As at 31 December 2013 the maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounted to 22% (as at 31 December 2012 – 16%).

#### 34.2.1 Credit risk related to derivative transactions

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

The following table presents the structure of ratings of the financial institutions with whom the Group engaged in derivatives transactions, representing an exposure to credit risk<sup>19</sup>.

Rating levels	At	
	31 December 2013	31 December 2012
Highest	16%	12%
Medium-high	79%	82%
Medium	5%	6%

Taking into consideration the fair value of open derivative transactions entered into by the Group and unsettled derivatives, as at 31 December 2013, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 22% (as at 31 December 2012: 17%).

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.

<sup>15</sup> By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moody's.

<sup>16</sup> By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moody's.

<sup>17</sup> By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moody's.

<sup>18</sup> Weighed by amount of deposits.

<sup>19</sup> Weighed by positive fair value of open and unsettled derivatives.

### 34. Financial risk management (continued)

In order to reduce cash flows as well as credit risk, the Parent Entity carries out net settlement (based on framework agreements entered into with its customers) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty.  
The fair value of open derivatives of the Company, and receivables and liabilities due to unsettled derivatives by counterparty, are presented in the table below<sup>20</sup>.

	As at 31 December 2013			As at 31 December 2012		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Counterparty 1	185	(9)	<b>176</b>	232	(88)	<b>144</b>
Counterparty 2	140	(6)	<b>134</b>	136	(55)	<b>81</b>
Counterparty 3	131	(1)	<b>130</b>	116	(11)	<b>105</b>
Counterparty 4	98	(2)	<b>96</b>	111	(18)	<b>93</b>
Counterparty 5	82	(2)	<b>80</b>	101	(32)	<b>69</b>
Counterparty 6	75	(15)	<b>60</b>	197	(45)	<b>152</b>
Counterparty 7	44	-	<b>44</b>	37	(1)	<b>36</b>
Counterparty 8	26	-	<b>26</b>	20	(1)	<b>19</b>
Other	77	(8)	<b>69</b>	197	(19)	<b>178</b>
<b>Total</b>	<b>858</b>	<b>(43)</b>	<b>815</b>	<b>1 147</b>	<b>(270)</b>	<b>877</b>
Open derivatives	817	(24)	793	1 125	(254)	871
Unsettled derivatives	41	(19)	22	22	(16)	6

#### 34.2.2 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 arising from sales of copper and silver:

	At					
	31 December 2013			31 December 2012		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver <sup>21</sup>	15%	32%	53%	19%	53%	28%

The Parent Entity limits its exposure to credit risk related to trade and other receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Parent Entity is the on-going monitoring of receivables and the internal reporting system.

Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments. The Parent Entity has secured the majority of its receivables by promissory notes<sup>22</sup>, frozen funds on bank accounts, registered pledges<sup>23</sup>, bank guarantees, corporate guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain<sup>24</sup>.

<sup>20</sup> Excluding embedded derivatives, whose fair value as at 31 December 2013 amounted to PLN 16 million, while as at 31 December 2012 PLN 1 million.

<sup>21</sup> Net receivables from sales of copper and silver amount to 80% of total net trade receivables.

<sup>22</sup> In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.

<sup>23</sup> At the end of the reporting period, the Parent Entity held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer's trade accounts.

<sup>24</sup> A confirmed notarial clause which is applied in trade contracts means that rights to ownership of merchandise are transferred to the buyer only after payment is received despite physical delivery. Application of this clause is aimed solely at hedging credit risk and simplifying any eventual legal claims with regard to deliveries. The Parent Entity transfers the substantial risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

### **34. Financial risk management (continued)**

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 2013 the Parent Entity had secured 74% of its trade receivables (as at 31 December 2012 82%).

The concentration of credit risk in the Group results from the fact that key clients are allowed extended terms of payment. Consequently, as at 31 December 2013 the balance of receivables from the 7 largest clients, in terms of trade receivables at the end of the reporting period, represented 49% of the trade receivables balance (as at 31 December 2012: 32%). 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 1 565 million, the KGHM INTERNATIONAL LTD. Group PLN 426 million, CENTROZŁOM WROCŁAW S.A. PLN 63 million, NITROERG S.A. PLN 30 million, WPEC w Legnicy S.A. PLN 26 million, KGHM Metraco S.A. PLN 21 million, PHP "MERCUS" Sp. z o.o. PLN 14 million, „MIEDZIOWE CENTRUM ZDROWIA" S.A. PLN 14 million, WMN "ŁABĘDY" S.A. PLN 11 million, POL-MIEDŹ TRANS Sp. z o.o. PLN 10 million.

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

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.

#### **34.2.3 Credit risk related to loans granted**

As at 31 December 2013 the carrying amount of loans granted by the Group amounted to PLN 3 378 million, i.e. USD 1 122 million (as at 31 December 2012 PLN 1 470 million).

This item is mainly represented by a long term loan whose principal and interest are payable on demand, based on a fixed interest rate. The loan was granted by KGHM INTERNATIONAL LTD. for the financing of a mining project in Chile.

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.

#### **34.2.4 Credit risk related to investments in debt securities**

As at 31 December 2013, the Group held government bonds of the USA in the amount of PLN 69 million i.e. USD 23 million (as at 31 December 2012 PLN 304 million). This amount is comprised of government environmental bonds denominated in USD, representing the mine closure assets of KGHM INTERNATIONAL LTD. These investments are only 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. Financial risk management (continued)

#### 34.2.5 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 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	-	-	-	-

##### At 31 December 2012

	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
Trade receivables	200	164	15	7	8	6
Other financial receivables	3	2	-	1	-	-

Except for trade receivables and other financial receivables, no other classes of financial instruments were identified as overdue but not impaired at the end of the reporting period.

Changes in allowances for impairment of financial assets by asset classes are presented in the tables below:

#### Trade receivables (category: loans and financial receivables)

	Note	For the period from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Impairment allowance at the beginning of the period</b>		<b>52</b>	<b>60</b>
Changes recognised in profit or loss	28	16	-
Utilisation		( 1)	(4)
Other decreases		( 5)	( 4)
<b>Impairment allowance at the end of the period</b>	<b>13</b>	<b>62</b>	<b>52</b>

#### Other financial assets (category: loans and financial receivables)

	Note	For the period from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Impairment allowance at the beginning of the period</b>		<b>18</b>	<b>12</b>
Changes recognised in profit or loss		1	7
Other increases (decreases)		9	( 1)
<b>Impairment allowance at the end of the period</b>	<b>13</b>	<b>28</b>	<b>18</b>

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

	For the period from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Impairment loss at the beginning of the period</b>	<b>165</b>	<b>6</b>
Changes recognised in profit or loss	182	159
Impairment loss reversed, recognised in other comprehensive income	( 18)	-
<b>Impairment loss at the end of the period</b>	<b>329</b>	<b>165</b>

### 34. Financial risk management (continued)

#### 34.3 Liquidity risk and capital management

Capital management is aimed at maintaining continuous financial liquidity in every period. The Group actively manages the risk of loss of liquidity to which it is exposed. This risk is understood as a loss of the ability to settle liabilities on time and to obtain financing for operations.

#### Contractual maturities for financial liabilities as at 31 December 2013

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	1 265	10	8	1	7	1 291	1 291
Borrowings	1 146	45	63	40	65	1 359	1 356
Debt securities	-	-	-	-	1 506	1 506	1 522
Derivatives – Currency contracts	-	-	-	-	-	-	10
Derivatives – Commodity contracts - metals	-	-	-	-	-	-	13
Other financial liabilities	122	37	57	19	2	237	230
Guarantees granted	18	3	1	598	-	620	-
<b>Total financial liabilities by maturity</b>	<b>2 551</b>	<b>95</b>	<b>129</b>	<b>658</b>	<b>1 580</b>	<b>5 013</b>	

#### Contractual maturities for financial liabilities as at 31 December 2012

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	1 264	9	5	-	-	1 278	1 278
Borrowings	26	1 043	63	46	68	1 246	1 233
Debt securities	-	-	-	1 550	-	1 550	1598
Derivatives – Currency contracts	-	-	-	-	-	-	43
Derivatives – Commodity contracts - metals	-	-	-	-	-	-	212
Embedded derivatives	-	2	-	-	-	2	2
Other financial liabilities	70	29	122	12	-	233	212
Guarantees granted	6	8	84	52	389	539	-
<b>Total financial liabilities by maturity</b>	<b>1 366</b>	<b>1 091</b>	<b>274</b>	<b>1 660</b>	<b>457</b>	<b>4 848</b>	

Financial liabilities arising from derivatives are calculated as their intrinsic values, excluding the effects of discounting.

As at 31 December 2013 the Group granted guarantees in the amount of PLN 620 million. This balance is mainly comprised of a guarantee in the amount of PLN 414 million (USD 137.5 million), to secure a contract for the supply of electricity to the Sierra Gorda JV. The guarantees represent contingent liabilities which do not have a material impact on liquidity risk in the Group.

The management of financial liquidity in the Parent Entity is performed in accordance with the „Financial Liquidity Management Policy“ adopted by the Management Board. In KGHM INTERNATIONAL LTD. the financial liquidity management principles are described in the Investment Policy. These documents describe the process of managing financial liquidity, including the specific character of the Group companies, guided by best practice in terms of procedures and instruments. The basic principles resulting from these documents are:

- the depositing of financial surpluses in liquid instruments,
- limits for individual financial investment categories,
- concentration limits on monetary resources for financial institutions, and
- assuring the appropriate quality and diversification of available financial sources.

In order to minimise risk associated with liquidity loss, in 2013 the Group made use of borrowing in the form of bank loans and issued bonds. This involved the use of both investment and working capital facility, as well as overdraft facilities.



### 34. Financial risk management (continued)

At the end of the reporting period, the Parent Entity had open lines of credit, whose balances were as follows:

#### Open credit lines of the Parent Entity as at 31 December 2013

Type of bank loan	Bank loan currency	Balance of bank loan in original currency [million]
Working capital facility and overdraft facility	USD	88
Overdraft facility	EUR	50
Working capital facility and overdraft facility	PLN	2 600

Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

As at 31 December 2013, KGHM INTERNATIONAL LTD. Group held an open line of credit in the amount of USD 200 million, with interest based on a variable interest rate, set as the sum of the reference rate LIBOR and a margin depending on the ratio net debt/EBITDA.

KGHM INTERNATIONAL LTD. engages in borrowing in the form of issued senior notes in the amount of PLN 1 522 million (USD 494 million), of which PLN 1 513 million (USD 491 million) represents the long-term part, with maturity falling in 2019 and PLN 9 million (USD 3 million) represents the short term part in the form of interest. These notes, issued in a private placement, give KGHM INTERNATIONAL LTD. the opportunity for early redemption, to 15 June 2014 up to 35% of the issue, and after this date up to 100% of the issue, at their nominal price, plus a premium if redemption is made prior to 15 June 2017.

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

In accordance with market practice, Group companies monitor capital, among others based on the *equity ratio* and the *ratio of Net Debt/EBITDA*. The *equity ratio* is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of *Net Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities minus unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation/amortisation).

In the process of managing financial liquidity the Group makes use of financial indicators which play a supportive role in this process. To monitor the level of liquidity a broad range of liquidity indicators are applied.

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

The following table presents indicators for the Group:

Ratios	At	
	<u>31 December 2013</u>	<u>31 December 2012</u>
Net Debt/EBITDA	0.37	0.04
Equity ratio	0.61	0.59

In 2013 and 2012 there were no external equity requirements imposed on the Parent Entity, including in the credit agreements entered into by the Parent Entity.

KGHM INTERNATIONAL LTD. periodically monitors basic debt ratios and manages liquidity risk by:

- preparing and monitoring current forecasts of undiscounted cash flow at the earliest possible redemption dates,
- managing capital structure and financial leverage in order to ensure appropriate sources for the financing of its operations and development projects.

In 2013, the process of including further companies in the cash management services in the KGHM Polska Miedź S.A. Group (zero-balance cash pool) was continued. The funds made available through these services have an interest rate based on variable WIBOR. The available overdraft facility limit as at 31 December 2013 was PLN 431 million.

The cash pool service enables optimisation of costs and effective management of current cash liquidity in the KGHM Polska Miedź S.A. Group.

As at 31 December 2013, 25 companies and the Parent Entity participated in the cash pool, with the Parent Entity being the coordinator of the service. This function is based on establishing the conditions for functioning of the system, particularly including the principles of interest calculation and representation of the entire Group in relations with the bank with respect to services. The Parent Entity also acts as a participant of the cash pool system, in which it deposits its financial surpluses and, in case of need, takes advantage of financing.

### 35. Income tax

Income tax	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 restated*
Current income tax		1 161	1 724
Deferred income tax	23	42	( 140)
Adjustments to income tax from prior periods		( 1)	( 8)
<b>Total</b>		<b>1 202</b>	<b>1 576</b>

The tax on the Group's profit before tax differs in the following manner from the amount that would arise if the theoretical tax rate was applied, as a sum of profits before tax, multiplied by the income tax rate of the home country of each company and then divided by consolidated profit before tax.

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 restated*
Profit before tax	<b>4 240</b>	<b>6 329</b>
Tax calculated using the domestic rate (2013: 19%, 2012: 19%)	<b>806</b>	<b>1 200</b>
Effect of applying other tax rates abroad:	1	64
Canada (2013: 25.75%, 2012: 25%)	( 5)	6
USA (2013: 35%, 2012: 35%)	36	64
Chile (2013: 20%, 2012: 20%)	( 3)	-
Other countries	( 27)	( 6)
Tax effect of non-taxable income	( 95)	( 139)
Tax effect of expenses not deductible for tax purposes **	424	417
Utilisation of previously-unrecognised tax losses	( 9)	( 28)
Tax losses on which deferred tax assets were not recognised	43	43
Deductible temporary differences on which deferred tax assets were not recognised	33	27
Adjustments to income tax from prior periods	( 1)	( 8)
<b>Income tax expense</b> <b>the average income tax rate applied was 28.3%</b> <b>(2012: 24.9%)</b>	<b>1 202</b>	<b>1 576</b>

\* details presented in note 2.1.2

\*\* tax effect of expenses not deductible for tax purposes in 2013 and 2012 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 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 liabilities due to current income tax.

In Canada tax declarations may be audited for a period of three years without the right to offset receivables with liabilities due to current income tax.

### **35. Income tax (continued)**

At present, tax audits are underway in the KGHM Polska Miedź S.A. Group in respect of:

- KGHM INTERNATIONAL LTD., FNX Mining Company Inc. and Centenario Copper Corporation, 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 Ltd. and Robinson Nevada Mining Company belonging to the KGHM INTERNATIONAL LTD. Group and operating in the USA, with respect to corporate income tax for the years 2009 - 2011. As at the date of signing of the consolidated financial statements for publication, tax bodies had not identified any irregularities.

In 2013, tax audits were performed in respect of:

- Minera Carrizalillo Limitada belonging to the KGHM INTERNATIONAL LTD. Group and operating in Chile, with respect to taxable income for the years 2007 - 2012 and the company Aguas de la Sierra Limitada belonging to the KGHM INTERNATIONAL LTD. Group and operating in Chile, with respect to taxable income for the years 2008 - 2012. As the result of the audit, tax bodies had not identified any irregularities.

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

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### 36. Other taxes and charges

#### 36.1 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 a given country	Amount charged due to the tax for the period from 01.01.13 to 31.12.13 (PLN million)	Amount charged due to the tax for the period from 01.01.12 to 31.12.12 (PLN million)	Basis for calculating tax	Tax rates of the given country	Presentation in the consolidated statement of profit or loss
1	Poland	Minerals extraction tax:				
	- copper	1 856	1 596			
	- silver	1 444	1 201	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 note 28
		412	395	Amount of silver in concentrates, expressed in tonnes		
2	USA (Nevada)	6	15	Taxable income available in Nevada	5%	Income tax
3	Canada (Ontario)	11	16	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 2013, this tax was subject to several 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 December 2012. None of these audits identified any irregularities, which confirmed the propriety of the procedures implemented in the Parent Entity.

### 36. Other taxes and charges

#### 36.2 Other taxes and charges by area

<b>For the period from 1 January 2013 to 31 December 2013</b>	<b>Poland</b>	<b>USA</b>	<b>Canada</b>	<b>Chile</b>	<b>Total</b>
Basic fee for extracting minerals	100	-	-	-	<b>100</b>
Excise tax	53	-	-	-	<b>53</b>
Real estate tax	160	6	3	-	<b>169</b>
Fees due to environmental protection	35	1	-	-	<b>36</b>
Amortisation of CO <sub>2</sub> emissions allowances	34	-	-	1	<b>35</b>
Non-deductible VAT	9	-	-	-	<b>9</b>
Fees due to perpetual usufruct of land	13	-	-	-	<b>13</b>
PFRON (The State Fund for Rehabilitation of Handicapped Persons) Fee	21	-	-	-	<b>21</b>
Other taxes and charges	19	50	-	-	<b>69</b>
<b>Total</b>	<b>444</b>	<b>57</b>	<b>3</b>	<b>1</b>	<b>505</b>

<b>For the period from 1 January 2012 to 31 December 2012</b>	<b>Poland</b>	<b>USA</b>	<b>Canada</b>	<b>Chile</b>	<b>Total</b>
Basic fee for extracting minerals	95	-	-	-	<b>95</b>
Excise tax	54	-	-	-	<b>54</b>
Real estate tax	152	6	2	-	<b>160</b>
Payments due to environmental protection	32	1	-	-	<b>33</b>
Amortisation of CO <sub>2</sub> emissions allowances	22	-	-	-	<b>22</b>
Non-deductible VAT	11	-	-	-	<b>11</b>
Fees due to perpetual usufruct of land	12	-	-	-	<b>12</b>
PFRON (The State Fund for Rehabilitation of Handicapped Persons) Fee	20	-	-	-	<b>20</b>
Other taxes and charges	7	55	-	-	<b>62</b>
<b>Total</b>	<b>405</b>	<b>62</b>	<b>2</b>	<b>-</b>	<b>469</b>

### 37. Earnings per share

	<b>For the period from 1 January 2013 to 31 December 2013</b>	<b>For the period from 1 January 2012 to 31 December 2012 restated*</b>
Profit from continued operations attributable to shareholders of the Parent Entity	3 035	4 752
Weighted average number of ordinary shares (million)	200	200
Basic/diluted earnings per share (PLN/share)	15.18	23.76

There are no dilutive potential ordinary shares.

\* details presented in note 2.1.2.

### **38. Dividend paid**

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:

- 1<sup>st</sup> instalment on 14 August 2013- in the amount of PLN 4.90 per share,
- 2<sup>nd</sup> instalment on 14 November 2013- in the amount of PLN 4.90 per share.

All shares of the Parent Entity are ordinary shares.

In 2012, in accordance with the Resolution No. 5/2012 of the Ordinary General Meeting KGHM Polska Miedź S.A. dated 28 June 2012 regarding the appropriation of the Parent Entity profit for financial year 2011, the amount of PLN 5 668 million, representing PLN 28.34 per share, was allocated as a shareholders dividend.

The right to dividend date was set at 16 July 2012 and the dividend payment date was set on 20 August 2012 for the 1<sup>st</sup> instalment and on 16 November 2012 for the 2<sup>nd</sup> instalment.

All shares of the Parent Entity are ordinary shares.

In accordance with Resolution No. 3/2012 of the Ordinary General Meeting dated 11 May 2012 of the subsidiary BIPROMET S.A., regarding the appropriation of profit for financial year 2011, the amount of PLN 527 thousand was allocated as a dividend for non-controlling shareholders. The right to dividend date was set at 16 July 2012, the dividend payment date at 31 July 2012.

### 39. Explanations to the consolidated statement of cash flows

#### Change in provisions

	Note	For the period	
		from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Change in provisions for other liabilities and employee benefits from the statement of financial position</b>		<b>( 101)</b>	<b>851</b>
Adjustment:			
Provisions for decommissioning costs of mines recognised in property, plant and equipment		-	( 559)
Actuarial gains/(losses) on post- employment benefits	17	68	( 210)
Provisions in companies acquired at the date of obtaining control		-	( 30)
Exchange differences from translation of foreign operations statements		10	16
Other		4	-
<b>Change in provisions recognised in the statement of cash flows</b>		<b>( 19)</b>	<b>68</b>

#### Change in inventories

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 restated*
<b>Change in inventories from the statement of financial position</b>	<b>342</b>	<b>(1 111)</b>
Adjustment:		
Inventories in companies acquired at the date of obtaining control	-	712
Exchange differences from translation of foreign operations statements	15	( 21)
<b>Change in inventories recognised in the statement of cash flows</b>	<b>357</b>	<b>( 420)</b>

\* details presented in note 2.1.2

#### Change in receivables

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Change in trade and other receivables from the statement of financial position</b>	<b>(2 216)</b>	<b>(2 483)</b>
Adjustment:		
Long-term loans granted from the statement of financial position	2 050	1 541
Other current and non-current financial receivables excluding payments to capital and derivatives	( 42)	( 56)
Advances granted due to purchase of property, plant and equipment and intangible assets	29	18
Receivables in companies acquired as at the date of obtaining control	-	744
Exchange differences from translation of foreign operations statements	( 60)	( 116)
Other	( 3)	6
<b>Change in receivables recognised in the statement of cash flows</b>	<b>( 242)</b>	<b>( 346)</b>

### 39. Explanations to the consolidated statement of cash flows (continued)

#### Change in payables

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012 restated*
<b>Change in trade and other payables from the statement of financial position</b>	<b>( 20)</b>	<b>1 367</b>
Adjustment:		
Payables due to purchase of property, plant and equipment and intangible assets	( 139)	( 43)
Property, plant and equipment and intangible assets received as grants and other donations	( 13)	-
Cash subsidies for the purchase of property, plant and equipment and intangible assets	( 10)	( 19)
Adjustment to liabilities accounted for through intangible assets due to recognition of CO <sub>2</sub> emissions allowances	27	49
Payables in companies acquired as at the date of obtaining control	-	(1 074)
Exchange differences from translation of foreign operations statements	( 63)	46
Other adjustments	( 3)	-
<b>Change in payables recognised in the statement of cash flows</b>	<b>( 221)</b>	<b>326</b>

\* details presented in note 2.1.2

#### Change in cash and cash equivalents

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Change in cash and cash equivalents from the statement of financial position</b>	<b>(1 765)</b>	<b>(10 501)</b>
Adjustment:		
Exchange differences from measurement	3	879
Exchange differences from translation of foreign operations statements	( 5)	( 48)
<b>Change in cash and cash equivalents recognised in the statement of cash flows</b>	<b>(1 767)</b>	<b>(9 670)</b>

#### Proceeds from sales of property, plant and equipment and intangible assets

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	104	46
Losses on sales of property, plant and equipment and intangible assets	( 46)	( 5)
(Negative)/Positive change in receivables due to sales	( 2)	1
<b>Proceeds from sales of property, plant and equipment and intangible assets</b>	<b>56</b>	<b>42</b>

#### Expenditures on exploration for and evaluation of mineral resources recognised in operating activities

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
Purchase recognised in profit or loss	( 3)	( 3)
Negative change in liabilities recognised in operating activities due to exploration for and evaluation of mineral resources	( 1)	( 4)
<b>Total</b>	<b>( 4)</b>	<b>( 7)</b>



### 39. Explanations to the consolidated statement of cash flows (continued)

#### Expenditures on exploration for and evaluation of mineral resources recognised in investing activities

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
Purchase	( 176)	( 130)
Positive/(Negative) change in liabilities recognised in investing activities due to exploration for and evaluation of mineral resources	18	( 5)
<b>Total</b>	<b>( 158)</b>	<b>( 135)</b>

### 40. Related party transactions

As the Polish State Treasury has control over KGHM Polska Miedź S.A., the State Treasury companies (in accordance with the list published by the State Treasury) as at 31 December 2013 meet the definition of related entities. Turnover and balances with these entities have been reflected in the information presented in this note, in those items respecting other related entities.

	For the period from 1 January 2013 to 31 December 2013	
	Sales of products	Other transactions
<b>Sales to related entities</b>		
- to associates	1	-
- to other related entities	-	13
<b>Total sales to related entities</b>	<b>1</b>	<b>13</b>

During the period from 1 January to 31 December 2013, there were no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group.

Significant transactions recognised in other operating income:

- services rendered to support the process of management of Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD. in the amount of PLN 49 million,
- interest income on a loan granted to Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD. in the amount of PLN 189 million.

In 2012, due to the above, income recognised in other operating income amounted to PLN 125 million.

	For the period from 1 January 2012 to 31 December 2012	
	Sales of products	Sales of merchandise and materials
<b>Sales to related entities</b>		
- to associates	3	-
- to other related entities	-	4
<b>Total sales to related entities</b>	<b>3</b>	<b>4</b>

During the period from 1 January to 31 December 2012, there were no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group.

	For the period from 1 January 2013 to 31 December 2013		
	Purchase of services, merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
<b>Purchases from related entities</b>			
- from other related entities	24	1	9

#### 40. Related party transactions (continued)

	For the period from 1 January 2012 to 31 December 2012		
	Purchase of services, merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
Purchases from related entities			
- from other related entities	26	3	7
		<b>At</b>	
	<b>Note</b>	<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Trade receivables from related entities</b>			
- from jointly-controlled entity Sierra Gorda S.C.M. due to a loan granted	34.2.3	3 378	1 471
- from associates		1	-
- from other related entities		2	3
<b>Total receivables from related entities</b>		<b>3 381</b>	<b>1 474</b>
		<b>At</b>	
		<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Trade payables towards related entities</b>			
- towards other related entities		6	4
		<b>At</b>	
		<b>31 December 2013</b>	<b>31 December 2012</b>
<b>Contingent liabilities</b>			
Guarantees granted under a contract for the supply of electricity within the Sierra Gorda S.C.M. project		414	519
Security granted by KGHM INTERNATIONAL LTD. for the payment of future environmental liabilities of the Robinson mine		184	-
<b>Total contingent liabilities</b>		<b>598</b>	<b>519</b>

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

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 2013 to 31 December 2013 amounted to PLN 960 million (for the period from 1 January 2012 to 31 December 2012: PLN 817 million), and the unsettled balance of liabilities from these transactions as at 31 December 2013 amounted to PLN 36 million (as at 31 December 2012: PLN 47 million).

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**40. Related party transactions (continued)**

**Remuneration of the key management personnel members**

**(a) Remuneration of the Management Board of the Parent Entity in PLN '000**

	Period when function served in 2013	Fixed part of remuneration	Variable part of remuneration**	Earnings from subsidiaries	Other benefits and earnings****	Total earnings in 2013	
<b>Members of the Management Board Serving in the function as at 31 December 2013</b>							
Herbert Wirth	01.01-31.12.2013	1 393	363	-	243	<b>1 999</b>	
Jarosław Romanowski	02.09-31.12.2013	419	-	-	61	<b>480</b>	
Wojciech Kędzia	01.01-31.12.2013	1 117	295	-	171	<b>1 583</b>	
Jacek Kardela	02.09-31.12.2013	372	-	210	53	<b>635</b>	
Marcin Chmielewski	02.09-31.12.2013	372	-	-	39	<b>411</b>	
<b>Other Members of the Management Board *</b>							
Włodzimierz Kiciński	01.01-02.09.2013	1 255	261	-	218	<b>1 734</b>	
Adam Sawicki	01.01-02.09.2013	1 112	175	-	216	<b>1 503</b>	
Dorota Włoch	01.01-02.09.2013	1 109	230	-	193	<b>1 532</b>	
Maciej Tybura	-	-	88	-	-	<b>88</b>	
		<b>7 149</b>	<b>1 412</b>	<b>210</b>	<b>1 194</b>	<b>9 965</b>	
	Period when function served in 2012	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 2012
<b>Members of the Management Board Serving in the function as at 31 December 2012</b>							
Herbert Wirth	01.01-31.12.2012	1 148	398	48	-	169	<b>1 763</b>
Włodzimierz Kiciński	28.06-31.12.2012	621	75	-	-	54	<b>750</b>
Wojciech Kędzia	01.01-31.12.2012	918	319	83	-	67	<b>1 387</b>
Adam Sawicki	01.09-31.12.2012	362	22	-	-	54	<b>438</b>
Dorota Włoch	28.06-31.12.2012	552	66	81	-	60	<b>759</b>
<b>Other Members of the Management Board *</b>							
Maciej Tybura	01.01-28.06.2012	406	254	31	42	116	<b>849</b>
		<b>4 007</b>	<b>1 134</b>	<b>243</b>	<b>42</b>	<b>520</b>	<b>5 946</b>

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

\*\*\*"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.

\*\*\*\*"Variable part of remuneration" includes:

- settlement of the variable part of remuneration for 2011,
- prepayments on variable remuneration (in quarterly periods) for 2012

\*\*\*\* Amounts in the column "Other benefits and earnings" include additional monetary benefits, including life insurance, contributions to the Employee Retirement Fund and financing of non-monetary benefits.

**40. Related party transactions (continued)**  
**(b) Remuneration of the Supervisory Board in PLN '000**

	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
		<b>769</b>	<b>255</b>	<b>151</b>	<b>1 175</b>

	Period when function served in 2012	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts	Other benefits**	Total earnings in 2012
Marcin Dyl	01.01-19.01.2012	5	-	-	5
Arkadiusz Kawecki	01.01-19.01.2012	5	-	2	7
Marzenna Weresa	01.01-19.01.2012	5	-	-	5
Jan Rymarczyk	01.01-19.01.2012	5	-	2	7
Franciszek Adamczyk	01.01-19.01.2012	5	-	1	6
Jacek Kuciński	01.01-25.04.2012	38	-	13	51
Marek Panfil	01.01-25.04.2012	32	-	6	38
Lech Jaroń	01.01-28.06.2012	46	84	17	147
Maciej Łaganowski	01.01-28.06.2012	46	73	19	138
Paweł Markowski	01.01-28.06.2012	46	107	16	169
Mariusz Kolwas	19.01-24.04.2012	25	-	4	29
Krzysztof Kaczmarczyk	19.01-31.12.2012	91	-	9	100
Aleksandra Magaczewska	19.01-31.12.2012	101	-	10	111
Robert Oliwa	19.01-30.09.2012	58	-	6	64
Jacek Poświata	19.01-31.12.2012	86	-	13	99
Paweł Białek	25.04-31.12.2012	61	-	6	67
Dariusz Krawczyk	25.04-31.12.2012	61	-	4	65
Ireneusz Piecuch	25.04-31.12.2012	61	-	3	64
Krzysztof Opawski	03.09-31.12.2012	29	-	5	34
Bogusław Szarek	21.11-31.12.2012	10	17	-	27
		<b>816</b>	<b>281</b>	<b>136</b>	<b>1 233</b>

\*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 management personnel in PLN '000**

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Remuneration and other benefits of other key management personnel</b>		
Salaries and other short-term employee benefits	5 229	7 271
Remuneration resulting from the agreement/contract due to owner change of KGHM INTERNATIONAL LTD.	-	11 192
<b>Total</b>	<b>5 229</b>	<b>18 463</b>

As a result of the acquisition of KGHM INTERNATIONAL LTD. and significant changes in the structure of the Group, it was necessary to review the duties of management bodies of the Group. Based on the definition of key management personnel according to IAS 24 and based on an analysis of the rights and scope of responsibilities of management personnel of the Group arising from corporate documents and from management contracts, the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD. were recognised as other key management personnel of the Group.

**41. Remuneration of entity entitled to audit the financial statements and of entities related to it  
(in PLN '000)**

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Companies of the PricewaterhouseCoopers Group</b>	<b>6 597</b>	<b>7 528</b>
From contract for the review and audit of financial statements of which:	3 888	4 402
- audit of annual financial statements	3 036	3 719
- review of financial statements	852	683
From other contracts	2 709	3 126

**42. 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 2013	31 December 2012
<b>Contingent assets</b>	<b>529</b>	<b>448</b>
-disputed State Budget issues	22	29
-guarantees received (1)	248	211
-promissory note receivables	126	81
-real estate tax on mining facilities (2)	87	87
-inventions, implementation of projects	44	40
-other	2	-
<b>Contingent liabilities</b>	<b>892</b>	<b>732</b>
-guarantees of which:	620	539
guarantees granted under a contract for the supply of electricity within the Sierra Gorda S.C.M. project (3)	414	519
security granted by KGHM INTERNATIONAL LTD. for the payment of future environmental liabilities of the Robinson mine	184	-
-promissory note liabilities	15	13
-disputed issues, pending court proceedings	74	26
-liabilities due to implementation of projects, inventions (4)	123	128
-real estate tax on mining facilities	42	18
-other	18	8
<b>Liabilities not recognised in the statement of financial position</b>	<b>308</b>	<b>329</b>
-liabilities towards local government entities due to expansion of the tailings pond (5)	187	193
-liabilities due to operating leases	121	136

- (1) Bid securities and security deposits in the form of bank guarantees to cover proper execution of agreements by contractors.
- (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 SAC 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 Purchase 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.

#### 42. Assets and liabilities not recognised in the statement of financial position (continued)

- (4) Liabilities due to disputed issues against the Parent Entity concerning unpaid royalties for inventors, deemed baseless and undue by the Parent Entity.
- (5) Liability due to compensation for the economic activity of the Parent Entity in some surrounding municipalities. Based on signed agreements the Parent Entity is committed to the payment of funds to these municipalities 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 execute such contracts without specifying a limit for this liability. The Group has not to date made such a payment, and has not recognised liabilities in this regard in its consolidated financial statements.

#### Liabilities due to operating leases - total value of future minimum payments due to leases

	At	
	31 December 2013	31 December 2012
Up to one year	24	36
From one to five years	59	59
Over five years	38	41
<b>Total</b>	<b>121</b>	<b>136</b>

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
<b>Rental and lease payments recognised in profit or loss</b>	9	29

Total value of future minimum payments due to perpetual usufruct of land was presented in note 7.

#### 43. Employment structure

	For the period	
	from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
White-collar employees (number of persons)	10 033	9 768
Blue-collar employees (number of persons)	24 419	24 277
<b>Total:</b>	<b>34 452</b>	<b>34 045</b>

#### 44. Social Fund assets and liabilities

The net balance - liabilities of the Social Fund after offsetting as at 31 December 2013 amounted to PLN 3 million, and as at 31 December 2012 – PLN 2 million.

Details on assets, liabilities and costs related to the Social Fund are presented in the table below.

	At	
	31 December 2013	31 December 2012
<b>Social Fund assets and liabilities</b>		
Housing loans granted to employees	134	129
Cash and cash equivalents	29	28
Liabilities towards Social Fund	( 166)	( 159)
<b>Net balance</b>	<b>( 3)</b>	<b>( 2)</b>

The balance is settled in the following periods after refunding.		
<b>Charged to operating costs of the financial period due to contributions made to the Social Fund</b>	140	135

#### **45. Government grants**

The balance of government grants recognised in deferred income at 31 December 2013 is PLN 41 million (at 31 December 2012: PLN 32 million). These are cash grants received for the acquisition of property, plant and equipment, for the financing of development work expenditure, and for the subsidising the costs of employee training.

The companies of the Group also receive government grants from the 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.

#### **46. Subsequent events**

##### **Agreements on setting mining usufruct rights for the extraction of copper ore in force from 1 January 2014**

On 1 January 2014, the Parent Entity recognised liabilities in the amount of PLN 144 million as a discounted amount of the fixed part of payments due to agreements entered into setting mining usufruct rights for the extraction of copper ore. The fixed part of these payments were activated as intangible assets. The variable part of these payments (depending on the value of production) increased costs and liabilities to be settled at the maturity date.

##### **Issuance of a letter of credit to secure liabilities of KGHM International Ltd.**

On 8 January 2014, at the request of KGHM Polska Miedź S.A., HSBC Bank plc issued a letter of credit in the amount of USD 137.5 million (PLN 414 million at the exchange rate of 3.0120 announced by the NBP dated 31 December 2013), securing liabilities of KGHM INTERNATIONAL LTD. towards the beneficiary Empresa Eléctrica Cochrane S.A. due to a contract for the purchase of electricity entered into between Sierra Gorda SCM and Empresa Eléctrica Cochrane S.A. According to the contract the sponsors of the Sierra Gorda project are obliged to secure the transaction in the form of a guarantee or letter of credit. As at 8 January 2014, KGHM Polska Miedź S.A. assumed from KGHM International Ltd. the obligation to meet this requirement.

