2012* ANNUAL REPORT

KGHM POLSKA MIEDŹ S.A.

*NUMBER ONE IN SILVER PRODUCTION IN THE WORLD

METALS OF THE FUTURE

*KGHM Polska Miedź S.A.**
is a world leader in the production of silver,
a metal used in optics, power engineering,
electronics, medicines and cosmetics industry...

KGHM POLSKA MIEDŹ S.A. – A GLOBAL COMPANY

2012 was a breakthrough year for Polska Miedź. Pursuing its development strategy, the Company completed a friendly takeover of a Canadian company Quadra FNX Mining Ltd. As a result of the transaction, KGHM has become a global player on the market of non-ferrous metals.

		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Change 2011=100	CAGR (%) ****
Statement of comprehensive income																		
Sales	m PLN	3 642	4 113	4 983	4 218	4 488	4 741	6 158	8 000	11 670	12 183	11 303	11 061	15 945	20 097	20 737	103.2	13.2
Profit on sales	m PLN	240	348	941	173	152	431	1 445	2 707	4 139	4 880	3 392	3 197	6 650	9 437	7 135	75.6	27.4
EBITDA*	m PLN	631	319	1 198	144	753	956	1 761	2 937	4 784	5 101	4 078	3 646	6 246	14 433	7 198	49.9	19.0
Profit before income tax	m PLN	310	-58	795	-147	310	569	1 446	2 635	4 380	4 656	3 554	3 067	5 598	13 727	6 417	46.7	24.2
Profit for the period	m PLN	179	-170	618	-190	255	412	1 397	2 289	3 605	3 799	2 920	2 540	4 563	11 394	4 868	42.7	26.6
Statement of financial position																		
Total assets	m PLN	4 975	4 884	5 757	7 557	8 155	8 695	8 948	10 977	12 251	12 424	13 901	13 953	19 829	29 252	28 177	96.3	13.2
Non-current assets	m PLN	3 698	3 579	4 177	4 735	6 440	6 621	6 552	7 079	7 017	7 431	8 704	9 509	12 125	11 696	22 410	191.6	13.7
Current assets	m PLN	1 242	1 250	1 381	2 657	1 715	2 074	2 397	3 899	5 234	4 992	5 174	4 444	7 704	17 556	5 767	32.8	11.6
Equity	m PLN	4 096	3 470	4 067	3 696	4 011	4 007	5 337	6 214	8 116	8 966	10 591	10 404	14 456	23 135	21 923	94.8	12.7
Liabilities and provisions	m PLN	775	1 187	1 380	3 634	4 144	4 689	3 612	4 763	4 136	3 458	3 309	3 549	5 373	6 117	6 254	102.2	16.1
Financial ratios																		
Earnings per share (EPS)	PLN	0.89	-0.85	3.09	-0.95	1.27	2.06	6.99	11.45	18.02	18.99	14.60	12.70	22.81	56.97	24.34	42.7	26.6
Dividend per share (DPS) **	PLN	0.10	-	1.00	-	-	-	2.00	10.00	16.97	9.00	11.68	3.00	14.90	28.34	9.80	34.6	38.7
Price per share/ Earnings per share (P/E)	x	14.0	-30.8	8.3	-13.7	10.6	12.7	4.5	5.5	4.9	5.6	1.9	8.3	7.6	1.9	7.8	410.5	-4.1
Current liquidity	x	2.3	2.6	2.3	1.0	1.2	1.2	1.2	1.4	1.9	2.5	3.1	2.4	2.6	4.5	1.5	33.3	-3.0
Quick liquidity	x	0.9	1.0	0.9	0.7	0.6	0.7	0.8	1.0	1.3	1.7	2.2	1.4	1.9	3.9	0.7	17.9	-2.0
Return on assets (ROA)	%	3.6	-3.5	10.7	-2.5	3.1	4.7	15.6	20.9	29.4	30.6	21.0	18.2	23.0	39.0	17.3	44.4	11.9
Return on equity (ROE)	%	4.4	-4.9	15.2	-5.1	6.3	10.3	26.2	36.8	44.4	42.4	27.6	24.4	31.6	49.3	22.2	45.0	12.3
Debt ratio	%	13.5	14.3	15.9	38.2	34.2	38.8	24.0	28.2	33.8	27.8	23.8	25.4	27.1	20.9	22.2	106.2	3.6
Durability of financing structure	%	87.1	85.7	84.1	63.4	79.0	76.8	75.0	70.6	77.0	83.8	88.0	86.8	84.9	86.8	86.5	99.7	0.0
Production results																		
Electrolytic copper production	kt	446.8	470.5	486.0	498.5	508.7	529.6	550.1	560.3	556.6	533.0	526.8	502.5	547.1	571.0	565.8	99.1	1.7
Metallic silver production	t	1 098	1 093	1 119	1 163	1 192	1 358	1 344	1 244	1 242	1 215	1 193	1 203	1 161	1 260	1 274	101.1	1.1
Macroeconomic data (average annual)																		
Copper prices on LME	USD/t	1 653	1 574	1 814	1 578	1 558	1 780	2 868	3 684	6 731	7 126	6 952	5 164	7 539	8 811	7 950	90.2	11.9
Silver prices on LBM	USD/troz	5.54	5.23	4.95	4.37	4.60	4.88	6.66	7.31	11.55	13.38	14.99	14.67	20.19	35.12	31.15	88.7	13.1
Exchange rate	USD/PLN	3.49	3.96	4.35	4.10	4.08	3.89	3.65	3.23	3.10	2.77	2.41	3.12	3.02	2.96	3.26	110.1	-0.5
Other data																		
Market capitalisation, end of period	PLN/ share	12.50	26.20	25.80	13.00	13.50	26.20	31.30	62.50	89.00	105.80	28.12	106.00	173.00	110.60	190.00	171.8	21.5
Capital expenditure	m PLN	487	379	584	433	360	424	616	651	709	828	1 140	1 070	1 263	1 519	1 767	116.3	9.6
Capital investments ***	m PLN	200	229	468	271	105	146	707	613	24	155	793	170	1 321	643	9 637	1 498.8	31.9
Electrolytic copper production cost	PLN/t	5 556	5 836	6 156	6 328	6 305	6 237	6 660	7 723	10 497	11 160	11 736	11 170	12 983	13 566	17 496	129.0	8.5
Electrolytic copper production cost	USD/t	1 590	1 472	1 417	1 544	1 545	1 603	1 825	2 388	3 381	4 031	4 878	3 582	4 302	4 578	5 370	117.3	9.1
Employment																		
Mining		12 389	12 061	11 814	11 734	11 632	11 431	11 533	11 551	11 682	11 998	12 468	12 397	12 645	12 604	12 618	100.1	0.1
Smelting		5 094	4 851	4 820	4 724	4 471	4 379	4 037	3 976	4 052	4 044	4 024	3 931	3 869	3 810	3 775	99.1	-2.1
Other		1 931	1 929	1 928	2 056	2 177	2 184	2 197	2 150	2 192	2 217	2 143	2 085	2 125	2 201	2 236	101.6	1.1
Total		19 414	18 841	18 562	18 514	18 280	17 994	17 767	17 677	17 926	18 259	18 635	18 413	18 639	18 615	18 629	100.1	-0.3

* Operating profit (in the years 1998–2006 operating profit adjusted by interest cost) + depreciation/ amortisation.
** Dividend for the financial year.
*** Purchase/ acquisition of shares and investment certificates.
**** CAGR – (Compound Annual Growth Rate), t0=1998.

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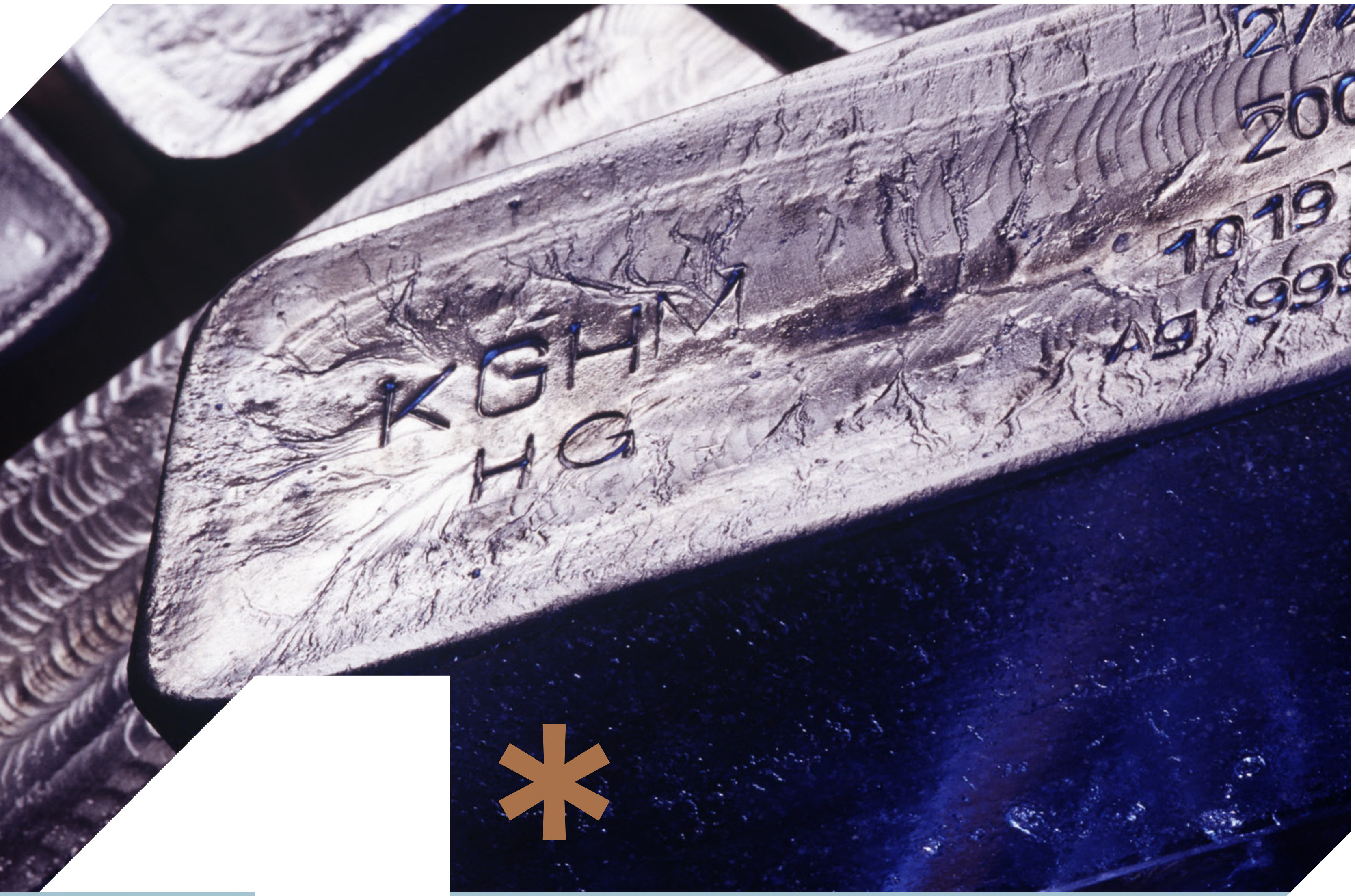