##### **Exploration for, evaluation and extraction of deposits**

On 10 January 2014, KGHM Polska Miedź S.A. signed an agreement with Gdańskie Zakłady Nawozów Fosforowych FOSFOR Y Sp. z o.o. and Grupa Azoty Zakłady Azotowe „Puławy” S.A. on assumptions for cooperation regarding exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals.

##### **Signing of a Letter of Intent with the company Grupa Azoty S.A.**

On 16 January 2014, KGHM Polska Miedź S.A. signed a Letter of Intent with the company Grupa Azoty S.A. with its registered head office in Tarnów, setting forth the general principles for the eventual undertaking of joint business activities in the following areas: processing of phosphogypsum, exploration for potassium salt deposits abroad, gaining access to sources of natural gas, construction of a polygeneration power plant, and exploration for and extraction of phosphorite. The Parties determined that eventual realisation of joint projects in individual areas would be realised based on detailed agreements or through the establishment of joint venture companies.

##### **Concessions received**

On 21 January 2014, KGHM Polska Miedź S.A. received a concession for exploration and assessment of the „Konrad” copper ore deposit. This area is directly adjacent to the Synklina Grodziecka concession.

##### **Refusal to grant concessions**

On 28 January 2014, the Minister of the Environment issued a decision declining to grant a concession to KGHM Polska Miedź S.A. for the exploration and assessment of the „Bytom Odrzański” copper ore deposit and a decision granting to KGHM Polska Miedź S.A. concession no. 5/2014/p for the exploration of the „Kulów-Luboszyce” copper ore deposit, in that part covered by the Parent Entity’s request from 2012. These decisions are not legally binding, and KGHM Polska Miedź S.A. has submitted appeals of them to the Minister of the Environment.

##### **Borrowing agreements entered into by the Parent Entity**

On 29 January 2014 an agreement was signed for an overdraft facility in the following amounts:

- USD 100 million, available in the period from 31 January 2014 to 29 January 2017.
- USD 30 million, available in the period from 31 January 2014 to 29 January 2015.

Interest on the amounts drawn will be calculated based on EURIBOR, LIBOR plus a bank margin.

##### **Changes in the Group structure**

On 21 January 2014, the General Meeting of KGHM Metraco S.A. and the General Meeting of KGHM Ecoren S.A. resolved to combine the companies by the takeover of KGHM Ecoren S.A. by KGHM Metraco S.A. On 31 January 2014 an entry on this combination was made in the National Court Register. From the date of combination, KGHM Metraco S.A. will continue the activities performed to date by KGHM Ecoren S.A.

#### **46. Subsequent events (continued)**

On 22 January 2014, a combination was made of subsidiaries of the KGHM INTERNATIONAL LTD. Group: Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd., Volcanes (BVI) Ltd., and their acquisition by Centenario Holdings Ltd. These actions were undertaken to simplify the structure of the KGHM INTERNATIONAL LTD. Group by dissolving subsidiaries whose activities are not related to the core business operations of KGHM INTERNATIONAL LTD.

#### **Change in a significant contract with Polskie Górnictwo Naftowe i Gazownictwo SA**

On 30 January 2014, an annex was signed by KGHM Polska Miedź S.A. to the comprehensive contract for the purchase of fuel gas („the Contract”), entered into on 30 July 2010 with Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG), which 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<sup>3</sup> to 41.5 million m<sup>3</sup>. 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. Also, annexes were signed for three other contracts for the purchase of fuel gas from PGNiG, in which the only change involved the contract’s 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. This change secures long term cooperation with the main supplier of fuel gas, i.e. PGNiG with respect to the purchase of nitrogen-rich natural gas.



<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
24 March 2014	Herbert Wirth	President of the Management Board	
24 March 2014	Jarosław Romanowski	I Vice President of the Management Board	
24 March 2014	Marcin Chmielewski	Vice President of the Management Board	
24 March 2014	Jacek Kardela	Vice President of the Management Board	
24 March 2014	Wojciech Kędzia	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
24 March 2014	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

**KGHM** POLSKA MIEDŹ S.A.

**GROUP**

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**REPORT ON THE ACTIVITIES  
OF THE GROUP  
IN 2013**

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Lubin, March 2014

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## 1. Introduction

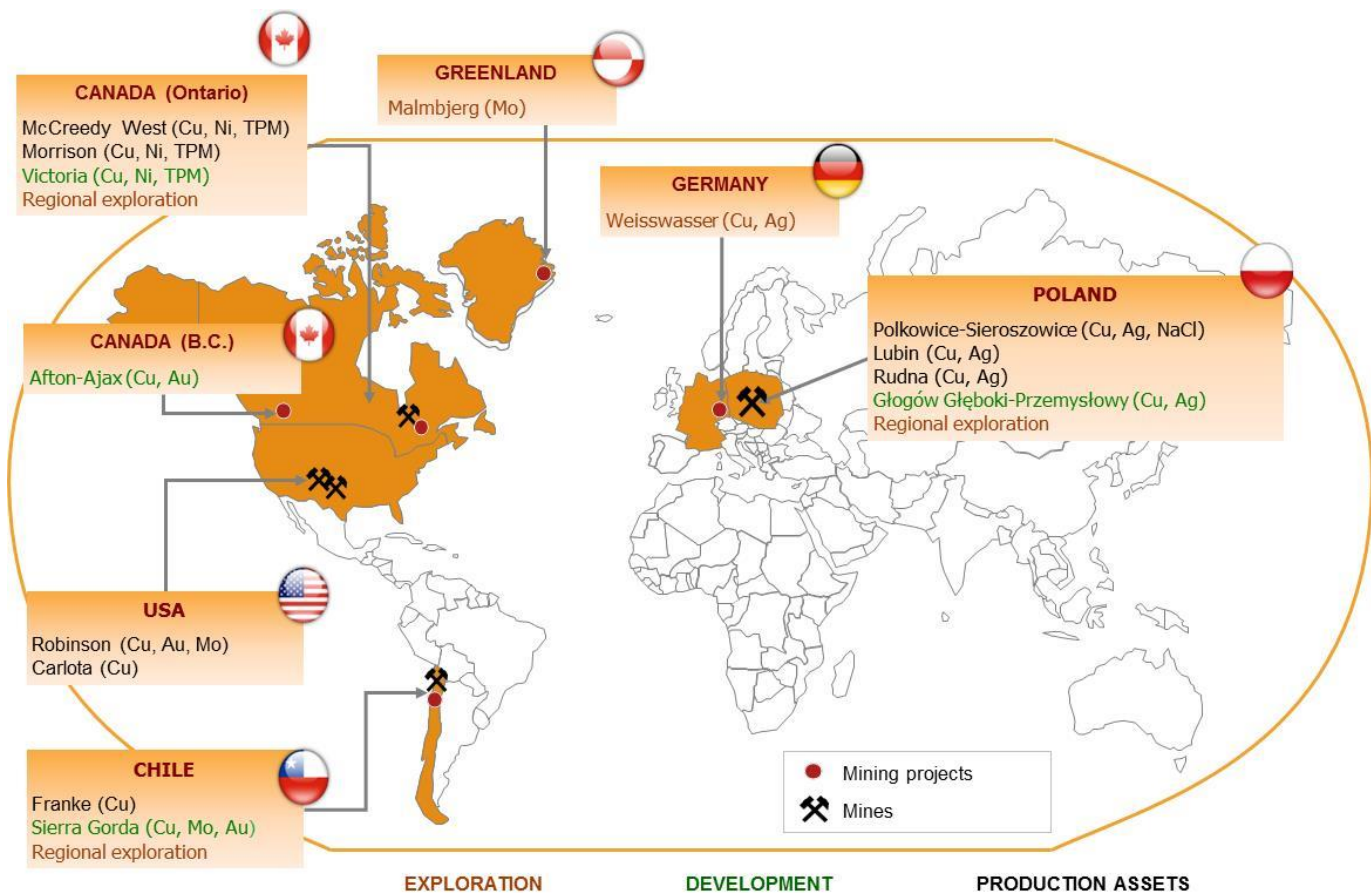
The KGHM Polska Miedź S.A. Group is engaged in mining operations on an international scale. Of watershed importance in the Group's development was the friendly takeover in 2012 of the Canadian company Quadra FNX Mining Ltd. (today KGHM INTERNATIONAL LTD.). As a result of this event the KGHM Polska Miedź S.A. Group has become a global company, with significant resource and production assets on three continents.

The Parent Entity of the Group is KGHM Polska Miedź S.A, which has been conducting its business, as a joint stock company, since 12 September 1991. Its legal antecedent was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin. The Parent Entity is an issuer of securities which have been admitted to trading on the Warsaw Stock Exchange. It is a company with great traditions, rich experience and substantial achievements.

The Group is one of the world leaders in the production of copper and silver. In addition, it produces: gold, nickel, platinum, palladium, lead, sulphuric acid and rock salt. The strategic goal of the KGHM Polska Miedź S.A. Group is to increase mined copper production to around 700 thousand tonnes annually, while respecting business ethics and corporate social responsibility, in the most environmentally-friendly manner possible.

Today 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 is the world-class mining project Sierra Gorda, located in Chile, comprising construction of an open-pit mine and processing plant on one of the world's largest deposits of copper ore. Sierra Gorda is a joint venture of KGHM INTERNATIONAL LTD. and companies of the Sumitomo Group.

### LOCATION OF MINING ASSETS OF THE KGHM POLSKA MIEDŹ S.A. GROUP



TPM – precious metals (gold, platinum, palladium)

Following is a list of the major events which occurred in the Group in 2013.

**Table 1.** Major events in the Group in 2013\*

<b>MAJOR EVENTS IN 2013</b>		page/CR **
<b>Significant contracts</b>		
Significant contract signed between KGHM INTERNATIONAL LTD. and FNX Mining Company Inc. (subsidiaries of KGHM Polska Miedź S.A.) with Vale Canada Limited, setting framework terms for the realisation by KGHM INTERNATIONAL LTD. of the Victoria project to mine copper, nickel and platinum-group metals located in Sudbury in Canada.	165	
Significant contracts signed by KGHM Polska Miedź S.A. for the sale of: silver, copper cathodes, copper wire rod.	165	
Signing by KGHM Polska Miedź S.A. of an annex to a comprehensive contract entered into on 30 July 2010 with PGNiG S.A. for the purchase of fuel gas.	CR 6/2014	
<b>Changes in the Management Board of the Parent Entity</b>		
Submission by Dorota Włoch, Vice President of the Management Board, of her resignation from the function of Member of the Management Board of KGHM Polska Miedź S.A. Passage of resolutions by the Supervisory Board of KGHM Polska Miedź S.A. on changes on the composition of the Management Board.	200	
<b>Changes in the Supervisory Board of the Parent Entity</b>		
Election by employees of persons to the Supervisory Board of KGHM Polska Miedź S.A.: Józef Czyczerski, Leszek Hajdacki.	CR 9/2013	
Suits filed regarding the failure by the Ordinary General Meeting of KGHM Polska Miedź S.A. to adopt a resolution on the appointment to the Supervisory Board of persons elected by the employees of KGHM Polska Miedź S.A.	CR 27/2013 CR 31/2013 CR 33/2013	
Judgements issued by the court dismissing the aforementioned suits.	CR 35/2013 CR 36/2013 CR 5/2014	
Submission by Paweł Białek, Member of the Supervisory Board of KGHM Polska Miedź S.A. of his resignation from this function.	202	
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Concessions obtained by KGHM Polska Miedź S.A. for the exploration and evaluation of copper ore deposits.	155	
<b>Changes in the Group</b>		
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Resolutions passed to dissolve the following companies: Ecoren DKE Sp. z o.o., Przedsiębiorstwo Budowlane Katowice S.A., „BIOWIND” sp. z o.o.	149	
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Combination of companies through the acquisition by KGHM Metraco S.A. of KGHM Ecoren S.A.	217	
Combination of companies through the acquisition by Quadra FNX Holdings (Barbados) Ltd. (today KGHMI Holdings (Barbados) Ltd.) of the following companies: Quadra FNX Intermoly Holdings Limited, Quadra FNX Moly Holdings (Barbados) Ltd. and Quadra FNX Water Holdings (Barbados) Ltd.	149	
Combination through the acquisition by Centenario Holdings Ltd. of the companies: Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd., Volcanes (BVI) Ltd.	217	

<b>Agreements entered into, significant projects</b>	
Sierra Gorda CAPEX definitive cost estimate – total capital expenditure to commission the project increased from USD 2.9 billion to USD 3.9 billion.	156
Issuance by HSBC Bank plc at the request of KGHM Polska Miedź S.A. of a letter of credit in the amount of USD 137.5 million (PLN 414.2 million at the average exchange rate of the NBP from 31.12.2013), securing the liabilities of KGHM INTERNATIONAL LTD. due to an agreement for the purchase of electricity by Sierra Gorda S.C.M.	192
Signing of Annex no. 2 to the framework agreement on the exploration for and extraction of shale gas (parties to the agreement: KGHM Polska Miedź S.A., PGNiG S.A., PGE Polska Grupa Energetyczna S.A., ENEA S.A. and TAURON Polska Energia S.A.). Expiry of the framework agreement on the joint exploration for and extraction of shale gas.	158
Understanding by KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. on continuation of work related to creating a draft agreement regarding the purchase of shares of a special purpose company founded in order to build and operate a nuclear power plant. Shareholders agreement initialled by the aforementioned parties, which obligates the parties to enter into an agreement to purchase shares in a special purpose company to build and operate a nuclear power plant. Despite the failure to meet the conditions precedent provided for in the aforementioned initialled Draft Shareholders Agreement, the parties resolved to continue work on the project to prepare and build a nuclear power plant in Poland and to develop updated provisions for the draft shareholders agreement.	159
Signing by KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. of an agreement to temporarily suspend the realisation of the project to build a gas-steam block by the company „Elektrownia Blachownia Nowa” Sp. z o.o.	158
Letter of intent signed by KGHM Polska Miedź S.A. and Gdańskie Zakłady Nawozów Fosforowych „Fosfory” regarding cooperation on exploration projects involving deposits of chemical raw materials.	CR 28/2013
KGHM Polska Miedź S.A., Grupa Azoty Zakłady Azotowe „Puławy” S.A. and Gdańskie Zakłady Nawozów Fosforowych „Fosfory” Sp. z o.o. signed an Agreement 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.	CR 1/2014
Letter of Intent signed by KGHM Polska Miedź S.A. and Grupa Azoty S.A. setting forth the general principles for the eventual undertaking of joint business activities in the following areas: processing of phosphogypsum, exploration for potassium salt deposits abroad, gaining access to sources of natural gas, construction of a polygeneration power plant, and exploration for and extraction of phosphorite.	CR 3/2014
<b>Other</b>	
Publication by KGHM Polska Miedź S.A. of a report on resources and operations, prepared by Micon International Limited - „Technical Report on the Copper-Silver Production Operations of KGHM Polska Miedź S.A. in the Legnica-Głogów Copper Belt Area of Southwestern Poland” compliant with requirements of the Canadian standard NI 43-101.	CR 5/2013
Approval by the Supervisory Board of the KGHM Polska Miedź S.A. Budget for 2013	198
Selection by the Supervisory Board of KGHM Polska Miedź S.A. of the company PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw as the entity entitled to review and audit the separate and consolidated financial statements of the company for the years 2013-2015.	165
Adoption by the Ordinary General Meeting of KGHM Polska Miedź S.A. of a resolution on the payment of a dividend for 2012 (PLN 1 960 million, i.e. 9.8 PLN/share).	207

\* including events from the end of the reporting period (to the date of preparation of this report)

\*\* CR – Current report

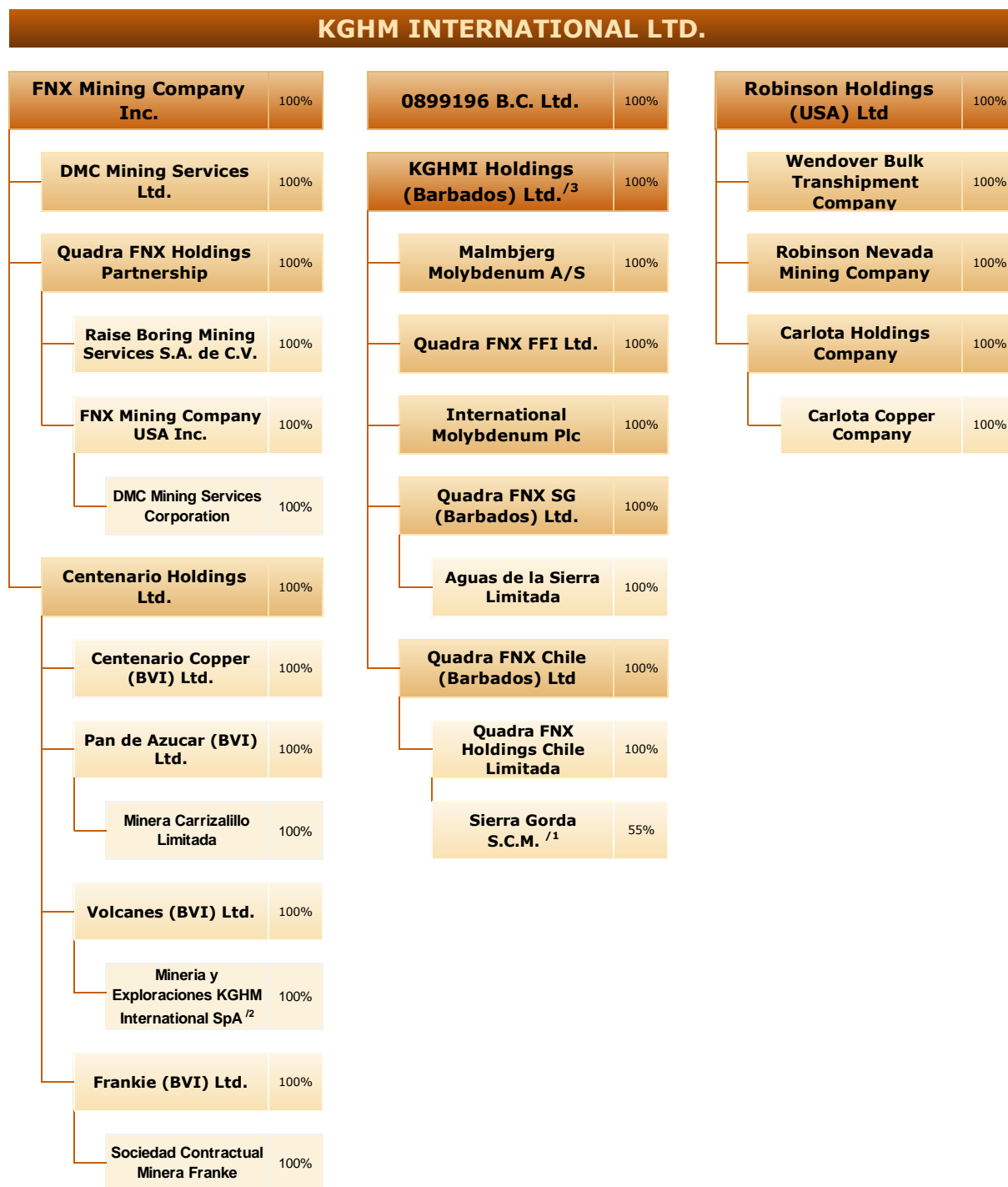
## 2. Organisation of the KGHM Polska Miedź S.A. Group

### 2.1. Composition of the Group

The diagram below shows the composition of the Group as at 31 December 2013. The percentage ownership shown represents the total share of the Group in the share capital of the given company. In each of the Group's companies, the share capital owned is equal to the share of the total number of votes.



**Diagram 2.** KGHM INTERNATIONAL LTD. Group structure as at 31 December 2013



1/ joint venture accounted for using the equity method

2/ name change - formerly Minería y Exploraciones Quadra FNX SpA

3/ name change - formerly Quadra FNX Holdings (Barbados) Ltd.

At 31 December 2013 the Group was composed of KGHM Polska Miedź S.A. - the Parent Entity, and 81 subsidiaries (including four closed-end non-public investment funds). Some of these subsidiaries formed their own groups. The largest Group, in terms both of the number of entities as well as the level of equity, was KGHM INTERNATIONAL LTD. It was comprised of 29 subsidiaries. As at the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in one associate and in three joint ventures.

During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of the Group, consolidated 79 subsidiaries and used the equity method to account for the shares of three jointly-controlled entities - „Elektrownia Blachownia Nowa” sp. z o.o., Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.



Two subsidiaries – TUW-CUPRUM and „Mercus Software” sp. z o.o. – were not consolidated, and the shares of one associate – PHU „Mercus Bis” Sp. z o.o. – were not accounted for using the equity method, as the assets, revenues and financial results of these entities do not materially impact the consolidated statement of financial position and the consolidated statement of comprehensive income.

## 2.2. Management principles of the Group

In 2013 management of the Group was based on principles adopted in 2012, related to the significant change in the Group’s structure which occurred at that time as a result of the acquisition of the KGHM INTERNATIONAL LTD. Group. Due to the new way of looking at operational areas by bodies making operational decisions, new solutions were introduced in the way the Group is managed. A „Policy of coordination, support and integration with KGHM INTERNATIONAL LTD.” was adopted, which outlined new internal structures and operating tools in terms of the supervision of and integration with KGHM INTERNATIONAL LTD. A Coordination and Integration Board was created (composed among others of Members of the Management Board of KGHM Polska Miedź S.A. and Members of the Management Board of KGHM INTERNATIONAL LTD.) and its supporting functional committees. As a result of progress on work with respect to integration, in December 2013 the decision was made to change the structure supporting realisation of this policy. The number of functional committees was restricted, with realisation of their tasks to be performed by individual, already functioning organisational units of the KGHM Polska Miedź S.A. Central Office as well as by a new structure – the Strategic Analysis and Resource Base Center, which closely cooperates with its counterpart- Business Development Center in KGHM INTERNATIONAL LTD. – with respect to realisation of the strategy to increase the resource base of KGHM Polska Miedź S.A.

In addition, to improve the Group’s management model, in 2013 changes were made to the organisational structure of KGHM Polska Miedź S.A. Organisational units were separated which were responsible respectively for the supervision of domestic and foreign production assets as well as a unit supervising equity investments (including investment funds) and being an element of the CSR strategy in the Group.

### Operating segments

In 2013 as in the year 2012, five main operating segments underwent detailed analysis by management bodies. The identified operating segments are also reporting segments.

#### KGHM Polska Miedź S.A.

- segment comprised of the Parent Entity,

#### KGHM INTERNATIONAL LTD. Group

- segment comprised of companies of the KGHM INTERNATIONAL LTD. Group,

#### Sierra Gorda Project

- segment comprised of the Sierra Gorda S.C.M. joint venture,

#### Development of the resource base

- segment comprised of companies involved in the exploration for and evaluation of mineral resources, and companies whose purpose is to conduct mining operations,

#### Support of the core business

- segment comprised of companies related to the core business of the Parent Entity,

#### Other segments

- all remaining Group companies, unrelated to the mining industry.

Detailed information on operating segments may be found in point 5.1 of this report.

## 2.3. Scope of activities of Group entities

While the scope of activities of the Group is quite broad, the dominant ones are those of the Parent Entity and the KGHM INTERNATIONAL LTD. Group, i.e. the production of mined metal, mainly copper. This is the main source of the sales generated.

The detailed scope of individual Group companies is presented in the following table.

**Table 2.** *Scope of activities of Group companies*

Entity	Head Office Country	Activities
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka” sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy, water-sewage management; this company secures part of the energy supply for KGHM Polska Miedź S.A.

Entity	Head Office Country	Activities
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction; this company is the main performer of mining work for KGHM Polska Miedź S.A.
KGHM ZANAM Sp. z o.o. (previously ZANAM-LEGMET Sp. z o.o.)	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; execution of steel constructions; this company is a significant supplier and service provider for KGHM Polska Miedź S.A., and also provides production maintenance services in selected areas
KGHM CUPRUM sp. z o.o. - CBR	Poland	R&D activities; this company performs a substantial part of the design-related work for KGHM Polska Miedź S.A.
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research; this company mainly provides industrial research services for KGHM Polska Miedź S.A.
INOVA Spółka z o.o.	Poland	design and production – innovative solutions in electronics, automated and communication systems; certification and attestation of machinery and equipment; this company is a supplier and service provider for the underground radio communication system for the mines of KGHM Polska Miedź S.A.
KGHM Metraco S.A.	Poland	wholesale of scrap and waste, lead, non-ferrous metals, chemicals and salt; this company secures supplies of copper scrap for KGHM Polska Miedź S.A., and sells to external markets the by-products of the Parent Entity's core business production
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport, passenger and cargo road transport; trade in fuels; this company is a leading railway and roadway carrier and supplier of fuels to KGHM Polska Miedź S.A.
NITROERG S.A.	Poland	production of explosives and Nitrocet 50, production of detonation agents; this company supplies most of the explosives needed by the mines of KGHM Polska Miedź S.A.
NITROERG SERWIS Sp. z o.o. (formerly BAZALT-NITRON Sp. z o.o.)	Poland	comprehensive drilling and blasting work for mines, sale of explosives and detonators
PHP „MERCUS” sp. z o.o.	Poland	trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables; this company serves to coordinate supplies for the core business of KGHM Polska Miedź S.A. in materials and spare parts
KGHM Ecoren S.A.	Poland	processing of industrial acid waste for rhenium products (metallic rhenium and ammonium perrhenate), production of road-building material; the processing and recovery of metals and the processing of electrical/electronic waste; this company manages and processes the industrial waste of KGHM Polska Miedź S.A.
CENTROŹŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminium and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY” S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
WFP Hefra SA	Poland	production and sale of rust-proof, silver-plated and semi-silver-plated table settings
Ecoren DKE sp. z o.o. in liquidation	Poland	utilisation of used batteries and small-scale storage cells; the collection and processing of used electrical and electronic equipment
PHU „Lubinpex” Sp. z o.o.	Poland	gastronomic, commercial, vending and catering services
PMT Linie Kolejowe Sp. z o.o.	Poland	management of railway infrastructure, maintenance of railway infrastructure, repair services
KGHM TFI S.A.	Poland	creation and management of investment funds; the company manages closed-end investment funds, in which KGHM Polska Miedź S.A. participates
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

Entity	Head Office Country	Activities
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 <i>(previously ZUK S.A.)</i>	Poland	spa-healing, sanatorium and tourism-recreation services; these companies are participating in the project to build a Polish Spa Group, realised by KGHM I FIZAN
Uzdrowisko Polczyn Grupa PGU S.A. <i>(previously Uzdrowisko Polczyn S.A.)</i>		
Uzdrowisko Cieplice sp. z o.o. – Grupa PGU <i>(previously „Uzdrowisko Cieplice” sp. z o.o.)</i>	Poland	spa-healing, sanatorium and tourism-recreation services; these companies are participating in the project to build a Polish Spa Group, realised by KGHM I FIZAN
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU <i>(previously Uzdrowisko „Świeradów-Czerniawa” sp. z o.o.)</i>		
Fundusz Hotele 01 Sp. z o.o.	Poland	varied scope of activities, including: acting as holding companies, management of special purpose companies, whose subject of activities is the providing of holiday, sanatorium and spa services as well as others related to improving fitness; these companies operate within the structures of KGHM I FIZAN
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. <i>(previously Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.)</i>		
KGHM I FIZAN	Poland	cash investing; these funds are aimed at diversifying the investment risk of KGHM Polska Miedź S.A.
KGHM III FIZAN		
KGHM IV FIZAN		
KGHM V FIZAN		
„MCZ” S.A.	Poland	hospital services; physician practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events
KGHM LETIA S.A.	Poland	operation of a technology park; promotion of scientific achievement; technology transfer; property sale and leasing
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work; general realisation of investments; company executes technical documentation for the pyrometallurgy modernisation program of KGHM Polska Miedź S.A.
Przedsiębiorstwo Budowlane Katowice S.A. in liquidation	Poland	comprehensive construction work, incl. specialist
Bipromet Ecosystem Sp. z o.o.	Poland	production, design, servicing and commercial activities; R&D and popularisation respecting heating, water-plumbing and other installations
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	China	commercial activities involving copper/silicon merchandise, mine products (copper/silicon) etc., and related services; this company is a commercial intermediary for KGHM Polska Miedź S.A. on the Chinese market
KGHM Kupferhandelsges. m.b.H.i.L	Austria	copper trade; <i>company in liquidation</i>
KGHM Kupfer AG	Germany	exploration for and evaluation of deposits of copper and other metals; this company is realising a resource project – exploring/assessing the Weisswasser copper deposit in Germany
Fermat 1 S.à r.l.	Luxembourg	holding structure companies, founded in order to acquire the shares of KGHM INTERNATIONAL LTD.
Fermat 2 S.à r.l.		
Fermat 3 S.à r.l.		

Entity	Head Office Country	Activities
KGHM AJAX MINING INC.	Canada	the exploration for and evaluation of mineral deposits; this company is realising the Afton-Ajax copper and gold resource project in British Columbia, Canada
0929260 B.C. U.L.C.	Canada	the management or control of other companies
Sugarloaf Ranches Ltd.	Canada	this company owns assets in the form of land designated for future mining activities related to the Afton – Ajax project
<b>KGHM INTERNATIONAL LTD. Group</b>		
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, development of the Victoria project; this company owns underground mines: Levack/Morrison and McCreedy West in Ontario, Canada
DMC Mining Services Ltd.	Canada	contracted mining services
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 BC Ltd.	Canada	the management and control of other companies
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Minera Carrizalillo Limitada	Chile	the management and control of other companies
Mineria y Exploraciones KGHM International SpA (formerly Minería y Exploraciones Quadra FNX SpA)	Chile	the management and control of other companies, exploration services for the Sierra Gorda project
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper; this company owns the open pit mine Franke in Chile
Robinson Holdings (USA) Ltd	USA	technical and management services – for subsidiaries in the USA
Wendover Bulk Transhipment Company	USA	shipment services; this company provides shipping services for the Robinson mines
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper; this company owns the open pit mine Robinson in Nevada
Carlota Holdings Company	USA	the management and control of other companies
Carlota Copper Company	USA	copper ore leaching, production and sale of copper; this company owns the open pit mine Carlota in Arizona
FNX Mining Company USA Inc.	USA	the management and control of other companies; this company is realising the Victoria project
DMC Mining Services Corporation	USA	contract mining activities
KGHMI Holdings (Barbados) Ltd. (formerly Quadra FNX Holdings (Barbados) Ltd.)	Barbados	the management and control of other companies
Quadra FNX Chile (Barbados) Ltd		
Quadra FNX SG (Barbados) Ltd.		
Quadra FNX FFI Ltd.		
Raise Boring Mining Services S.A. de C.V	Mexico	mine drilling services
Centenario Holdings Ltd.	British Virgin Islands	the management and control of other companies
Pan de Azucar (BVI) Ltd.		
Volcanes (BVI) Ltd.		
Frankie (BVI) Ltd.		
Centenario Copper (BVI) Ltd.		
Malmbjerg Molybdenum A/S	Greenland	operation and development of the Malmbjerg project involving molybdenum extraction (the company holds permits and a mining concession for the project)
International Molybdenum Plc	United Kingdom	finance services

## 2.4. Employment in the Group

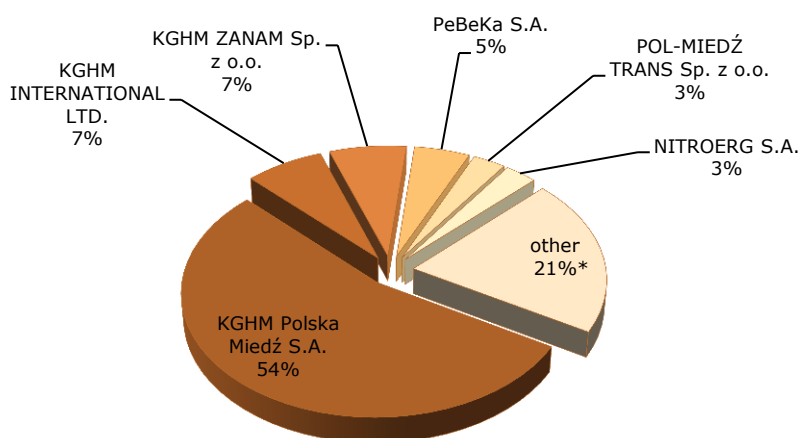
The level and structure of employment in the KGHM Polska Miedź S.A. Group is presented below.

**Table 3.** Average employment by period (positions)

Description	2011	2012	2013	Change 2012=100
White collar employees	9 149	9 768	10 033	102.7
Blue collar employees	22 034	24 277	24 419	100.6
<b>Total</b>	<b>31 183</b>	<b>34 045</b>	<b>34 452</b>	<b>101.2</b>

In 2013, average employment in the KGHM Polska Miedź S.A. Group increased in comparison to 2012 by 407 positions, mainly due to an increase in employment in the KGHM INTERNATIONAL LTD. Group (95 positions), in KGHM ZANAM Sp. z o.o. (155 positions) and in PeBeKa S.A. (132 positions).

**Chart 1.** Employment structure in 2013



\* - employment in each of the remaining Group companies does not exceed 3%

### Relations with the trade unions in the Group

#### KGHM Polska Miedź S.A.

Based on an agreement dated 11 February 2013 entered into between KGHM Polska Miedź S.A. and the trade unions, employee remuneration and benefits were set for 2013, i.e.:

- an increase in average remuneration in the company, excluding the annual bonus, by 2.5%;
- the allocation of the 2.5 percent increase in the contribution to the Social Fund to assist in financing the costs incurred by employees for day care, pre-school and other forms of pre-school care;
- an increase in the basic contribution to the Employee Retirement Program to 7%.

In October 2013 the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego announced the following wage demands: payment of a one-off bonus for all employees in the amount of 100% of monthly remuneration, an additional contribution to the Social Fund in the amount of PLN 500 per employee, setting the salary increase factor at a min. 5% level and reconstruction of the table of basic wages. Due to the lack of an agreement in this regard, the trade union in the month of November initiated a collective dispute, with respect to which negotiations are being held. Independently of the above, a dialogue is being pursued with the trade union party to the Collective Labour Agreement regarding remuneration and employee benefits in 2014.

In January 2014, Additional Protocol no. 15 to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. was signed by all of the signatories and forwarded for registration by the Regional Labour Inspector. The scope of the aforementioned Protocol comprises the implementation as at 1 January 2014 of a new table of basic wages, a change in the principles for paying the annual bonus representing annex no. 11 to the CLA and increased additional contributions to divisional social funds in 2014.

#### KGHM INTERNATIONAL LTD. Group

In the first quarter of 2013 a second trade union appeared in the Franke mine in Chile. In May 2013 a strike began over pay, which ended with the signing of an agreement.

#### „MCZ” S.A.

This company remains in four collective disputes announced in 2007 mainly involving the question of wage raises. With respect to wage-related demands, the Management Board of „MCZ” S.A. conducts negotiations with the trade unions which end each year with the signing of agreement protocols. These protocols represent the basis for the trade unions operating in „MCZ” S.A. to refrain from taking the actions specified in Chapter 4 „Strike” of the Act on resolving collective disputes.

In accordance with the agreement Protocol dated 8 January 2014, the trade unions in „MCZ” S.A. committed themselves to refrain from taking the actions mentioned above (with respect to questions involving employee wages) until 15 September 2014.

#### PeBeKa S.A.

Since March 2010, PeBeKa S.A. remains in a collective dispute with the trade union Związek Zawodowy Pracowników Dołowych, which is demanding an increase in 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.

In 2013, the collective dispute initiated by the trade unions of the company in December 2012, due to a decision of the company's Management Board to concentrate the production of dynamite and fuses in certain locations, was concluded. The demands were in respect of the following: employment guarantees, preclassification and training – at the company's cost – of employees included in the production concentration project, maintaining the level of workplace safety and hygiene during the process of concentrating production, and increased wages. The dispute concluded with the signing of an agreement in August 2013.

The unresolved demand from the collective dispute of 2010 concerning an increase in wages by 20% was suspended, due to the fact that it was economically impossible to satisfy. Due to the reaching of an agreement regarding increases to basic wages in 2013, the parties to the dispute plan to conclude it formally in the near future with the signing of an appropriate Protocol of agreement.

#### Uzdrowiska Kłodzkie S.A. – Grupa PGU

In October 2012, the company entered a collective dispute with four trade unions. The subject of the dispute was an increase in remuneration for all company employees, an increase in the contribution to the social fund and a change from employee contracts of mandate to labour contracts for employees employed at least 2 years. As a result of negotiations held, including through a mediator, in August 2013, the parties to the dispute signed an agreement for its conclusion. The Management Board of the company declared as a one-off action two additional payments (in August and December 2013) and the undertaking of efforts to manage resources in order to increase employee wages in the future.

#### POL-MIEDŹ TRANS Sp. z o.o.

In November 2013, three trade unions operating in POL-MIEDŹ TRANS Sp. z o.o. entered a collective dispute with the Employer. An increase in basic wages was demanded for all employees, the payment of a one-off bonus on the occasion of the company's 45th anniversary, the introduction of a wage factor related to length of employment in the company (a so-called jubilee bonus), an increase in termination benefits resulting from employer-related factors, the introduction of a fixed annual wage rate increase factor representing 5% above the level of inflation and ensuring the trade unions permanent quarterly information on the financial condition of the company.

In December 2013, an agreement was signed with two trade unions, which concluded the collective dispute. The parties agreed to an increase in basic wages for employees covered by the Collective Labour Agreement by an average 3.1% from 2014. In addition, the parties agreed to a change to the CLA with regards to the Regulations on the annual bonus, which depends on the economic results of the company. With regard to the remaining demands, the parties committed themselves to negotiate apart from the collective dispute.

Negotiations with respect to the collective dispute continue with one of the trade unions which refused to sign the agreement.

### **Projects in the area of Human Resources (HR)**

With respect to building a unified HR function, the year 2013 was dedicated to the transformation of HR to enable implementation of a new business strategy for the years 2014-2020. As a result of this transformation, HR will be a Partner for Business as well as an essential agent for change (in terms of organisational culture) inspiring the organisation to build its competitive advantage in the area of human capital. In addition, a variety of initiatives were realised aimed both at the employees of KGHM Polska Miedź S.A. as well as at potential job candidates.

#### Transformation of HR

The goal of the project is to transform the HR function into one performing an effective role in supporting the strategic ambitions of the organisation, strengthened by a change in organisational culture. The goal of the project is to alter the HR function from an administrative one to one which is supportive and acts as a partner and advisor.

It will encompass all of the employees of KGHM Polska Miedź S.A. Key HR processes have been identified for which at present concepts are being developed for their implementation and management through:

- management by results,
- learning and development,
- strategic planning of human resources,
- recruitment,
- managing talent, and
- acting as a HR Business Partner.

#### Executive Academy - Development program for senior management staff

The KGHM Executive Academy is a global, international program of development, created for senior management staff as well as for selected successors and top experts in their functional areas. This is an MBA-type program adapted to the needs of KGHM, aimed at promoting a global vision and cooperation, as well as supplying additional skills and abilities, to meet global challenges. The program comprises a comprehensive, interactive learning format in English and comprises three main modules: business management, mine management and leadership. The classes are held in English.

Discussions regarding cooperation were conducted with the world's top business and mining schools. Two prestigious institutions of learning were selected to execute this task: in mining and business.

The academy is composed of six 1-week sessions. The first group left in October 2013, while the second module was held at the beginning of February 2014.

#### TOP 100 conference

The TOP100 conference is an annual meeting of the leaders and top managers of selected companies of the KGHM Polska Miedź S.A. Group, whose activities are related to the core business of KGHM Polska Miedź S.A.

The goal of this meeting is to integrate the employees of the Group and above all to exchange knowledge, related to various substantive areas (organisation, technology, etc.). The goal of TOP 100 is to create platforms for discussions and to share the knowledge and experiences of the leaders and top managers of our Group. The participants discuss the company's plans, achievements and problems during plenary sessions. The platform for sharing knowledge is in the form of knowledge fairs, at which, in accordance with the established rules of these fairs, are presented the best solutions proposed by the employees of KGHM Polska Miedź S.A. External experts are also invited to these plenary sessions.

#### Go Global Internships – Program of Student Internships

This is a program of student internships financed by KGHM Polska Miedź S.A., aimed at reaching out for future management staff to realise the company's strategic goals. The target group of this program is students from three Polish institutions of higher learning: AGH University of Science and Technology in Kraków, Silesian University of Technology and Wrocław University of Technology.

In 2013, 53 students were selected through a recruitment process. As a result of this recruitment 12 persons were selected who in the period August-September 2013 performed internships in Chile, Canada and the USA.

#### Staff Forge IV

Staff Forge IV is a development project of the Wrocław University of Economics conducted in partnership with KGHM Polska Miedź S.A.

The main goal is to support students and graduates of the Wrocław University of Economics and to enhance the development potential of this academic institution by better application of the educational offer and to prepare students and graduates to meet the needs of the workplace, to tighten cooperation with employers and to enable persons with disabilities to fully take advantage of the educational offer. The project also enables KGHM Polska Miedź S.A. to acquire good staff from the best graduates of this academic institution holding trainee positions in the Divisions of KGHM Polska Miedź S.A.

#### Talents Mine

The program of the „Talents Mine” project is aimed at developing the skills of a select group of employees amongst young students and graduates with high potential, to raise the attractiveness of KGHM Polska Miedź S.A. as an employer and to take a long-term and comprehensive approach to investment in the development of young talents within the organisation. The company appreciates the need to develop its Top Talent – a select group of persons with a specified plan of succession.

## **2.5. Changes in Group structure, equity investments**

In 2013, actions were undertaken in the KGHM Polska Miedź S.A. Group aimed at improving and simplifying its structure. In terms of the KGHM INTERNATIONAL LTD. Group, two entities were liquidated and three entities were combined through an acquisition. In addition, one investment fund was liquidated and liquidation proceedings were opened for three Polish subsidiaries. Information on these processes is shown in the following table. In addition, liquidation proceedings begun in prior years were continued with respect to KGHM CONGO S.P.R.L. in liquidation and KGHM Kupferhandelsges. m.b.H.i.L.

**Table 4.** Liquidation proceedings in the Group in 2013

Company/Fund	Description
<b>Liquidation</b>	
<b>Quadra Mining Australia PTY Limited</b>	This company was de-registered in February 2013; it belonged to the KGHM INTERNATIONAL LTD. Group and did not conduct operations.
<b>Robinson Nevada Railroad Company</b>	This company was dissolved in December 2013, as part of a simplification of the structure of the KGHM INTERNATIONAL LTD. Group
<b>KGHM II FIZAN</b>	In October 2013 the fund was de-registered and its resources transferred to KGHM V FIZAN; the only participant in the fund was KGHM Polska Miedź S.A.
<b>Opening of liquidation proceedings</b>	
<b>Ecoren DKE Sp. z o.o. in liquidation</b>	In April 2013, liquidation procedures commenced for the company; the owner of 100% of the share capital is KGHM Ecoren S.A. (a direct subsidiary of KGHM Polska Miedź S.A.).
<b>Przedsiębiorstwo Budowlane Katowice S.A. in liquidation</b>	In August 2013, liquidation procedures commenced for the company; the owner of 88.09% of the share capital is BIPROMET S.A. (a direct subsidiary of KGHM Polska Miedź S.A.).
<b>„BIOWIND” sp. z o.o. in liquidation</b>	In December 2013, liquidation procedures commenced for the company; the owner of 100% of the share capital is „Energetyka” sp. z o.o. (a direct subsidiary of KGHM Polska Miedź S.A.).

In 2013 actions were undertaken aimed at simplifying the structure of the KGHM INTERNATIONAL LTD. Group. Apart from the completed liquidation proceedings mentioned above, the following subsidiaries with their registered head offices in the Barbados, which did not conduct operations and in respect of which there was no longer justification for their functioning in the Group's structure, were combined through their acquisition by Quadra FNX Holdings (Barbados) Ltd.: Quadra FNX Intermoly Holdings Limited, Quadra FNX Moly Holdings (Barbados) Ltd. and Quadra FNX Water Holdings (Barbados) Ltd. Following this combination, the company Quadra FNX Holdings (Barbados) Ltd. changed its name to KGHMI Holdings (Barbados) Ltd.

As part of the actions aimed at structural simplification, procedures were also begun to combine an additional subsidiaries: Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd., with their registered head offices on the British Virgin Islands, unrelated to the conduct of core business operations, through their acquisition by Centenario Holdings Ltd. Combination took place on 22 January 2014.

#### Equity investments

With respect to equity investments, there were increases in the share capital of subsidiaries, which were mainly aimed at financing development and exploration in the Group.

**Table 5.** Increases of share capital of Group companies in 2013

company	Amount of increase	Description
<b>KGHM Kupfer AG</b>	EUR 1.6 million (PLN 6.7 million)	Share capital increased from EUR 0.8 million (PLN 3.3 million) to EUR 2.4 million (PLN 10 million). KGHM Polska Miedź S.A. (the sole shareholder) acquired all of the shares in the increased capital and paid for them in cash at their nominal amount. This increase in share capital was court registered in May 2013. The funds obtained from this capital increase were used to finance the first phase of research under stage II of the Weisswasser project, comprising the exploration for and investigation of copper deposits on the German side of the Nysa Łużycka river, in the vicinity of the town of Weisswasser (Saxony).



company	Amount of increase	Description
<b>0929260 B.C. Unlimited Liability Company</b>	CAD 35.6 million (PLN 110.1 million)  CAD 4 million (PLN 12.9 million)  CAD 10.8 million (PLN 34.2 million)  CAD 12.8 million (PLN 39.7 million)  CAD 10.8 million (PLN 31.3 million)	In 2013 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. (an indirect subsidiary of KGHM Polska Miedź S.A. and the only shareholder of 0929260 B.C. Unlimited Liability Company) and were paid for in cash.  The funds obtained from this capital increase were used to:  – repay liabilities towards KGHM INTERNATIONAL LTD. due to granted loans – CAD 35.6 million (PLN 110.1 million), – an increase in the share capital of KGHM AJAX MINING INC. to finance the company's budget in 2013, pursuant to the Joint Venture agreement of KGHM AJAX MINING INC. (described below) – total amount CAD 38.4 million (PLN 118.1 million).
<b>KGHM AJAX MINING INC.</b>	CAD 4 million (PLN 12.9 million)  CAD 10.8 million (PLN 34.2 million)  CAD 12.8 million (PLN 39.7 million)  CAD 10.8 million (PLN 31.4 million)	During 2013 the share capital was increased several times. 0929260 B.C. Unlimited Liability Company (an indirect subsidiary of KGHM Polska Miedź S.A.) acquired shares in the increased share capital proportionally to its interest in the company.  0929260 B.C. Unlimited Liability Company holds 80% of the share capital of KGHM AJAX MINING INC. The remaining 20% is held by Abacus Mining & Exploration Corporation.  The above payments to capital are the result of execution of the Joint Venture Agreement, entered into in 2010 by the partners in the company KGHM AJAX MINING INC., who committed to making, proportionally to their interests in the share capital of the company and according to the agreed schedule, quarterly payments to the capital to be used to carry out the company Program and Budget as approved by the Board of Directors of KGHM AJAX MINING INC.
<b>KGHM LETIA S.A.</b>	PLN 7.5 million	The share capital of the company was increased from PLN 27.4 million to PLN 34.9 million.  KGHM Polska Miedź S.A. acquired all of the shares in the increased share capital and paid for them in cash at their nominal amount.  The interest of KGHM Polska Miedź S.A. in the share capital of the company increased from 85.45% to 88.58%.  The funds obtained from this increase in capital were used to repay a loan granted by KGHM Polska Miedź S.A. (for the purpose among others of completing the Letia Business Center).

With respect to equity investments, KGHM Polska Miedź S.A. in 2013 also acquired investment certificates in Closed-End Non-Public Investment Funds, managed by KGHM TFI S.A. – a direct subsidiary. This investment is of a long-term nature, and is not related with the core business. The funds managed by KGHM TFI S.A. concentrate on activities in the following sectors: health, new technology, property, other sectors providing synergies for the KGHM Polska Miedź S.A. Group.

**Table 6.** Acquisition of investment certificates and investments made in 2013

Entity	Amount	Description
<b>Acquisition of investment certificates</b>		
<b>KGHM V FIZAN</b>	PLN 42.1 million	The fund was court registered in May 2013. KGHM Polska Miedź S.A. acquired all of the investment certificates of the fund's first issuance and is the only participant in the fund.  The goal of the KGHM V FIZAN investment fund is to make equity investments in attractive sectors (apart from those made by other funds), providing synergy to the KGHM Polska Miedź S.A. Group based on the advantages arising from the diversification of activities.

Entity	Amount	Description
<b>KGHM IV FIZAN</b>	PLN 1.0 million	The fund was court registered in May 2013. KGHM Polska Miedź S.A. acquired all of the investment certificates of the fund's first issuance and is the only participant in the fund. KGHM IV FIZAN is dedicated to property-related projects.
<b>KGHM II FIZAN</b>	PLN 42.2 million	KGHM Polska Miedź S.A. acquired investment certificates of the fund in April 2013. In June 2013, the General Meeting of the Fund resolved to dissolve it, and its resources were transferred to KGHM V FIZAN. KGHM II FIZAN was de-registered in October 2013. KGHM Polska Miedź S.A. was the only participant.
<b>KGHM I FIZAN</b>	PLN 29.4 million	The goal of KGHM I FIZAN is to develop a single entity to integrate the spa companies in its portfolio – the Polska Grupa Uzdrowisk. In 2013, KGHM Polska Miedź S.A. twice acquired investment certificates of the fund. In September 2013, certificates were acquired with a total issue price of PLN 7.4 million to be allocated among others to the purchase of the remaining shares of spa-related companies (not acquired by employees) belonging to the State Treasury. In December 2013, investment certificates were acquired with a total issue price of PLN 22 million, to be allocated to the acquisition of the remaining shares of spa-related companies belonging to employees.

#### **Fund Investments**

<b>Acquisition of shares of NANO CARBON Sp. z o.o.</b>	PLN 2 million	In April 2013, KGHM III FIZAN acquired 49% of the shares of NANO CARBON Sp. z o.o. covering them with cash. The subject of activities of NANO CARBON Sp. z o.o. is the development and commercialisation of technology and products based on graphene (a form of carbon). This investment conforms to the investment directions of the Fund, which assumes investing of assets in enterprises related to modern technology.
<b>Acquisition of shares of health sector companies</b>	PLN 2.5 million	During 2013, KGHM I FIZAN acquired shares from employees of health sector companies, increasing its interest in their share capital as follows: <ul style="list-style-type: none"> <li>- Uzdrowiska Kłodzkie S.A. - Grupa PGU - an increase from 91.8% to 92.57% (by 0.77%),</li> <li>- Uzdrowisko Połczyn Grupa PGU S.A. - an increase from 90.45% to 91.38% (by 0.93%),</li> <li>- Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU - an increase from 91.67% to 92.66% (by 0.99%).</li> </ul> The above transactions represented realisation of obligations arising from a privatisation agreement for the purchase by KGHM I FIZAN of shares of health sector companies from the State Treasury.

In addition, in the fourth quarter of 2013, KGHM V FIZAN began realisation of an investment based on the gradual acquisition of shares of WFP Hefra SA from KGHM Ecoren S.A. (a direct subsidiary of KGHM Polska Miedź S.A.), to carry out a fundamental restructurisation of the entity and to prepare for its sale to an investor external to the KGHM Polska Miedź S.A. Group. In December 2013 the first stage of this share acquisition was realised, comprising 58.5% of the share capital of WFP Hefra S.A.

#### **Other investments and changes in the Group**

An increase in the share capital held in BAZALT-NITRON Sp. z o.o. (today NITROERG SERWIS Sp. z o.o.) from 30% to 100%

In December 2013, NITROERG S.A. (a direct subsidiary of KGHM Polska Miedź S.A.) acquired from another partner of BAZALT-NITRON Sp. z o.o. 70% of the share capital of this entity, as a result of which it became the sole owner.

The share capital of BAZALT-NITRON Sp. z o.o. amounts to PLN 1.5 million. The company provides blasting services for the mining industry. The increase in equity interest by NITROERG S.A. in BAZALT-NITRON Sp. z o.o. is related to the development of a distribution channel.

In March 2014, a change in the company's name to NITROERG SERWIS Sp. z o.o. was registered.

An increase in the share capital held in Bipromet Ekosystem Sp. z o.o. from 51.00% to 71.83%

In July 2013, court registration was made of a decrease in the share capital of Bipromet Ekosystem Sp. z o.o. due to the redemption of the shares of one of the shareholders, as a result of which the ownership interest in BIPROMET S.A. (a direct subsidiary of KGHM Polska Miedź S.A.) increased from 51.00% to 71.83%. The share capital of Bipromet Ekosystem Sp. z o.o. following the decrease amounts to PLN 36 thousand.

An increase in the share capital held in CENTROZŁOM WROCŁAW S.A. z 85% do 98,64%

In 2013, KGHM Ecoren S.A. (a direct subsidiary of KGHM Polska Miedź S.A.) acquired employee shares, in accordance with the provisions of contracts to purchase the shares entered into between KGHM Ecoren S.A. and shareholders of CENTROZŁOM WROCŁAW S.A., representing in total 13.64% of the share capital, for a total amount of PLN 28.3 million, increasing its share in the company from 85% to 98.64%.

These transactions represented realisation of liabilities due to a privatisation agreement for the purchase by KGHM Ecoren S.A. of shares of CENTROZŁOM WROCŁAW S.A. from the State Treasury.

Decrease in the share capital of Quadra FNX Holdings Partnership

In May 2013, the partners of Quadra FNX Holdings Partnership resolved to decrease the share capital of the company by USD 12 million (PLN 39 million at the average exchange rate of the NBP from 20 May 2013). The allocation of funds between the partners was as follows: 99.999% to FNX Mining Company Inc., 0.001% to 0899196 B.C. Ltd. The funds obtained from this decrease in capital were allocated to finance the Sierra Gorda project prior to the signing of the revolving corporate facility agreement. The share capital of Quadra FNX Holdings Partnership as at 31 December 2013 amounted to USD 9.7 million (PLN 29 million at the average exchange rate of the NBP from 31 December 2013).

### 3. Strategy of KGHM Polska Miedź S.A.

#### 3.1. Strategic assumptions

The Strategy of KGHM Polska Miedź S.A. for the years 2009-2018, currently in force and being pursued, was approved by the Parent Entity's Management Board, and subsequently confirmed by the company's Supervisory Board on 23 February 2009. This vision of strategic development of the Parent Entity is the result of the approved mission, calling for an increase in the company's value through the optimum utilisation of natural resources. By realising the Strategy, KGHM Polska Miedź S.A. has joined the group of large global copper producers and is aiming to increase production by the KGHM Group to around 700 kt of copper annually. Total expenditure on realisation of strategic initiatives was estimated at approx. PLN 20 billion over 10 years.

Due to the sale of the company's telecom assets (100% of the shares of Telefonía DIALOG S.A. and 24.4% of the shares of Polkomtel S.A.) the Supervisory Board of the company, on 10 October 2011, approved the updated Strategy of KGHM Polska Miedź S.A. for the years 2009-2018 with respect to Pillar III – Diversification of revenue sources and independence from energy prices – by removing the strategic goal „Continued investment in the telecommunications sector”. The strategic assumptions for the remaining pillars of the Strategy remained unchanged.

The Strategy of KGHM Polska Miedź S.A. for the years 2009-2018 is based on five pillars, describing the main strategic initiatives:

#### I PILLAR

##### Improving productivity

aimed at reversing/halting the trend of rising unit production costs through:

- investments in new technology,
- modernisation of infrastructure, and
- optimisation of production procedures and organisation.

#### II PILLAR

##### Developing the resource base

aimed at increasing the production of mined copper to 700 thousand tonnes annually, through:

- Developing the system for mining deep ore,
- Mining new regional ore deposits,
- Acquisitions in the mining sector, and
- Intensifying the processing of scrap.

#### III PILLAR

##### Diversifying revenues and gaining independence from energy prices

Strategy in this area is being reviewed – the company will concentrate on ensuring continuity of energy supply at an optimum price.

#### IV PILLAR

**Regional support** – cooperation with local communities and support of social initiatives in regions where the KGHM Group is active, through:

- creating new jobs,
- supporting regional sport, protecting health, developing education, the arts and sciences,
- protecting the environment and restoring ex-mining terrain,

#### V PILLAR

**Developing organisational know-how and capabilities**

through:

- Management through goals,
- Transparent information and data,
- KGHM Polska Miedź S.A. staff development, and
- Building a holding structure.

### 3.2. Realisation of the Strategy

In the years 2009-2013 KGHM Polska Miedź S.A. consistently implemented the approved Strategy. It was implemented by investing in an initially defined and continuously updated portfolio of strategic projects fulfilling the intended goals at the level of each pillar's strategic initiatives. Of fundamental importance for building the value of KGHM Polska Miedź S.A. over the long term was the continuation of activities in the copper sector as the basic source of its revenues.

A watershed stage in the company's development is the realisation of non-organic expansion (through acquisitions). In 2010, as a result of the purchase of a 51% interest in KGHM AJAX MINING INC., a special purpose company created in cooperation with the Canadian company Abacus Mining & Exploration Corporation to advance the Afton-Ajax copper and gold project located in British Columbia, Canada, the company took its first step towards realisation of its vision of becoming a global copper producer. Following the publication of a Bankable Feasibility Study for the Afton-Ajax deposit in 2012, KGHM Polska Miedź S.A. took advantage of the option to purchase an additional 29% interest in KGHM AJAX MINING INC. The friendly takeover 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 join the group of leading companies in the mining sector and to come closer to achieving the target set in the Strategy of 700 kt of copper production annually.

This global expansion enabled an expansion of the resource base of KGHM Polska Miedź S.A. by over 8 million tonnes (28%), placing the company in 4th place in this regard in the global ranking. As a result of this acquisition, KGHM Polska Miedź S.A. became the owner of mine assets located mainly in Chile, the USA and Canada, rich in copper, silver, nickel, molybdenum and other precious metals:

- active mines of copper and associated metals located in the Sudbury region of Canada (Levack/Morrison), the USA (Robinson) and Chile (Franke),
- mining projects at the pre-operational stage at various stages of development, above all Sierra Gorda in Chile – the most important development project, being realised on one of the largest deposits of copper and molybdenum in the world, as well as Victoria in Canada, and
- the exploration projects Kirkwood, Falconbridge and Foy in the Sudbury region of Canada.

Consequently in 2012 copper production in the KGHM Polska Miedź S.A. Group increased by 22%, thereby assuring KGHM of an advance from 10th to 8th place in terms of global copper production. Copper production will increase further following the commissioning of the Sierra Gorda open pit mine in Chile.

Taking into consideration the achievements to date in realisation of the approved Strategy of KGHM Polska Miedź S.A., mobilisation of the internal resource potential, as well as the macroeconomic conditions facing the global mining sector, in the years 2012-2013 the company commenced work on a broad strategic analysis of the potential for the further development and building of the value of the KGHM Polska Miedź S.A. S.A. Group. The conclusions reached following this analysis will form the basis for determining the foundations for building a new company vision and for preparation of the draft updated Strategy of the KGHM Polska Miedź S.A. Group.

Until the new strategic directions of KGHM Polska Miedź S.A. are defined, for which there exist sufficient causes to do so, the company's strategic priorities will be concentrated on:

- commencing production at the Sierra Gorda project in Chile,
- building skills and relations in terms of new commodities,
- ensuring high, stable cash flow,
- creating a global organisation,
- further improvement in skills,
- continuing the path of growth.

### PILLAR I – IMPROVING PRODUCTIVITY

With respect to Pillar I, realisation was continued in 2013 of key strategic investments in new technology and of modernisation and sustainment projects aimed at improving productivity in the core production business.

Investments in new technology:

**1/ research into the use of mechanical mining in the conditions prevalent in the mines of KGHM Polska Miedź S.A.** in terms of developing and implementing technology being an alternative to the currently used room-and-pillar systems, in which mining is conducted through blasting. In 2013, in terms of projects initiated in this regard, production tests were commenced aimed at assessing the possibilities of applying this new mining technology using the ACT mining complex and of drift development technology using a team of three combines. From the technical point of view, expectations with respect to the mechanical mining technology are associated with achieving higher productivity, accelerating advancement of work on the orebody, reducing employment and increasing workplace safety. In economic terms, it is expected that extraction costs will be lower and that realisation of the company's production plans will be facilitated.

**2/ pyrometallurgy modernisation program at the Głogów Smelter**, as a result of which a functionally integrated, cost effective and environmentally friendly smelting structure for KGHM Polska Miedź S.A. will be created. In 2013 realisation was continued of this investment with respect to constructing a flash smelter complex at Głogów I and the first stage of modernisation of the main technological units was realised, aimed at intensifying smelting at Głogów II. In addition, work was realised on installation design, an important element of which is optimisation of smelting assets in terms of their best possible adaptation to the geological conditions of the deposits mined by KGHM Polska Miedź S.A.

It is expected that long-term economic benefits will be achieved in KGHM Polska Miedź S.A. due to realisation of this program, including among others a decrease in the total unit processing cost and increased revenues from the sale of additional amounts of silver, rhenium and refined lead. In addition, there will be a clear decrease in the smelter's environmental impact, and therefore an improvement in the company's international competitive position.

Other strategic investments aimed at maintaining continuity, and improving organisation and management, of production processes:

**3/ „Ore Extraction IT Management System"** aimed at unifying and improving business processes in the mining operations of KGHM Polska Miedź S.A., both in terms of the main production-related processes as well as in management processes and their efficient and effective support with the aid of a flexible IT system;

**4/ „Construction of the SW-4 shaft"** for accessing ore below 1 000 m in the "Polkowice-Sieroszowice" mine, assuming balanced extraction of the ore resources;

**5/** Continued implementation of IT systems enabling improved efficiency and improved machinery operating safety, including among others a **„System for the operation and servicing of underground machinery"** and a **„System for locating machinery in the mining areas"**;

**6/ long-term programs involving the automation and modernisation of the ore concentration process** involving the replacement of flotation equipment and milling power units, modernisation of classifiers and a program to improve the energy efficiency of the existing machinery park, as well as implementation of a comprehensive production maintenance program in the Concentrator Division,

**7/ Reorganisation of the procurement process in the KGHM Group** – a Central Procurement Office was opened (2009) and a unified procurement policy was instituted for the Divisions and for the KGHM Group, thanks to which the company gained substantial added value and savings in the area of procurement, mainly investments.

## **PILLAR II – DEVELOPING THE RESOURCE BASE**

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To achieve an increase in copper production to 700 thousand tonnes and to improve the company's competitiveness amongst the world's copper and silver producers, actions were taken to secure access to the resource base, by:

- gaining new mining concessions for the deposit areas currently active,
- developing the regional resource base, and
- developing the mining assets outside Poland.

In 2013, KGHM Polska Miedź S.A. received new concessions for the extraction of copper ore from areas of the deposit currently active in the company - „Polkowice", "Sieroszowice", "Lubin-Małomice", "Rudna" and „Radwanice-Wschód", which are valid from January 2014 to December 2063. The company is continuing its core operations based on the new concessions, new mining usufruct agreements and new operating plans. A detailed description of the process of obtaining mining concessions may be found in point 5.1. of this report.

In terms of mining expansion, actions were continued aimed at developing the regional resource base, i.e. in south-west Poland and in the area of Lusatia (Saxony in Germany) and developing the mining assets outside Poland. Such an approach gives the company the possibility to geographically diversify its core operations, and in the long term perspective it will enable increased production of copper and other metals at lower unit costs.

### **DEVELOPING THE REGIONAL RESOURCE BASE**

The main resource projects being pursued in the region are:

- 1/ Accessing the concession area **"Deep Głogów"** continued since 2006, work on which includes construction of the GG-1 shaft and the execution of primary drifts to access the Deep Głogów area along with development of technical infrastructure.
- 2/ Exploration and documentation of resources in the **"Gaworzyce-Radwanice"** deposit, which borders on the west the areas currently being worked by the Polkowice-Sieroszowice mine. In 2013, work was carried out to determine the possibility of mining the copper ore deposit from this area. The geological work performed based on the concessions held was aimed at defining the size of the ore resources, improving data on their geological occurrence and orebody continuity, determining the extent of mineralisation of copper and associated metals and supplying information on geological-engineering and hydrogeological conditions and the occurrence of gas. Based on a request submitted by the company to alter the concessions, in August 2013 the Minister of the Environment issued a decision altering the concessions held. This change mainly involved the scope of work and extension of the period of validity of the concessions to January 2015. The scope of work set forth in the aforementioned decisions comprises the performance of surface-based geophysical research, hydrogeological measurements, geodesic measurements and documentation work comprising interpretation of the results of geophysical measurements, supplements to the geological documentation and geological documentation for this deposit area. To accomplish this work the company entered into an agreement with the following Consortium: KGHM Cuprum Sp. z o.o. – CBR, Geophysik GGD with its registered head office in Lipsk, and Geopartner Sp. z o.o. with its registered head office in Kraków. In October 2013 realisation commenced of geophysical research on this terrain. Completion of this work is planned to the end of 2014. Realisation of design work will enable prolongation of the working life of the Polkowice-Sieroszowice mine.
- 3/ With respect to realisation of work aimed at assessing the concession area **"Synklina Grodziecka"** located within the so-called Old Copper Belt near Bolesławiec, in the second quarter of 2013 the company commenced the second stage of exploratory work comprising 9 drillholes. In 2013 4 drillholes were completed, in respect of which work continues on hydrogeological measurements and observations. Drilling of a further 5 drillholes is planned for 2014. The goal of the exploratory work on this terrain is to document additional copper resources and to make existing documentation more precise. It is estimated that, apart from the copper ore deposit of the current Legnica-Głogów Copper Belt, this is the most promising region in the country.
- 4/ Based on a request submitted in 2013, in January 2014 the company received a concession for exploration and assessment of the **"Konrad"** copper ore deposit. This concession area is directly adjacent to the Synklina Grodziecka concession and comprises the mining area of the old Konrad mine. Work on this area is enabling a comprehensive assessment of hydrogeological conditions for the project of de-watering the deposit and determining geological-mining conditions for future mining.
- 5/ In 2013 the Ministry of the Environment granted KGHM Polska Miedź S.A. a concession for exploration and assessment of the **"Retków-Ścinawa"** copper ore deposit, and a concession for exploration and assessment of the **"Głogów"** copper ore deposit. These areas are directly adjacent to the areas currently being mined by the company. Commencement of exploratory work in these areas is planned in 2014.
- 6/ With respect to requests submitted in 2012 by KGHM Polska Miedź S.A. for the granting of concessions for the exploration and assessment of the **"Bytom Odrzański"** and **"Kulów-Luboszyce"** areas, in January 2014 the Minister of the Environment issued the following decisions:
  - declining to grant a concession for the exploration and assessment of the Bytom Odrzański copper ore deposit,
  - granting concession no. 5/2014/p for the exploration of the Kulów-Luboszyce copper ore deposit, in that part covered by the company's request from 2012. The granted concession comprises the Kulów-Luboszyce area of 689.75 km<sup>2</sup> (950.89 km<sup>2</sup> were applied for).These decisions are not legally binding, and KGHM Polska Miedź S.A. has submitted appeals of them to the Minister of the Environment.
- 7/ In the first quarter of 2013, it was decided to commence the first phase of stage II of work on the **Weisswasser** Project, located in Saxony in Germany. Consequently, in 2013 the company KGHM Kupfer AG – a 100% subsidiary of KGHM Polska Miedź S.A. realising the aforementioned project on behalf of KGHM Polska Miedź S.A. – initiated administrative procedures at the Saxon Mining Office (SOBA) to prolong the existing concession for this area. In October 2013, SOBA issued a decision to prolong the existing concession for the Weisswasser area to the end of 2016. Simultaneously, based on a request submitted by KGHM Kupfer AG, in June 2013, SOBA issued a decision permitting exploratory work to be conducted by KGHM Kupfer AG on the **Weisswasser II** area, representing an extension of the Weisswasser area towards the south-east to the border with Poland. At present the total surface area of the areas for which the company has concessions is approx. 550 km<sup>2</sup>. In 2013 a plan was developed for geophysical exploration in these areas, which was confirmed by SOBA in November 2013. In 2014 work will be conducted related to seismic and geophysical measurements.

- 8/** In July 2013, KGHM Polska Miedź S.A. submitted a request to the Ministry of the Environment for the exploration and assessment of the **Stojanów** copper ore deposit. In geological terms the area for which the concession is being sought is an extension of the Weisswasser II area into Poland. Exploration in the areas of Weisswasser, Weisswasser II and the Stojanów area for which a concession is being sought may be treated as a single, cross-border exploration project, resulting from the continuity of the same geological structure on both sides of the border. The company expects that concessions will be granted for this area as part of the administrative proceedings currently in progress.
- 9/** Taking into account the fact that assessment of the results of an economic analysis of the **"Szkлары"** nickel ore deposit project show that the project does not meet internal criteria, among others due to macroeconomic conditions, as well as due to other priorities with respect to realisation of resource projects, in the third quarter of 2013 the decision was made to cease further work on this concessioned area. Geological documentation for the „Szkлары 1” nickel ore deposit in cat. C1 was prepared together with supplements to the documentation. This documentation was submitted to the concession authority on 20 December 2013. Approval of the geological documentation by the Commission for Mineral Resources is expected in the first half of 2014.
- 10/** In the third quarter of 2013, KGHM Polska Miedź S.A. submitted a request for the granting of concessions for the exploration and assessment of a potassium-magnesium salt deposit with associated minerals, i.e. copper ore and rock salt, in the **Zatoka Pucka** region. Due to the existing competition between the company and third parties for the concessioned area, administrative proceedings are currently in progress regarding the granting of concessions. In August 2013, KGHM Polska Miedź S.A. signed a letter of intent with the company Gdańskie Zakłady Nawozów Fosforowych FOSFOR Sp. z o.o. regarding future cooperation in the case that concessions are granted, and the subsequent commencement of mining of the potassium-magnesium salt deposit. Subsequent to the aforementioned letter of intent, in January 2014 the company signed an Agreement with Gdańskie Zakłady Nawozów Fosforowych FOSFOR Sp. z o.o. and the company Grupa Azoty Zakłady Azotowe „Puławy” S.A. regarding assumptions for cooperation with respect to exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals.
- 11/** On 16 January 2014, KGHM Polska Miedź S.A. signed a letter of intent with the company Grupa Azoty S.A. with its registered head office in Tarnów, setting forth the general principles for the eventual undertaking of joint business activities in the following areas: processing of phosphogypsum, exploration for potassium salt deposits abroad, gaining access to sources of natural gas, construction of a polygeneration power plant, and exploration for and extraction of phosphorite. The parties decided that any eventual realisation of joint projects in specific areas would be realised based on detailed agreements or through the creation of joint venture companies.
- 12/** In the Polkowice-Sieroszowice mine **rock salt mining** commenced using skips. It is expected that salt production by KGHM Polska Miedź S.A. will increase from 425kt to 1 Mt/year. The company is simultaneously analysing the possibility of placing tailings waste from the KGHM's smelters in the worked-out areas of the salt deposit, as well as the production of evaporated salt.

#### **ACQUISITION AND DEVELOPMENT OF FOREIGN MINING ASSETS**

With respect to the acquisition and development of mining assets outside Poland, in 2013 KGHM Polska Miedź S.A. continued key mining projects, realised through KGHM INTERNATIONAL LTD. (formerly Quadra FNX):

**1/ The Sierra Gorda Project in Chile** (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%)

In 2013 work continued related to construction of an open-pit mine on one of the world's largest deposits of copper, molybdenum and gold: Sierra Gorda, located in northern Chile. Planned, target average annual production is 220 kt of copper, 11 kt of molybdenum and 2 tonnes of gold. Mine operating life is over 20 years. Commencement of extraction at Sierra Gorda is planned in mid-2014.

In 2013 the Sierra Gorda project's capital expenditure estimate was updated. Total initial capital expenditure amounts to approx. USD 4 billion versus USD 2.9 billion forecast in February 2011. The main factors responsible for increasing expenditure are beyond the investor's control: rising costs of labour, services and materials in mining in Chile, inflation, appreciation of the peso, altered legal requirements regarding buildings and environmental protection and changes in the project's scope. The amount of the updated capital expenditure does not include potential savings, including hedge policy applied and the possibility of implementing a program of leasing mining equipment for the project.

The first stage of the Sierra Gorda project is at an advanced stage of realisation of construction and assembly work. Realisation of the project is on time, with 86% completed at the end of 2013. In December 2013 the total number of persons working on construction of the mine amounted to over 9 thousand.