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* In 2012, **KGHM Polska Miedź S.A.** once again topped the World Silver Survey, a ranking of silver manufacturers worldwide.

SILVER – a precious metal

KGHM has been the world leader in the production of silver for a number of years. The high production output of this metal achieved in 2012 (1 274 tonnes) helped the Company maintain top ranking in the World Silver Survey published by Thomson Reuters GFMS.

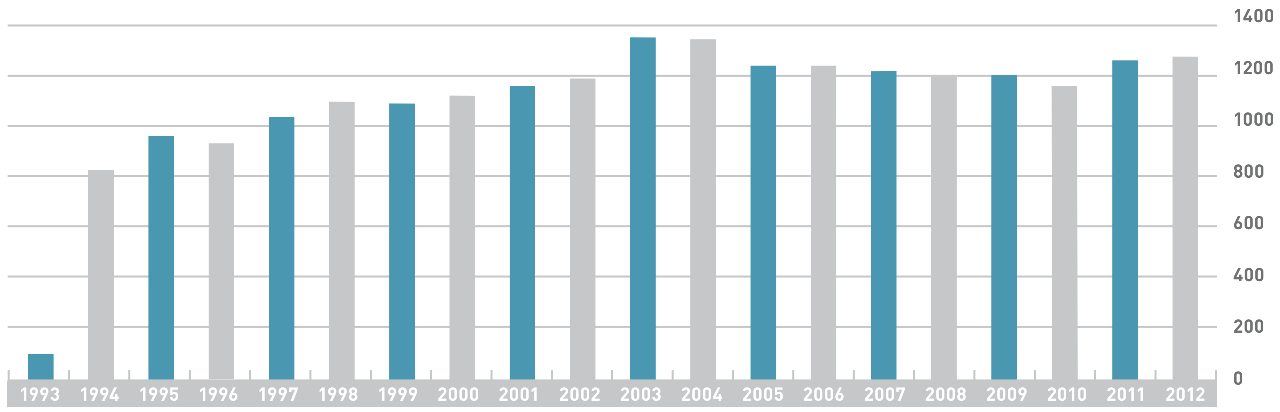
Silver is a precious, highly lustrous metal of silvery-white colour. It is a chemical element with the chemical symbol Ag from its Latin name argentum. In ancient times, silver was called luna (the moon) in Latin, emphasising the metal's resemblance to the shining moon. Silver occurs naturally in its free form (native silver) and in minerals, most often as separate crystals. Silver has varied chemical composition and hardly ever occurs in a pure form, frequently creating compounds with copper, gold, lead and zinc ores.

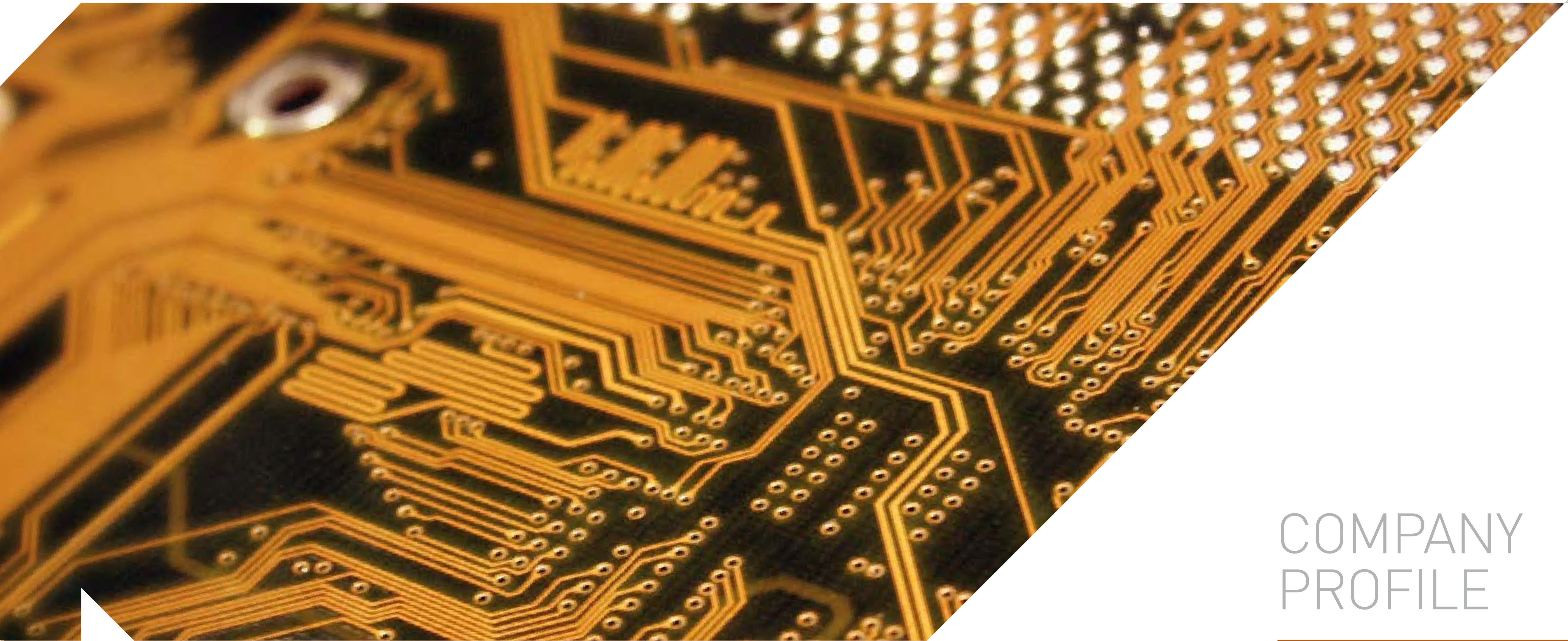
The oldest traces of silver were discovered in ancient Egypt and Mesopotamia. Today, the vast majority of silver is extracted in large quantities on the territories of Australia, Mexico, Canada, Peru, Poland and the United States. Silver has valuable properties which make the metal suitable for various applications. Above all, it possesses superb thermal conductivity and the highest electrical conductivity of all metals, even copper, however the high price of silver was prohibitive for its use in the manufacture of electrical cables.

Nowadays, demand for silver is mainly associated with two of its properties. Due to high electrical conductivity it is used in electrical and electronic industry, while the photosensitivity of silver makes its suitable for use in the photochemical industry. Moreover, silver has been used for centuries as a material for the manufacture of jewellery, tableware and cutlery, objects of religious cult, candle holders, coins and medallions. Silver compounds are also important chemical reactants and are used in medicine and dentistry.

Polska Miedź has been producing silver since 1993 in the Precious Metals Department of "Głogów" Copper Plant. The starting material for silver production is anode slime generated in the course of electrical refinement of copper. High quality electrolytic silver with a content of more than 99.99% Ag is manufactured in KGHM in the form of bars (bullions) and granules. Silver bullions traded under the KGHM HG brand have "Good Delivery" certificates issued by the London Bullion Market Association and Dubai Multi Commodities Centre and is listed on the Official List of Approved Refineries and Brands of the COMEX market in New York. The largest foreign customers for the silver produced by KGHM in 2012 were the United Kingdom, Belgium and Switzerland. From the beginning of the production process until the end of 2012, Polska Miedź manufactured close to 22 thousand tonnes of silver.

Production of silver in KGHM (Mg) between 1993 and 2012





COPPER: CONDUCTS ENERGY ACROSS THE WORLD

Our civilisation relies on electricity – the energy which lights up our cities and powers our factories, but also the micro energy used by billions of electronic devices around us.
All kinds of electric energy are transmitted using copper – one of the best electrical conductors known to man.

COMPANY PROFILE

KGHM Polska Miedź S.A. is a global leader in the production of copper and silver, with over 50 years of experience in mining and processing of copper ores. The international expansion of Polska Miedź in 2012 opened a new era in the Company's development history. Following acquisition of the Canadian company Quadra FNX Mining Ltd., Polska Miedź has become the owner of mining assets situated on three continents and a co-owner of the world class development project – Sierra Gorda in Chile, one of the biggest deposits of copper ore in the world.

KGHM POLSKA MIEDŹ S.A.

KGHM Polska Miedź S.A. focuses on the production of copper and silver and is the biggest manufacturer of silver in the world and the leading European mining producer of copper (number eight worldwide). In 2012 KGHM produced approximately 566 thousand tonnes of electrolytic copper, including 427 thousand tonnes of mining copper. For a number of years, the Company has been the world leader in silver production. With a high output of this precious metal in 2012 (1 274 tonnes), KGHM once again topped the World Silver Survey published by Thomson Reuters GFMS.

The cathode copper manufactured by KGHM is listed on the London Metal Exchange and Shanghai Metal Exchange, while refined silver has the certificates of the exchanges in London, Dubai and New York.

In 2012, as a result of a friendly takeover of a Canadian company QUADRA FNX Mining Ltd. (currently renamed to KGHM INTERNATIONAL LTD.), KGHM Polska Miedź S.A. became a global organisation with assets spread across three continents. The key asset is the Sierra Gorda project in Chile, one of the largest copper ore deposits in the world. The launch of production is scheduled for the first half of 2014.

The value of the international transaction amounted to CAD 2.9 billion and the deal was the largest foreign investment of the Polish industry. The acquisition of the Canadian company Quadra resulted in the development of the portfolio of resource projects and reduction of the average operating costs.

The experience gained in the course of the transaction gave rise to a joint initiative of KGHM and ICAN Institute, a Think Tank "POLAND GO GLOBAL!" intended to promote the knowledge and experience in internalisation of Polish companies and to form a platform of cooperation and sharing best practices in the area of globalisation between Polish companies.

KGHM operates ten divisions and the head office in Poland which jointly employ over 18,000 people. The Company has been implementing a development strategy with the following key assumptions:

- Intelligent mining;
- Research and development activities focusing on new projects;
- Mechanical extraction of ore – one of the crucial strategic initiatives of KGHM;
- Improved effectiveness;
- Reduced production costs;
- Access to new deposits;
- Geographic diversification;
- Higher competitiveness;
- Market risk management.

KGHM Polska Miedź S.A. is a significant WIG 20 company and a winner of numerous prestigious awards and distinctions.

The Company is engaged in social activities in the region, takes care of the natural environment, protects the health of its employees and local community members and supports the development of sports, culture and science in the region.

Structure/Divisions

KGHM Polska Miedź S.A.

- Board Office – CUK*

Lubin Mine	Ore Enrichment Plants	Legnica Smelter
Rudna Mine	Tailings Plant	Głogów Smelter
Polkowice-Sieroszowice Mine	Mine-Smelter Emergency Rescue Unit	Cedynia Wire Rod Plant
	Data Center	

* As of 1 July 2013 renamed to KGHM Polska Miedź S.A. Head Office

Calendar 2012

JANUARY

"The One Who Changes Polish Industry" title awarded to the President of KGHM Polska Miedź S.A.

The editors of the New Industry business monthly, the wnp.pl portal and the PTWP Group for the twelfth time awarded their titles of honour "The One Who Changes Polish Industry", one of the most prestigious distinctions granted by the Polish business media. In January 2012, the title of "The One Who Changes Polish Industry" went to Herbert Wirth, President of KGHM, in recognition of effective management of the gigantic business organisation, setting clear goals and supporting their successful achievement and implementation of the company's long-term development strategy.

FEBRUARY

Consent of the shareholders of QUADRA FNX Mining Ltd. to accept KGHM's offer

In February, the shareholders of QUADRA FNX approved, by a required majority of over 2/3 of the votes cast, a friendly takeover of their company by KGHM.

"The transaction is of strategic significance to KGHM and is expected to secure our future profits, build value for the shareholders and give the Company a competitive position on the global market", said Herbert Wirth, President of KGHM Polska Miedź S.A. "It also enhances the position of the Polish economy as the manufacturer of strategic raw materials and rare metals".

MARCH

KGHM becomes the owner of the Canadian company QUADRA FNX Mining Ltd.

On 5 March 2012, the transaction of a friendly takeover of QUADRA FNX Mining Ltd., a company from Canada, by KGHM was finalised. The value of the transaction amounted to CAD 2.9 bn. The company is also a co-owner of the world-class Sierra Gorda project in Chile. The acquired rich deposits guarantee secure supplies of resources to Polska Miedź and the global economy. The name and the logotype of the acquired company were replaced with a new name: KGHM INTERNATIONAL LTD. The image unification will speed up the integration process and increase global recognition of KGHM brand. Thanks to successful completion of the transaction, the KGHM Group has now a diversified portfolio of assets in low-risk countries and a range of projects ensuring expansion of the existing resource base.

Polska Miedź: Company of the Year

Once again, KGHM Polska Miedź S.A. was among the winners of the "Bulls and Bears" competition organised by the Parkiet Stock Exchange Gazette, this time in the 'Company of the Year' category. KGHM has been awarded in the competition for the third year running and the most recent award recognizes the company's achievements to date and above-average financial performance. The 'Bull and Bear Statuettes' are presented every year to the best companies, best general managers and capital market experts.

APRIL

KGHM leads the Golden Share TSR 2012 ranking

Polska Miedź has been ranked among the best companies on the Warsaw Stock Exchange offering the highest shareholder value. The Golden Share ranking has been prepared by biznes.pl portal on the basis of the TSR index, a comprehensive measure of the market opinion about companies' operations and plans. The review was prepared for two periods of time: a 3-year period (2009–2011) and a 10-year period (2002–2011). Both perspectives are interesting since they cover the time of the economic crisis.

Concession 2013 KGHM halfway through the process

The procedure of renewal of copper ore mining concessions initiated in 2010 entered the decisive stage. The environmental reports, reviewed by the local authorities of the mining municipalities and supplemented by KGHM, were resubmitted to the Regional Environmental Protection Director in Wrocław. On the basis of the reports, the environmental decision, a crucial component of concession applications, will be issued. KGHM had applied for concessions for five deposits: Rudna, Sieroszowice, Polkowice, Lubin-Małomice and Radwanice East situated on the territory of five mining municipalities. The validity of the current concessions expires at the end of 2013. The Company is hoping to obtain concessions for 50 years (valid until 2063), the maximum validity period which can be applied for under the legal regulations currently in force.

KGHM the largest silver producer in the world

KGHM produces silver with more than 99.99% of Ag content, in the form of bars and granules. In 2012, the Company manufactured 1 274 tonnes of silver which made it number one in silver production according to the World Silver Survey.

MAY

Polish government members visit a mine of KGHM INTERNATIONAL LTD. in Canada

A delegation of the Polish government headed by Donald Tusk, Poland's Prime Minister, and Mikołaj Budzanowski, Minister of Treasury, visited one of the mines owned by KGHM INTERNATIONAL LTD. in Canada.

JUNE

"Energy and Resources in Geopolitics"

Raw material resources strengthen not only economic but also political position of the countries which control such resources directly or indirectly. KGHM Polska Miedź S.A. was an organiser of a conference "Energy and Resources in Geopolitics" during which discussions were held on such subjects as the role of raw materials in international politics and the building of mineral security in the European Union.

JULY

Five companies signed an agreement on shale gas prospecting

In 4 July 2012, KGHM, Tauron Polska Energia, PGNiG, ENEA and PGE signed an agreement on shale gas prospecting which will speed up exploration for shale gas. The first supply of gas from the joint project can be expected already in 2016.

2nd International Congress of Copper Ore Mining in Lubine

"Prospects and Development Directions" was the motto of the 2nd International Congress of Copper Ore Mining attended by approximately 400 participants. The Congress was an excellent opportunity for sharing information and experience in the area of copper ore mining. The side event was an exhibition of mining machinery and equipment. The programme council presented special awards for the most innovative product, best stand and the best speech.

AUGUST

KGHM once again listed in the RESPECT Index

On 31 July 2012, the Warsaw Stock Exchange announced the new composition of the RESPECT Index of socially responsible companies. Twenty companies qualified to the 5^{th} edition of the Index, including KGHM. A number of areas were taken into account in the review, such as the company's communication with various shareholder groups, ethical standards in force in the Company, conformance with the corporate governance principles, quality of management, stock exchange performance and sustainable development.

KGHM President among the best managers in times of crisis

Herbert Wirth, President of KGHM Polska Miedź S.A., found himself on the TOP 20 List of Best Managers in Times of Crisis. The KGHM President was honoured in a special way, receiving the highest number of votes from the survey participants. The ranking was prepared by Bloomberg Businessweek Poland and is a list of Top 20 managers resistant to difficult situations, ready to face challenges in an unfavourable economic environment.

"The key to success is peace of mind, persistence, good relationship with the employees and mutual trust", said Herbert Wirth. "Times of crisis can be used to strengthen the company's position and we succeed in doing that. Our goal is clear. We want KGHM to be an even more successful and more competitive copper and silver producer in the world."