As part of the first stage of investment, with respect to construction of the mine's technical infrastructure, major work was completed related to construction of basic infrastructure, including social buildings and fresh water supplies, design work was completed as well as construction of the 220kV and 110kV power

networks together with primary and sub-stations. With respect to construction of the mine's production-related facilities, work continued on assembling the installations, machinery and equipment of the production line.

In addition, work continued on stripping of the overburden (including oxide ore) needed to access the actual ore deposit. By the end of December 2013, 158.8 million tonnes of rock had been removed, i.e. around 81% of the target amount.

The oxide ore is at present being stored in separate heaps, and tests are being performed on its processing potential. Design work was performed aimed at preparing assumptions for starting up the metals recovery installation using SX/EW technology.

With respect to preparing the second investment stage aimed at increasing the capacity of the processing plant from 110 kt to 190 kt of ore per day, design work was performed related to development of the processing plant infrastructure.

On 26 February 2014, at the request of the local community, the Appeals Court in Antofagasta invalidated the environmental permits issued by the Environmental Office of Region II for the transportation and storage of copper concentrate belonging to Sierra Gorda S.C.M. at the port of Antofagasta. The defendants, i.e. the Environmental Office of Region II in Chile, Antofagasta Railway Company PLC and Sierra Gorda S.C.M., as well as the International Port of Antofagasta, hold the position that the environmental permits were obtained in accordance with the law, and that the claims of the plaintiffs are legally unjustified. An appeal was submitted to this decision with a judgment expected by a court of the second instance.

## **2/ Victoria Project in the Sudbury Basin of Canada (KGHM INTERNATIONAL LTD. 100%)**

In August 2013, KGHM Polska Miedź S.A. – through its subsidiaries KGHM INTERNATIONAL LTD. and FNX Mining Company Inc. – based on an agreement signed with Vale Canada Ltd., became the owner of 100% of the project. As a result of negotiations, Vale Canada Ltd. agreed to hand over its share of the project in exchange for the payment of a Net Smelter Return royalty of 2.25% for the life of the mine, and also committed to take off all of the ore output of the Victoria mine and to process it in their Clarabelle facility in Sudbury.

By the end of 2013, applications were made for all of the requisite environmental permits, and a mine closure plan was developed whose chief aim is to set forth the principles for recultivation of the terrain once mining ends. During the year engineering work was carried out with respect to building aboveground infrastructure, orders were placed for lifting machinery, and preparations are currently underway for sinking of the first shaft. Talks were also held with the First Nations who live in the area.

In the fourth quarter of 2013 work began on levelling the terrain to prepare for construction of the future aboveground mine infrastructure.

## **3/ Afton-Ajax Project in Canada (KGHM Polska Miedź S.A. 80%, Abacus Mining and Exploration Corp. 20%)**

The Afton-Ajax project is located south of the town of Kamloops (British Columbia) in Canada, and assumes the construction and operation of an open-pit copper and gold mine and an ore concentrating plant, with associated infrastructure. The project is currently at the stage of gaining necessary environmental and mining permits. Independently of this, detailed engineering work is being performed on preparations for construction of the mine. In 2013, a variety of geological work was performed across the project area, which indicated significant potential for copper mineralisation. Additional geological work, including an additional campaign of exploratory drilling and geophysical research, which will provide more precise knowledge of the identified ore potential, is planned in 2014. The decision was simultaneously taken to prepare an alternative mine plan, one which will both maximise the value of the Afton-Ajax project as well as reduce its impact on the environment.

### ***OTHER INITIATIVES - intensification of scrap processing***

Another important initiative aimed at increasing copper production by the Parent Entity is the intensification of scrap processing. In 2013, analyses and optimisations were begun of the technical-technological solutions adopted in the Design Concept for individual production units comprising the investment to build a new production line for the processing of secondary copper-bearing materials.

## **PILLAR III                      DIVERSIFYING REVENUES AND GAINING INDEPENDENCE FROM ENERGY PRICES**

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The purpose of diversifying revenues and gaining independence from energy prices, crucial from the point of view of business opportunities for KGHM Polska Miedź S.A., were **investments in the energy sector, mainly in the energy generation segment (Pillar III)**. From the point of view of KGHM Polska Miedź S.A., power generation is one of the most attractive sectors, as it is not correlated with conditions on the metals markets and is a more stable source of revenues.

### ***INCREASING ENERGY PRODUCTION TO MEET THE COMPANY'S NEEDS***

In respect to increasing energy production to meet the company's own energy needs, projects were continued whose realisation will ensure approx. 30% of the energy needs of KGHM Polska Miedź S.A. (at present, energy production by the subsidiary Energetyka Sp. z o.o. represents 10% - approx. 250 GWh of the Parent Entity's total annual energy needs – approx. 2 600 GWh) and will also lead to diversification of the energy generation portfolio and significantly reduce the exposure of KGHM Polska Miedź S.A. to climate policy risk, and to changes in fuel and electricity prices.



The most important projects in this regard are:

- 1/ „Construction of gas-steam blocks at the Głogów and Polkowice power plants”** with installed capacity of 90 MWe and planned power generation of 560 000 MWh, all of which will be used to meet the company's power needs. In the years 2010-2013 work was performed on the construction and assembly of equipment and installations for the gas-steam blocks in both locations. In 2013, final acceptance procedures were conducted and start-up tests of the gas-steam blocks were performed. On 5 November 2013, the gas-steam block in Polkowice was handed over for operation. Handover of the the gas-steam block in Głogów will take place at the beginning of the second quarter of 2014.
- 2/ „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 2013 a program of geological work continued (in 2013 9 holes were drilled) along with specialised geological research aimed at exploring and evaluating the brown coal resources. Positive results from this geological work will enable a decision to be taken on whether to apply for a concession for mining of this deposit using an underground brown coal gasification research installation.

#### **ENERGY PROJECTS OF A NATIONAL SCOPE**

In 2013, KGHM Polska Miedź S.A. continued to participate in the realisation of the most important energy projects of a national scope. Participation in these projects will lead to secure supplies of energy for the company at optimum prices.

The main initiatives in this regard are:

- 1/ „Construction of a power generation source based on the utilisation of natural gas as the raw material for its generation, on the grounds of the existing Blachownia Power Plant”**

With respect to realisation of the agreement entered into on 20 January 2010 with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. (a subsidiary of TAURON Polska Energia S.A.) and on the basis of the permission received on 23 July 2012 of the European Commission (the applicable antimonopoly body) with respect to concentration, on 5 September 2012, KGHM Polska Miedź S.A. founded a special purpose company with TAURON Wytwarzanie S.A. called „Elektrownia Blachownia Nowa sp. z o.o.” KGHM Polska Miedź S.A. acquired 50% of the shares in the share capital of the special purpose company. The share capital of this company is PLN 65 million.

Together with the founding of this company, a shareholders agreement was signed describing the detailed principles of cooperation between the parties regarding realisation of the enterprise, comprising the preparation, construction and operation of the approx. 850 MW gas-steam block on the grounds of the Blachownia power plant in Kędzierzyn-Koźle belonging to the TAURON Group. In accordance with the shareholders agreement, total estimated expenditure on this investment in the years 2012-2017 will amount to around PLN 3.5 billion. The project assumes use of the project finance formula – at least 50% of its budget will be financed from outside sources.

In 2013, the special purpose company performed analyses of the competitiveness of the planned power plant under various market scenarios and technological variants. On 30 December 2013, KGHM Polska Miedź S.A. together with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. signed an agreement, based on which it was decided to temporarily suspend realisation of the project to build a gas-steam block in the company “Elektrownia Blachownia Nowa” Sp. z o.o. 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.

Expressing their desire to continue the project to jointly build a gas-steam block through the company „Elektrownia Blachownia Nowa” Sp. z o.o., the parties committed themselves to ensure the continued functioning of the company “Elektrownia Blachownia Nowa” Sp. z o.o. and to secure the results of the Project achieved to date, in particular to ensure that the documentation held is kept up to date, and additionally committed themselves to continued 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 resolved that a decision to re-commence realisation of 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.

- 2/ „Exploration for and extraction of shale gas in Poland (KCT Project)”**

In 2013, the parties to the framework agreement entered into on 4 July 2012 on the joint exploration, evaluation and extraction of shale gas between Polskie Górnictwo Naftowe i Gazownictwo S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A., were involved in agreeing details and conducting business-taxation analyses with respect to the potential business cooperation model.

Due to prolongation of the process of negotiating with respect to determination of details regarding the terms of cooperation, on 21 February 2013 the parties to the framework agreement decided to prolong the period for determination of details regarding the terms of cooperation until 4 May 2013, signing an Annex to the framework agreement. Pursuant to the Annex it was determined that, if by 4 May 2013 the parties to the framework agreement do not agree the details regarding the terms of cooperation, the

Agreement may be terminated by each of the parties. Moreover, if within three months after reaching such arrangements the parties have not obtained all of the required corporate approvals, or if by 31 December 2013 the required antimonopoly clearances have not been received, the agreement will expire. The framework agreement on the exploration for and extraction of shale gas entered into on 4 July 2012 between Polskie Górnictwo Naftowe i Gazownictwo S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. expired on 31 December 2013.

### 3/ „Preparation for the construction and operation of the first Polish nuclear power plant”.

In 2013, the parties (KGHM Polska Miedź S.A., ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A.) to the Letter of Intent signed on 5 September 2012, regarding the purchase of shares of a special purpose company founded in order to build and operate the first Polish nuclear power plant, continued conceptual analyses, among others with respect to the business model of cooperation and an economic feasibility analysis of the project. On 25 June 2013 the parties signed an Agreement to continue work related to the development of a draft agreement for the acquisition of shares in the aforementioned special purpose company to build and operate a nuclear power plant.

On 23 September 2013, the parties initialled the draft shareholders agreement PGE EJ1 sp. z o.o. („shareholders agreement”), will be signed if the corporate bodies of each of the parties grant their approval. The shareholders agreement obliges the parties to enter into an Agreement for the purchase of shares in PGE EJ1 sp. z o.o., a special purpose company to build and operate a nuclear power plant („shares purchase agreement”). According to the shareholders agreement, PGE will sell to the other parties to the shareholders agreement a block of 438 000 shares, representing altogether 30% of the share capital of PGE EJ1 sp. z o.o., subsequent to which PGE will own 70% of the share capital of PGE EJ1 sp. z o.o. KGHM Polska Miedź S.A. will purchase 146 000 shares, representing 10% of the share capital of PGE EJ1 sp. z o.o. The shareholders agreement also describes the principles of cooperation of all of the parties regarding the project to prepare and build a nuclear power plant in Poland. PGE and each of the business partners will be obliged to enter into a shares purchase agreement after meeting two conditions precedent:

- receipt of a decision regarding the unconditional approval by the President of UOKiK (the Office of Competition and Consumer Protection) to carry out the concentration, and
- adoption of a resolution in 2013 on the Polish Nuclear Energy Program by the Council of Ministers.

Despite the failure to meet the conditions precedent provided for in the initialled draft „shareholders agreement”, parties have resolved to continue work on the project to prepare and build a nuclear power plant in Poland and to develop updated provisions for the draft shareholders agreement.

## PILLAR IV – REGIONAL SUPPORT

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KGHM Polska Miedź S.A., assuming responsibility for its impact on the social and natural environments in which it operates, in 2013 performed work related to implementation of the CSR (**Corporate Social Responsibility**) strategy adopted in 2012.

This strategy encompasses all of the social, ethical and environmental aspects of the company’s business operations and its commitment to full responsibility and transparency in managing relations with the company’s stakeholders, among others: employees, customers, shareholders, suppliers and local communities. The priority goal contained in the assumptions and activities of the CSR Strategy is the achievement of a substantial balance between the company’s efficiency and profitability and the common good of the environments in which the company operates. The Main Initiatives of the CSR Strategy comprise:

- creating innovative solutions minimising the environmental impact of the operations of KGHM Polska Miedź S.A.,
- building a position as a „good neighbour” and trusted investor,
- ethics and transparency in managing relations with stakeholders,
- care for its employees.

Reliable evidence of the responsibility of KGHM Polska Miedź S.A. for its environment and stakeholders may be seen in the variety of activities undertaken by the company in 2013 in many of the areas described in the CSR Strategy. As an environmentally-friendly innovator, the company joined the CO<sub>2</sub> Emissions Management System and developed a program to reduce energy consumption during the production process. As an efficiently managed business partner KGHM Polska Miedź S.A. maintained its position in the prestigious RESPECT Index – an index of companies listed on the Warsaw Stock Exchange which are managed in a responsible and balanced manner, and carried out very advanced work on adopting a code of ethics.

Caring for its position as a good neighbour, the company supported many valuable initiatives and projects serving regional social development. KGHM Polska Miedź S.A. participated in regional sponsoring projects, through the Polish Copper Foundation financed nearly 400 institutional projects and granted more than 1300 subsidies to private individuals. Work related to implementation of the workplace air conditioning program in the mines and the II edition of the Mine Talents Program – these are in turn further important projects realised in the area of corporate responsibility for its employees.

KGHM Polska Miedź S.A., as a global participant in the world's copper and silver markets, meets international standards in the area of corporate social responsibility. It is also for this reason that the CSR Strategy comprises procedural principles which are in accordance with international guidelines: the standard ISO 26000, the standard AA1000 and CSR guidelines for the mining sector established by ICMM (the International Council on Mining and Metals). Based on international standards, in 2012 the company issued its first Corporate Social Responsibility Report for the years 2010-2011 and a historical survey of the company's activities with respect to social responsibility in the years 1961- 2011. In 2013, the company issued a Corporate Social Responsibility Report for 2012, presenting the results of the company's activities undertaken with respect to balanced development and corporate responsibility. The Report was issued at the level of application B of the GRI (Global Reporting Initiative) guidelines.

## **PILLAR V – DEVELOPING ORGANISATIONAL KNOW-HOW AND CAPABILITIES**

Realisation of the strategic development of KGHM Polska Miedź S.A. is supported by activities aimed at continuous improvement of skills and organisational know-how. During the reporting period the company continued realisation of initiatives set forth in this pillar, aimed at the development of employees and the company's management potential, amongst which the following should be noted:

- development of educational systems and employee training programs,
- career planning and management of skills and knowledge,
- optimising the process of recruitment and professional adaptation, programs to develop young talent,
- planning the employee evaluation system and appropriate employee motivation,
- development of internal communication systems and shaping the organisational culture,
- continuation of projects adjusting organisational standards and management systems (such as implementation of an integrated management system based on ISO standards, a system to manage projects, programs and portfolios, and a corporate risk management system), and
- improvement in the management and supervision of investments carried out by the Group.

### **4. Activities of the Group**

#### **4.1. Macroeconomic sales conditions**

In 2013 the global economy developed at a somewhat slower pace than in previous years. According to estimates by the International Monetary Fund, global growth was at the level of 3.0 percent, but many of the key developed economies had to face serious problems. China, of such importance for the metals markets, continued to transform its economy by attempting to increase domestic consumer consumption, which raised substantial fears about the possibility of maintaining existing GDP. In Europe many countries, led by Italy and Spain, experienced recessions and thanks only to the good condition of the German economy, the Eurozone shrank in the past year only by 0.4 percent y/y. In the United States the economic situation improved systematically month to month, although investors' fear continued as to when the Federal Reserve would begin to cut back on its policy of quantitative easing, which would have a negative impact on the financial markets. While the year 2013 was marked by significant challenges and fears, the global economy, in particular in the second half of the year, managed to do fairly well. This resulted in an increase in global refined copper consumption of over 3% y/y.

Copper prices at the start of the year oscillated around 8 000 USD/t, but after two months the red metal began to depreciate in value. This was due to the continuing economic slowdown and to the partial withdrawal of investors from the commodities markets. The price of copper until the end of the year remained within the range 6 500 – 7 500 USD/t, ending the year nearer the higher end of the range. The increase in the copper price in December was due to the flow of better macroeconomic data from the US and Germany as well as to greater consumer optimism. In addition, after decreases in the copper price in the first half of the year, in the third and fourth quarters problems appeared with the availability of scrap. This supply window was not able to offset the growing amount of mine production from existing mines and from new mining projects coming into production. Official exchange inventories of copper in the second half of the year fell by over 400 kt. The metal was mainly stored in three locations: Johor, New Orleans and Vlissingen, generating fears that, in the case of a sudden increase in demand for copper, there would be a problem with removing the metal from the warehouses. According to unofficial information, copper continued to find its way to non-exchange warehouses in Asia, where it was used to conduct transactions on the financial market.

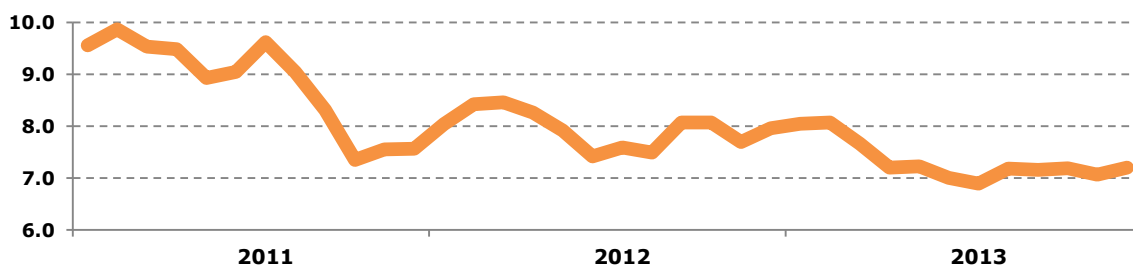
Last year it became evident that there was a change occurring among mined copper producers with the trend shifting towards intensification of activities aimed at delivering new mining projects in accordance with set schedules and optimising output, with strong pressure being brought to bear to control costs.

The silver market in 2013 witnessed extremely volatile changes. The price of the metal in the first half of the year lost around 30% of its value, and until the end of the year remained within the range 20-25 USD/ounce, systematically approaching the lower end of the range. The drop in the silver price was primarily caused by the announcement by the Federal Reserve of a gradual withdrawal from the program of quantitative easing involving buying back assets from the financial market, and to the possibility of higher interest rates, the direct result of which was an easing of fears of high, uncontrolled inflation.

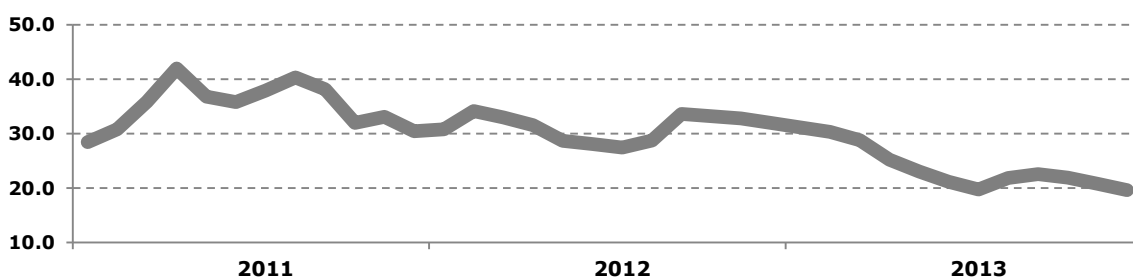
The average annual price of copper on the London Metal Exchange (LME) in 2013 was 7 322 USD/t, meaning a nearly 8 percent decrease versus the prior year (7 950 USD/t). The price of silver on the London Bullion Market (LBM) recorded a nearly 24% decrease versus 2012 with its average annual price at 23.79 USD/oz (31.15 USD/oz in 2012).

Price decreases were observed across the entire metals complex, both precious and base metals. In 2013 the company sold most of its by-products (such as gold, nickel and lead) at several tens percentage points lower than in the prior year.

**Chart 2.** Copper prices on the LME ('000 USD/t)



**Chart 3.** Silver prices on the LBM (USD/troz)

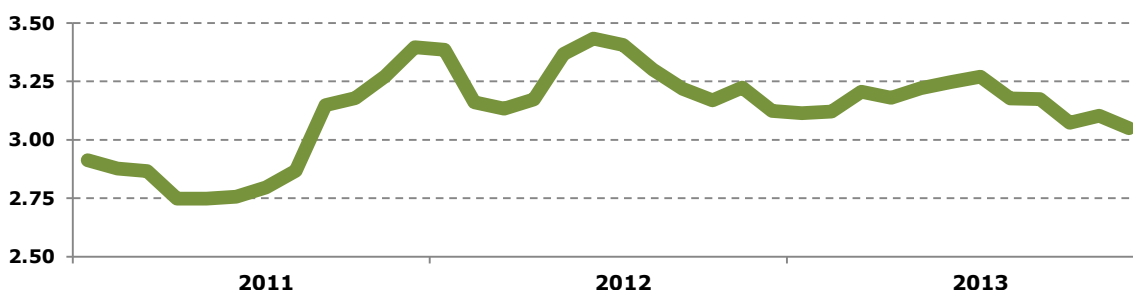


On the currency market, in the first half of 2013 a gradual strengthening of the USD versus the Euro was observed, resulting from the better economic situation in the US than in Europe, and the first declarations of withdrawal from the program of quantitative easing by the FED. The strengthening of the USD had an obvious effect on the PLN, and at the start of the second quarter the USD/PLN exchange rate approached 3.40. However, during subsequent quarters the situation reversed. The Polish economy began to show signs of improvement, including based on the improvement in the situation in western Europe. This led to a gradual appreciation of the PLN versus the USD, reaching the level of 3.00 at the end of 2013.

The average annual USD/PLN exchange rate (per the NBP) in 2013 amounted to 3.17 USD/PLN and was lower versus the prior year by nearly 3% (3.26 USD/PLN). In 2013 the minimum USD/PLN exchange rate was recorded at the end of December at the level of 3.0105 USD/PLN, while the maximum level was recorded at the start of July – 3.3724 USD/PLN.

Due to a deterioration of perspectives on the commodities markets, there was a weakening of the currencies of those countries which supply the most commodities to the market. The depreciation of around 10% in the Canadian dollar and Chilean peso versus the US dollar in 2013 improved the competitive positions of mining companies which have operations in these countries.

**Chart 4.** USD/PLN exchange rate per the NBP



The macroeconomic factors of greatest importance for the operations of KGHM Polska Miedź S.A. are presented in the following table.

**Table 7.** *Macroeconomic factors of importance for the operations of KGHM Polska Miedź S.A.*

	Unit	2011	2012	2013	Change 2012=100
Average copper prices on the LME	USD/t	8 811	7 950	7 322	92.1
Average silver prices on the LBM	USD/troz	35.12	31.15	23.79	76.4
Average USD/PLN exchange rate per the NBP	USD/PLN	2.96	3.26	3.17	97.2

#### Position of the Group in the sector

According to preliminary estimates by CRU International, global copper mine production in 2013 amounted to 17 745 kt. During this same period the KGHM Polska Miedź S.A. Group produced 531.1 kt of mined copper, representing 3.0% of global production. Global production of refined copper, according to preliminary estimates by CRU, amounted to 20 608 kt. Production of refined copper in the Group amounted to 594.7 kt, representing 2.9% of global production.

In 2013, global mine production of silver amounted to 815 million ounces (estimated data from CRU International). KGHM Polska Miedź S.A. during this period produced 37.3 million ounces of silver in concentrate, representing 4.6% of the global production of this metal.

#### 4.2. Basic products

The largest share in the sales of the KGHM Polska Miedź S.A. Group (85%) is from sales of the basic products produced (see table 8) by the Parent Entity and companies of the KGHM INTERNATIONAL LTD. Group.

Their value and volume are presented in the following tables.

**Table 8.** *Revenues from sales of the basic products of the KGHM Polska Miedź S.A. Group (PLN million)*

	2011	2012	2013	Change 2012=100
<b>KGHM Polska Miedź S.A.</b>				
Cathodes and cathode parts	8 200	8 394	7 707	91.8
Copper wire rod and OFE rod	6 423	6 682	6 174	92.4
Other copper products	556	449	478	106.5
<b>Total copper and copper products</b>	<b>15 179</b>	<b>15 525</b>	<b>14 360</b>	<b>92.5</b>
Metallic silver	4 067	4 301	3 191	74.2
Metallic gold	112	156	144	92.3
Refined lead	188	188	194	103.2
<b>Total</b>	<b>19 546</b>	<b>20 170</b>	<b>17 890</b>	<b>88.7</b>
<b>KGHM INTERNATIONAL LTD. Group**</b>				
Copper ***	-	3 056	2 317	75.8
Nickel	-	261	211	80.8
Precious metals (gold, platinum, palladium)	-	350	385	110.0
TC/RC	-	(243)	(229)	94.2
<b>Total</b>	<b>-</b>	<b>3 424</b>	<b>2 683</b>	<b>78.4</b>

\*\* The company joined the Group from 5 March 2012, while financial data for 2012 are for the full year, to maintain comparability of data

\*\*\* copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore

**Table 9.** Volume of sales of the basic products of the KGHM Polska Miedź S.A. Group

	Unit	2011	2012	2013	Change 2012=100
<b>KGHM Polska Miedź S.A.</b>					
Cathodes and cathode parts	kt	308.9	317.3	323.2	101.9
Copper wire rod and OFE rod	kt	237.2	246.3	250.7	101.8
Other copper products	kt	20.8	16.7	20.6	123.4
<b>Copper and copper products</b>	<b>kt</b>	<b>566.9</b>	<b>580.3</b>	<b>594.5</b>	<b>102.4</b>
Metallic silver	t	1 179.4	1 266.8	1 250.4	98.7
Metallic gold	kg	660.2	907.6	1 057.0	116.5
Refined lead	kt	25.3	27.1	26.7	98.5
<b>KGHM INTERNATIONAL LTD. Group*</b>					
Copper **	kt	-	118.6	100.8	85.0
Nickel	kt	-	4.6	4.7	102.2
Precious metals (gold, platinum, palladium)	k troz	-	92.5	99.6	107.7

\* The company joined the Group from 5 March 2012, while financial data for 2012 are for the full year, to maintain comparability of data

\*\* copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore

In 2013, versus the prior year, there was an increase in the volume of copper sales by the Parent Entity by 7.2 kt (1%). In addition, in terms of copper concentrate approx. 25.3 kt dry weight (7.0 kt Cu) was sold. Silver sales amounted to 1 250 t and were lower by 1% (16 t), while gold sales amounted to 1 057 kg and were higher by 16% (149 kg).

Total revenues from sales of the basic products of KGHM Polska Miedź S.A. in 2013 amounted to PLN 17 890 million, and were lower by 11% than revenues achieved in 2012, mainly as a result of lower metals prices: copper on the London Metal Exchange (LME) and silver on the London Bullion Market (LBM) as well as to a decrease in the USD/PLN exchange rate. Revenues from the sale of copper and copper products were lower by 7.5%. Revenues from silver and gold sales versus their level in 2012 were lower respectively by 25.8% and 7.7%.

The value of revenues from sales in 2013 reflect the positive result from the settlement of hedging instruments in the amount of PLN 450 million (in the prior year PLN 333 million).

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), represent 11.1% of revenues from metals sales by the KGHM Polska Miedź S.A. Group.

The decrease in revenues from metals sales by the KGHM INTERNATIONAL LTD. Group by 21.6% versus the comparative prior period, was mainly due to the decrease in metals prices and the decreases in copper and nickel production.

The KGHM INTERNATIONAL LTD. Group also earns revenues from the sale of mining services. In 2013 revenues in this regard amounted to PLN 681.3 million (in 2012 PLN 1 010.2 million).

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 2013 were earned by CENTROZŁOM WROCŁAW S.A. (4.0% of Group sales) and KGHM Metraco S.A. (1.2% of Group sales). A large portion of the merchandise sold by KGHM Metraco S.A. were by-products produced by the core business of KGHM Polska Miedź S.A.

#### 4.3. Sales markets

59.44% of the non-current assets of the KGHM Polska Miedź S.A. Group are located in Poland. The remaining 40.56% of the non-current assets are located in the following countries: Chile – 19.53%, Canada – 13.68%, the United States – 4.77%, other countries – 2.57%.

#### Geographical structure of sales markets

The largest part, i.e. 20.1% of the revenues from sales earned by the Group in 2013, was from the Polish market. The largest foreign recipients of the products, merchandise and services offered by Group companies were Germany (17.9%), China (14.0%) and the United Kingdom (10.7%).

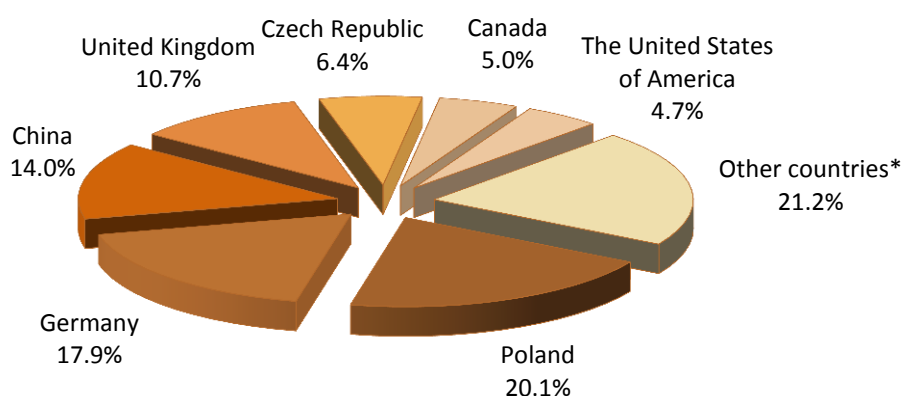
Revenues from sales of the Group to external customers by geographic region are presented in the following table.

**Table 10.** Group revenues from sales by market (M PLN)

	2011	2012*	2013	Change 2012=100
Poland	5 845	5 309	4 837	91.1
Germany	4 479	4 564	4 315	94.5
China	2 425	3 047	3 379	110.9
United Kingdom	2 734	3 950	2 581	65.3
Czech Republic	1 347	1 604	1 547	96.4
Canada	2	1 431	1 199	83.8
The United States of America	1 027	758	1 144	150.9
Other countries	4 735	6 042	5 108	84.5
<b>Total</b>	<b>22 594</b>	<b>26 705</b>	<b>24 110</b>	<b>90.3</b>

\* - comprises data of KGHM INTERNATIONAL LTD. for the period control was exercised (05.03.2012-31.12.2012)

**Chart 5.** Structure of revenues by sales market in 2013



\* sales to each of the remaining countries did not exceed 4%

#### Sales on the Polish market

Around 67% of revenues from Group sales in 2013 on the Polish market were realised by the Parent Entity. The sales volume of copper and copper products by KGHM Polska Miedź S.A. on the Polish market accounted for 20% of total copper sales. Silver sales on the Polish market accounted for 2% of the total volume of silver sales.

Revenues of other companies which are significant in the revenues of the KGHM Polska Miedź S.A. Group on the Polish market are from CENTROZŁOM WROCŁAW S.A. (10.0%), whose business involves trade in scrap and smelter products. The share of other companies did not exceed 5%.

#### Sales to other countries

Around 78% of revenues from sales of the KGHM Polska Miedź S.A. Group to other countries in 2013 were realised by the Parent Entity. The sales volume of copper and copper products accounted for 80% of total copper sales. During the analysed period, the largest recipients of the copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and France. Silver sales accounted for 98% of the total volume of silver sales. The largest recipients of the silver produced by KGHM Polska Miedź S.A. were the United Kingdom, Belgium and the USA.

Companies belonging to the KGHM INTERNATIONAL LTD. Group realised altogether approx. 17.5% 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 the USA, Canada and China.

#### **Suppliers to and customers of Group companies**

In 2013, 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.

There was no instance in 2013 of dependence by KGHM Polska Miedź S.A., as the entity realising the largest sales of the Group, on a single or multiple customers or suppliers. Similarly as in 2012, there was no single customer whose share in the revenues from sales of the Parent Entity exceeded 10%.

The only supplier whose share of supply exceeds 10% of the sales revenues of KGHM Polska Miedź S.A. is the subsidiary KGHM Metraco S.A., whose sales to KGHM Polska Miedź S.A. amounted to PLN 2 826 million, representing 15% of the value of company sales.

The high share of supply from KGHM Metraco S.A. is due to the operating model of the Group, according to which the goal of the operations of KGHM Metraco S.A. is to provide comprehensive services to KGHM Polska Miedź S.A. with respect to the supply of specific raw materials and products to ensure continuity of production by KGHM Polska Miedź S.A., based on its own logistical-expedition activities.

#### 4.4. Contracts of significance for the Group

In 2013, Group companies entered into contracts of significance for the Group whose value exceeded 10% of the equity of KGHM Polska Miedź S.A.

**Table 11.** *Contracts of significance for the Group's activities entered into in 2013*

Date	Amount	Description of contract
21 January 2013	PLN 1 672 million	Contract for silver sales in 2013, entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A. London Branch. This contract meets the criteria for a significant contract together with other contracts during the last 12 months prior to its signing.
28 January 2013	PLN 1 524 million	Contract for copper cathode sales in 2013, entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH. This contract meets the criteria for a significant contract together with other contracts during the last 12 months prior to its signing.
31 January 2013	from PLN 2 382 million to PLN 2 865 million*	Contract for copper wire rod sales in the years 2013-2014, entered into between KGHM Polska Miedź S.A. and Prysmian Metals. According to the contract with Prysmian Metals Limited, there may be a reallocation of materials between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH.
1 August 2013	USD 1.13 billion** (PLN 3.61 billion per the average NBP exchange rate from 31 July 2013)	Contract entered into between subsidiaries of KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and FNX Mining Company Inc., and Vale Canada Limited (a subsidiary of Vale S.A.), setting framework terms for the realisation by KGHM INTERNATIONAL LTD. of the Victoria project to mine copper, nickel and platinum-group metals located in Sudbury in Canada. KGHM INTERNATIONAL LTD. remains the 100% owner of the Victoria project, while Vale receives a Net Smelter Return royalty of 2.25% from all future production from the project.  Additionally, KGHM INTERNATIONAL LTD., FNX Mining Company Inc. and Vale signed a contract for the offtake of all ore produced by all of the mines of KGHM INTERNATIONAL LTD. in the Sudbury Basin in Ontario, Canada. The contract is valid for the entire operating life of all of the Sudbury mines belonging to KGHM INTERNATIONAL LTD. and also comprises all future production from the Victoria mine.

\* - depending on the amount of tonnage under option and on the relocation of tonnage between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH

\*\* - value of subject of contract over the 5 years from the date it came into force (from 01.01 2013 to 31.12.2017) estimated using future metals prices, estimated based on official LME closing prices and estimated forward curves for precious metals as at 31 July 2013

#### Information on significant transactions entered into between related entities, under other than arm's length conditions

In 2013, neither the Parent Entity nor subsidiaries entered into transactions between related entities under other than arm's length conditions. In the comparative period of the prior year there was one significant transaction entered into between related entities under other than arm's length conditions. This was an interest-free loan agreement entered into between Fermat 1 S.à r.l. as the lender, and Fermat 3 S.à r.l. as the borrower (a 100% subsidiary of Fermat 1 S.à r.l.) in the amount of USD 1 873 100 thousand (PLN 5 873 105 thousand – estimated value at the exchange rate from the date the agreement was signed).

#### Information on a contract and remuneration for the entity entitled to audit the financial statements

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

On 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. company 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 2011, 2012 and 2013 for the review and audit of financial statements and remuneration for other reasons, of the entity entitled to provide the auditing services described above, is shown in the following table.

**Table 12.** Remuneration of the entity entitled to audit the financial statements of KGHM Polska Miedź S.A. and selected subsidiaries ('000 PLN)

	2011	2012	2013
<b>Companies of the PricewaterhouseCoopers group</b>	<b>2 585</b>	<b>7 528</b>	<b>6 597</b>
From contract for the review and audit of financial statements, of which:			
- audit of annual financial statements	1 384	3 719	3 036
- review of financial statements	402	683	852
From realisation of other contracts	799	3 126	2 709

#### 4.5. Disputed issues

As at 31 December 2013, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 409 million, including receivables of PLN 137 and liabilities of PLN 272 million. The total value of the above disputed issues did not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables in 2013:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 59 million,
- proceedings by subsidiaries amounted to PLN 78 million.

Value of proceedings involving liabilities in 2013:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 199 million,
- proceedings against subsidiaries amounted to PLN 73 million.

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

**Table 13.** Largest on-going proceedings by and against KGHM Polska Miedź S.A. and its subsidiaries at the end of 2013

Proceedings involving liabilities
<p><b>Setting additional royalties for the extraction of copper ore for the period from the start of 2006 to the end of the 3rd quarter of 2011</b></p> <p>The municipalities (Gminas) of Polkowice, Lubin, the City of Lubin, Radwanice and Jerzmanowa submitted requests to the Minister of the Environment to open administrative proceedings to set royalties for the extraction by KGHM Polska Miedź S.A., for the period from the start of 2006 to the end of the 3rd quarter of 2011, of copper ore from deposits located in these municipalities and to allow them to participate as parties in these proceedings. The municipalities have charged that KGHM Polska Miedź S.A. lowered the amount of royalties paid on extracted non-balance copper ore in the total amount of PLN 90 million, including that portion payable to the municipalities in the amount of PLN 54 million, with the remainder representing payments to the National Fund for Environmental Protection and Water Management. The Minister of the Environment, in decisions dated 11 April 2012, discontinued the proceedings on the grounds that they were groundless. The municipalities submitted appeals dated 26 April 2012 to the Minister of the Environment to reopen 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 Polkowice, Jerzmanowa, Lubin and the City of Lubin submitted cassation appeals to the judgments to the Supreme Administrative Court. A hearing date for the cassation appeals has not been set. The judgment of the Regional Administrative Court dated 31 January 2013, dismissing the claims by the municipality of Radwanice, became legally binding on 12 April 2013. In the company's opinion the cassation appeals of the four municipalities are groundless, and consequently should not have a financial impact on KGHM Polska Miedź S.A.</p>

### Proceedings involving liabilities

#### **Royalties for use of invention project no. 1/97/KGHM**

Value of amount under dispute: PLN 42 million. The claim was filed with the Regional Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. Each of the plaintiffs in this suit is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8th period of the project's application (calendar year 2006). In accordance with a judgment of the Regional Court in Legnica, in June 2012 a court expert issued a further opinion regarding the methodology for calculating the economic effects by the plaintiffs and the company for 2006, being the basis for setting potential royalties. As the company questioned the opinion, the Court expert 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 by the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project.

#### **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., 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 to present evidence in the form of testimony by witnesses for the defendant.

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 Przedsiębiorstwo Budowy Kopalń 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 Brudniczy 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 remediating 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 Regional Court ordered the appointment of a court expert. Proceedings are in progress.

#### **Return of costs of protecting against mining damage**

Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the Regional Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of work to protect against mine damages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA” in Lubin.

The Regional 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 the amount of PLN 305 thousand, and the plaintiff in the amount of PLN 16 million. The Appeals Court appointed a court expert. At present correspondence is ongoing presenting the positions of the parties in respect of the issued opinion of the court-appointed expert and the supplementary opinion.

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 Regional Court, it is difficult to foresee the final resolution. 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. Proceedings are in progress. In the Parent Entity's opinion the payment of royalties to the project's authors was unfounded.

#### Return of excise tax

Value of amount under dispute: PLN 18 million. „Energetyka” sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Regional Administrative Court against a decision of the Director of the Customs Office setting 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, and ordered compensation to be paid to the subsidiary in the amount of PLN 107 thousand.

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. In a judgment dated 27 November 2013, it reversed the appealed judgment and ordered the matter to be re-heard by the Regional Administrative Court.

Proceedings are in progress.

#### Return of excise tax

Amount under dispute: PLN 13 million. POL-MIEDŹ TRANS Sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the 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 judgments of the Director of the Customs Office for the period from March to December 2003. POL-MIEDŹ TRANS Sp. z o. o. is awaiting the judgment justification.

#### 4.6. Capital expenditure

In 2013, capital expenditures in the Group amounted to PLN 3 386 million, and were higher by PLN 870 million (by 35%) than those incurred in 2012. The largest increase in capital expenditures was in the Parent Entity and amounted to PLN 591 million (33.5%). In the KGHM INTERNATIONAL LTD. Group, expenditures increased by PLN 229 million (66%).

In 2013, the KGHM INTERNATIONAL LTD. Group incurred capital expenditures in the total amount of PLN 577 million (expenditures incurred by subsidiaries) and were higher by PLN 229 million, i.e. 66% than those incurred in 2012. However, the most important project realised by the Group was the Sierra Gorda project in Chile, developed as a joint venture between KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group (45%). The share of KGHM INTERNATIONAL LTD. in the capital expenditures incurred on this project in 2013 amounted to PLN 3 551 million. The project comprises the construction of an open-pit mine and processing plant on one of the largest new deposits of copper and molybdenum in the world.

Total estimated capital expenditure on the project amounts to approx. USD 4 billion. The Sierra Gorda project is financed from three sources – by the investors (KGHM INTERNATIONAL LTD. and Sumitomo Group companies) and from borrowing. Realisation of the project is on schedule and on budget. Progress on the project at the end of 2013 was 86%. Detailed information on realisation of this project may be found in points 3.2 and 5.1. of this report.

The following table shows those Group subsidiaries which incurred the highest capital expenditures in 2013.

**Table 14.** Highest capital expenditures in KGHM Polska Miedź S.A. Group in 2013 (M PLN)

Company	expenditures	task/facility
KGHM Polska Miedź S.A.	2 357	<ul style="list-style-type: none"> <li>– Concessions 2013,</li> <li>– Construction of the SW 4 shaft,</li> <li>– Głogów Głęboki-Przemysłowy (Deep Głogów),</li> <li>– Modernisation and replacement of the machinery park in the mines,</li> <li>– Development of the infrastructure of the mining sections,</li> <li>– Replacement of floatation machinery,</li> <li>– Modernisation of classification units,</li> <li>– Exploration and documentation of the Synklina Grodziecka area,</li> <li>– Realisation of facilities related to improving and maintaining the operational safety of the Źelazny Most tailings pond and to eliminating its environmental impact,</li> <li>– Development of the Źelazny Most mining tailings treatment pond (to ensure the ability to store floatation tailings after 2016),</li> <li>– Investments aimed at achieving rock salt production of 1 million tonnes/year,</li> <li>– Automated ore mining program,</li> <li>– Pyrometallurgy Modernisation Program,</li> <li>– Construction of a Scrap Melting Unit,</li> <li>– Construction of Gas-Steam Blocks at the power plants in Głogów and Polkowice,</li> </ul>

Company	expenditures	task/facility
<b>KGHM INTERNATIONAL LTD. Group</b>	577	<ul style="list-style-type: none"> <li>– Robinson mine – stripping of overburden to access ore and dewatering,</li> <li>– Development of lower areas of Morrison deposit in the Levack/Morrison mine in Canada – development work, enabling access to three new levels, access ramps to the 5 040 foot level and drilling,</li> <li>– Victoria project – exploration project on an ore deposit of copper, nickel and precious metals in the Sudbury Basin in Canada, realised by FNX Mining Company Inc. (Project described in point 5.1. of this report),</li> </ul>
<b>PeBeKa S.A.</b>	140	<ul style="list-style-type: none"> <li>– purchase of drift combines, machinery and shaft equipment, heavy and auxiliary mine machinery,</li> </ul>
<b>KGHM AJAX MINING INC.</b>	86	<ul style="list-style-type: none"> <li>– Afton-Ajax project – project to mine a copper and gold deposit in Canada. (Project described in point 5.1. of this report).</li> </ul>

#### 4.7. Environmental protection

##### Parent Entity

##### Activities of KGHM Polska Miedź S.A. in respect of environmental protection

KGHM Polska Miedź S.A., as one of the largest 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 balanced 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 environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations serving the environment, both those built in the past as well as new investments in this area. In 2013, the company spent PLN 181 million on the realisation of investments related to environmental protection. The largest expenditure, in the amount of PLN 139 million, was incurred on continuation of the construction of two gas-steam blocks, one in Głogów and one in Polkowice.

KGHM Polska Miedź S.A., taking into consideration its corporate social responsibility, continued in 2013 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 metallurgical facilities of KGHM Polska Miedź S.A., comprised among others of blood testing for lead content, trips to „Green schools”, pool-related activities and education related to ecology and health. In the past year this program covered 425 children and 75 adults, most of whom were pregnant women. A large-scale program of health checks for the citizens of the municipalities of Jerzmanowa and Żukowice was also conducted, who are exposed to odors emitted from the nearby SG-2 ventilation outlet shaft. In 2013, 253 citizens of the above municipalities participated in the program.

##### Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2013 amounted to PLN 30 million. The amount of fees paid was higher by PLN 3 million than in 2012, mainly due to the annual increase in environmental fee rates.

In 2013 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 industrial installations whose functioning, in accordance with the Act on Environmental Protection, requires the possession of integrated permits. These include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the smelter which do not require integrated permits at the Głogów Smelter,
- an installation titled The Biechów industrial waste storage facility at the Głogów Smelter,
- an installation titled The Biechów II industrial waste storage facility at the Głogów Smelter,
- an installation for the production of refined lead at the Legnica Smelter,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electronic processes, the tailings waste facility „Polkowice”, a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the Legnica Smelter,
- an installation for the melting, continuous casting and drawing of copper rod at the Cedynia Wire Rod Division,
- an installation for the storage of tailings from the 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 KGHM Polska Miedź S.A. possess environmental sector administrative decisions. In addition, the Głogów and Legnica Smelters were prepared to participate in the CO<sub>2</sub> emissions trading system.

Amongst the most important investments planned in the near term are the following:

- continuation of a program to promote health and prevent environmental threats – aimed at the inhabitants of former protective zones,
- continuation of work related to the modernisation of pyrometallurgy at the Głogów Smelter,
- adaptation of administrative decisions held to legal changes,
- introduction in the company of a system for trading CO<sub>2</sub> emissions,
- work related to ensuring the security of the Żelazny Most tailings pond, such as strengthening the containment dam,
- development of the Żelazny Most tailings pond by the so-called southern quarter,
- work on the building of an integrated management system for the entire company.

#### Activities on behalf of meeting REACH requirements

KGHM Polska Miedź S.A. is a member of six international consortiums created to meet the requirements of the European Union's REACH decree. In 2013, two substances were registered: selenium and copper chloride, and updates were made to 12 pieces of documentation submitted in 2010. Cooperation with the consortiums was with respect to:

- numerous updates to decrees, guidelines and requirements,
- the assessment of silver registration documentation conducted through Holland ordered by the European Chemicals Agency (ECHA), and
- the threat of introduction of restrictions and authorisations in the production and application of fire-resistant fabrics and hydrazines.

By 2018, KGHM Polska Miedź S.A. is to register two more substances: gold as an end substance and silver chloride as an intermediate substance.

In the years 2014-2018 all of the REACH consortiums will continue to function with respect to the aforementioned numerous and frequent updates to REACH requirements.

#### Mine closure funds

As at 31 December 2013 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 a separate bank account:

- for the Mine Closure Fund based on a requirement arising from the Act on geology and mining dated 9 June 2011, to cover the future costs of decommissioning mines and other technological facilities,
- for the Tailings Storage Facilities Restoration Fund pursuant to the Act dated 14 December 2012 on waste.

Balance of Fund resources as at 31 December 2013 – PLN 179 million, as at 31 December 2012 – PLN 141 million.

### **KGHM INTERNATIONAL LTD. Group**

In 2013, entities of the KGHM INTERNATIONAL LTD. Group incurred the following expenditures on activities related to environmental protection:

- The Robinson mine in the USA spent PLN 7.8 million on the management of a mine dewatering system and on other environmental monitoring programs, and PLN 2.1 million on rights and permitting related to its operations,
- The Carlota mine in the USA spent PLN 5.1 million on activities related to environmental protection involving closure of the mine,
- The Franke mine in Chile spent PLN 3.3 million on dust control and other programs on behalf of environmental protection.

#### Mine closure and restoration funds

As at 31 December 2013, the balance of funds collected by KGHM INTERNATIONAL LTD. to cover restoration costs for terrain impacted by the mining activities of this group amounted to PLN 76 million (as at 31 December 2012 – PLN 23 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 and liquidation of technological facilities.

As at 31 December 2013, the value of debt securities, representing funds allocated to cover the costs of mine decommissioning amounted to PLN 69 million (in 2012, PLN 296 million). The significant decrease in debt securities in the reporting period was due to the withdrawal by the KGHM INTERNATIONAL LTD. of part of its commitment in debt securities representing security of the costs of mine decommissioning, in exchange for the

creation of a letter of credit, as security for the future costs of mine decommissioning, in the amount of PLN 184 million in the form of a line of credit granted to KGHM INTERNATIONAL LTD. by the Bank of Nova Scotia.

#### **Other Group companies**

Amongst the remaining Polish companies of the Group, activities related to environmental protection include the planting of energy willows conducted by the company „Energetyka” sp. z o.o. In 2013 willows were planted over an area of 156 ha. At the end of 2013 the total area planted by the company with such willows amounted to 379 ha.

„Energetyka” sp. z o.o. in 2013 incurred the highest environmental fees amongst the remaining Polish companies. These amounted to PLN 4 million and are mainly comprised of payments for water intake and waste discharge (PLN 2.4 million) and for emission of contaminants to the atmosphere (PLN 1.5 million).

### **4.8. Risk management**

#### **Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group**

In 2013, the Parent Entity completed design work aimed at implementing a comprehensive integrated risk management system, supporting the management process at the strategic and operational level for the Group.

This project was an element in realisation of the Strategy, as well as in developing skills and organisational efficiency, improving corporate governance and strengthening investor trust in the Group. The efficient implementation of such a system strengthens robustness, predictability and stability, as well as responsibility towards shareholders, and also the ability to adapt to the volatile conditions of the business environment.

An integral part of the project was the conduct of a program of training for management staff and employees of the Group in the question of risk management at the basic level (the principles and adopted model of risk management) – realised at the turn of 2012/13 - and at the advanced level (dedicated workshops for selected groups of participants/roles in the risk management process) – realised in 2013.

As a result of realisation of this project, in November 2013 the following documents were approved:

- **The „Corporate Risk Management Policy in the KGHM Polska Miedź S.A. Group”** – describing the method of approach, setting forth basic principles and establishing the corporate risk management process in the Group.

This comprehensive approach to risk management conforms to the strategy of growth, with consistent efforts at operational improvement and with the principles of balanced growth and corporate responsibility. It was designed so as to support the Group in building a robust corporate structure.

The goals of risk management are to:

- ensure the creation and protection of shareholder value by establishing a unified approach to the identification, assessment, risk analysis and implementation of answers to key risks;
  - protect the lives and health of employees, the natural environment and the brand’s reputation;
  - support the achievement of business goals through implementation of the tool of early warning of opportunities and threats;
  - ensure strong support in making decisions at all levels of the organisation; and
  - build an organisation aware of the risks it takes and determined to continually improve.
- **The „Corporate Risk Management Procedure in KGHM Polska Miedź S.A.”** - describing the sequence of individual stages, the role and responsibilities of individual participants and the applicable timeframes for the corporate risk management process in the Group.

The goal of the Procedure is to ensure that key risks are identified, assessed and analysed, and on the basis of these assessments appropriate Risk Response Plans are prepared and Corrective Actions are implemented which provide for the limitation of threats and realisation of assumed business goals and will support identification of opportunities to build competitive advantage.

This Procedure was developed in accordance with best practices and was adapted to the needs and specifications of the KGHM Polska Miedź S.A. Group. It is inspired by solutions adopted by the standard ISO 31000:2012, which were adapted to the organisational conditions and cultures of the KGHM Polska Miedź S.A. Group. In addition, it implements selected practices developed in other norms and standards such as COSO I and II.

- **The „Corporate Risk Committee Rules of KGHM Polska Miedź S.A.”** - containing the Committee’s functional principles, enabling the Committee to realise the corporate risk management process, in accordance with principles set forth in the Policy and Procedure.
- **The „Corporate Risk Management Methodology of KGHM Polska Miedź S.A.”** - describing ways to proceed and supporting tools in performing specific tasks arising from the Procedures, comprising among others Risk Models, Risk Assessment Matrices, Risk Registration, Risk Cards, Detailed Risk Cards, Risk Maps etc.

The above documentation of the Comprehensive Risk Management System in the Group reflects the approach to consolidation of the corporate risk management process at the Group level, and represents guidelines for the development and implementation of appropriate corporate risk management procedures in Group companies.

The 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 realisation of the business goals. The current, future, actual and potential impact of risk on the achievement of business goals is assessed. Based on this assessment, management practices are reviewed and applied in terms of responses to individual risks.

In 2013, as part of the design work realised, the process of identification and assessment of risk in the Group was performed. Based on the process of identification and risk assessment, reflecting their position on the Risk Map, key risks were selected for the Parent Entity. These risks will be the subject of deeper analysis in order to develop a Risk Response Plan and Corrective Actions. Other risks will be continuously monitored by the Corporate Risk Management and Conformity Department.

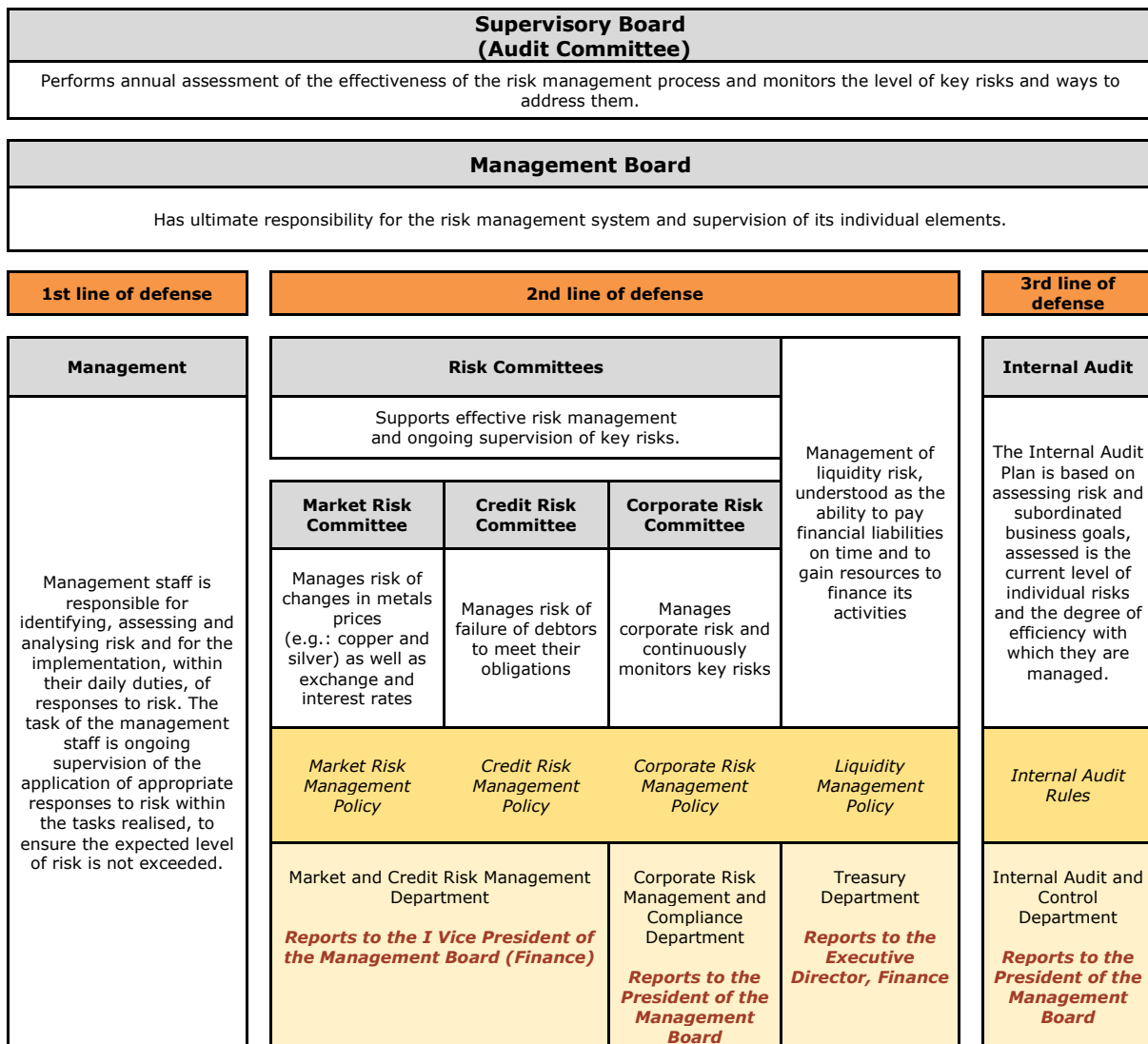
The process of risk management in individual Group companies will be realised through documentation of this process approved at the level of Group companies. Implementation of appropriate procedures at the level of Group companies is expected to be completed by the end of the first quarter of 2014.

The management of individual risks (including among others market risk) may be the subject of separate individual regulations in the Group. In the Parent Entity they are set forth in the following documents:

- Market risk management principles, comprising among others: Market Risk Management Policy and the Rules of the Risk Management Committee.
- Credit Risk Management Policy and the Rules of the Credit Risk Committee.
- Financial Liquidity Management Policy.

The organisational structure of risk management in the Parent Entity is shown below. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

**Diagram 3.** Organizational structure of risk management in KGHM Polska Miedź S.A.



## **Financial risk management**

The goal of financial risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and results in the short and medium terms and to build Group value over the long term. Financial risk management includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. In 2013, the Group was exposed to the main financial risks i.e. market risks, credit risk and liquidity risk.

The Parent Entity, based on the adopted Market Risk Management Principles, Liquidity Risk Management Policy and Credit Risk Management Policy, manages the identified types of financial risk in a conscious and responsible manner. In the KGHM INTERNATIONAL LTD. Group, the principles of financial risk management have been set forth in the Investment Policy. In the remaining Group companies, which manage financial risk, a document introducing coherence has been implemented, regulating market risk management in force in the Parent Entity.

The Parent Entity supervises the process of liquidity management and arranging external financing in the Group.

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

## **Market risk management**

### Commodity risk, Currency risk

The Parent Entity is exposed to the risk of changes in the price of copper, silver and gold. Other Group companies are additionally exposed to the risk of fluctuations in the price of nickel, lead, molybdenum, platinum and palladium. The market risk related to changes in metals prices is the result of the formulas for setting prices in physical metals sales contracts, which are usually based on average monthly exchange prices from the respective future month.

In accordance with the Market Risk Management Policy, in 2013 the Parent Entity continuously identified and measured market risk related to changes in metals prices and exchange rates. Monitoring the size of market risk in the Parent Entity is based on analyses of the impact of market risk factors on the financial results, among others using the market risk measure Earnings-at-Risk, based on Corporate Metrics methodology. In the reporting period the mining companies of the KGHM INTERNATIONAL LTD. Group were also subject to analysis.

Of major significance for the Parent Entity is the risk of changes in currency rates, in particular the USD/PLN exchange rate. To limit market risk, the Parent Entity uses natural hedging to the extent possible (purchase of materials and services in USD), although the basic market risk management technique involves hedging strategies using derivatives.

Some Group companies, due to the fact that they incur costs in base currencies other than the USD, are exposed to the risk of changes in exchange rates - mainly USD/PLN, USD/CAD and USD/CLP. Additionally, in a situation where a foreign customer pays in local currency for the metal they import, there also arises risk related to volatility in other exchange rates, for example: EUR/PLN and GBP/PLN. Group companies are also exposed to the risk of changes in exchange rates whose sources are loans and other liabilities (e.g. arising from the import of goods and services) denominated in currencies other than currencies in which these companies achieve revenues.

Amongst Group companies in 2013, only the Parent Entity made use of hedging transactions (understood as hedge accounting). In the first half of 2013 the Parent Entity implemented transactions hedging revenues from sales (currency market) with a total nominal amount of USD 480 million and a time horizon falling in the years 2014-2015. Additionally, in the reporting period a restructure was performed of seagull option strategies for the first half of 2014, with a total nominal amount of USD 180 million by repurchasing sold put options. Restructuring of positions in derivatives will allow the full utilisation of put options purchased within those structures in case of the eventual strengthening of Polish currency in the first half of 2014.

In 2013, the Parent Entity did not implement copper and silver price hedging strategies. However, in the second quarter of 2013 there was a restructuring of the hedging position on the silver market by repurchasing a seagull option structure, with option execution prices of 20-40-65 USD/troz and a nominal amount of 1.8 million troz. The closure of the hedging position on silver market with profitable stock prices guaranteed that the Parent Entity increased its revenues from sales in the second half of 2013 by PLN 95 million.

In 2013, the total result on derivatives in the Group was PLN 98 million of which:

- PLN 450 million was transferred to revenues from sales,
- PLN 352 million decreased other operating activities (wherein: the loss from realisation of derivatives amounted to PLN 177 million, and the loss from the measurement of derivatives amounted to PLN 175 million).

The loss from the measurement of derivatives transactions, recognised in other operating activities, is mainly due to changes in the time value of options, which in accordance with hedge accounting policy is recognised in profit or loss.



As at 31 December 2013, the fair value of open positions in derivatives amounted to PLN 809 million, while PLN 617 million was recognised in the revaluation reserve from the measurement of derivatives.

In the case of the KGHM INTERNATIONAL LTD. Group, market risk arose from realisation of the Sierra Gorda project, where a large part of the costs were incurred in the Chilean peso (CLP). To limit this risk, UF units were purchased - Unidad de Fomento (CPI - Indexed Unit of Account) - denominated in CLP and indexed by CPI inflation in Chile, which were used for ongoing financing of the project.

#### Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the Group's results. In 2013, the Group was exposed to this risk due to loans granted, unallocated cash placed in deposits and borrowing.

As at 31 December 2013 the Group held receivables in the amount of PLN 3 378 million due to loans granted to finance the Sierra Gorda mine project, in respect of which decreases in interest rates does not impact the revenues from these loans, as the interest generated is based on a fixed interest rate.

As at 31 December 2013, the balance of the cash invested by the Group amounted to PLN 864 million. A decrease in market interest rates would cause a decrease in expected interest revenues from periodically-free cash invested.

As at 31 December 2013, the balance of borrowing amounted to PLN 2 878 million. Within this category the Group held:

- liabilities due to bank loans drawn, with interest based on a variable interest rate, in the amount of PLN 1 348 million,
- liabilities due to loans received, with interest based on a fixed interest rate, in the amount of PLN 8 million,
- liabilities due to issued bonds in the amount of PLN 1 522 million (USD 494 million). The issuer of the bonds is KGHM INTERNATIONAL LTD., with interest based on a fixed interest rate with maturity falling in 2019.

The Group, in the reporting and comparable periods, did not use instruments to hedge against interest rate risk.

The impact of changes in interest rates on the results of the Group is estimated to be immaterial, due to the scale of the Group's operations.

#### Price risk related investments in debt securities and to the purchase of shares of listed companies

As at 31 December 2013, the KGHM Polska Miedź S.A. Group held environmental bonds issued by the government of the United States with a carrying amount of PLN 69 million (USD 23 million), which are only minimally exposed to price risk.

Price risk related to shares of listed companies held by the Group, is understood as a change in their fair value due to a change in their share price. The carrying amount of the shares of companies held by the Group which are listed on the Warsaw Stock Exchange and on the TSX Venture Exchange as at 31 December 2013 amounted to PLN 856 million.

### **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 2013, the Group was exposed to this risk mainly in areas related to:

- trade receivables,
- derivatives transactions,
- and cash equivalents and bank deposits,
- loans granted, and
- debt securities.

#### 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 and other receivables.

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. In 2013, the Parent Entity secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages, and documentary collection.

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 2013 the Parent Entity had secured 74% of its trade receivables.

The concentration of credit risk in the Group results from the fact that key clients are allowed extended terms of payment. Consequently, as at 31 December 2013, 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 49% of the trade receivables balance (as at 31 December 2012: 32%). 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.

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

#### Credit risk related to derivative transactions

All of the entities with which the Group enters derivative transactions operate in the financial sector. These are mainly financial institutions, with the higher and medium-high ratings. According to fair value at 31 December 2013, 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 22%. 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 cash and cash equivalents and bank deposits

The Group deposits periodically unallocated 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 with which the Group enters into deposit transactions 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.

As at 31 December 2013, the maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounted to 22% (as at 31 December 2012, 16%).

#### Credit risk related to loans granted

As at 31 December 2013, the balance of loans granted by the Group amounted to PLN 3 378 million (USD 1 122 million). This item is represented by a loan granted by KGHM INTERNATIONAL LTD. for the financing of a mine project in Chile as a joint venture. Credit risk related to the loan granted is dependent on the risk connected with mine project realisation and presently is considered to be moderate.

#### Credit risk related to investments in debt securities

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.

As at 31 December 2013 the Group held United States government bonds with a carrying amount equivalent to PLN 69 million (USD 23 million). These are USD-denominated environmental bonds, representing assets for closure of the mines of KGHM INTERNATIONAL LTD.

These investments are only minimally exposed to credit risk due to the creditworthiness of the issuer.

## Financial liquidity management

Capital management is aimed at maintaining continuous financial liquidity in each period. The Group actively manages the liquidity risk to which it is exposed. This risk is understood as the ability to pay financial liabilities on time and to gain resources to finance its activities.

Financial liquidity management in the Parent Entity is carried out in accordance with the „Financial Liquidity Management Policy“. In KGHM INTERNATIONAL LTD. the principles of liquidity management are regulated by the Investment Policy. These documents describe the process of financial liquidity management with reference to the specific nature of Group companies, guided by procedures and instruments in accordance with best practices. The basic principles resulting from these documents are:

- the investment of financial surpluses in safe, liquid instruments,
- limits for individual financial investment categories,
- concentration limits on monetary resources for financial institutions,
- assuring the appropriate financial sources.

In 2013, the Group engaged in borrowing mainly in the form of bank loans and issued bonds.

As at 31 December 2013, the Group held borrowing liabilities in the amount of PLN 1 348 million, with interest based on variable WIBOR, LIBOR and EURIBOR plus a margin.

As at the end of the reporting period, the balance of open lines of credit in the Parent Entity amounted to USD 88 million, EUR 50 million and PLN 2 600 million, and in KGHM INTERNATIONAL LTD. USD 200 million.

KGHM INTERNATIONAL LTD. also uses borrowing in the form of debt bonds in the amount of PLN 1 522 million (USD 494 million) with maturity falling in 2019. These bonds, issued in a private offer, give KGHM INTERNATIONAL LTD. the opportunity for early redemption, to 15 June 2014 up to 35% of the issue, and after this date up to 100% of the issue, at their nominal price, plus a premium if redemption is made prior to 15 June 2017.

In accordance with market practice, Group companies monitor capital, to maintain financial liquidity and creditworthiness to enable them to borrow at reasonable cost, based on the equity ratio and the ratio of net debt/EBITDA. The Group assumes that the equity ratio will 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.

With respect to debt servicing, as at 31 December 2013 the net debt/EBITDA of the Group was below the maximum assumed level and amounted to 0.37, while the equity ratio was higher than the assumed minimum level, and amounted to 0.61.

As at 31 December 2013, the Group held guarantees granted in the amount of PLN 620 million, including guarantees of PLN 414 million (USD 137.5 million), securing the contract for the supply of electricity to the Sierra Gorda JV. These items represent contingent liabilities which do not materially impact liquidity risk in the Group.

In 2013, the process of including further companies in the cash management services in the KGHM Polska Miedź S.A. Group (zero-balance cash pool) was continued. The funds made available through these services have an interest rate based on variable WIBOR. As at 31 December 2013, 25 companies and the Parent Entity were participants, with the available overdraft facility limit of PLN 431 million. The cash pool service enables optimisation of costs and effective management of current cash liquidity in the KGHM Polska Miedź S.A. Group.

## 5. Review of financial position

### 5.1. Operating segments

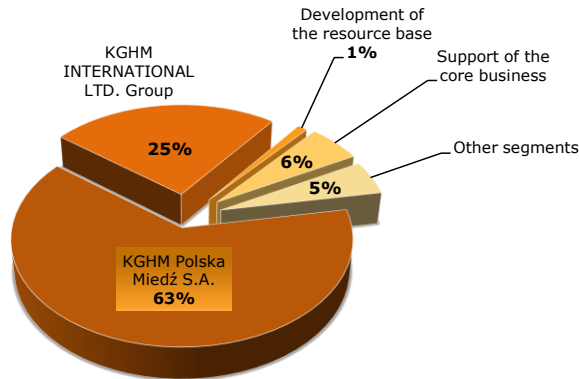
Within the activities of the KGHM Polska Miedź S.A. Group five operating segments have been identified which are analysed in detail by management bodies. The identified operating segments are simultaneously reporting segments:

- 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.

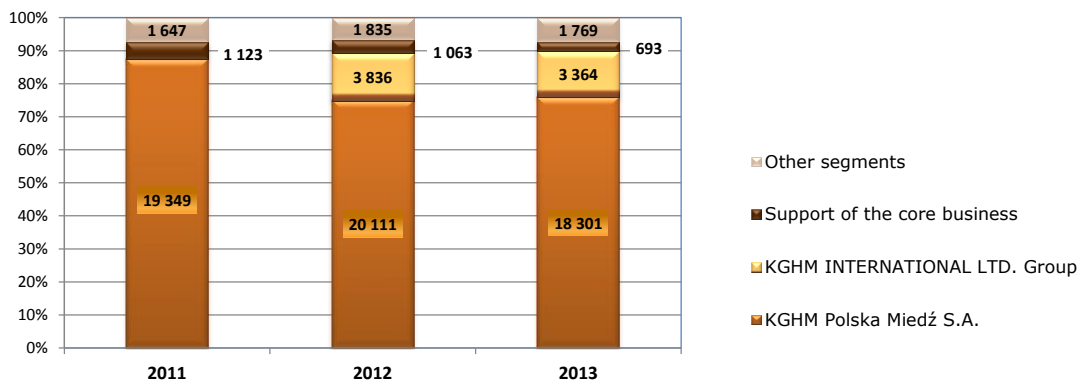
Presented below is the structure of assets and of revenues from the external market in the Group.

The most important role in the structure of assets and the generation of revenues in the KGHM Polska Miedź S.A. Group is played by the Parent Entity and the KGHM INTERNATIONAL LTD. Group. A marginal share in these amounts is from the segment Development of the resource base, due to its nature - this segment is comprised of companies involved in exploration and assessment work.

**Chart 6.** Structure of assets by segment as at 31 December 2013



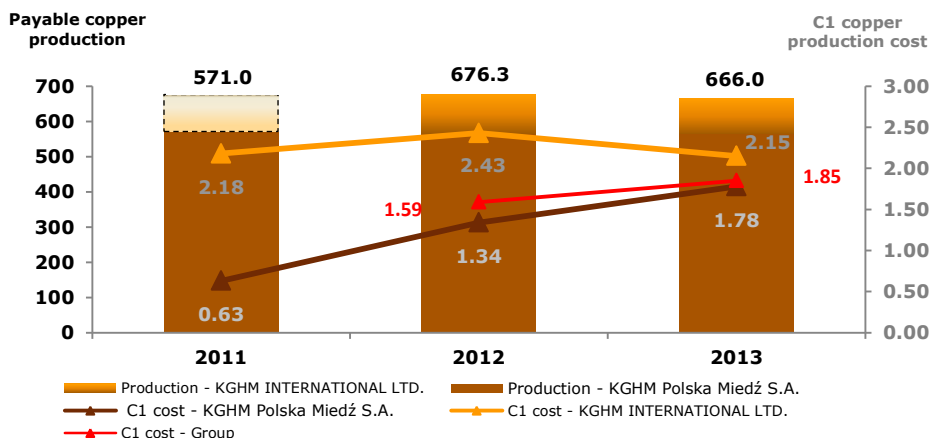
**Chart 7.** Structure of revenues from the external market by segment (M PLN)



The chart below shows the amount of payable copper production and the C1 cost of copper production in the KGHM Polska Miedź S.A. Group. The increase in copper production from 2012 is due to the acquisition of the Quadra FNX Mining Ltd. Group (today KGHM INTERNATIONAL LTD.). The level of production by KGHM INTERNATIONAL LTD. in 2011 (prior to gaining control) is shown by the broken line.

The increase in the C1 cost of copper production in the Parent Entity was substantially impacted by the introduction of the minerals extraction tax.

**Chart 8.** Copper production and C1 cost\* 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 costs during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products

Detailed information on individual segments and their results is shown below.

### **KGHM POLSKA MIEDŹ S.A.**

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The Parent Entity represents the most important production segment in the Group. At the end of 2013 the assets of KGHM Polska Miedź S.A. represented 84% of the assets of 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 a pre-production mine project: Głogów Głęboki Przemysłowy (Deep Głogów). KGHM Polska Miedź S.A. also owns exploration projects involved in the exploration for and evaluation of deposits of copper ore in areas holding concessions: Radwanice-Gaworzyce, "Retków-Ścinawa" and "Głogów", which are directly adjacent to the mining areas of KGHM Polska Miedź S.A., "Synklina Grodziecka" in the vicinity of Bolesławiec, and also "Szklary" (a nickel deposit) in the vicinity of Ząbkowice Śląskie.