SEPTEMBER

TAURON and KGHM set up a company to build a gas and steam block

On 5 September 2012, KGHM Polska Miedź S.A. and TAURON Wytwarzanie, a subsidiary of TAURON Polska Energia, founded a special purpose company Elektrownia Blachownia Nowa to take care of the complex execution of the investment project which would include preparations, construction and operation of a gas and steam block with a capacity of approximately 850 MW, on the grounds of Elektrownia Blachownia in Kędzierzyn–Koźle, a manufacturing company from the TAURON Group. Both partners took up 50% stakes in the company's share capital.

KGHM President awarded the title of a Visionary 2012

Herbert Wirth was considered one of the five managers and business people who, despite unfavourable market environment, successfully completed major projects with a significant, positive impact on the financial standing of their companies. The competition is organized by Gazeta Prawna daily.

OCTOBER

THE BEST OF THE BEST

KGHM received a special Best of The Best award for the 2011 Annual Report and won the first place for the online version of its annual report. Apart from the financial statements, the judges appreciated the content of the report on the Company's activities and the usefulness of the Marketing Report, a very important tool for the stakeholders, in the context of conformance with the corporate governance principles, the HR policy or environmental activities.

"Our report is read by very different audiences from the world of finance, business but also social work. We are trying to present the data in a way which would be clear and comprehensible for everyone," said Włodzimierz Kiciński, First Vice-President of the Board in charge of Finance who collected the statuette.

NOVEMBER

Think Tank "POLAND, GO GLOBAL!"

A Think Tank promoting international expansion of Polish companies called "POLAND, GO GLOBAL!" was launched at the initiative of KGHM, as a joint project implemented together with ICAN Institute. Its objective is to disseminate knowledge and experience concerning internationalisation of Polish companies and to create a platform for collaboration and sharing best practices between companies. In November, the opening conference of the project was held, attended by over 200 representatives of the Polish business community.

KGHM – the Pearl of the Polish Economy

The Large Pearl was once again awarded to KGHM in the 10^{th} edition of the ranking published by the Polish Market business magazine. KGHM received the Large Pearl in the category of companies with revenues over PLN 1 billion in 2011.

"Our brave thinking and persistence in actions was appreciated. The key to success is the vision, determination, good relationship with the employees and mutual trust. This is how a company builds its value. We treat this award as a token of appreciation of our perseverance in the strategy implementation and efforts undertaken to become a global organisation" said Herbert Wirth, KGHM President.

DECEMBER

200 million zlotys for research and development in the non-ferrous metals industry

PLN 200 million will be spent on research on the development and implementation of innovative technologies in the widely understood non-ferrous metals sector. The relevant agreement was signed by the representatives of the National Research and Development Centre and KGHM Polska Miedź S.A., under the auspices of the Minister of Science and Higher Education.

POLAND
GO GLOBAL
THINK TANK

Letter of the Chairperson of the Supervisory Board of KGHM POLSKA MIEDŹ S.A.

Dear Shareholders

2012 was a year in which KGHM Polska Miedź S.A. finalised the acquisition of a Canadian company Quadra FNX Mining Ltd. The transaction has undoubtedly been the biggest challenge in the history of the KGHM Group to date but, at the same time, clear evidence that the significance of the Polish economy on global markets is constantly growing. The Company's strength and position are reflected not only in its ambitions but also, primarily, in the financial performance results.

In 2012, KGHM Group posted a net profit of more than PLN 4.8 billion. The total production of electrolytic copper amounted to 676.3 thousand tonnes, an over 18% increase versus 2011. The output of 1 274 tonnes of silver made the Company one of the world leading manufacturers of that precious metal.

The takeover of the Canadian mining company Quadra FNX Mining Ltd. for a sum of PLN 9.1 billion means for KGHM access to copper deposits and mines in the United States, Canada and Chile. As a result of the transaction, the Company has increased its production capacity by 25%, while reducing the average extraction cost. The main source of our future growth will be the execution of the Sierra Gorda project in Chile involving mining a deposit estimated at 1.3 billion tonnes of ore rich in copper, gold and molybdenum. The launch of production under this ambitious project is scheduled for the first half of 2014.

International expansion is not only the matter of KGHM's aspirations. It is a conscious policy of development and diversification pursued in order to build the shareholder value and enhance the Company's position on the global market.

The geographic expansion, however, will not occur at the expense of the development of KGHM's resource base in Poland. The results of the first test drillings in Grodziecka Trough near Bolesławiec confirm the rationale for the further stages of the project and the scope of planned geological work, technical studies and design analyses includes a preliminary feasibility study. The implementation of another investment project, Głogów Głęboki Przemysłowy (Deep Głogów) continues to proceed on schedule. As part of the consistent execution of the Company's Strategy (Pillar III – Entry into the energy sector), KGHM implements, together with industry partners, a project of building a gas-steam block in Blachownia Power Plant and is engaged in exploration for, evaluation and extraction of shale gas. All those initiatives are aimed at securing the opportunities for future growth of the KGHM Group, to a large extent on the territory of Poland.

KGHM is much more than just mining, production and international expansion. It is a socially responsible Company, taking care of its employees, maintaining relationships with the local communities and supporting important social causes. The numerous awards received in 2012 in recognition of this aspect of our activity speak for themselves.

Ladies and Gentlemen,
On behalf of the Supervisory Board, I would like to thank all those who eagerly supported KGHM in the past year. We will need to continue proving our ability to effectively manage a global company and its international operations and will certainly face many new challenges while so many economies are still struggling against recession. I am positive that in 2013, just like in 2012, the combination of the Polish technological know-how – so often underestimated – with the determination and persistence in securing KGHM's long-term leadership on the global market of non-ferrous metals, will lead to a joint success of the KGHM Group and its shareholders.

Chairperson of the Supervisory Board

Aleksandra Magaczewska

Annual report on the activities of the Supervisory Board

Annual report on the activities of the Supervisory Board of KGHM Polska Miedź S.A. for the financial year 2012.

1. Operating principles and procedures of the Supervisory Board of KGHM Polska Miedź S.A.

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A. in Lubin in all of the Company's functional areas. The Supervisory Board consists of 7 to 10 members, appointed by the General Meeting, including members elected by the Company employees.

The members of the Supervisory Board are appointed for a joint term of office which lasts three years.

The Supervisory Board acts on the basis of applicable laws, the Statutes of KGHM Polska Miedź S.A., the Regulations of the Supervisory Board of KGHM Polska Miedź S.A., as well as the Code of Best Practice for WSE Listed Companies.

In financial year 2012, the Supervisory Board exercised ongoing supervision over the Company's activities and carried out its duties pursuant to special privileges granted to the Supervisory Board of KGHM Polska Miedź S.A. by force of the Company Statutes, Chapter IVB, § 20, as reflected in the Regulations of the Supervisory Board, Chapter III § 8.

The Supervisory Board carried out its duties at specially convened meetings, as well as through delegation of its members to serve on the Committees.

2. Composition of the Supervisory Board of KGHM Polska Miedź S.A. and the roles of the Members

The composition of the 8th term Supervisory Board between 1 January and 19 January 2012 was as follows:

First and last name	Role	Appointment duration in 2012
Jacek Kuciński	Chairman	01.01.2012 – 25.04.2012
Marcin Dyl	Vice-Chairman	01.01.2012 – 19.01.2012
Marek Panfil	Secretary	01.01.2012 – 25.04.2012
Franciszek Adamczyk	Member	01.01.2012 – 19.01.2012
Arkadiusz Kawecki	Member	01.01.2012 – 19.01.2012
Jan Rymarczyk	Member	01.01.2012 – 19.01.2012
Marzenna Weresa	Member	01.01.2012 – 19.01.2012
Members of the Supervisory Board elected by the Company employees		
Lech Jaroń	Member	01.01.2012 – 28.06.2012
Maciej Łaganowski	Member	01.01.2012 – 28.06.2012
Paweł Markowski	Member	01.01.2012 – 28.06.2012

The Extraordinary General Meeting held on 19 January 2012 decided to:
- dismiss five members of the 8th term Supervisory Board,
- appoint five members of the 8th term Supervisory Board.

The composition of the 8th term Supervisory Board between 19 January and 24 April 2012 was as follows:

First and last name	Role	Appointment duration in 2012
Jacek Kuciński	Chairman	01.01.2012 – 25.04.2012
Marek Panfil	Secretary	01.01.2012 – 13.02.2012
	Vice-Chairman	13.02.2012 – 25.04.2012
Mariusz Kolwas	Member	19.01.2012 – 13.02.2012
	Secretary	13.02.2012 – 24.04.2012
Krzysztof Kaczmarczyk	Member	19.01.2012 – 21.05.2012
	Vice-Chairman	21.05.2012 – 31.12.2012
Aleksandra Magaczewska	Member	19.01.2012 – 17.04.2012
	Vice-Chairperson	17.04.2012 – 21.05.2012
	Chairperson	21.05.2012 – 31.12.2012
Robert Oliwa	Member	19.01.2012 – 03.09.2012
Jacek Poświata	Member	19.01.2012 – 31.12.2012
Members of the Supervisory Board elected by the Company employees		
Lech Jaroń	Member	01.01.2012 – 28.06.2012
Maciej Łaganowski	Member	01.01.2012 – 28.06.2012
Paweł Markowski	Member	01.01.2012 – 28.06.2012

On 24 April 2012, Mr. Mariusz Kolwas, Secretary of the Supervisory Board of KGHM Polska Miedź S.A. resigned from membership of the Company's Supervisory Board.