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 wire rod, granulate etc.

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 guarantee continuity of operations in Poland for the next 40 years.

#### **Process of obtaining concessions for mining areas currently in use**

The activities of KGHM Polska Miedź S.A. involving the mining of the copper ore deposit over the last 20 years were based on concessions held by the company which were issued by the Minister of Environmental Protection, Natural Resources and Forestry and the Minister of the Environment in the years 1993-2004, most of which expired by December 2013. The concessions which expired on 31 December 2013 covered the following deposit areas: „Polkowice”, „Sieroszowice”, „Lubin-Małomice” and „Rudna”. The concession covering „Radwanice-Wschód” deposit would have expired in 2015.

In view of the above, in 2010 KGHM Polska Miedź S.A. commenced the project CONCESSIONS 2013, whose aim was to obtain concessions to extract copper ore from the aforementioned mining areas for the maximum possible period provided for by law, which is 50 years.

On 14 August 2013, three concession decisions were signed by the Minister of the Environment for the extraction of copper ore from the deposits: „Polkowice”, „Radwanice-Wschód” and „Rudna”. On the same day three agreements were also signed regarding the granting of mining usufruct rights to the concessions in question and a decision was issued terminating the existing concession for the extraction of copper ore from the deposit „Radwanice-Wschód”.

Two other concessions, for the deposits „Lubin-Małomice” and „Sieroszowice”, were signed by the Minister of the Environment on 12 September 2013. Also signed were two agreements regarding the granting of mining usufruct rights to these deposits.

In October 2013, Mine Operating Plans for three mines ("Polkowice-Sieroszowice", "Rudna" and "Lubin") were submitted for approval to the District Mining Office. Within the established deadline, i.e. 31 December 2013, the mining authority approved all three Mine Operating Plans.

Consequently, the company has continued its core operations from 1 January 2014 based on new concessions and new mining usufruct agreements which are in force to 31 December 2013 as well as new mining operating plans for three mines approved for the years from 2014 to 2016 (i.e. to 31 December 2016).

#### **Production technology**

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. Mining in KGHM Polska Miedź S.A. is performed by three mining divisions: ZG Lubin, ZG Rudna and ZG 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 HM Legnica smelter and refinery, the HM Głogów smelter and refinery and the HM Cedynia copper wire rod plant.

#### **Mining**

The technology of mining the copper ore in all 3 mines is based on the room-and-pillar system with the use of blasting for ore extraction. This involves the excavation of a drift network on all four sides of the site to be mined, cutting of the unmined rock mass with rooms and drifts separating a number of operating pillars, as well as extracting of the ore followed by the transport of the ore to underground dumping stations. Here the large

rocks are crushed and sifted through a grate, and then the crushed ore is transported to the storage areas near the shafts, from which it is transported to the surface by skip hoisting shafts.

After the ore is unloaded at the shaft top, it is transported by conveyor belts or railway to the ore concentrators located at each of the three mines.

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

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

The dried concentrate of approx. 8.5% water content is transported by rail to the three smelters: Legnica, Głogów I and Głogów II.

The tailings, in the form of slime, are transported through pipelines to the Żelazny Most tailings pond, where the sedimentation of the solid particles takes place and waste water is collected and redirected to the enrichment facilities. The storage site also serves as a retention-dosage reservoir for excess mine water. The excess water is periodically discharged to the Odra River.

### Metallurgy

The copper smelters produce electrolytic copper based on own concentrates and purchased copper-bearing material (concentrates, copper scrap and copper blister).

The Legnica and Głogów I smelters use a multi-stage process, whose main stages are: preparation of the charge material for smelting, its smelting in the shaft furnace to the form of matte copper, followed by conversion to the form of raw copper of approx. 98.5% Cu content, fire refining in an anode furnace to produce anodes of 99.2% Cu content, and electrorefining. The final product is refined electrolytic copper cathodes of 99.99% Cu content.

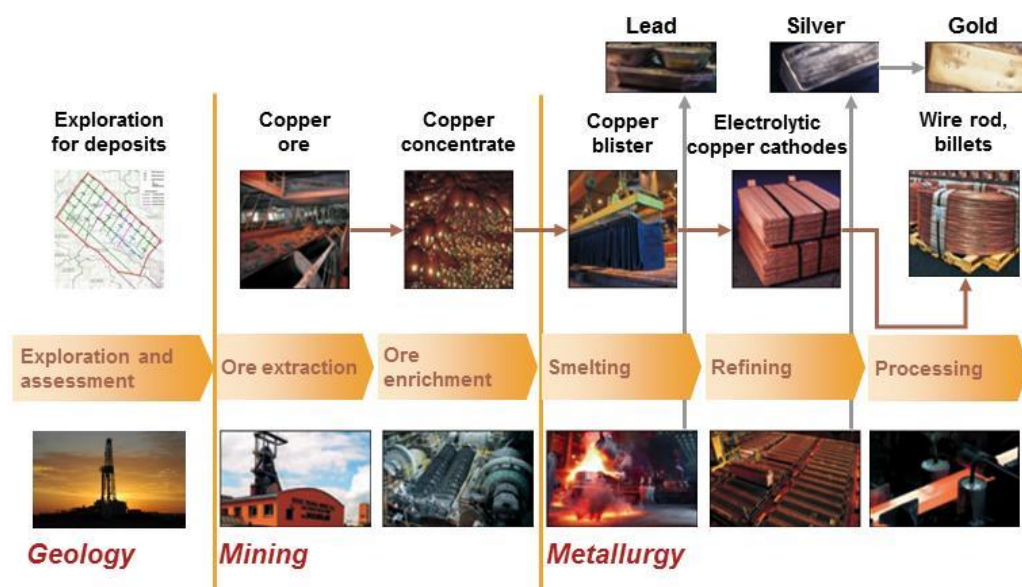
The Głogów II smelter applies flash furnace technology based on a modified license from the Finnish company Outokumpu. This technology combines three stages: drying of the concentrate, smelting of the matte copper and converting, into one. The dried concentrate is smelted in a flash furnace into blister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

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

The anode slime produced as a by-product of the electrorefining process at all three smelters contains precious metals, which 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 originating from 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. The crude lead is refined at the Legnica smelter to obtain the final product - refined lead.

**Diagram 4.** Integrated geological, mining and metallurgical operations in KGHM Polska Miedź S.A.



### Production and operating results

**Table 15.** Production results (smelter production) of KGHM Polska Miedź S.A.

	Unit	2011	2012	2013	Change 2012=100
Payable copper	kt	571.0	565.8	565.2	99.9
- incl. from purchased copper-bearing materials	kt	124.6	146.7	134.8	91.9
Wire rod, OFE and CuAg rod	kt	242.7	242.9	243.7	100.3
Round billets	kt	20.3	18.0	17.0	94.4
Metallic silver	t	1 260	1 274	1 161	91.1
	M troz	40.5	41.0	37.3	91.0
Metallic gold	kg	704	916	1 066	116.4
	k troz	22.6	29.5	34.3	116.3
Refined lead	kt	25.2	27.5	26.6	96.7

The production of electrolytic copper versus 2012 was slightly lower (0.6 kt, i.e. 0.1%) and was the third-highest result in the history of KGHM Polska Miedź S.A., i.e. 565.2 kt. This high smelter production was achieved despite the smelter production line maintenance shutdown at HM Głogów II. The modernisation tasks performed improved operating parameters and will allow efficient operation of the line until the next maintenance in 2017. Assisting in maintaining the level of production was the higher processing of own concentrate and the share of purchased copper-bearing materials in the form of scrap, blister copper and imported concentrate. Supplementing own concentrates with purchased copper-bearing materials enabled the efficient utilisation of existing technological and production capacity.

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

In relation to 2012, the production of metallic silver decreased by 113 t, with a result achieved for the year of 1 161 t, while the production of metallic gold increased by 150 kg, i.e. 16.4%, and achieved the level of 1 066 kg.

**Table 16.** Cash cost of producing copper in KGHM Polska Miedź S.A.

	Unit	2011	2012	2013	Change 2012=100
Cash cost of producing copper – C1*	USD/lb	0.63	1.34	1.78	132.8
Production of payable copper in concentrate	kt	426.7	427.1	428.9	100.4

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

Also having a negative impact on the C1 cost expressed in USD/lb, apart from the minerals extraction tax, was the strengthening of the zloty versus the USD from a level of 3.26 in 2012 to 3.17 in 2013.

**Table 17.** Results of the operating segment KGHM Polska Miedź S.A. (M PLN)

	2011	2012	2013	Change 2012=100
Sales	20 097	20 737	18 579	89.6
Operating costs	(10 660)	(13 602)	(13 970)	102.7
Operating profit	13 761	6 426	4 208	65.5
<b>Profit for the period</b>	<b>11 394</b>	<b>4 868</b>	<b>3 058</b>	<b>62.8</b>
Depreciation	672	772	768	99.5
Capital expenditure	1 519	1 766	2 356	133.4
<b>EBITDA</b>	<b>14 433</b>	<b>7 198</b>	<b>4 976</b>	<b>69.1</b>

Despite the increase in sales volume (copper by 14.2 kt, gold by 149.4 kg), revenues from sales by KGHM Polska Miedź S.A. in 2013 were lower than those achieved in 2012 by PLN 2 158 million (10.4%), mainly as a result of lower metals prices: lower copper prices by 8%, silver by 24%, gold by 16% and a change in the exchange rate from 3.26 USD/PLN to 3.17 USD/PLN (a stronger PLN by 3%).

The value of revenues from sales in 2013 reflects the positive result from the settlement of hedging instruments in the amount of PLN 450 million (in the prior year PLN 333 million).

The increase in basic operating costs by PLN 368 million (by 2.7%) is mainly due to the increase in costs due to the minerals extraction tax due to settlement of the tax for the full reporting period (in 2012 from April).

In 2013, KGHM Polska Miedź S.A. realised a profit in the amount of PLN 3 058 million, meaning a decrease by PLN 1 810 million (by 37.2%) versus that earned in 2012. Apart from the changes mentioned above, the decrease in profit was due to the result on other operating activities, comprising the results on hedging in the amount of PLN (293) million.

#### KGHM INTERNATIONAL LTD. GROUP

This segment comprises the company KGHM INTERNATIONAL LTD. and its 28 subsidiaries, presented in diagram 2 of this report. In this group, apart from companies fulfilling an operational role, are also companies created to optimise functionality.

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. It also owns the second-largest asset in the Group.

This segment comprises the operation of functioning mines extracting copper (and other metals) located in Canada (McCreedy West, Levack – with the Morrison deposit), in the USA (Robinson and Carlota) and in Chile (Franke), pre-operational mining projects at various stages of development (Victoria in Canada and Malmbjerg in Greenland) as well as exploration projects (Kirkwood, Falconbridge and Foy in the Sudbury region of Canada).

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., as an investment accounted for using the equity method, was shown the share of the Group (55%) in the Sierra Gorda project. This project, due to its importance, represents a separate operating segment.

#### Production technology

The subject of activities of the KGHM INTERNATIONAL LTD. Group is the production of mined metals, among others 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 extracted ore using SX/EW technology (leaching on heaps, solvent extraction and electrolysis of metallic copper from concentrated solvent). The end product is electrolytic copper cathode.

The open-pit mine Robinson in the USA enriches extracted ore and sells concentrate as the end product.

The underground mines – McCreedy West, Levack (with the Morrison deposit) and Podolsky (mine closed in the first quarter of 2013) in Canada – conduct underground mining operations, selling copper ore for processing containing nickel and gold, palladium and platinum.



**Diagram 5.** Basic activities in the KGHM INTERNATIONAL LTD. Group



### Production and operating results

**Table 18.** Production results of KGHM INTERNATIONAL LTD.\*

	Unit	2011*	2012*	2013	Change 2012=100
<b>Robinson mine</b>					
Payable copper	kt	43.1	54.2	48.9	90.2
Precious metals (gold)	koz	29.7	37.9	45.1	119.0
<b>Carlota mine</b>					
Payable copper	kt	17.1	10.4	9.7	93.3
<b>Franke mine</b>					
Payable copper	kt	15.1	17.9	19.9	111.2
<b>Levack/Morrison mine</b>					
Payable copper	kt	17.1	18.5	18.8	101.6
Nickel	kt	2.7	2.8	2.9	103.6
Precious metals**	koz	30.4	37.3	44.5	119.3
<b>McCreedy mine</b>					
Payable copper	kt	2.3	1.3	1.4	107.7
Nickel	kt	1.3	1.6	1.7	106.3
Precious metals**	koz	17.7	2.0	4.0	200.0
<b>Podolsky mine</b>					
Payable copper	kt	10.7	8.3	2.1	25.3
Nickel	kt	0.5	0.4	0.1	25.0
Precious metals**	k oz	25.6	18.0	4.7	26.1
<b>Total mines</b>					
Payable copper	kt	105.5	110.5	100.8	91.2
Nickel	kt	4.5	4.8	4.7	97.9
Precious metals**	koz	103.4	95.2	98.3	103.3

\* - full-year production results, to ensure comparability of data (control obtained over company from 5 March 2012)

\*\* - precious metals – gold, platinum, palladium

In 2013, compared to the prior year, copper production decreased by 9.7 kt (9%) mainly in respect of the Robinson mine. This was due to the transfer of operations in the second half of 2013 from the Ruth pit to the Liberty pit, where there is lower metals content. As a result, copper production at Robinson decreased by 5.3 kt.

In the Franke mine there was an improvement in copper recovery parameters, as a result of a change in the ore mix. Consequently, despite lower ore extraction, copper production increased by 2.0 kt (11%).

In the remaining mines copper production was at levels slightly higher than or similar to those in 2012, with the exception of the Podolsky mine, where extraction ceased in the first half of 2013 due to the exhaustion of economically-viable resources – production decreased in this regard by 6.2 kt.

There was an increase in precious metals production of several percent, as a result of high-quality ore extracted at the start of 2013 (Robinson), as well as to higher metals recovery and a higher than in 2012 level of ore extraction (Morrison, Robinson).

**Table 19.** Cash cost of producing copper in KGHM INTERNATIONAL LTD.

	Unit	2011	2012	2013	Change 2012=100
Cash cost of producing copper – C1*	USD/lb	2.18	2.43	2.15	88.5
Production of payable copper sold	kt	96.0	118.6	100.8	85.0

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

The C1 cash cost achieved in KGHM INTERNATIONAL LTD. in 2013 amounted to 2.15 USD/lb and was lower by 12% from that achieved in 2012, mainly due to the lower cost of production sold by unit, recorded in the Robinson mine, which was responsible for nearly 50% of the copper sold in 2013. The decrease in costs in Robinson was due to the realisation of cost-controlling initiatives and to the parameters of the ore processed in the first half of 2013. As a result there was an improvement in recovery by the processing plant of this mine, as well as an increase in sales of precious metals, whose value reduces C1. Of importance was the wide scope of deposit development work and the related capitalisation of costs.

**Table 20.** Results of the operating segment KGHM INTERNATIONAL LTD. (M PLN)\*

	2011	2012**	2013	Change 2012=100
Sales	-	3 836	3 364	87.7
Operating costs	-	(3 535)	(3 287)	93.0
Operating profit	-	448	212	47.3
<b>Profit for the period</b>	-	<b>231</b>	<b>30</b>	<b>13.0</b>
Depreciation	-	394	536	136.0
Capital expenditure	-	348	577	165.8
<b>EBITDA</b>	-	<b>842</b>	<b>748</b>	<b>88.8</b>

\* - data do not reflect adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD.

\*\* - data for the period control was held (from 5 March 2012)

In table 20 for 2012 the results of the KGHM INTERNATIONAL LTD. Group are presented for the period when control was held over the company, i.e. from 5 March 2012 to 31 December 2012. Profit for the full year 2012 amounted to PLN 335 million, while for 2013 it amounted to PLN 30 million, with a favourable C1 unit cost (the decrease in cost was described above). The decrease in profit for the period was mainly due to lower revenues from sales by PLN 1 113 million, i.e. o 25% (2012 – PLN 4 477 million, 2013 – PLN 3 364 million), mainly due to:

- the decrease in metals prices,
- lower sales from realisation of mining services,
- the decrease in production by the Robinson mine due to the transfer of operations to a lower-quality orebody, and
- the cessation of extraction at the Podolsky mine due to the exhaustion of economically-viable resources.

Additionally, the decrease in profit was also due to one-off events, including an impairment loss on assets that did not occur in 2012. Of positive impact on the result was the increase in interest income related to financing of the Sierra Gorda project and the capitalisation of stripping work.

## Production assets

The most important production assets belonging to the KGHM INTERNATIONAL LTD. Group are the mines Robinson, Levack/Morrison and Franke.

Robinson mine	
Location	Nevada, the USA
Ownership	100% Robinson Nevada Mining Company
Type of mine	open pit
Main ore type	copper ore
Associated metals	gold
Type of orebody	porphyry/skarn
Mine life	2020
End product	copper concentrate
Production (2013)	48.9 kt Cu, 45.1 koz TPM*
Employment (2013)	589

\* 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 130m a.s.l., near Highway 50.

The mine is comprised of 3 large pits: Liberty (mining re-commenced in 2013), Tripp-Veteran (closed) and Ruth, 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.

Levack / Morrison mine	
Location	Sudbury Basin, Ontario, Canada
Ownership	100% FNX Mining Company
Type of mine	underground
Main ore type	copper ore
Associated metals	nickel, platinum, palladium, gold
Type of orebody	footwall/contact Ni
Mine life	2020
End product	copper ore
Production (2013)	18.8 kt Cu, 2.9 kt Ni, 44.5 koz TPM*
Employment (2013)	279

\* precious metals: gold, platinum, palladium

This mine is part of the Levack complex, and comprises two mines: McCreedy West and Levack (with the Morrison deposit). The mine is located at the edge of the town of Sudbury, in the province of Ontario, Canada. The Levack mine, to which the Morrison deposit which lies at a lower depth belongs, is located 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 mine is connected to the eastern part of the McCreedy West mine.

The ore is accessed and mined with the aid of leased infrastructure belonging to the adjacent Craig mine owned by Xstrata Nickel. Mineralisation in the Morrison deposit most commonly occurs in the form of ore veins. Mining is carried out at the 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 extracted from the mine is processed by Vale Canada Limited's Clarabelle plant in Sudbury.

Franke mine	
Location	Region Antofagasta, Chile
Ownership	100% 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 )
Mine life	2020
End product	copper cathodes
Production (2013)	19.9 kt Cu
Employment (2013)	534

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, and feasibility analyses and design work.

One of the most important existing assets at the development stage is the Victoria project.

<b>Victoria project</b>	
Location	Sudbury Basin, Ontario, Canada
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper-nickel ore
Associated metals	precious metals (gold) and platinum group metals (platinum, palladium)
Mine life	around 14 years
End product	copper concentrate, nickel concentrate
Forecasted production	16 kt Ni, 15 kt Cu
Start of production	2018-2019, full capacity 2023

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 deposits and commenced a campaign of exploration in this terrain. Based on the data obtained from drilling to the end of 2011, 14.5 million tonnes of ore were documented in the category inferred resources, with average grade of 2.5% Cu, 2.5% Ni and 7.6 g/t of precious metals.

In August 2013, KGHM INTERNATIONAL LTD. and FNX Mining Company Inc. signed an agreement with Vale Canada Limited, under which Vale waived its buy back right, and KGHM INTERNATIONAL LTD. became the owner of 100% of the project in exchange for a Net Smelter Return royalty of 2.25% on all future production from the mine. The current scenario foresees realisation of the project in two stages. The first of these, currently being realised, is of key importance and is based on the sinking of an exploration shaft, which will enable the conduct of accessing work and necessary drilling as part of an advanced exploration campaign, aimed at confirming and documenting copper and nickel resources in the appropriate category. All of the ore extracted from the mine will be processed in the Clarabelle plant in Sudbury, owned by Vale.

Information on realisation of this project in 2013 may be found in point 3.2 of this report.

### **SIERRA GORDA PROJECT, CHILE**

The Sierra Gorda Project is the most important asset in the pre-production stage.

<b>Sierra Gorda project</b>	
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	around 20 years
End product	copper concentrate, molybdenum concentrate
Forecasted production	approx. 220 kt Cu, 11 kt Mo, 2 tonnes Au
Start of production	2014

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 – 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.

The Sierra Gorda project 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 project 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 project is through a power line from a power plant located in Mejillones (not far from the port of Antofagasta). The water source for the project will be sea water supplied by a pipeline (around 140 km) from the coast. The copper and molybdenum concentrates produced will be transported to the port of Antofagasta, and from there by sea to customers.

The Sierra Gorda orebody is one of the largest new deposits of copper and molybdenum in the world, comprising both sulphide copper ore as well as oxide copper ore located above the sulphide level. Development of the Sierra Gorda project assumes two investment stages. The first stage comprises the construction of a conventional open-pit mine (extraction using blasting materials and dump trucks, loaders and ore transport to a processing plant), infrastructure (among others a tailings pond, power line, sea water pipeline) and a processing plant with an installation to separate the molybdenum concentrate (high-pressure crushers, ball mills and conventional flotation) with processing capacity of 110 thousand tonnes of ore per day – commissioning of the mine in the second quarter of 2014. In the second stage, the capacity of the processing plant is planned to be increased to 190 thousand tonnes of ore per day. Oxide ore is stored separately for eventual later heap leaching. The project also has exploration potential in neighbouring areas.

Total estimated capital expenditure on the project amounts to approx. USD 4 billion. The Sierra Gorda project is financed from three sources – by the investors (KGHM INTERNATIONAL LTD. and Sumitomo Group companies) and from borrowing. A bank loan in the amount of USD 1 000 million was granted for a period of 9.5 years by a consortium of financial institutions: Japan Bank for International Cooperation and by the four private banks Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation, The Bank of Tokyo Mitsubishi UFJ, Ltd. and The Sumitomo Trust & Banking Co., Ltd. This is a project finance loan without recourse to KGHM INTERNATIONAL LTD.

Realisation of the project is on schedule and on budget. Progress on the project at the end of 2013 was 86%.

Information on realisation of this project in 2013 may be found in point 3.2 of this report.

## DEVELOPMENT OF THE RESOURCE BASE

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This segment comprises companies engaged in exploration-evaluation activities, i.e.:

- **KGHM AJAX MINING INC.** – this company is realising the Afton-Ajax copper and gold resource project in British Columbia, Canada,
- **KGHM Kupfer AG** – this company is realising a resource project – exploration for a copper deposit in Weisswasser in Germany,
- **Sugarloaf Ranches Ltd.** – this company owns land designated for future mining activities related to the Afton-Ajax project.

Due to the current stages of work by the aforementioned projects, this segment does not generate income, and the companies are of a cost-generating nature. The net result of this segment for 2013 was PLN (20) million.

Capital expenditure in this segment in 2013 amounted to PLN 87 million and was due to realisation of the Afton-Ajax project.

**The Afton-Ajax project**, located south of the town of Kamloops in British Columbia, Canada, and assumes the construction and operation of an open-pit copper and gold mine and an ore concentrating plant, with associated infrastructure.

The project is currently at the stage of gaining necessary environmental and mining permits. Independently of this, detailed engineering work is being performed on preparations for construction of the mine.

Information on realisation of this project in 2013 may be found in point 3.2 of this report.

**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. Planned mine type: underground mine.

In 2013, it was decided to commence work on the first phase of stage II of the Weisswasser project. As a result, KGHM Kupfer AG initiated administrative procedures at the Saxon Mining Office (SOBA) to prolong the existing concession for this area.

Information on realisation of this project in 2013 may be found in point 3.2 of this report.

## SUPPORT OF THE CORE BUSINESS

This segment is comprised of companies related directly to the core business of KGHM Polska Miedź S.A., i.e.:

- **KGHM Metraco S.A.** — this company secures supplies of copper scrap for KGHM Polska Miedź S.A., and sells to external markets the by-products of the Parent Entity's core business production,
- **POL-MIEDŹ TRANS Sp. z o.o.** — this company is a leading railway and roadway carrier and supplier of fuels to KGHM Polska Miedź S.A.,
- **PeBeKa S.A.** — this company is the main performer of mining work for KGHM Polska Miedź S.A.,
- **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.** — this company among others develops 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.,  
„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 21.** Operating results of the segment Support of the core business (M PLN)

	2011	2012	2013	Change 2012=100
Sales	5 120	6 195	5 174	83.5
Operating costs	(5 071)	(6 191)	(5 159)	83.3
Operating profit	90	81	87	107.4
<b>Profit for the period</b>	<b>61</b>	<b>47</b>	<b>62</b>	<b>131.9</b>
Depreciation	92	107	137	128.0
Capital expenditure	197	253	277	109.5
<b>EBITDA</b>	<b>182</b>	<b>188</b>	<b>227</b>	<b>120.7</b>

Sales of this segment for 2013 amounted to PLN 5 174 million and were lower versus the prior year by PLN 1 021 million, i.e. 16.5% (mainly due to a decrease in sales by KGHM Metraco S.A. of copper scrap to KGHM Polska Miedź S.A.). In 2013, 82% of the segment's revenues were earned from sales to the Parent Entity (in 2012, 79%). Altogether around 86.6% of the segment's revenues for 2013 involved 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.

Within this segment, the largest revenues from sales apart from the Group in 2013 were earned by KGHM Metraco S.A. (sales of merchandise and materials), although they only represent around 1% of Group sales.

## OTHER SEGMENTS

This segment is comprised of all other companies of the KGHM Polska Miedź S.A. Group (33 entities), unrelated to the mining industry. This group of entities are very diversified in their operations. Among others they are of an equity investment nature, as well as fulfilling corporate social responsibility. This group includes among others closed-end investment funds and their portfolio companies (including those forming the Polish Spa Group (Polska Grupa Uzdrowisk)).

A large part of the assets of this segment are significant from the point of view of possible benefits to be gained at the moment of exit from these investments.

### Operating results

**Table 22.** Operating results of other segments (M PLN)

	2011	2012	2013	Change 2012=100
Sales	2 493	2 859	2 880	100.7
Operating costs	(2 929)	(2 827)	(2 859)	101.1
Operating profit	5	91	11	12.1
<b>Profit for the period</b>	<b>6</b>	<b>75</b>	<b>3</b>	<b>4.0</b>
Depreciation	68	67	79	117.9
Capital expenditure	206	125	100	80

### 5.2. Assets

At the end of 2013, total assets in the consolidated statement of financial position increased versus the end of 2012 by PLN 503 million (i.e. by 1.5%).

**Table 23.** Assets (M PLN)

	31.12.2012 restated	31.12.2013	Structure %	Change 31.12.12=100
<b>Non-current assets</b>	<b>24 108</b>	<b>26 488</b>	<b>76.8</b>	<b>109.9</b>
Property plant and equipment	13 971	15 128	43.9	108.3
Intangible assets	1 989	2 175	6.3	109.4
Investment property	59	65	0.2	110.2
Investments accounted for using the equity method	3 911	3 720	10.8	95.1
Deferred tax assets	565	451	1.3	79.8
Available-for-sale financial assets	892	810	2.4	90.8
Financial assets for mine closure and restoration of tailings storage facilities	460	323	0.9	70.2
Derivatives	745	357	1.0	47.9
Trade and other receivables	1 516	3 459	10.0	x2.3
<b>Current assets</b>	<b>9 854</b>	<b>7 977</b>	<b>23.2</b>	<b>81.0</b>
Inventories	3 769	3 397	9.9	90.1
Trade and other receivables	2 846	3 119	9.0	109.6
Current corporate tax receivables	77	54	0.2	70.1
Available-for-sale financial assets	149	58	0.2	38.9
Financial assets for mine closure	-	1	-	-
Derivatives	382	476	1.4	124.6
Cash and cash equivalents	2 629	864	2.5	32.9
Non-current assets held for sale	2	8	-	x4
<b>TOTAL ASSETS</b>	<b>33 962</b>	<b>34 465</b>	<b>100.0</b>	<b>101.5</b>

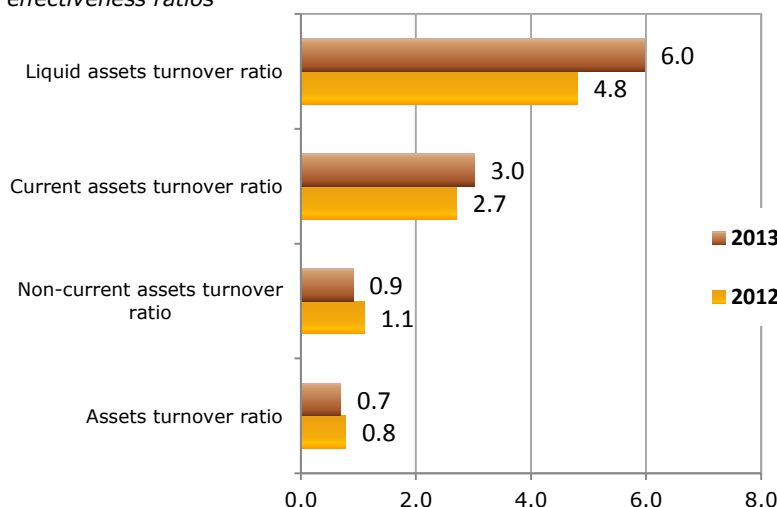
The most important changes in the value of assets as at 31 December 2013 versus 31 December 2012 were in respect of the following items:

- non-current receivables – an increase by PLN 1 943 million, mainly in respect of a loan granted by KGHM INTERNATIONAL LTD. to finance the Sierra Gorda project, at the end of 2013 the carrying amount of receivables due to this granted loan amounted to PLN 3 378 million (at the end of 2012, PLN 1 470 million);
- property, plant and equipment – an increase by PLN 1 157 million, mainly in respect of realisation of investments – total expenditures amounted to PLN 3 386 million, of which the highest expenditures, in the amount of PLN 2 356 million were incurred by the Parent Entity (detailed information in point 4.6 of this report);

Additionally, in 2013:

- recognised as non-current assets (mining and metallurgical assets) were costs incurred in 2013 to access ore through the stripping of overburden during the production stage in open-pit mines belonging to KGHM INTERNATIONAL LTD. Capitalised costs for 2013 amounted to PLN 282 million;
  - an impairment loss was recognised on the Carlota mine (within the KGHM INTERNATIONAL LTD. Group) in the amount of USD 71 million (PLN 228 million).
- intangible assets – an increase by PLN 186 million, mainly due to an increase in assets due to the exploration for and evaluation of mineral resources, whose value at the end of 2013 amounted to PLN 1 529 million (at the end of 2012, PLN 1 334 million);
- Value of assets due to the exploration for and evaluation of mineral resources in individual companies:
- KGHM INTERNATIONAL LTD. – PLN 963 million – expenditures related to exploratory work, mainly with respect to the Victoria project located in the Sudbury Basin in Canada,
  - KGHM AJAX MINING INC. - PLN 262 million - expenditures related to exploratory work with respect to the Afton – Ajax project,
  - KGHM Polska Miedź S.A. - PLN 70 million – expenditures related to the project „Exploration for and evaluation of economic copper mineralisation in the Synklina Grodziecka area”,
  - KGHM Kupfer AG – PLN 55 million – expenditures related to the project to explore for minerals in the area „Weisswasser” ,
  - KGHM Polska Miedź S.A. - PLN 25 million – expenditures on the project „Evaluation of the possibilities of mining the Radwanice-Gaworzyce deposit”.
- derivatives (current and non-current) – a decrease by PLN 294 million mainly with respect to the Parent Entity, due to a decrease in the volume of derivatives transactions (settlement of instruments during the year), as well as to a change in market conditions (among others the forward price of copper and the forward USD/PLN exchange rate) and to the passage of time to maturity of unsettled transactions;
- inventories – a decrease by PLN 372 million due to a decrease in copper and silver inventories in KGHM Polska Miedź S.A. resulting from an increase in sales in December 2013;
- available-for-sale financial assets (current and non-current) – a decrease by PLN 173 million due to an impairment loss on the shares of TAURON Polska Energia S.A. and companies listed on the TSX Venture Exchange and to the sale of shares by KGHM INTERNATIONAL LTD.
- investments accounted for using the equity method – a decrease by PLN 191 million mainly due to measurement of the value of the interest in the joint venture Sierra Gorda S.C.M. (a decrease by PLN 192 million), value of investment at the end of 2013, PLN 3 686 million (at the end of 2012, PLN 3 878); the decrease in the measurement of Sierra Gorda was due to exchange differences from translation and to the exclusion of unrealised gains on transactions between the Group and Sierra Gorda;
- as at 31 December 2013, the share of the Group in the contractual obligations of Sierra Gorda S.C.M. related to investments and operations amounted to PLN 5 605 million (as at 31 December 2012, PLN 7 093 million);
- cash and cash equivalents – a decrease by PLN 1 765 million, mainly due to a decrease in cash in KGHM INTERNATIONAL LTD. Group (by PLN 1 238 million) due to an increase in the amount of the loan granted to Sierra Gorda S.C.M. and to a decrease in cash in the Parent Entity (by PLN 584 million) due to payment of a dividend and realised tangible investments,
- financial assets for mine closure (current and non-current) – a decrease by PLN 136 million, (detailed information in point 4.7 of this report).

**Chart 9.** Assets effectiveness ratios \*



\* - Ratios calculated based on end-of-year balances, pursuant to methodology described in Appendix A



### 5.3. Equity and liabilities

The share of equity in total equity and liabilities increased from 64.5% at the end of 2012 to 66.9% at the end of 2013. Equity increased versus the end of 2012 by PLN 1 150 million (5.3%).

**Table 24.** Equity and liabilities (M PLN)

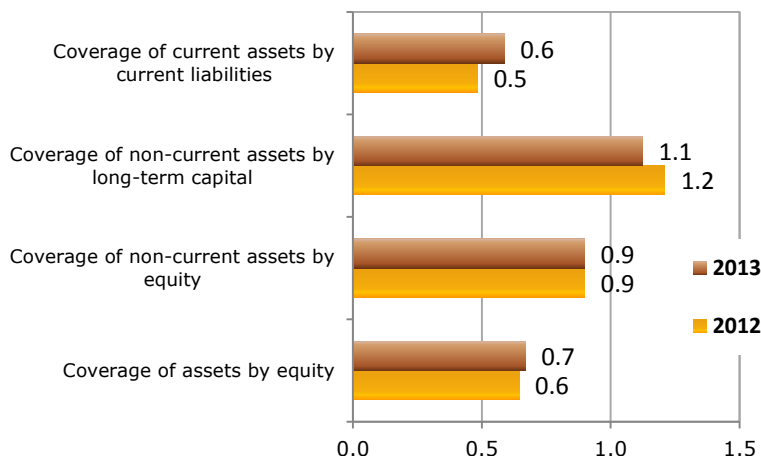
	31.12.2012 restated	31.12.2013	Structure %	Change 31.12.12=100
<b>EQUITY</b>	<b>21 914</b>	<b>23 064</b>	<b>66.9</b>	<b>105.2</b>
Share capital	2 000	2 000	5.8	100.0
Revaluation reserve from measurement of financial instruments	235	522	1.5	x2.2
Exchange differences from the translation of foreign operations	19	(267)	(0.8)	-
Actuarial gains/losses on post-employment benefits	(543)	(132)	(0.4)	24.3
Retained earnings	19 971	20 718	60.1	103.7
<b>Equity attributable to shareholders of the Parent Entity</b>	<b>21 682</b>	<b>22 841</b>	<b>66.3</b>	<b>105.3</b>
<b>Non-controlling interest</b>	<b>232</b>	<b>223</b>	<b>0.6</b>	<b>96.1</b>
<b>Non-current liabilities</b>	<b>7 279</b>	<b>6 714</b>	<b>19.5</b>	<b>92.2</b>
Trade and other payables	880	774	2.2	88.0
Borrowings, debt securities and finance lease liabilities	1 783	1 714	5.0	96.1
Derivatives	230	17	0.0	7.4
Deferred tax liabilities	1 772	1 726	5.0	97.4
Employee benefits liabilities	1 615	1 563	4.5	96.8
Provisions for other liabilities and charges	999	920	2.7	92.1
<b>Current liabilities</b>	<b>4 769</b>	<b>4 687</b>	<b>13.6</b>	<b>98.3</b>
Trade and other payables	3 008	3 094	9.0	102.9
Borrowings, debt securities and finance lease liabilities	1 075	1 215	3.5	113.0
Current corporate tax liability	448	128	0.4	28.6
Derivatives	25	7	-	28.0
Employee benefits liabilities	133	131	0.4	98.5
Provisions for other liabilities and charges	80	112	0.3	140.0
<b>TOTAL LIABILITIES</b>	<b>12 048</b>	<b>11 401</b>	<b>33.1</b>	<b>94.6</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>33 962</b>	<b>34 465</b>	<b>100.0</b>	<b>101.5</b>

There were significant changes in the carrying amounts of the following items of equity and liabilities at the end of 2013 versus the end of 2012:

- retained earnings – an increase by PLN 747 million (profit earned mainly by the Parent Entity was higher than the dividend paid by the company);
  - revaluation reserve from the measurement of financial instruments – an increase by PLN 287 million,
  - revaluation reserve from actuarial gains and losses from measurement of post-employee benefits – an increase by PLN 411 million,
  - current corporate tax liability – a decrease by PLN 320 million due to the payment by KGHM Polska Miedź S.A. of differences between prepayments made on income tax in 2012 and the tax liability arising from the CIT-8 statement for 2012 (in 2012 the company made fixed monthly prepayments on income tax based on income earned in 2010);
- in 2013 the monthly prepayments on income tax were set by decisions of the tax body, while the basis for setting the level of the prepayments was data taken from the company Budget for 2013 (including from its adjustments);

- derivatives (current and non-current) – a decrease by PLN 231 million due to a decrease in the volume of derivatives transactions (settlement of instruments during the year), as well as to a change in market conditions (among others the forward price of copper and the forward USD/PLN exchange rate) and to the passage of time to maturity of unsettled transactions. For the copper market there was a decrease in liabilities by PLN 198 million, and for the currency market by PLN 32 million;
- exchange differences from the translation of foreign operations – a decrease by PLN 286 million.

**Chart 10.** Assets financing ratios\*



\* - Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A

#### 5.4. Borrowings and debt securities

Total debt of the Group due to borrowings and debt securities at the end of 2013 amounted to PLN 2 878 million and did not substantially change versus the end of 2012.

**Table 25.** Liabilities of the Group due to borrowings and debt securities (M PLN)

	31.12.2012	31.12.2013	Change 2012=100
<b>Non-current borrowings</b>	<b>1 766</b>	<b>1 680</b>	<b>95.1</b>
of which:			
– bank loans	165	162	98.2
– other loans	8	5	62.5
– debt securities	1 593	1 513	95.0
<b>Current borrowings</b>	<b>1 065</b>	<b>1 198</b>	<b>112.5</b>
of which:			
– bank loans	1 057	1 186	112.2
– other loans	3	3	100.0
– debt securities (interest)	5	9	180.0
<b>Total</b>	<b>2 831</b>	<b>2 878</b>	<b>101.7</b>

The item debt securities refers to the senior notes issued by KGHM INTERNATIONAL LTD., with interest based on a fixed rate of 7.75%, and maturity in 2019.

Interest on the bank loans drawn by Group companies is based on variable WIBOR, LIBOR and EURIBOR, plus a bank margin.

The following table presents the bank and other loans of Group companies which at the end of 2013 held debt balances of over PLN 10 million.

**Table 26.** Borrowings in the Group as at 31 December 2013

Company	Loan currency	Type of bank/other loan	Maturity	Balance as at 31.12.2013
<b>KGHM Polska Miedź S.A.</b>	USD	Working capital facility	31.01.2014	USD 17 million (PLN 51 million)
	USD	Working capital facility	07.05.2014	USD 162 million (PLN 488 million)
	USD	Overdraft facility	30.04.2015	USD 32 million (PLN 98 million)
	USD	Overdraft facility	14.10.2015	USD 120 million (PLN 360 million)
	USD	Overdraft facility	21.10.2015	USD 42 million (PLN 126 million)
<b>Interferie Medical SPA Sp. z o.o.</b>	EUR	Investment bank loan	31.12.2021	EUR 13 million (PLN 55 million)
<b>„Energetyka” sp. z o.o.</b>	PLN	Investment bank loan	31.08.2018	PLN 27 million
<b>PeBeKa S.A.</b>	PLN	Investment bank loan	29.09.2015	PLN 26 million
<b>POL-MIEDŹ TRANS Sp. z o.o.</b>	PLN	Investment bank loan	31.08.2021	PLN 15 million
	PLN	Overdraft facility	02.01.2014	PLN 1 million
	PLN	loan from WFOŚiGW*	16.11.2014	PLN 0.1 million
<b>KGHM Ecoren S.A.</b>	PLN	loan from NFOŚiGW**	31.03.2016	PLN 7 million
	PLN	Investment bank loan	30.09.2014	PLN 3 million
	PLN	Investment bank loan	18.10.2016	PLN 6 million
<b>KGHM CUPRUM sp. z o.o. - CBR</b>	PLN	Investment bank loan	30.09.2021	PLN 15 million
<b>INTERFERIE S.A.</b>	EUR	Investment bank loan	30.11.2021	EUR 3 million (PLN 11 million)
	EUR	Investment bank loan	04.06.2018	EUR 0.5 million (PLN 2 million)
	EUR	Investment bank loan	28.12.2017	EUR 0.5 million (PLN 2 million)
<b>KGHM LETIA S.A.</b>	PLN	Investment bank loan	30.06.2026	PLN 13 million
	PLN	Revolving bank loan	30.06.2014	PLN 1 million
<b>Uzdrowiska Kłodzkie S.A. – Grupa PGU</b>	PLN	Investment bank loan	25.12.2019	PLN 10 million
	PLN	Investment bank loan	28.12.2018	PLN 2 million
<b>Uzdrowisko Świeradów-Czerniawa Sp. z o.o. - Grupa PGU</b>	PLN	Investment bank loan	30.11.2020	PLN 5 million
	PLN	Overdraft facility	04.12.2014	PLN 2 million
	PLN	Overdraft facility	31.01.2014	PLN 1 million
	PLN	Investment bank loan	30.11.2020	PLN 0.8 million
	PLN	Investment bank loan	14.10.2017	PLN 0.7 million

\*Regional Environmental Protection and Water Management Fund

\*\* National Environmental Protection and Water Management Fund

On 19 June 2013, KGHM INTERNATIONAL LTD. entered into a USD 200 million (PLN 602.4 million per the average exchange rate of the NBP as at 31 December 2013) revolving syndicated credit, with interest based on a variable rate, set as the sum of the reference rate LIBOR and a margin which is based on the level of the ratio net debt/EBITDA. The bank loan was used to secure the liabilities in the form of a letter of credit in the amount of USD 137.5 million (PLN 414.2 million per the average exchange rate of the NBP as at 31 December 2013) in connection with an agreement for the supply of electricity to the Sierra Gorda project. In the third quarter of 2013, KGHM INTERNATIONAL LTD. increased its use of this credit facility to USD 198.5 million to secure other letters of credit.

On 8 January 2014, at the request of KGHM Polska Miedź S.A., HSBC Bank plc issued a letter of credit, as mentioned above, securing the liabilities of KGHM INTERNATIONAL LTD. in respect of the beneficiary Empresa

Eléctrica Cochrane S.A. due to an agreement for the purchase of electricity. According to the agreement the sponsors of the Sierra Gorda project are obliged to ensure security for the transaction in the form of a guarantee or letter of credit. As at 8 January 2014, KGHM Polska Miedź S.A. assumed from KGHM INTERNATIONAL LTD. the obligation to meet this requirement, reducing in this way the use of borrowing by KGHM INTERNATIONAL LTD.

Additionally, KGHM Polska Miedź S.A. as at 31 December 2013 held three open lines of credit:

- a working capital facility and overdraft facility in USD with available origin currency balance of USD 88 million,
  - an overdraft facility in EUR with an available origin currency balance of EUR 50 million,
  - a working capital facility and overdraft facility in PLN with an available balance of PLN 2 600 million.
- Interest on the lines of credit of the Parent Entity is based on variable WIBOR, LIBOR and EURIBOR, plus a bank margin.

On 29 January 2014, the Parent Entity entered into a new overdraft facility agreement for the amount of USD 100 million, available in the period from 31 January 2014 to 29 January 2017, and for the amount of USD 30 million, available in the period from 31 January 2014 to 29 January 2015. Interest on the amounts drawn will be based on EURIBOR, LIBOR plus a bank margin.

### Loans granted within the Group

**Table 27.** Loans granted between Group companies as at 31 December 2013

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2013	Maturity
<b>Loans granted by KGHM Polska Miedź S.A.</b>				
„Energetyka” sp. z o.o.	2009	PLN 50 million	PLN 30 million	31.12.2019
KGHM LETIA S.A.	2012*	PLN 8 million	PLN 0.7 million	31.03.2014
Zagłębie Lubin S.A.	2013	PLN 5 million	PLN 5 million	31.12.2022
	2013	USD 35 million	USD 36 million PLN 104 million	28.02.2018
Fermat 1 S.à r.l.	2013***	CAD 4 million	USD 4 million PLN 12 million	28.02.2018
	2013****	CAD 34 million	USD 34 million PLN 101 million	28.02.2018
<b>Loans granted by Fermat 1 S.à r.l.</b>				
	2013	USD 35 million	USD 36 million PLN 108 million	28.02.2018
Fermat 2 S.à r.l.	2013***	CAD 4 million	USD 4 million PLN 12 million	28.02.2018
	2013****	CAD 34 million	USD 34 million PLN 102 million	28.02.2018
Fermat 3 S.à r.l.	2012	USD 1 873 mln	USD 1 873 million PLN 5 641 million	04.03.2020
	2012	USD 0.2 million	USD 0.2 million	25.04.2017
<b>Loans granted by Fermat 3 S.à r.l.</b>				
Fermat 2 S.à r.l.	2012	USD 2 825 million	USD 2 500 million	04.03.2020
	2013	EUR 0.04 million	USD 0.05 million PLN 0.14 million	31.12.2014
<b>Loans granted by Fermat 2 S.à r.l.</b>				
0929260 B.C. Unlimited Liability Company	2012	USD 1 873 million	USD 2 029 million	05.03.2020
<b>Loans granted by KGHM INTERNATIONAL LTD.</b>				
Sociedad Contractual Minera Franke	2010	USD 100 million	USD 99 million PLN 298 million	on demand
Sociedad Contractual Minera Franke	2012	USD 30 million	USD 16 million PLN 48 million	on demand
Malmberget Molybdenum A/S	2011	USD 20 million	USD 4 million PLN 12 million	on demand, no later than to 31.12.2014
Quadra FNX FFI Ltd.	2012	USD 483 million	USD 483 million PLN 1 455 million	on demand
Quadra FNX FFI Ltd.	2013	USD 472 million	USD 293 million PLN 882 million	on demand
0929260 BC Unlimited Liability Company	2012	USD 111 million	USD 98 million PLN 295 million	05.03.2014
<b>Loans granted by KGHM AJAX MINING INC.</b>				
Sugarloaf Ranches Ltd.**	2012	CAD 6 million	CAD 3 million PLN 8 million	Indefinite

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2013	Maturity
<b>Loans granted by BIPROMET S.A.</b>				
Przedsiębiorstwo Budowlane Katowice S.A. in liquidation	2013	PLN 0.4 million	PLN 0.4 million	31.03.2014
	2013	PLN 0.6 million	PLN 0.6 million	31.03.2014
<b>Loans granted by KGHM Ecoren S.A.</b>				
Walcownia Metali Nieżelaznych „ŁABĘDY” S.A.	2012*	PLN 4 million	PLN 3 million	28.02.2018
Ecoren DKE Sp. z o.o. in liquidation	2011*	PLN 0.7 million	PLN 0.7 million	31.01.2014
WFP Hefra SA	2013	PLN 1.5 million	PLN 1.5 million	31.12.2018

\* - loan with annex

\*\* - loan assumed through acquisition of Sugarloaf Ranches Ltd.

\*\*\* - loan granted in CAD, denominated in USD at exchange rate set by the Bank of Canada at loan payout date

\*\*\*\* - loan granted in CAD, paid in instalments, denominated in USD at exchange rate set by the Bank of Canada at instalment payment date

**Table 28.** Loans granted to other entities as at 31 December 2013

Borrower	Year granted	Loan amount and currency	Balance as at 31.12.2013	Maturity
<b>Loans granted by KGHM INTERNATIONAL LTD.</b>				
Sierra Gorda S.C.M.	2012	USD 1 323 million	USD 1 122 million PLN 3 378 million	indefinite

This loan is for the financing of the Sierra Gorda project, with interest based on a fixed rate.

#### CASH POOL

In 2013, the Parent Entity continued the process of including further participants in the cash pool management system in the KGHM Polska Miedź S.A. Group (zero-balance cash pool), implemented in 2012. The funds made available through these services have an interest rate based on variable WIBOR with an overdraft facility limit as at 31 December 2013 in the amount of PLN 431.2 million. This service enables optimisation of costs and effective management of current cash liquidity in the KGHM Polska Miedź S.A. Group.

The Parent Entity is the coordinator of the service. 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. KGHM Polska Miedź S.A. also acts as a participant of the cash pool system, in which it deposits its financial surpluses and, in case of need, takes advantage of financing.

The daily limit of cash available in the cash pool for individual companies and the amount of liabilities and receivables as at 31 December 2013 is shown in the following table.

**Table 29.** Limits and cash balances due to cash pooling as at 31 December 2013 ('000 PLN)

Company	Daily cash limit	Liabilities as at 31 Dec 2013	Receivables as at 31 Dec 2013
KGHM Metraco S.A.	215.0	146.2	-
KGHM ZANAM Sp. z o.o.	70.0	43.7	-
PeBeKa S.A.	35.0	-	18.0
POL-MIEDŹ TRANS Sp. z o.o.	20.0	-	1.8
„Energetyka” Sp. z o.o.	15.0	-	12.9
CENTROZŁOM WROCŁAW S.A.	10.0	-	-
INTERFERIE S.A.	10.0	-	0.3
KGHM Ecoren S.A.	10.0	-	4.0
PHP „MERCUS” Sp. z o.o.	10.0	4.2	-
WPEC w Legnicy S.A.	10.0	6.7	-
„MCZ” S.A.	7.0	-	2.4
INOVA Sp. z o.o.	5.0	-	3.5
CBJ Sp. z o.o.	3.0	-	2.8
Uzdrowisko Cieplice Sp. z o.o. – Grupa PGU	2.5	-	-

Company	Daily cash limit	Liabilities as at 31 Dec 2013	Receivables as at 31 Dec 2013
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. - Grupa PGU	2.5	1.8	-
PMT Linie Kolejowe Sp. z o.o.	2.0	0.6	-
Uzdrowiska Kłodzkie S.A. – Grupa PGU	1.5	-	-
Uzdrowisko Połczyn S.A. - Grupa PGU	1.5	0.5	-
Walcownia Metali Nieżelaznych "ŁABĘDY" S.A.	1.0	-	0.6
„Mercus Software” Sp. z o.o.	0.2	-	0.5
„Elektrownia Błachownia Nowa” Sp. z o.o.	-	-	35.5
Interferie Medical SPA Sp. z o.o.	-	-	4.2
KGHM LETIA S.A.	-	-	2.6
NITROERG S.A.	-	-	5.1
Zagłębie Lubin S.A.	-	-	0.2
<b>TOTAL</b>		<b>203.7</b>	<b>94.4</b>

### Guarantees granted

In 2013, the companies of the KGHM Polska Miedź S.A. Group did not grant any collateral on bank and other loans, and did not grant any guarantees to a single entity or to a subsidiary of said entity, whose total amount would represent at least 10% of the equity of KGHM Polska Miedź S.A.

As at 31 December 2013, guarantees granted by the Group amounted to PLN 620 million. This balance is mainly comprised of guarantees granted by KGHM INTERNATIONAL LTD. in the amount of PLN 414 million (USD 137.5 million), securing a contract for the supply of electricity to the Sierra Gorda JV.

### Contingent assets and liabilities

As at 31 December 2013, contingent liabilities amounted to PLN 892 million, and related mainly to:

- guarantees – PLN 620 million, of which: guarantee granted under a contract for the supply of electricity to the Sierra Gorda S.C.M. project in the amount of PLN 414 million; security granted by KGHM INTERNATIONAL LTD. against the payment of future environmental liabilities of the Robinson mine in the amount of PLN 184 million,
- contracts on the implementation of projects and inventions – PLN 123 million.

Additionally, liabilities to municipalities due to the signing of an agreement related to development of the Żelazny Most tailings pond which were not recognised in the statement of financial position amounted to PLN 187 million.

Contingent assets as at 31 December 2013 amounted to PLN 529 million and related mainly to:

- guarantees received by the Group - PLN 248 million,
- promissory note receivables – PLN 126 million,
- overpayment of the real estate tax on underground mines - PLN 87 million.

Other contingent assets primarily involve disputed State budget issues and projects and inventions.

### Contingent assets and liabilities not recognised in the statement of financial position

According to the terms of the „Sierra Gorda Power Purchase Agreement” regarding construction of a power plant and the supply of electricity, entered into between Sierra Gorda S.C.M. and Empresa Electrica Cochrane S.A., the co-controlling partners of the Sierra Gorda project are obligated 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 137.5 million (PLN 414.2 million at the average exchange rate of the NBP from 31.12.2013), under 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 (PLN 602.4 million at the average exchange rate of the NBP from 31.12.2013).

## 5.5. Statement of profit or loss

**Table 30.** Consolidated statement of profit or loss (M PLN)

	31.12.2012 restated	31.12.2013	Change 31.12.12=100
Sales	26 705	24 110	90.3
Cost of sales	(18 235)	(18 101)	99.3
<b>Gross profit</b>	<b>8 470</b>	<b>6 009</b>	<b>70.9</b>
Selling costs	(402)	(426)	106.0
Administrative expenses	(1 082)	(989)	91.4
Other operating income	1 706	847	49.6
Other operating costs	(2 217)	(1 069)	48.2
<b>Operating profit</b>	<b>6 475</b>	<b>4 372</b>	<b>67.5</b>
Finance costs	(146)	(137)	93.8
<b>Profit before income tax</b>	<b>6 329</b>	<b>4 235</b>	<b>66.9</b>
Income tax expense	(1 576)	(1 202)	76.3
<b>Profit for the period</b>	<b>4 753</b>	<b>3 033</b>	<b>63.8</b>

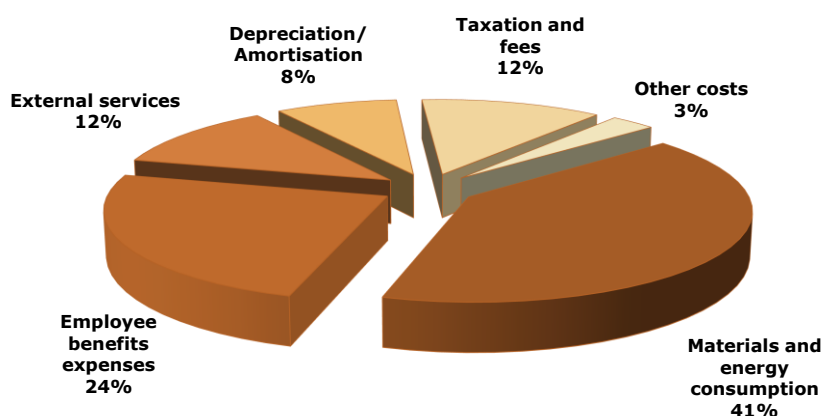
The most important factors impacting the change in profit for 2013 versus 2012 were:

- a decrease in revenues – by PLN 2 595 million, mainly due to the decrease in metals prices and the change in the USD/PLN exchange rate,
- an increase in costs in the Parent Entity due to the minerals extraction tax by PLN 494 million (in 2012 PLN 1 327 million, in 2013 PLN 1 821 million),
- changes in other operating activities:
  - lower losses due to exchange differences by PLN 534 million (in 2012 a loss of PLN 592 million, in 2013 a loss of PLN 58 million),
  - an increase in the loss due to the measurement and realisation of derivatives by PLN 291 million (in 2012 a loss of PLN 61 million, in 2013 a loss of PLN 352 million),
- higher income tax (percentage share) – mainly due to introduction of the minerals extraction tax; this tax increases the manufacturing cost and is not deductible for corporate tax purposes. The effective tax rate for 2013 amounted to 28.4%, (for 2012: 24.9%).

The year 2013 was the first full year when this tax was in force, calculated as a multiple of the amount of copper and silver contained in concentrate which is produced at the Concentrators belonging to KGHM Polska Miedź S.A. and a tax rate dependent on the average market price for copper and silver. In 2013, average taxation amounted for copper to 14.62% of the value of metal in concentrate, and for silver 14.25%.

In 2013, total expenses by nature versus 2012 were lower by PLN 682 million, i.e. by 3.4%, mainly due to the lower value of purchased copper-bearing materials in the Parent Entity.

**Chart 11.** Structure of expenses by nature in the Group in 2013



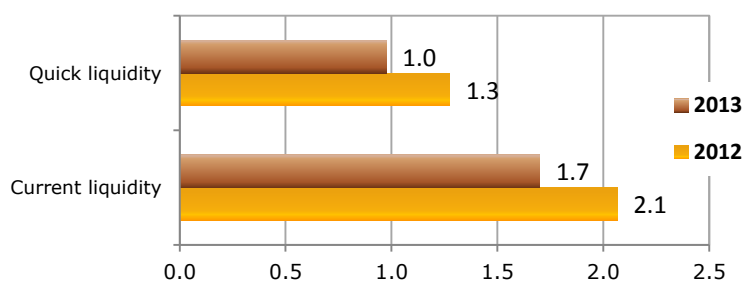
The change in the structure of costs in 2013 versus 2012 mainly concerned the following items:

- materials and energy consumption (2012 - 43%, in 2013 - 41%) – the decrease in costs was due to the decrease in consumption of purchased copper-bearing materials in the Parent Entity,
- taxation and fees (2012 - 10%, in 2013 - 12%) – the increase is due to the introduction during 2012 of the minerals extraction tax, this tax represents 9.6% of expenses by nature.

**Table 31.** Structure of profit for the period (M PLN)

Details	Profit for 2013
<b>KGHM Polska Miedź S.A.</b>	<b>3 058</b>
<b>Subsidiaries</b>	<b>(220)</b>
of which:	
KGHM INTERNATIONAL LTD. Group	30
Other KGHM Polska Miedź S.A. Group companies	(250)
<b>Total profit of Group entities</b>	<b>2 838</b>
Consolidation adjustment	197
<b>Group profit attributable to shareholders of the Parent Entity</b>	<b>3 035</b>
Profit attributable to non-controlling interest	(2)
<b>Total profit for the period</b>	<b>3 033</b>

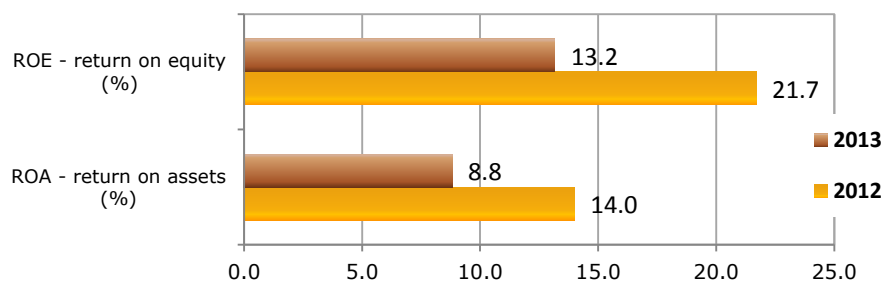
**Chart 12.** Liquidity ratios\*



\* - Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A

The decrease in cash and cash equivalents in the Group due to an increase in the amount of loans granted by KGHM INTERNATIONAL LTD. to Sierra Gorda S.C.M., expenditures incurred on tangible investments and payment of a dividend by the Parent Entity, resulted in a decrease in the liquidity ratios.

**Chart 13.** Profitability ratios\*

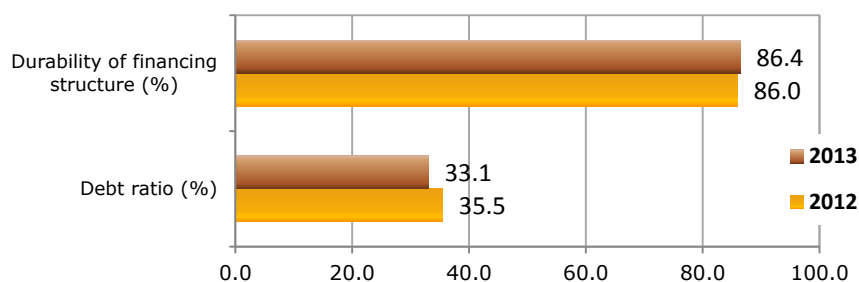


\* - Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A

The decrease in profit caused a decrease in the profitability ratios.



**Chart 14.** Financing ratios\*



\* - Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A

### 5.6. Realisation of projected financial results for 2013

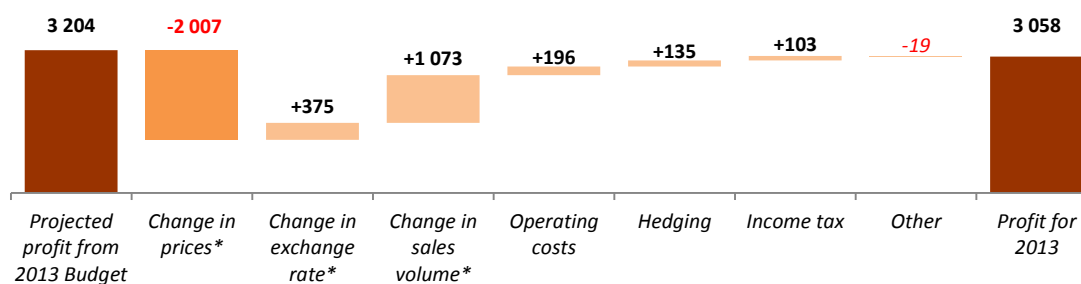
In a current report dated 15 February 2013 KGHM Polska Miedź S.A. published its Budget assumptions for 2013 as approved by the Supervisory Board on 14 February 2013. The Budget assumed the achievement in 2013 of revenues from sales in the amount of PLN 18 930 million and profit of PLN 3 204 million. Details of the basic Budget assumptions for 2013 and their realisation are shown in the following table.

**Table 32.** Realisation of projected financial results of KGHM Polska Miedź S.A. for 2013

	Unit	Budget 2013	Execution 2013	Realisation of Budget (%)
<b>Sales</b>	<b>M PLN</b>	<b>18 930</b>	<b>18 579</b>	<b>98.1</b>
<b>Profit for the period</b>	<b>M PLN</b>	<b>3 204</b>	<b>3 058</b>	<b>95.4</b>
<b>EBITDA</b>	<b>M PLN</b>	<b>5 337</b>	<b>4 976</b>	<b>93.2</b>
Average annual copper price	USD/t	7 800	7 322	93.9
Average annual silver price	USD/troz	32.00	23.79	74.3
USD/PLN exchange rate	USD/PLN	3.10	3.17	102.3
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 087	16 468	96.4
Cash cost of concentrate production – C1*	USD/lb	1.76	1.78	101.1
Production of copper in concentrate	kt	425.1	428.9	100.9
Production of electrolytic copper	kt	548.0	565.2	103.1
- of which from purchased copper-bearing materials	kt	146.6	134.8	92.0
Silver production	t	1 075	1 161	108.0
Capital expenditure	M PLN	2 470	2 357	95.4

\* C1 - cash cost of producing payable copper, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative costs during the mining stage, and smelter treatment and refining charges (TC/RC), less by-products revenues

**Chart 15.** Realisation of planned profit of KGHM Polska Miedź S.A. for 2013 (M PLN)



\* impact on sales

## 5.7. Projected Group financial situation

Each of the companies of the KGHM Polska Miedź S.A. Group develops its own budget and multi-year plans. The budgets and plans of subsidiaries are evaluated based on their conformance with the strategy of the Parent Entity and the Group, from which in turn arise basic questions associated with the directions of equity investment, the development of specific areas of activities and with the dividend policy. A significant role in Group planning is played by the effective management of cash flow, the optimal financing of current activities, risk management and control of costs.

The budgets of subsidiaries in 2014 are correlated with the budget of the Parent Entity, mainly in terms of the directions of development of the Group. They reflect the results of realisation of projects included in the equity investment plans of KGHM Polska Miedź S.A. and the flow of funds between Group entities.

## 5.8. Intentions as regards equity investments

Intentions as regards equity investments result from the main assumptions of the Strategy of KGHM Polska Miedź S.A., comprising development of the resource base to increase copper production and diversification of sources of revenues by investments in the energy sector.

Investments as regards development of the resource base are aimed at acquiring selective exploration projects related with copper and associated metals. In the near term it is not expected that there will be significant activity in the area of mergers and acquisitions of mining assets at a more advanced stage of development. The activities of the Group will be focused on advancement of the projects in its portfolio – above all Sierra Gorda, Victoria and Afton-Ajax.

In terms of its planned equity investments, 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 at maintaining production capacity and ensuring continuous operations by KGHM Polska Miedź S.A.

With respect to realisation of its corporate social responsibility (CSR) strategy, KGHM Polska Miedź S.A. intends to continue to support selected investments pursuing this strategy.

In addition, actions will be continued aimed at optimising the structure of the KGHM Polska Miedź S.A. Group, through the processes of restructurisation and liquidation, including among others within the KGHM INTERNATIONAL LTD. Group.

### Possibility of realising investment intentions in terms of the amount of funds possessed, reflecting potential changes in the structure of financing these activities

The cash possessed by the Parent Entity at the present moment and the borrowing opportunities from available external sources guarantee the possibility of realisation of its investment intentions, both in terms of equity investments as well as expenditures on the purchase and construction of property, plant and equipment.

## 6. Parent Entity

### 6.1. Composition of Parent Entity bodies

#### 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.

**Table 33.** Changes in the Management Board of the Parent Entity in 2013

Date	Description of event
<b>01.01.2013</b>	The 8th-term Management Board of KGHM Polska Miedź S.A. commenced work in 2013 in the following composition: <ul style="list-style-type: none"> <li>- Herbert Wirth - President of the Management Board,</li> <li>- Włodzimierz Kiciński - I Vice President of the Management Board (Finance)</li> <li>- Wojciech Kędzia - Vice President of the Management Board (Production)</li> <li>- Adam Sawicki - Vice President of the Management Board (Corporate Affairs)</li> <li>- Dorota Włoch - Vice President of the Management Board (Development)</li> </ul>
<b>02.09.2013</b>	Dorota Włoch submitted her resignation from the function of Vice President of the Management Board (Development).  The Supervisory Board of KGHM Polska Miedź S.A. dismissed: Włodzimierz Kiciński from the function of I Vice President of the Management Board of KGHM Polska Miedź S.A. and Adam Sawicki from the function of Vice President of the Management Board (Corporate Affairs).  The Supervisory Board appointed Jarosław Romanowski to the function of I Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A., Marcin Chmielewski to the function of Vice President of the Management Board (Corporate Affairs) of KGHM Polska Miedź S.A. and Jacek Kardela to the function of Vice President of the Management Board (Development) of KGHM Polska Miedź S.A.
<b>31.12.2013</b>	To the end of 2013 the Management Board of KGHM Polska Miedź S.A. functioned in the following composition: <ul style="list-style-type: none"> <li>- Herbert Wirth - President of the Management Board,</li> <li>- Jarosław Romanowski - I Vice President of the Management Board (Finance),</li> <li>- Wojciech Kędzia - Vice President of the Management Board (Production),</li> <li>- Jacek Kardela - Vice President of the Management Board (Development),</li> <li>- Marcin Chmielewski - Vice President of the Management Board (Corporate Affairs).</li> </ul> <p>To the date of approval of this Report, the composition of the Management Board of KGHM Polska Miedź S.A. did not change.</p>

## Information on Management Board Members

**Herbert Wirth President of the Management Board KGHM Polska Miedź S.A.** – coordinates the work of the Management Board and directs activities with respect to shaping the company's personnel policy. Also amongst the duties of the President of the Management Board are the initiation and direct supervision of the process of developing and updating the company Strategy, the supervision of designing, planning and conducting strategic studies in the current and future areas of company activities, as well as supervision of activities with respect to comprehensive risk management at the corporate level. The President of the Management Board also supervises activities with respect to building relations with institutions of public administration, government departments and business partners, directs the conduct of community communication programs and supervises activities with respect to developing the company's resource base.

A graduate of the AGH University of Science and Technology in Kraków. Obtained the title of doctor habilitatus in 2012. Completed among others postgraduate studies at the George Washington University School of Business and Public Management, obtaining a Master's Certificate in Project Management.

In 2013 he received the title doktor honoris causa from the AGH University of Science and Technology im. Stanisława Staszica in Kraków.

Since 1998 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.

Since 2011 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 among others 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, and serves as Vice President of the Pracodawcy Rzeczypospolitej Polskiej (Employers of Poland).

**Jarosław Romanowski I Vice President of the Management Board (Finance)** – manages financial operations, including among others financial risk, financial controlling, activities with respect to supervising realisation of the function of Executive Director, Accounting Services Center – Chief Accountant, as well as commerce and logistics.

A graduate of Poznań University of Economics with a specialization 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 from scratch 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 Ltd.

He has held a variety of positions in KGHM Polska Miedź S.A., 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.

**Marcin Chmielewski Vice President of the Management Board (Corporate Affairs)** – manages business relations and tasks related with creating and managing the Group with respect to implementation of and adherence to corporate governance principles and best business practices, of which determining the manner of organisation of the Group and its legal forms; manages or coordinates activities related with establishing appropriate relations with the company's external business environment.

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. He also completed a two-month internship in a Branch Office of Pekao Bank in Toronto, Canada, and took part in a seminar on credit risk, DePaul University, Chicago, USA.

**Jacek Kardela Vice President of the Management Board (Development)** – responsible for coordinating activities with respect to implementing the Strategy in all areas of the Group's operations, manages the company's capital investments as approved in the company's Budget as well as R&D work.

A graduate of the University of Wrocław, Faculty of Social Sciences. Currently involved in Executive Doctoral Business Administration studies at the Institute of Economics (PAN) in Warsaw. Mr. Kardela 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.

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.

**Wojciech Kędzia Vice President of the Management Board (Production)** – manages activities with respect to production of the company's products and services and supervises production operations in the Group's subsidiaries, of which mainly mining and metallurgical production, as well as with respect to 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, the Mining Faculty, and a 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 organisation and management in market economy at Wrocław University of Economics.

Involved with KGHM Polska Miedź S.A. since 1992. Mr. Kędzia 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.

### Supervisory Board

Under the KGHM Polska Miedź S.A. Statutes, the Members of the Supervisory Board are appointed and dismissed by the General Meeting.

**Table 34.** Changes in the composition of the Supervisory Board of the Parent Entity in 2013

Date	Description of event
<b>01.01.2013 r.</b>	As at 1 January 2013, the composition of the 8th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows: <ul style="list-style-type: none"> <li>- Aleksandra Magaczewska - Chairman,</li> <li>- Krzysztof Kaczmarczyk - Deputy Chairman,</li> <li>- Dariusz Krawczyk - Secretary,</li> <li>- Paweł Białek,</li> <li>- Krzysztof Opawski,</li> <li>- Ireneusz Piecuch,</li> <li>- Jacek Poświata,</li> </ul> as well as the following employee-elected member: <ul style="list-style-type: none"> <li>- Bogusław Szarek.</li> </ul>
<b>19.06.2013 r.</b>	Paweł Białek resigned from the function of Member of the Supervisory Board. The General Meeting resolved to: <ul style="list-style-type: none"> <li>- dismiss from the Supervisory Board: Dariusz Krawczyk and Ireneusz Piecuch,</li> <li>- appoint to the Supervisory Board: Andrzej Kidyba, Marek Panfil and Iwona Zatorska-Pańtak.</li> </ul>
<b>02.09.2013 r.</b>	Selection of Marek Panfil as Secretary of the Supervisory Board.
<b>27.11.2013 r.</b>	Expiry of the mandate of Member of the Supervisory Board Krzysztof Opawski (due to his death)
<b>31.12.2012 r.</b>	At the end of 2013 the composition of the Supervisory Board was as follows: <ul style="list-style-type: none"> <li>- Aleksandra Magaczewska - Chairman,</li> <li>- Krzysztof Kaczmarczyk - Deputy Chairman,</li> <li>- Marek Panfil - Secretary,</li> <li>- Andrzej Kidyba</li> <li>- Jacek Poświata</li> <li>- Iwona Zatorska - Pańtak</li> </ul> as well as the following employee-elected member: <ul style="list-style-type: none"> <li>- Bogusław Szarek</li> </ul> To the date of approval of this Report for publication, the composition of the Supervisory Board of KGHM Polska Miedź S.A. did not change.