The Extraordinary General Meeting held on 25 April 2012 decided to:
- dismiss two members of the 8th term Supervisory Board,
- appoint three members of the 8th term Supervisory Board.

The composition of the 8th term Supervisory Board between 25 April and 28 June 2012 was as follows:

First and last name	Role	Appointment duration in 2012
Aleksandra Magaczewska	Vice-Chairperson	17.04.2012 – 21.05.2012
	Chairperson	21.05.2012 – 31.12.2012
Krzysztof Kaczmarczyk	Member	19.01.2012 – 21.05.2012
	Vice-Chairperson	21.05.2012 – 31.12.2012
Dariusz Krawczyk	Member	25.04.2012 – 21.05.2012
	Secretary	21.05.2012 – 31.12.2012
Paweł Białek	Member	25.04.2012 – 31.12.2012
Robert Oliwa	Member	19.01.2012 – 03.09.2012
Ireneusz Piecuch	Member	25.04.2012 – 31.12.2012
Jacek Poświata	Member	19.01.2012 – 31.12.2012
Members of the Supervisory Board elected by the Company employees		
Lech Jaroń	Member	01.01.2012 – 28.06.2012
Maciej Łaganowski	Member	01.01.2012 – 28.06.2012
Paweł Markowski	Member	01.01.2012 – 28.06.2012

Following the referendum held in the Company on 25 and 26 April 2012, the Annual General Meeting held on 28 June 2012 decided to dismiss three members of the 8th term Supervisory Board elected by the Company employees.

On 3 July 2012, Mr. Robert Oliwa, Board Member, submitted a resignation effective as of the next General Meeting of KGHM Polska Miedź S.A. from serving as a Member of the Supervisory Board of KGHM Polska Miedź S.A.

The composition of the 8th term Supervisory Board between 28 June and 3 September 2012 was as follows:

First and last name	Role	Appointment duration in 2012
Aleksandra Magaczewska	Chairperson	21.05.2012 – 31.12.2012
Krzysztof Kaczmarczyk	Vice-Chairperson	21.05.2012 – 31.12.2012
Dariusz Krawczyk	Secretary	21.05.2012 – 31.12.2012
Paweł Białek	Member	25.04.2012 – 31.12.2012
Robert Oliwa	Member	19.01.2012 – 03.09.2012
Ireneusz Piecuch	Member	25.04.2012 – 31.12.2012
Jacek Poświata	Member	19.01.2012 – 31.12.2012

On 3 September 2012, the Extraordinary General Meeting decided to appoint a Member of the 8th term Supervisory Board.

The composition of the 8th term Supervisory Board between 3 September and 21 November 2012 was as follows:

First and last name	Role	Appointment duration in 2012
Aleksandra Magaczewska	Chairperson	21.05.2012 – 31.12.2012
Krzysztof Kaczmarczyk	Vice-Chairperson	21.05.2012 – 31.12.2012
Dariusz Krawczyk	Secretary	21.05.2012 – 31.12.2012
Paweł Białek	Member	25.04.2012 – 31.12.2012
Krzysztof Opawski	Member	03.09.2012 – 31.12.2012
Ireneusz Piecuch	Member	25.04.2012 – 31.12.2012
Jacek Poświata	Member	19.01.2012 – 31.12.2012

On 5 and 6 September 2012, supplementary election was held, during which the Company employees elected their three representatives for the Supervisory Board of KGHM Polska Miedź S.A.

On 21 November 2012, the Extraordinary General Meeting decided to appoint one of the three employee elected representatives to serve on the 8th term Supervisory Board.

The composition of the 8th term Supervisory Board between 21 November and 31 December 2012 was as follows:

First and last name	Role	Appointment duration in 2012
Aleksandra Magaczewska	Chairperson	21.05.2012 – 31.12.2012
Krzysztof Kaczmarczyk	Vice-Chairperson	21.05.2012 – 31.12.2012
Dariusz Krawczyk	Secretary	21.05.2012 – 31.12.2012
Paweł Białek	Member	25.04.2012 – 31.12.2012
Krzysztof Opawski	Member	03.09.2012 – 31.12.2012
Ireneusz Piecuch	Member	25.04.2012 – 31.12.2012
Jacek Poświata	Member	19.01.2012 – 31.12.2012
Members of the Supervisory Board elected by the Company employees		
Bogusław Szarek	Member	21.11.2012 – 31.12.2012

3. Activities of the Supervisory Board

The Supervisory Board carried out its duties at meetings convened by the Chairperson of the Supervisory Board, during which the quorum necessary for taking decisions was present. The activities of the Supervisory Board in 2012 were documented in the minutes of the meetings and in resolutions adopted at the meetings and in writing.

The Supervisory Board monitored the current performance of the Management Board and of the Company, based on the resolutions of the Company's Management Board and on information regarding the financial results of KGHM Polska Miedź S.A. for individual months of 2012 submitted for review at each Supervisory Board meeting.

Following quarterly evaluations of the Management Board's performance, the Supervisory Board analysed the Management Board's proposals regarding payment of an advance towards the variable components of remuneration.

The Supervisory Board also reviewed periodically the Management Board's report on the execution of donations, sponsoring initiatives and representation, marketing and advertising activities in KGHM Polska Miedź S.A. and in the Group, as well as the report on the performance of consultancy, advisory and analytical services provided by third-party contractors to the Company and the KGHM Polska Miedź S.A. Group.

In order to improve communications between the Management Board and the Supervisory Board, the practice of submitting to the Management Board written information after each Supervisory Board meeting with all decisions taken during the meeting, was continued.

In the reporting period, the Supervisory Board of KGHM Polska Miedź S.A. held 16 recorded meetings and passed 126 resolutions, of which 20 were adopted in writing.

4. Evaluation of the work of the Supervisory Board of KGHM Polska Miedź S.A.

This report describes the main directions of the activities of the Supervisory Board in the financial year 2012. All members of the Supervisory Board exercised due care in the performance of their duties while serving on the Supervisory Board, relying on their knowledge and experience in the management and supervision of commercial law companies.

5. The Annual General Meeting of KGHM Polska Miedź S.A.

held on 19 June 2013 granted the vote of acceptance to all members of the Supervisory Board of KGHM Polska Miedź S.A. for the performance of their duties in the financial year ended on 31 December 2012.

Letter of the President of KGHM POLSKA MIEDŹ S.A.

Dear Shareholders and Stakeholders

It is with utter joy and satisfaction that I present to you the Report of the Company for the past year. Courageous thinking, consistency in execution and effective implementation of the strategy made 2012 an exceptional year for KGHM Polska Miedź S.A.

The raw materials produced by the Company serve as the basis for modern and safe technologies which are of critical significance for the present times and for the future development of our world. Development is also the key word with which the past year will be associated in the history of our Company.

The acquisition of the Canadian mining company Quadra FNX Mining Ltd. was one of the largest and most prominent transactions for the Polish economy. No other Polish company has accomplished what KGHM Polska Miedź S.A. has managed to do. New prospects have opened for our Company. We have become a global player on the market of non-ferrous metals. The Company owns mines in Canada, the United States and Chile. We are also a co-owner of the world-class Sierra Gorda project in Chile. Sierra Gorda contains 1.3 billion tonnes of ore rich in copper, gold and molybdenum. Copper production will be launched next year, with the target output exceeding 200 thousand tonnes annually which is nearly a half of today's copper production in Poland. By acquiring the Canadian company we have secured an adequate resource base for ourselves and gained the real possibility of reducing the costs of copper production. This builds the value for shareholders. The key to success is peace of mind and good relationships with the environment. As a global player on the copper and silver manufacturing market, we remain committed, in a predictable and responsible way, to building the future, but not only for our own sake. The acquisition is also an opportunity for other Polish companies. Each large Polish investment abroad creates new options for other enterprises. It is also an opportunity for Polish academic institutions.

In 2012, we managed to maintain high volume of electrolytic copper and silver production, in line with the plan and, to our great satisfaction, we posted a solid profit despite the introduction of the minerals extraction tax last year. In this way we demonstrate successful achievement of the planned goals.

KGHM Polska Miedź S.A. has been the initiator of a Think Tank launched to promote Polish companies abroad. "POLAND GO GLOBAL!" is a project implemented in partnership with the ICAN Institute, the sole representative of Harvard Business Publishing Corporation in Poland. Its goal is to assist in the exchange of information and to disseminate theoretical and practical knowledge. We are also setting new standards in the relationship between business and academia. In order to gain competitive advantage on global markets, it is important to develop one's own innovative technologies. Therefore, together with the National Center for Research and Development, we have entered into a pioneering agreement on cooperation in Research and Development for the Polish sector of non-ferrous metals. Each year a number of R&D projects are implemented in the Company. These are both large projects, such as the introduction of mechanical mining methods, and smaller ones, responding to specific challenges of the individual components of our main technological processes. Our R&D activities enable achievement of our strategic goals.

Openness, transparency and respect for the principles of sustainable development and corporate social responsibility are the crucial aspects of the Company's business operations. We assume special liability for what we do. Through the CSR activities, we are trying to compensate for our impact on the environment. We want to build trust in our Company and minimise all risks, including the social and environmental ones. We support the development of our region and of local communities.

During the past year, I had innumerable opportunities to learn that the success of KGHM depends mainly on its people – their ability to deal with difficulties, to respond flexibly to changes, to make the right decisions and, above all, to understand our long term strategy. The people are the Company's most valuable asset, as evidenced by a number of various awards received by KGHM in 2012.

Handing over this report to you, I wish to thank our shareholders for the trust they placed in us during the last year.

On behalf of the entire Management Board, I would like to thank the Supervisory Board for their competent supervision over the activities of KGHM. Special thanks go to all of our employees for their professionalism, hard work and – consequently – for the achievements of KGHM Polska Miedź S.A. in recent years.

President of the Management Board

Herbert Wirth

Statement on the application of corporate governance principles

This statement on the application of corporate governance rules in KGHM Polska Miedź S.A. meets the requirements set forth in § 91 section 5 item 4 of Regulation 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 of information required by the law of other non-member states (Journal of Laws of 2009, No. 33, item 259, as amended thereafter). Publication of this statement is equivalent to submission to the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) of a report on the application of corporate governance in the Company, as referred to § 29 section 5 of the WSE Regulations.

Amendments to the Company Statutes require a resolution of the General Meeting and a constitutive entry in the National Court Register.

In 2012, the corporate governance principles in force were the principles set forth in the "Code of Best Practice for WSE Listed Companies" appended to Resolution 20/1287/2011 dated 19 October 2011. The contents of the document "Code of Best Practice for WSE Listed Companies" are available on the official website of the Warsaw Stock Exchange, in the corporate governance section (www.corp-gov.gpw.pl), as well as on the website of KGHM Polska Miedź S.A. (www.kghm.pl) under the section on corporate governance.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, complies with the corporate governance principles described in document "Code of Best Practice for WSE Listed Companies" (Chapters II, III and IV). The Company has endeavoured at every stage of its operations to carry out all of the recommendations in respect of best practices for listed companies (Chapter I). A comment on the recommendations is made below .

In order to implement a transparent and effective information policy ensuring rapid and secure access to information for shareholders, analysts and investors, KGHM Polska Miedź S.A. made the broadest possible use of both traditional as well as new generation technologies for the distribution of information about the Company (recommendation set forth in Chapter I section 1 of the "Code of Best Practice for WSE Listed Companies").

In 2012 the Company decided not to implement the recommendation promoting online broadcasting of General Meetings, but instead, recorded the meetings and made the videos immediately available on the Company's website in both Polish and English language versions, accessible under the section Investors /Webcasts. The Company is currently in the course of preparations to launch online broadcasts of its General Meetings.

In view of changes to the "Code of Best Practice for WSE Listed Companies" effective as of 1 January 2013, published in the Appendix to Resolution no. 19/1307/2012 of the WSE Council of 21 November 2012, the company submitted a report in which it informed about the anticipated deviation from a principle set forth in Chapter IV item 10 of the Code of Best Practice concerning the recommendation to offer the shareholders an opportunity to actively participate in General Meetings in real time while not being physically present at the meeting.

The Company does not exclude the option that in the future it will ensure a possibility of two-way, real-time remote communication during General Meetings.

General Meeting

The General Meeting of KGHM Polska Miedź S.A. is the Company's highest authority. Annual or extraordinary meetings are held in accordance with the generally applicable laws, the Company's Statutes and the Bylaws of the General Meeting. The Company's corporate documents are available on its website.

The powers of the General Meeting include, in particular:
- examination and approval of the report of the Management Board on the Company's activity and the financial statements, including the consolidated financial statements of the Group, for the prior financial year;
- adopting resolutions on the distribution of profits or coverage of losses;
- acknowledgement of the fulfillment of duties by members of the Company's authorities;
- changes in the object of the Company's activities;
- amending the Company Statutes;
- increasing or decreasing the share capital;
- the method and terms of redemption of shares;
- mergers, splits and reorganisation of 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 in the course of management or supervision of its activities;
- purchase of the Company's own shares 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;
- determining the remuneration of members of the Supervisory Board.

The schedule of work on the organisation of the Company's General Meetings is planned in such a way as to ensure fulfillment of all obligations towards the shareholders and to facilitate the exercise of their rights.

In accordance with the Statutes of KGHM Polska Miedź S.A., the State Treasury may convene the Annual General Meeting if the Management Board does not do so within the statutory timeframe, as well as an Extraordinary General Meeting as and when needed.

Amendments to the Company Statutes require a resolution of the General Meeting and a constitutive entry in the National Court Register. Amendments to the Company Statutes are made by the General Meeting, in conformance with prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code.

The Company conforms only with those provisions of the Commercial Partnerships and Companies Code pertaining to the holding of General Meetings and shareholder rights which are obligatory, i.e. those which concern the requirement of publication of announcements and materials for the General Meeting on the Company's website and the use of electronic channels to contact the shareholders. The regulations which provide for the use of electronic communication channels to enable shareholders' real-time participation in General Meetings using electronic means of communication are not applied.

Shareholders and their rights

The only shareholder of the Company holding minimum 5% of the share capital and entitled to the same percentage of votes at the General Meeting on both 1 January 2012 and 31 December 2012 was the Polish State Treasury.

This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A., which represented 31.79% of the share capital and of the total number of votes at the General Meeting.

Shareholders of the Company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Bylaws of the General Meeting.

Shareholders are entitled to exercise their voting during General Meetings either personally or through a proxy. All of the shares are bearer shares. Each share grants the right to one vote. There are no restrictions on the transfer of ownership rights to the Company's shares or with respect to the execution of voting rights vested in the Company's shares, other than those generally prescribed by the laws in force. The Company has not issued securities which would grant special control rights in respect of the Company.

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 consists of 7 to 10 members, appointed by the General Meeting, of whom 3 members are elected by the Company's employees. The members of the Supervisory Board are appointed for a joint term of office, which lasts three years. The Supervisory Board operates on the basis of prevailing laws, the Statutes of the Company and the Regulations of the Supervisory Board.

The composition of the 8th term Supervisory Board as at 1 January 2012 was as follows:
- Jacek Kuciński – Chairman
- Marcin Dyl – Vice-Chairman
- Marek Panfil – Secretary
- Franciszek Adamczyk
- Arkadiusz Kawecki
- Jan Rymarczyk
- Marzenna Weresa

as well as the following employee-elected members:
- Lech Jaroń
- Maciej Łaganowski
- Paweł Markowski

In 2012, the following changes in the composition of the Supervisory Board occurred:

On 19 January 2012, the Extraordinary General Meeting adopted resolutions on:
- dismissing the following persons from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa, and
- appointing the following persons to the Supervisory Board: Aleksandra Magaczewska Krzysztof Kaczmarczyk, Mariusz Kolwas, Robert Oliwa and Jacek Poświata.

On 13 February 2012, the Supervisory Board elected Mariusz Panfil as the Vice-Chairman of the Supervisory Board and Mariusz Kolwas as the Board Secretary.

On 17 April 2012, Marek Panfil resigned from the position of the Vice-Chairman of the Supervisory Board and the Supervisory Board appointed Aleksandra Magaczewska as the Board Vice-Chairperson.

On 24 April 2012 Mariusz Kolwas resigned from membership of the Supervisory Board.

On 25 April 2012, the Extraordinary General Meeting adopted resolutions on:
- dismissal of Jacek Kuciński and Marek Panfil from the Supervisory Board, and
- appointing Paweł Białek, Dariusz Krawczyk and Ireneusz Piecuch to the Supervisory Board

On 21 May 2012, the Supervisory Board appointed:
- Aleksandra Magaczewska as the Chairperson
- Krzysztof Kaczmarczyk as the Vice-Chairperson, and
- Dariusz Krawczyk as the Secretary

On 28 June 2012, the Ordinary General Meeting adopted resolutions about dismissal from the Supervisory Board of Lech Jaroń, Maciej Łaganowski and Paweł Markowski pursuant to a motion of the Company's employees to dismiss Supervisory Board Members elected by the employees and the results of voting on that motion.

On 3 July 2012, Robert Oliwa resigned from the position of the Supervisory Board member with effect as of the date of the General Meeting of KGHM Polska Miedź S.A. on which changes in the composition of the Supervisory Board would be discussed.

On 3 September 2012, the Extraordinary General Meeting decided to appoint Krzysztof Opawski to the Supervisory Board.

On 21 November 2012, the Extraordinary General Meeting decided to appoint Bogusław Szarek elected by the employees of KGHM Polska Miedź S.A. to the Supervisory Board.

Following the changes, the composition of the Supervisory Board of the 8th term as at 31 December 2012 was as follows:
- Aleksandra Magaczewska, Chairperson
- Krzysztof Kaczmarczyk, Vice-Chairperson
- Dariusz Krawczyk, Secretary
- Paweł Białek
- Ireneusz Piecuch
- Krzysztof Opawski
- Jacek Poświata

and the Company employees' representative:
- Bogusław Szarek

Krzysztof Kaczmarczyk, Dariusz Krawczyk, Krzysztof Opawski and Jacek Poświata submitted statements on conformance with the independence criterion laid down in section III.6 of the "Code of Best Practice for WSE Listed Companies".

Supervisory Board Committees

The Supervisory Board has appointed the following committees: the Audit Committee, the Remuneration Committee and the Strategy Committee. These committees assist the Supervisory Board in the preparation of evaluations and opinions and undertaking other actions supporting the decision-making process of 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 performance of contracts signed with the Management Board, the remuneration and benefits system in the Company and in the 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 implementation of the Company's strategy, the Company's annual and long-term operating plans, supervising the consistency 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 powers, scope of action and operating procedures of the Committees are described in the regulations approved by the Supervisory Board. On 10 October 2012, the Supervisory Board implemented changes in the scope of duties of the respective Committees.