## 6.2. Remuneration of members of bodies of the Parent Entity and of other key management personnel of the Group

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, composed of the basic monthly salary and variable salary. The basic monthly salary is set as a multiple of the average monthly salary in the 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 realisation 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),
- 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.

Potentially-due remuneration due to the variable part of remuneration for 2013 is presented in the following table.

**Table 35.** *Potentially-due remuneration for Members of the Management Board of the Parent Entity for 2013 r. ('000 PLN)\**

Name	Position	Potentially-due remuneration for 2013
Herbert Wirth	President of the Management Board	590
Jarosław Romanowski	I Vice President of the Management Board	209
Wojciech Kędzia	Vice President of the Management Board	476
Jacek Kardela	Vice President of the Management Board	186
Marcin Chmielewski	Vice President of the Management Board	186
Włodzimierz Kiciński	I Vice President of the Management Board	334
Adam Sawicki	Vice President of the Management Board	309
Dorota Włoch	Vice President of the Management Board	297

\* *Less prepayments on variable remuneration for 2013*

The contracts entered into with Members of the Management Board forbidding any activities which would be competitive towards KGHM stipulate that, for adherence to such contracts, within a period of 12 months from the date of termination of employment in KGHM – 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 36.** Remuneration of the Parent Entity Management Board for 2013 ('000 PLN)\*

Members of the Management Board	Period when function served in 2013	Fixed part of remuneration	Variable part of remuneration**	Earnings from subsidiaries	Other benefits and earnings***	Total earnings in 2013
<u>Members of the Management Board serving in the function as at 31 December 2013</u>						
Herbert Wirth	from 01.01.2013 to 31.12.2013	1 393	363	-	243	<b>1 999</b>
Jarosław Romanowski	from 02.09.2013 to 31.12.2013	419	-	-	61	<b>480</b>
Wojciech Kędzia	from 01.01.2013 to 31.12.2013	1 117	295	-	171	<b>1 583</b>
Jacek Kardela	from 02.09.2013 to 31.12.2013	372	-	210	53	<b>635</b>
Marcin Chmielewski	from 02.09.2013 to 31.12.2013	372	-	-	39	<b>411</b>
<u>Other members of the Management Board</u>						
Włodzimierz Kiciński	from 01.01.2013 do 02.09.2013	1 255	261	-	218	<b>1 734</b>
Adam Sawicki	from 01.01.2013 do 02.09.2013	1 112	175	-	216	<b>1 503</b>
Dorota Włoch	from 01.01.2013 do 02.09.2013	1 109	230	-	193	<b>1 532</b>
Maciej Tybura	-	-	88	-	-	<b>88</b>
<b>Total</b>		<b>7 149</b>	<b>1 412</b>	<b>210</b>	<b>1 194</b>	<b>9 965</b>

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

\*\*"Variable part of remuneration" includes: settlement of the variable part of remuneration for 2012 and prepayments on variable part of remuneration (in quarterly periods) for 2013.

\*\*\* Amounts in the column "Other benefits and earnings" include additional monetary benefits, including life insurance, contributions to the Employee Retirement Fund and financing of non-monetary benefits.

**Table 37.** Remuneration of the Parent Entity Management Board for 2012 ('000 PLN)\*

Members of the Management Board	Period when function served in 2012	Fixed part of remuneration	Variable part of remuneration**	Earnings from subsidiaries	Termination benefits	Other benefits and earnings***	Total earnings in 2012
<u>Members of the Management Board serving in the function as at 31 December 2012</u>							
Herbert Wirth	from 01.01.2012 to 31.12.2012	1 148	398	48	-	169	<b>1 763</b>
Włodzimierz Kiciński	from 28.06.2012 to 31.12.2012	621	75	-	-	54	<b>750</b>
Wojciech Kędzia	from 01.01.2012 to 31.12.2012	918	319	83	-	67	<b>1 387</b>
Adam Sawicki	from 01.09.2012 to 31.12.2012	362	22	-	-	54	<b>438</b>
Dorota Włoch	from 28.06.2012 to 31.12.2012	552	66	81	-	60	<b>759</b>
<u>Other members of the Management Board</u>							
Maciej Tybura	from 01.01.2012 to 28.06.2012	406	254	31	42	116	<b>849</b>
<b>Total</b>		<b>4 007</b>	<b>1 134</b>	<b>243</b>	<b>42</b>	<b>520</b>	<b>5 946</b>

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

\*\*"Variable part of remuneration" includes: settlement of the variable part of remuneration for 2011 and prepayments on variable part of remuneration (in quarterly periods) for 2012.

\*\*\* Amounts in the column "Other benefits and earnings" include additional monetary benefits, including life insurance, contributions to the Employee Retirement Fund and financing of non-monetary benefits.

#### Information on the principles for granting bonuses to management staff

In 2013, a system was introduced in KGHM Polska Miedź S.A. for granting bonuses to management staff based on the realisation of short- and long-term tasks resulting from priorities set by the Management Board for 2014 and assumptions of the company's strategy based on two pillars:

- 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 KGHM Polska Miedź S.A. Central Office STIP System, comprising an 85 person management group in the company.

- LTIP – Long-Term Incentive Plan – long-term motivational program for senior management in KGHM 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 aforementioned bonus systems are included in the newly-created process of Management by Results, which will gradually encompass all employee groups, creating in this way a dialogue between Management and managing staff and being a tool for allocating resources.

#### Supervisory Board remuneration

The question of remuneration of the Supervisory Board Members is regulated by Resolution No. 15/2003 of the Ordinary General Meeting of KGHM Polska Miedź S.A. regarding: changes in the principles of remuneration of the Supervisory Board members adopted on 29 May 2003. The amount of monthly remuneration of individual members of the Supervisory Board depends on the function served on the Board and is set as a multiple of the average monthly gross wage in the industrial sector excluding payment from profit, for the last month of the past quarter.

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

**Table 38.** Remuneration of the Parent Entity Supervisory Board for 2013 ('000 PLN)

Members of the Supervisory Board	Period when function served in 2013	Remuneration for function served on SB	Earnings from other contracts*	Other Benefits**	Total earnings in 2013
Krzysztof Kaczmarczyk	01.01-31.12.2013	102	-	3	<b>105</b>
Aleksandra Magaczewska	01.01-31.12.2013	116	-	4	<b>120</b>
Jacek Poświata	01.01-31.12.2013	93	-	34	<b>127</b>
Bogusław Szarek	01.01-31.12.2013	93	161	10	<b>264</b>
Andrzej Kidyba	19.06-31.12.2013	49	78	9	<b>136</b>
Iwona Zatorska-Pańtak	19.06-31.12.2013	48	-	3	<b>51</b>
Marek Panfil	19.06-31.12.2013	48	16	52	<b>116</b>
Paweł Białek	01.01-19.06.2013	45	-	32	<b>77</b>
Dariusz Krawczyk	01.01-19.06.2013	45	-	2	<b>47</b>
Ireneusz Piecuch	01.01-19.06.2013	45	-	2	<b>47</b>
Krzysztof Opawski	01.01-27.11.2013	85	-	-	<b>85</b>
<b>Total</b>		<b>769</b>	<b>255</b>	<b>151</b>	<b>1 175</b>

**Table 39.** Remuneration of the Parent Entity Supervisory Board for 2012 ('000 PLN)

Members of the Supervisory Board	Period when function served in 2012	Remuneration for function served on SB	Earnings from other contracts*	Other Benefits**	Total earnings in 2012
Marcin Dyl	01.01-19.01.2012	5	-	-	<b>5</b>
Arkadiusz Kawecki	01.01-19.01.2012	5	-	2	<b>7</b>
Marzenna Weresa	01.01-19.01.2012	5	-	-	<b>5</b>
Jan Rymarczyk	01.01-19.01.2012	5	-	2	<b>7</b>
Franciszek Adamczyk	01.01-19.01.2012	5	-	1	<b>6</b>
Jacek Kuciński	01.01-25.04.2012	38	-	13	<b>51</b>
Marek Panfil	01.01-25.04.2012	32	-	6	<b>38</b>
Lech Jaroń	01.01-28.06.2012	46	84	17	<b>147</b>
Maciej Łaganowski	01.01-28.06.2012	46	73	19	<b>138</b>
Paweł Markowski	01.01-28.06.2012	46	107	16	<b>169</b>
Mariusz Kolwas	19.01-24.04.2012	25	-	4	<b>29</b>
Krzysztof Kaczmarczyk	19.01-31.12.2012	91	-	9	<b>100</b>
Aleksandra Magaczewska	19.01-31.12.2012	101	-	10	<b>111</b>
Robert Oliwa	19.01-30.09.2012	58	-	6	<b>64</b>
Jacek Poświata	19.01-31.12.2012	86	-	13	<b>99</b>
Paweł Białek	25.04-31.12.2012	61	-	6	<b>67</b>
Dariusz Krawczyk	25.04-31.12.2012	61	-	4	<b>65</b>
Ireneusz Piecuch	25.04-31.12.2012	61	-	3	<b>64</b>
Krzysztof Opawski	03.09-31.12.2012	29	-	5	<b>34</b>
Bogusław Szarek	21.11-31.12.2012	10	17	-	<b>27</b>
<b>Total</b>		<b>816</b>	<b>281</b>	<b>136</b>	<b>1 233</b>

\*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.



## Remuneration of other key management personnel of the Group

**Table 40.** Remuneration and other benefits of other key management personnel ('000 PLN)\*

	2012	2013
Salaries and other short-term employee benefits	7 271	5 229
Remuneration resulting from agreement/contract following change of owner of KGHM INTERNATIONAL LTD.	11 192	-
<b>Total</b>	<b>18 463</b>	<b>5 229</b>

\* other key management personnel of the Group is understood as being members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD.

### 6.3. Share capital and ownership structure of the Parent Entity

As at 31 December 2013, the share capital of KGHM Polska Miedź S.A., in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 000 and was divided into 200 000 000 series A, fully paid, having a face value of PLN 10 each. All of the shares are bearer shares. Each share grants the right to one vote at the General Meeting.

The company has not issued preference shares.

In 2013, there was no change either in registered share capital or in the number of issued shares.

As far as the Management Board of the company is aware, during this same time there was also no change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The only shareholder who as at 1 January 2013 as well as at 31 December 2013 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 shareholder structure of the company as at 31 December 2013 and at the date of preparation of this report is as follows:

**Table 41.** Shareholder structure as at 31 December 2013 and at the date of preparation of this report

Shareholder	number of shares/votes held	% of share capital	share in total number of votes
State Treasury*	63 589 900	31.79%	31.79%
Other shareholders	136 410 100	68.21%	68.21%
<b>Total</b>	<b>200 000 000</b>	<b>100.00%</b>	<b>100.00%</b>

\* based on an announcement received by the company dated 12 January 2010

The group of remaining shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 68.21%, is mainly represented by institutional shareholders, both domestic and international.

The company does not hold any of its own 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.

Amongst the members of the company's Management Board, as at 31 December 2013, only Marcin Chmielewski, a Vice President of the Management Board, appointed to the Management Board of the company on 2 September 2013, held 93 shares of KGHM Polska Miedź S.A. with a total nominal value of PLN 930.

Based on information held by the company, Members of the Supervisory Board of KGHM Polska Miedź S.A. as at 31 December 2013 did not hold shares of KGHM Polska Miedź S.A. Marek Panfil, appointed to the Supervisory Board on 19 June 2013, sold 90 shares of the company on 19 September 2013.

Members of the company's Management Board and Supervisory Board were not in the possession of shares of related entities of KGHM Polska Miedź S.A.

In 2013, the company did not have an employee share incentive program.

### 6.4. The Parent Entity on the stock exchange

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Parent Entity are traded on the primary market in a continuous trading system, and are a component of the WIG and WIG20 indices, and since 23 September 2013 have also been a component of the WIG30 index published as of that date, comprising 30 of the largest and most liquid companies on the WSE. KGHM Polska Miedź S.A. is also amongst the group of socially-responsible companies which comprise the RESPECT Index. The company's shares are included in the „basic materials” sector index WIG-SUROWCE as well as the WIG div index which includes companies which have

the highest dividend yield recorded at the end of August each year and regularly paid dividends in previous years.

In 2013, the share price of KGHM Polska Miedź S.A. decreased in value. During the first half year the share price systematically fell, and at the close of the last trading day in June amounted to PLN 121.00, i.e. 36.32% below the level of the last trading day in 2012. In the second half of the year the closing share price ranged between PLN 111.00 and PLN 130.00. The company's shares reached their annual maximum closing of PLN 193.50 on the second and third trading days of January, while the lowest price of PLN 111.00 was recorded on 31 July 2013. Overall, during the past year the share price of KGHM Polska Miedź S.A. decreased by 37.89%, from PLN 190.00 on the last trading day of 2012 to PLN 118.00 on the last trading day of 2013. During this same period the WIG index increased by 8.06 %, while the WIG20 index decreased by 7.05%.

**Chart 16.** 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 2011-2013 are presented in the following table.

**Table 42.** Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange

	Unit	2011	2012	2013
Number of shares issued	M	200	200	200
Closing price from the last day of trading in the year	PLN	110.60	190.00	118.00
Market capitalisation of the company at year's end	M PLN	22 120	38 000	23 600
Highest trading price in the year	PLN	200.30	194.50	194.80
Lowest trading price in the year	PLN	102.40	111.10	106.90
Average trading volume per session	'000	1 070	945	950
Share in turnover (trading sessions)	%	17.16	17.70	14.82

### Dividends

In accordance with Resolution No. 5/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2013, the amount of PLN 1 960 million was allocated from profit for financial year 2012 as a shareholder dividend, representing PLN 9.80 per share. The dividend date was set at 12 July 2013 with the dividend being paid in two instalments: PLN 4.90 per share on 14 August 2013 and PLN 4.90 per share on 14 November 2013.

**Table 43.** Dividend payments, 2011 - 2013

	Unit	2011	2012	2013
Dividend paid in the financial year	M PLN	2 980	5 668	1 960
from allocation of prior year profit	PLN/share	14.90	28.34	9.80
Dividend yield *	%	13.5	14.9	8.3

\* dividend per share paid in the given financial year divided by the closing price on the last trading day in the given financial year

## Capital market ratios

The activities of KGHM Polska Miedź S.A. are described by the following ratios:

**Table 44.** Capital market ratios

Ratio		2011	2012	2013
EPS (PLN)	Profit for the period / number of shares	56.97	24.34	15.29
P/CE	Price per share / financial surplus per share *	1.8	6.74	6.14
P/E	Price per share / earnings per share	1.9	7.82	7.72
MC/S	Market capitalisation**/ revenues from sales	1.1	1.83	1.27
P/BV	Price per share / book value per share ***	1.0	1.73	1.01

\* financial surplus = profit for the period + depreciation/amortisation

\*\* market capitalisation represents total shares outstanding times share price from the last day of the reporting period (200 million shares x PLN 190.00 in 2012; PLN 118.00 in 2013)

\*\*\* carrying amount of equity at the end of the reporting period

Substantially impacting the capital market ratios versus their levels in 2012 was the lower profit for the period earned by KGHM Polska Miedź S.A. and the decrease in the share price of the company from PLN 190.00 at the end of 2012 to PLN 118.00 at the end of 2013.

## 7. Report on the application of corporate governance principles by KGHM Polska Miedź S.A.

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 2013.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in 2013 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](http://www.corp-gov.gpw.pl)), as well as at the KGHM Polska Miedź S.A. website ([www.kghm.pl](http://www.kghm.pl)) under the section devoted to corporate governance.

The company has endeavoured at every stage of its operations to carry out the recommendations and principles respecting best practice for listed companies.

In 2013, the Parent Entity decided not to 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.

KGHM Polska Miedź S.A. 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 assure its shareholders of 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, the principles of participation in the General Meetings of KGHM Polska Miedź S.A. enable the rights attached to the holding of shares to be exercised and guarantee the interests of all shareholders. The company is considering introducing the process of implementing the aforementioned principle and recommendation in situations where their technical and legal aspect no longer raises any doubts, and where such introduction will be justified by a real need for this form of communication by shareholders.

### 7.1. General Meetings

The General Meeting of KGHM Polska Miedź S.A. is the company's highest body. It meets in either an ordinary or an extraordinary form, based on 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 KGHM Polska Miedź S.A. 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 of KGHM Polska Miedź S.A. on 17 May 2010, which are available on the company's website.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the company's activity and the financial statements, including the consolidated financial statements of the 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 shareholders 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 2013 and 31 December 2013 was the Polish State Treasury. This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A. and the same number of votes at the General Meeting, representing 31.79% of the share capital and of the total number of votes. 136 410 100 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, of which – as far as the Management Board of the company is aware – none exceeded the threshold of 5% of the total number of votes.

Shareholders of the Parent Entity exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A. Shareholder is entitled to exercise 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 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,
- 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.

### **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. According to the Statutes, the Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 members are elected by the company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board 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 tirets 1 and 2,
- 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 tiret 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 plans of activity,
- 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 organisational 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 tangible 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.

The composition of the 8th-term Supervisory Board at 1 January 2013 was as follows:

- Aleksandra Magaczewska - Chairman
- Krzysztof Kaczmarczyk - Deputy Chairman
- Dariusz Krawczyk - Secretary
- Paweł Białek
- Krzysztof Opawski
- Ireneusz Piecuch
- Jacek Poświata

as well as the following employee-elected member:

- Bogusław Szarek.

During 2013 the following changes occurred in the composition of the Supervisory Board:

- on 19 June 2013 Paweł Białek resigned from the function of member of the Supervisory Board,
- on 19 June 2013 the General Meeting resolved to:
  - dismiss from the Supervisory Board: Dariusz Krawczyk, Ireneusz Piecuch,
  - appoint to the Supervisory Board: Andrzej Kidyba, Marek Panfil and Iwona Zatorska - Pańtak.
- on 2 September 2013 the Supervisory Board selected Marek Panfil as Secretary of the Supervisory Board,
- on 27 November 2013 the mandate of Supervisory Board member Krzysztof Opawski expired due to his death.

Following the aforementioned changes, the composition of the 8th-term Supervisory Board as at 31 December 2013 and as at the date of preparation of this report was as follows:

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

as well as the following employee-elected member:

- Bogusław Szarek

Krzysztof Kaczmarczyk, Andrzej Kidyba, Marek Panfil and Jacek Poświata have submitted declarations on the fulfilment of independence criteria described in III.6 of the „Code of Best Practice for WSE Listed Companies”.

### **Supervisory Board Committees**

Under the auspices of the Supervisory Board are three committees: the Audit Committee, the Remuneration Committee and the Strategy Committee. These committees assist the Supervisory Board with respect to preparing evaluations and opinions and the taking of other actions aimed at decision-making by the Supervisory Board.

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits.

The Remuneration Committee is responsible for supervising the realisation of contracts signed with the Management Board, the remuneration system and benefits paid out in the 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 the transactions conducted by the company, which are regarded as material for the company by the Audit Committee,
- analysis and monitoring of the conclusions resulting from the control of the risk management processes in the company,

- 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 before the conclusion of the agreement with the auditor by the company,
- on-going cooperation with the independent auditor of the company during the audit, analysis and the drawing of conclusions from the audit and opinion of the auditor regarding the financial statements, auditor's letter to the Management Board and/or the Supervisory Board, and the preparation of draft reports and assessments required under the regulations 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 of the Supervisory Board at 1 January 2013:

- Krzysztof Kaczmarczyk - Committee Chairman
- Paweł Białek
- Krzysztof Opawski.

Following changes in the Supervisory Board, from 10 July 2013 the composition of the Audit Committee was as follows:

- Marek Panfil - Committee Chairman
- Krzysztof Kaczmarczyk
- Krzysztof Opawski (to 27 November 2013)
- Iwona Zatorska-Pańtak.

As at 31 December 2013 and as at the date of preparation of this report the composition of the Audit Committee was as follows:

- Marek Panfil - Committee Chairman
- Krzysztof Kaczmarczyk
- Iwona Zatorska-Pańtak

#### Remuneration Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

- management of the affairs associated with the recruitment and employment of the Management Board members by preparing and arranging the draft documents and processes to be submitted for the acceptance of the Supervisory Board,
- preparation of the draft agreements and other model documents in relation to the employment relationship established with the Management Board Members and supervision of the execution of contractual obligations of the parties,
- supervision of the execution of the Management Board remuneration system, specifically preparation of the settlement documents in the area of variable elements and bonus-based remuneration in order to submit the recommendations to the Supervisory Board,
- monitoring and periodic analyses of the remuneration system of senior management of the company and, if necessary, the preparation of recommendations for the Supervisory Board,
- supervision of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, apartments, etc., and
- other tasks ordered by the Supervisory Board.

As at 1 January 2013 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:

- Paweł Białek - Committee Chairman
- Dariusz Krawczyk
- Ireneusz Piecuch

Following changes in the Supervisory Board, from 10 July 2013 the composition of the Remuneration Committee was as follows (as at 31 December 2013 and as at the date of preparation of this report:

- Iwona Zatorska - Pańtak - Committee Chairman
- Krzysztof Kaczmarczyk
- Andrzej Kidyba
- Bogusław Szarek

#### Strategy Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

- execution on behalf of the company's Supervisory Board of the tasks in the area of supervision of the issues associated with the company's strategy and annual and long-term operating plans of the company,

- monitoring the execution of the company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
- monitoring the execution of annual and long-term operating plans of the company by the Management Board, and assessment of whether these plans need to be modified,
- assessment of the consistency of the annual and long-term operating plans of the company with the company's strategy executed by the Management Board, and the presentation of any proposed changes in all such company documents,
- submission to the company's Supervisory Board of its opinions regarding the draft strategies of the company and any changes thereto and annual and long-term operating plans of the company, presented by the company's Management Board, and
- other tasks ordered by the Supervisory Board.

As at 1 January 2013, the following Members of the Supervisory Board served on the Strategy Committee:

- Aleksandra Magaczewska - Committee Chairman
- Krzysztof Kaczmarczyk
- Paweł Białek
- Dariusz Krawczyk
- Krzysztof Opawski
- Ireneusz Piecuch
- Jacek Poświata

Following changes in the Supervisory Board, from 10 July 2013 the composition of the Strategy Committee was as follows:

- Aleksandra Magaczewska - Committee Chairman
- Krzysztof Kaczmarczyk - Deputy Committee Chairman
- Krzysztof Opawski (to 27 November 2013)
- Marek Panfil
- Jacek Poświata
- Bogusław Szarek

As at 31 December 2013 and as at the date of preparation of this report the following Members of the Supervisory Board served on the Strategy Committee:

- Aleksandra Magaczewska - Committee Chairman
- Krzysztof Kaczmarczyk - Deputy Committee Chairman
- Marek Panfil
- 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 represents the company externally, including both within and out of courts. The Management Board of the company is obligated to manage the assets and the affairs of the company with the requisite amount of prudence demanded by commercial affairs, and to obey the law, the Statutes of the company and the resolutions passed by the General Meeting and the Supervisory Board to the limits of their duties.

The Management Board of KGHM Polska Miedź S.A. is comprised of 1 to 7 persons appointed for a mutual term of office. The term of office of the Management Board lasts three years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board, 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 Bylaws of the Management Board of KGHM Polska Miedź S.A. For resolutions of the Management Board to be valid at least two-thirds of the members of the Management Board must be present. Resolutions of the Management Board are 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 shall cast 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, which is available on the company's website.



The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The shares of the company may be redeemed given shareholder consent through their acquisition by the company. A resolution of the General Meeting on the redemption of shares may be preceded by an agreement entered into with a shareholder. In accordance with §29 sec. 1 point 6 of the Statutes of the company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the company). The Management Board of the company does not have the authority to increase the share capital or issue the shares of the company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The composition of the 8th-term Management Board and the segregation of duties amongst its Members as at 1 January 2013 was as follows:

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

In 2013, the following changes occurred in the composition of the KGHM Polska Miedź S.A. Management Board:

- Dorota Włoch resigned from the function of Vice President of the Management Board (Development) from 2 September 2013.
- On 2 September 2013 the Supervisory Board resolved to dismiss the following persons from the Management Board:
  - Włodzimierz Kiciński from the function of I Vice President of the Management Board,
  - Adam Sawicki from the function of Vice President of the Management Board (Corporate Affairs),
- On 2 September 2013 the Supervisory Board resolved to appoint the following persons to the Management Board:
  - Jarosław Romanowski to the function of I Vice President of the Management Board (Finance),
  - Marcin Chmielewski to the function of Vice President of the Management Board (Corporate Affairs),
  - Jacek Kardela to the function of Vice President of the Management Board (Development).

Following the aforementioned changes, the composition of the 8th-term Management Board as at 31 December 2013 and as at the date of preparation of this report was as follows:

- Herbert Wirth - President of the Management Board
- Jarosław Romanowski - I 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).

#### **7.5. Description of the basic characteristics of internal control and risk management systems applied in the company with respect to the process of preparing financial statements and consolidated financial statements**

KGHM Polska Miedź S.A. system of internal control and risk management in the process of preparing financial statements is realised through:

##### **Supervision of the application of a uniform accounting principles by KGHM Polska Miedź S.A. and the companies of the KGHM Polska Miedź S.A. Group in the process of preparing reporting packets for the purpose of preparing 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 books of KGHM Polska Miedź S.A. and the uniformity of applied accounting principles in preparing the financial statements of Group subsidiaries, the Management Board of KGHM Polska Miedź S.A. has introduced for continuous use an Accounting Policy for the Group, in accordance with International Financial Reporting Standards approved by the European Union, continuously updated based on new regulations.

Control of the applied accounting principles in the process of preparing the financial statements of KGHM Polska Miedź S.A. and of Group subsidiaries is based on the control mechanisms built into the functioning of the reporting systems.

The reporting pockets of subsidiaries are also reviewed by the appropriate units in KGHM Polska Miedź S.A. as well as by an independent auditor during the process of reviewing and auditing the consolidated financial statements of the Group.

##### **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. KGHM Polska Miedź S.A. continuously adapts the IT information system to changing accounting principles or other legal standards.

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 in KGHM Polska Miedź S.A. Access to the resources of the financial and accounting system and financial reporting – separate and consolidated – is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

### **Corporate risk management**

In 2013, KGHM Polska Miedź S.A. completed design work aimed at implementing a comprehensive integrated risk management system for supporting management at the strategic and operational levels of the KGHM Polska Miedź S.A. Group.

This project was an element in the realisation of the Strategy, as well as in the development of organisational skills and efficiencies, improving corporate governance and strengthening the trust of investors in the company. The effective implementation of such a system will enhance the company's durability, its predictability and stability and its responsibility towards shareholders, as well as its ability to adapt to volatile business conditions.

As part of the realisation of this project, in November 2013 a Corporate Risk Management Policy for the KGHM Polska Miedź S.A. Group was adopted, describing the overall approach and setting forth basic principles as well as the corporate risk management process in the KGHM Polska Miedź S.A. Group.

The Corporate Risk Management and Conformity Department is responsible for coordination of the conduct of the entire corporate risk management process and for developing the methods and tools used by the managers in KGHM Polska Miedź S.A., in all 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 KGHM Polska Miedź S.A. 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 KGHM Polska Miedź S.A. with independent and objective information on internal control and risk management systems as well as with analyses of business processes within KGHM Polska Miedź S.A. and its subordinated companies. Apart from internal audit and institutional control, the obligation fully remains in KGHM Polska Miedź S.A. for each employee to exercise self-control in respect of their duties and for every level of management staff to perform their control – within supervisory-related 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 KGHM Polska Miedź S.A. in preparing the financial statements and the accuracy and truthfulness of the separate and consolidated financial statements.

### **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 KGHM Polska Miedź S.A. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the 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 evaluation 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.

## **8. Significant subsequent events**

### **Agreement on setting mining usufruct to extract copper ore, in force from 1 January 2014**

On 1 January 2014, the Parent Entity recognised liabilities in the amount of PLN 144 million, representing the discounted value of fixed payments due to agreements establishing mining usufruct rights for the extraction of copper ore. The amount of the fixed payments was accounted for under assets as intangible assets. The variable part of the payments (depending on the value of production) will be charged to current costs and respective liabilities, to be accounted for in the period when they are incurred.

### **Issuance of a letter of credit securing the liabilities of KGHM INTERNATIONAL LTD.**

On 8 January 2014, at the request of KGHM Polska Miedź S.A., HSBC Bank plc issued a letter of credit in the amount of USD 137.5 million (PLN 414 million at the NBP exchange rate from 31 December 2013), securing the liabilities of KGHM INTERNATIONAL LTD. in respect of the beneficiary Empresa Eléctrica Cochrane S.A. due to an agreement for the purchase of electricity entered into between Sierra Gorda S.C.M. and Empresa Eléctrica Cochrane S.A. According to the agreement the sponsors of the Sierra Gorda project are obliged to ensure security for the transaction in the form of a guarantee or letter of credit. As at 8 January 2014, KGHM Polska Miedź S.A. assumed from KGHM INTERNATIONAL LTD. the obligation to meet this requirement.

### **Agreement 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**

On 10 January 2014, KGHM Polska Miedź S.A., Grupa Azoty Zakłady Azotowe „Puławy” S.A. and Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o. (a subsidiary of Grupa Azoty Zakłady Azotowe „Puławy” S.A.) signed an agreement 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 („agreement”).

The signing of this agreement is a continuation of the cooperation initiated by the signing by KGHM Polska Miedź S.A. and the company Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o. of a Letter of Intent on 30 August 2013. This agreement allows other entities of the KGHM Polska Miedź S.A. Group and the Grupa Azoty S.A. Group to participate in the project to be realised under the Letter of Intent.

The agreement sets forth the conditions and further steps involved in realisation of this project, fundamental amongst which are agreeing the details of the investment contract, setting forth in particular the principles for the founding and operation of the special purpose company which will execute the project, obtaining antimonopoly permits and corporate agreements for its founding and the principles for purchase of the raw materials from this company. The agreement foresees that the leader of the entire project will be KGHM Polska Miedź S.A., while the capital interest of Grupa Azoty Zakłady Azotowe „Puławy” S.A. and of Gdańskie Zakładów Nawozów Fosforowych "Fosfory" Sp. z o.o., or of entities belonging to the Grupa Azoty S.A. Group, in the special purpose company and in projects executed by it, will essentially amount to 50%.

### **Signing of a letter of intent with the company Grupa Azoty S.A.**

On 16 January 2014, a letter of intent was signed between KGHM Polska Miedź S.A. and the company Grupa Azoty S.A. with its registered head office in Tarnów, setting forth the general principles for the eventual undertaking of joint business activities in the following areas: processing of phosphogypsum, exploration for potassium salt deposits abroad, gaining access to sources of natural gas, construction of a polygeneration power plant, and exploration for and extraction of phosphorite.

The Parties foresee that cooperation within the Areas of Cooperation is not based on the principle of exclusivity, and make take one of the following forms:

- commercial and operational cooperation based on detailed agreements between the parties or entities comprising individual groups of the Parties and their eventual partners, or
- the establishment of joint venture companies with participation by the the parties or entities comprising individual groups of the Parties and their eventual partners („JV company”), with the reservation that the Parties may decide to undertake specified actions through a separate company, whose sole partner would be the JV company.

#### **Concession obtained by KGHM Polska Miedź S.A.**

On 21 January 2014, KGHM Polska Miedź S.A. obtained a concession for exploration and evaluation of the Konrad copper ore deposit. This concessioned area is directly adjacent to the Synklina Grodziecka concession.

#### **Judgment of the Court in a case on declaring a resolution of the General Meeting invalid**

On 27 January 2014, the Regional Court in Legnica, Section VI Economic, regarding a suit filed by Józef Czyczerski "requesting that Resolution No. 35 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013, regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Józef Czyczerski elected by the employees of KGHM PM S.A., be declared invalid" issued a judgement in which it dismissed the suit of the plaintiff.

#### **Concession request declined and partial concession**

On 28 January 2014, the Minister of the Environment issued a decision in which it declined the granting of a concession to KGHM Polska Miedź S.A. for the exploration and assessment of the Bytom Odrzański copper ore deposit, and a decision in which it granted to KGHM Polska Miedź S.A. concession no. 5/2014/p for the exploration of the Kulów-Luboszyce copper ore deposit, in that part covered by the Parent Entity's request from 2012. These decisions are not legally binding, and KGHM Polska Miedź S.A. has submitted appeals of them to the Minister of the Environment.

#### **Loan agreements entered into by the Parent Entity**

On 29 January 2014 an agreement was signed for an overdraft facility in the amount of:

- USD 100 million, available during the period 31 January 2014 to 29 January 2017.
- USD 30 million, available during the period 31 January 2014 to 29 January 2015.

Interest on the amounts drawn will be calculated based on EURIBOR and LIBOR plus a bank margin.

#### **Change in a significant contract with PGNiG S.A.**

On 30 January 2014, an annex was signed to the comprehensive contract for the purchase of fuel gas („the contract”), entered into on 30 July 2010 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<sup>3</sup> to 41.5 million m<sup>3</sup>. 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.

Also, annexes were signed for three other contracts for the purchase of fuel gas from PGNiG: i) a contract dated 25 September 2001, ii) a contract dated 4 January 1999, and iii) 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.

#### **Changes in the Group structure**

On 21 January 2014, the General Meeting of KGHM Metraco S.A. and the General Meeting of KGHM Ecoren S.A. resolved to combine the companies through the acquisition of KGHM Ecoren S.A. by the company KGHM Metraco S.A. This combination was court registered on 31 January 2014. From the date of combination, KGHM Metraco S.A. will continue the activities conducted to date by KGHM Ecoren S.A.

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., with their acquisition by Centenario Holdings Ltd. These actions were undertaken to simplify the structure of the KGHM INTERNATIONAL LTD. Group by dissolving those subsidiaries whose activities are unrelated to the core business operations of KGHM INTERNATIONAL LTD.

## APPENDIX A: Methodology of calculating ratios used in the report

### Assets effectiveness ratios

$$\begin{aligned} \text{Assets turnover ratio} &= \frac{\text{sales}}{\text{total assets}} \\ \text{Non-current assets turnover ratio} &= \frac{\text{sales}}{\text{non-current assets}} \\ \text{Current assets turnover ratio} &= \frac{\text{sales}}{\text{current assets}} \\ \text{Liquid assets turnover ratio} &= \frac{\text{sales}}{\text{current receivables} + \text{cash and cash equivalents}} \end{aligned}$$

### Assets financing ratios

$$\begin{aligned} \text{Coverage of assets by equity} &= \frac{\text{equity}}{\text{total assets}} \\ \text{Coverage of non-current assets by equity} &= \frac{\text{equity}}{\text{non-current assets}} \\ \text{Coverage of non-current assets by long-term capital} &= \frac{\text{equity} + \text{non-current liabilities}}{\text{non-current assets}} \\ \text{Coverage of current assets by current liabilities} &= \frac{\text{current liabilities}}{\text{current assets}} \end{aligned}$$

### Economic activity ratios

$$\begin{aligned} \text{Current liquidity} &= \frac{\text{current assets}}{\text{current liabilities}} \\ \text{Quick liquidity} &= \frac{\text{current assets} - \text{inventories}}{\text{current liabilities}} \\ \text{ROA (return on assets)} &= \frac{\text{profit for the period}}{\text{total assets}} \times 100 \\ \text{ROE (return on equity)} &= \frac{\text{profit for the period}}{\text{equity}} \times 100 \\ \text{Debt ratio} &= \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100 \\ \text{Durability of financing structure} &= \frac{\text{equity} + \text{non-current liabilities}}{\text{equity and liabilities}} \times 100 \end{aligned}$$

**APPENDIX B: List of tables, charts and diagrams**

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<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY</b>			
<b>Date</b>	<b>First, Last name</b>	<b>Position/Function</b>	<b>Signature</b>
24 March 2014	Herbert Wirth	President of the Management Board	
24 March 2014	Jarosław Romanowski	I Vice President of the Management Board	
24 March 2014	Marcin Chmielewski	Vice President of the Management Board	
24 March 2014	Jacek Kardela	Vice President of the Management Board	
24 March 2014	Wojciech Kędzia	Vice President of the Management Board	