Audit Committee

In accordance with the Regulations of the Supervisory Board, the duties 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 applied in the Company;
- review of transactions executed by the Company, which the Audit Committee considers important for the Company;
- the analysis of findings and recommendations of the audits and risk management processes in the Company;
- selecting independent auditors to audit the Company's financial statements in order to recommend their approval by the Supervisory Board and participation in business negotiations prior to the signing of the contract between the Company and the auditor;
- ongoing co-operation with the Company's independent auditor during the audit, analyses and formulation of audit recommendations and the auditor's opinion on the financial statements, the auditor's letter to the Management Board and/or Supervisory Board, and the preparation of draft statements and evaluations required by the regulations governing the Company's authorities and other administrative institutions;
- providing an opinion on the Company's internal audit plan and internal audit regulations and on the changes in the position of the internal audit director;
- analysis of the findings and recommendations of the Company's internal audit and monitoring the progress in implementation of the recommendations by the Management Board;
- monitoring of the principles adopted by the Company in the scope of accounting, finance and hedging against trade and financial risks, and the Company's exposure to significant damage;
- carrying out other tasks and duties delegated by the Supervisory Board.

The composition of the Audit Committee as at 1 January 2012 was as follows:
- Marek Panfil
- Marcin Dyl
- Marzenna Weresa

Following the changes in the Supervisory Board composition, as of 31January 2012, the members of the Audit Committee were:
- Lech Jaroń (until 28 June 2012)
- Krzysztof Kaczmarczyk
- Mariusz Kolwas (until 24 April 2012)
- Robert Oliwa (until 3 September 2012)

On 21 May 2012, Paweł Białek joined the Audit Committee and on 1 October 2012, Krzysztof Opawski became the Committee member.

As at 31 December 2012, the following Supervisory Board Members served on the Audit Committee:
- Paweł Białek
- Krzysztof Kaczmarczyk, and
- Krzysztof Opawski

Remuneration Committee

In accordance with the Regulations of the Supervisory Board the duties of the Remuneration Committee are as follows:
- conducting recruitment and employment of members of the Management Board by preparing draft documents and processes to be submitted to the Supervisory Board for approval;
- development of draft agreements and templates of other documents related to the hiring of members of the Management Board, and supervision over the performance of their contractual obligations entered into by the parties;
- supervising the remunerations of the Management Board, in particular preparing settlement documents for the variable components of salary and bonuses, in order to submit recommendations to the Supervisory Board;
- monitoring and carrying out periodical analyses of the remuneration system of the Company's management staff and, if necessary, formulating recommendations to the Supervisory Board;
- supervising additional benefits offered to the Management Board under employment contracts, such as insurance, cars, housing, etc.;
- carrying out other tasks and duties delegated by the Supervisory Board.

As at 1 January 2012, the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:
- Arkadiusz Kawecki (until 19 January 2012)
- Franciszek Adamczyk (until 19 January 2012)
- Jacek Kuciński (until 25 April 2012)

Following changes in the composition of the Supervisory Board, as of 31 January 2012 the members of the Remuneration Committee included:
- Maciej Łaganowski (until 28 June 2012)
- Paweł Markowski (until 28 June 2012)
- Jacek Kuciński (until 25 April 2012)

On 21 May 2012, Paweł Białek, Dariusz Krawczyk and Robert Oliwa (who served on the Committee until 3 September 2012) joined the Remuneration Committee and on 1 October 2012, Ireneusz Piecuch became the Committee member.

As at 31 December 2012, the following Supervisory Board Members served on the Audit Committee:
- Paweł Białek
- Dariusz Krawczyk
- Ireneusz Piecuch

Strategy Committee

In accordance with the Regulations of the Supervisory Board, the duties of the Strategy Committee are as follows:
- acting on behalf of the Company's Supervisory Board in the performance of tasks associated with the Company's strategy and annual and long-term operating plans;
- monitoring the implementation of the Company's strategy by the Management Board and evaluating to what extent the existing strategy satisfies the changing needs;
- monitoring the performance of the Company's annual and long-term operating plans by the Management Board and evaluating whether any modifications are required;
- evaluating consistency of the Company's annual and long-term operating plans with the Company's strategy implemented by the Management Board and, if necessary, proposing changes to the Company's documents;
- submitting to the Company's Supervisory Board opinions 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;
- carrying out other tasks and duties delegated by the Supervisory Board.

As at 1 January 2012, the following Members of the Supervisory Board served on the Strategy Committee of the Supervisory Board of KGHM Polska Miedź S.A.:
- Franciszek Adamczyk
- Jacek Kuciński
- Jan Rymarczyk

Following changes in the composition of the Supervisory Board, as of 31 January 2012 the members of the Strategy Committee included:
- Krzysztof Kaczmarczyk
- Jacek Kuciński (until 25 April 2012)
- Aleksandra Magaczewska, and
- Jacek Poświata

On 21 May 2012, Paweł Białek and Ireneusz Piecuch joined the Strategy Committee and on 1 October 2012, Dariusz Krawczyk became the Committee member.

As at 31 December 2012, the following Supervisory Board Members served on the Strategy Committee:
- Paweł Białek
- Krzysztof Kaczmarczyk
- Dariusz Krawczyk
- Aleksandra Magaczewska
- Krzysztof Opawski
- Ireneusz Piecuch, and
- Jacek Poświata

At year-end, the Audit, Remuneration and Strategy Committees submit to the Supervisory Board reports on their activities.

Management Board

The Management Board directs the business of the Company and represents it externally. The duties of the Management Board include all those matters pertaining to the Company's operations which have not been reserved, by law or the Company's Statutes, for the competence of other Company authorities. The Management Board operates in conformance with generally applicable legal regulations, the Company's Statutes and the Management Board By-laws. The Management Board's competence to decide on the issuance or redemption of shares is limited by force of the Statutes. In accordance with § 29 sec.1 item 6 of the Company's Statutes, any increase in the share capital or issuance of shares requires a prior approval of the General Meeting. The same holds true for the issuance of bonds (§ 29 sec.1 item 10 of the Company's Statutes). The Management Board of the Company does not have the authority to increase the share capital or issue the Company's shares on terms and conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The Management Board consists of 1 to 7 persons appointed for a joint 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/her request, appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board. The Supervisory Board appoints and dismisses the employee-elected member of the Management Board.

The composition of the Management Board of 7th term and the segregation of duties amongst its Members in the period from 1 January to 28 June 2012 was as follows:

- Herbert Wirth – President of the Management Board
- Maciej Tybura – First Vice-President of the Management Board (Finance)
- Wojciech Kędzia – Vice President of the Management Board (Production)

On 27 June 2012, the Supervisory Board of KGHM Polska Miedź S.A. decided that the Management Board of the 8th term will consist of five Board Members.

On the date of the General Meeting convened to approve the financial statements for the financial year 2011 (28 June 2012), the Supervisory Board appointed the Management Board of the 8th term, including Herbert Wirth (Management Board President) and the following Management Board Members: Wojciech Kędzia, Włodzimierz Kiciński, Dorota Włoch and Adam Sawicki (as of 1 September 2012).

On 25 July 2012, the Supervisory Board designated Włodzimierz Kiciński as the First Vice-President of the Management Board.

On 10 October 2012, the Supervisory Board entrusted the Management Board members with the following functions:

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

The composition of the Management Board remained unchanged until the end of 2012.

Herbert Wirth

KGHM Board Member since 2008 and President of the Management Board of KGHM Polska Miedź S.A. since 2009.

Graduate of the AGH University of Science and Technology in Kraków. Holder of a PhD and Doctor of Science degree obtained in 2012. Completed post-graduate programs, including Project Management at the George Washington University School of Business and Public Management where he received the Master's Certificate in Project Management.

Associated with the copper holding since 1998, initially working for "CUPRUM" Research and Design Centre in Wrocław, and since 2002 for KGHM Polska Miedź S.A., with the exception of one year when he acted as a Vice-President for KGHM "CUPRUM".

Winner of the "Best Managers 2011" competition; awarded with a title of Visionary 2012; member of the prestigious group of best leaders in times of crisis.

Chairman of the Supervisory Board of KGHM Cuprum.

Wojciech Kędzia

Executive Vice-President & COO of KGHM Polska Miedź S.A. since 2010.

Graduate of the Mining Department at Wrocław University of Technology. Holder of a Ph.D. degree in Economics. Completed post-graduate studies in hydrometallurgy at the Department of Chemistry of Wrocław University of Economics and a post-graduate managerial course in organisation and management in market economy at Wroclaw University of Economics.

Joined KGHM in 1992 and went up the career ladder, starting as a Senior Foreman, through the position of a Director of the Production Analyses and Monitoring Department to Vice-President of the Management Board.

Chairman of the Supervisory Board of Dolnośląska Fabryka Maszyn Zanam –Legmet and Chairman of the Supervisory Board of PeBeKa S.A.

Włodzimierz Kiciński

Executive First Vice-President & CFO of KGHM Polska Miedź S.A. since 2012.

Graduate of the Department of Mechanics and Technology at the Warsaw University of Technology and Foreign Trade Department of the Warsaw School of Economics. Completed post-graduate studies at the Institute of Foreign Commerce Theory at Johannes Gutenberg University in Mainz, Germany.

For nine years, President of the Management Board of Nordea Bank Polska S.A. Earlier, Vice-President of BGŻ S.A. and Hypo-Bank Polska S.A.

Recipient of the Officer's Cross and Knight's Cross of the Order of Polonia Restituta. Bank Manager of 2010 and Leader of the Polish Business in the ranking of Business Centre Club.

Member of the Supervisory Board of PZU S.A.

Dorota Włoch

Executive Vice-President, Business Development of KGHM Polska Miedź S.A. since 2012.

Graduate of the Geology Department at Wrocław University and Warsaw School of Economics. Completed the MBA program at Wrocław University of Economics. Graduate of the Project Management Department at the George Washington University.

Joined KGHM in 1994 and went up the career ladder, starting as the Planning and Analyses Specialist, subsequently promoted to the position of the Investments Department Director and Executive Director for Investments and Development. Currently responsible for the coordination of the Management Board work on the new strategy, including the concept of mining operations development, modernisation of the metallurgic segment and the project of shale gas exploration.

Chairperson of the Supervisory Board of Energetyka sp. z o.o. and Member of the Supervisory Board of PeBeKa S.A.

Adam Sawicki

Executive Vice President, Corporate & International Affairs of KGHM Polska Miedź S.A. since September 2012.

Graduate of the Business Administration and Economics Department of the Stockholm University. Postgraduate programs and specialist training in the United States, Switzerland and France, including High Potential Leadership – IMD, Lausanne; Leading Yourself Program – INSEAD; The General Manager Program – Harvard Business School; and Executive Program for Growing Companies – Graduate Business School, Stanford University.

For 12 years (1996–2008) associated with a Scandinavian Group TeliaSonera where he began from a position of a Junior Consultant for Business Development; Subsequently, held a number of managerial positions, including Vice President for Central-Eastern Europe, General Manager of the TeliaSonera branches in Moscow and London and Vice President for Western Europe and North America.

Between 2008–2011, President of the Management Board of GTS Central Europe, a group of telecommunications companies. Prior to joining KGHM, President of the Management Board of Ruch Internet SA.

Additionally, Chairman of the Supervisory Board of Netpress Digital Sp. z o.o. and Chairman of the Board of Directors of KGHM INTERNATIONAL LTD.

Description of the basic characteristics of the internal control and risk management systems in the Company with respect to the process of preparing financial statements and consolidated financial statements

KGHM Polska Miedź S.A. has an internal control and risk management system. The Management Board is responsible for the appropriate and effective functioning of those systems in the process of preparing stand-alone financial statements of KGHM Polska Miedź S.A. and consolidated financial statements of the Group. The system of internal control and the management of related risks are based on identification and assessment of the risk areas, with simultaneous defining and undertaking actions aimed at their minimization or total elimination.

Supervision over the implementation of uniform accounting policies

In order to ensure true and accurate keeping of the accounting records of KGHM Polska Miedź S.A. and the uniformity of the accounting principles applied in preparing the financial statements of the Group subsidiaries, the following document has been implemented:

- Accounting Policy of KGHM Polska Miedź S.A. and the Group, in accordance with International Financial Reporting Standards, updated to conform with the new regulations on an ongoing basis,

and in addition, for KGHM Polska Miedź S.A.:

- Principles of Finance Management and the Economic System,
- Documentation of the IT system for the processing of accounting data,
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets, and
- Sector Chart of Accounts in accordance with IFRS,

as well as a number of internal procedures in the scope of control and evaluation of risk arising from the activities of KGHM Polska Miedź S.A. and the Group, along with the established scope and principles of financial reporting.

IT systems

KGHM Polska Miedź S.A. keeps books of accounts in an integrated IT system. The modular structure of this system ensures transparent segregation of processes and duties, consistency of the accounting records and conformance of all the ledgers: the special purpose ledger, general ledger and sub-ledgers. Data are available at various levels and in various formats thanks to a well-developed reporting system. KGHM Polska Miedź S.A. continuously adapts the IT information system to satisfy the requirements of the changing accounting principles or other legal standards, which is possible owing to a high degree of operational flexibility of the IT system modules.

Pursuant to Article 10 of the Accounting Act of 29 September 1994, documentation of the IT accounting systems is subject to periodical verification and updates, approved in each case by the heads of the units, i.e. the Management Board of KGHM Polska Miedź S.A. and the management boards of the subsidiaries.

Access to the resources of the financial and accounting system and stand-alone and consolidated financial statements is restricted by a system of user rights assigned to authorised employees, based exclusively on the scope of their job duties. The user authorization profiles are subject to regular audits. Access control is implemented at each stage of financial statements preparation, beginning with entry of the source data, through the processing of data, to the generation of output information.

Audit Committee

The Audit Committee, appointed by the Supervisory Board of KGHM Polska Miedź S.A., is the authority which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor. In accordance with its duties set forth in the Act dated 7 May 2009 on Certified Auditors and Their Self Government, Entities Authorized to Audit Financial Statements and on Public Supervision (Journal of Laws 2009.77.649), The Audit Committee, is in particular responsible for:

- monitoring the process of financial reporting in terms of compliance with the Accounting Policy approved by KGHM Polska Miedź S.A. and the applicable legal requirements;
- monitoring the effectiveness of the internal control systems, internal audit and risk management;
- monitoring the independence of the certified auditor and of the entity authorized to audit financial statements; and
- recommending to the Supervisory Board the entity authorized to audit financial statements.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of review and control carried out by an independent body, ensuring the truthfulness and accuracy of the data presented in the stand-alone and consolidated financial statements of KGHM Polska Miedź S.A.

Internal audit

A fundamental risk management activity with respect to the process of preparing financial statements of KGHM Polska Miedź S.A. is examination of the performance of control mechanisms and identification of risks in the operations of KGHM Polska Miedź S.A., carried out by internal audit. The tasks performed by the internal audit are based on the annual "Integrated Audit Plan of KGHM Polska Miedź S.A." for a particular calendar year, approved by the Management Board of KGHM Polska Miedź S.A. The purpose of internal audit is to provide the Company's Management Board and Supervisory Board with independent and objective information, evaluation of the risk management and internal control system effectiveness and analysis of the business processes implemented in KGHM Polska Miedź S.A., selected domestic companies from the KGHM Polska Miedź S.A. Group and, as of 2013, also in the foreign subsidiaries of the Group. In 2012, the audited processes included management of: materials, raw materials and service supplies; overhaul and rehabilitation activities; information technology; and current assets. The recommended corrective actions are implemented on an ongoing basis by the Management Board of KGHM Polska Miedź S.A. and are monitored by the Management Board and by the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A.

Internal control

The internal control system in KGHM Polska Miedź S.A. encompasses all processes implemented in the Company, including the areas with direct or indirect impact on the correctness of the financial statements. Internal (institutional) control is exercised by a dedicated unit in the organisational structure which is responsible for identification and investigation of situations which indicate the probability of irregularities and fraud. Apart from institutional control, all management levels of the Company are obliged to exercise functional control as part of their coordination and supervision responsibilities.

Audit and review of the stand-alone and consolidated financial statements by a certified auditor

The annual financial statements of KGHM Polska Miedź S.A. and the annual consolidated financial statements of the KGHM Polska Miedź S.A. Group are audited by an independent certified auditor. The half-year financial statements of KGHM Polska Miedź S.A. and the half-year consolidated financial statements of the KGHM Polska Miedź S.A. Group are subject to review by a certified auditor. The financial statements of the key companies of the KGHM Polska Miedź S.A. Group are audited and reviewed by the same entity which audits and reviews the stand-alone financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group.

Process of review and approval of the stand-alone and consolidated financial statements

The Management Board of KGHM Polska Miedź S.A. approves the quarterly, half-year and annual financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group prior to their publication. The half-year and annual financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group are also subject to the process of review by the Supervisory Board prior to publication, in terms of their compliance with IFRS, in accordance with the competences provided for in the Act on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision.

The process of preparation of the financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is subject to supervision by the First Vice President (Finance) of KGHM Polska Miedź S.A., while the responsibility for the preparation of data for the consolidated financial statements of the KGHM Polska Miedź S.A. Group rests with the management boards of the companies subject to consolidation.

Many years of experience in the identification, documentation, recording and controlling business operations and the implemented audit and inspection procedures, combined with state-of-the-art information technology supporting the registration, processing and presentation of business and financial data guarantee the effectiveness of the systems of internal control and risk management in the process of preparing financial statements in KGHM Polska Miedź S.A. In recognition of the high quality of provided information, the statements of KGHM Polska Miedź S.A. have for many years received top assessments in the competition for the "Best Annual Report".

KGHM POLSKA MIEDŹ S.A. ON THE WARSAW STOCK EXCHANGE

2012 saw the 15th anniversary of KGHM shares' historical debut on the Warsaw Stock Exchange.

During the 15 years of our presence on the WSE floor, the value of the Company's stock went up by over **740%**.

15 years on the stock exchange floor

The year 2012 marked the 15th anniversary of the KGHM Polska Miedź S.A. shares' debut on the Warsaw Stock Exchange. The Company's IPO attracted a lot of interest from the investors and the admission of the shares of KGHM Polska Miedź S.A. to public trading remains one of the most important events in the history of the Polish capital market.

On the exact date of the stock market debut anniversary i.e. on 10 July 2012, a meeting of the analysts and media with the Company's management was held in Warsaw, in the Trading Room of the WSE. Hubert Wirth, President of the KGHM Management Board, attending the meeting emphasized the exceptional role of Polska Miedź as the engine of growth of the Polish stock exchange and the leading player on the domestic capital market. "If you compare the IPO price with today's price of our shares, you can see the magnitude of our growth which makes KGHM the unquestionable leader of investment in equity."

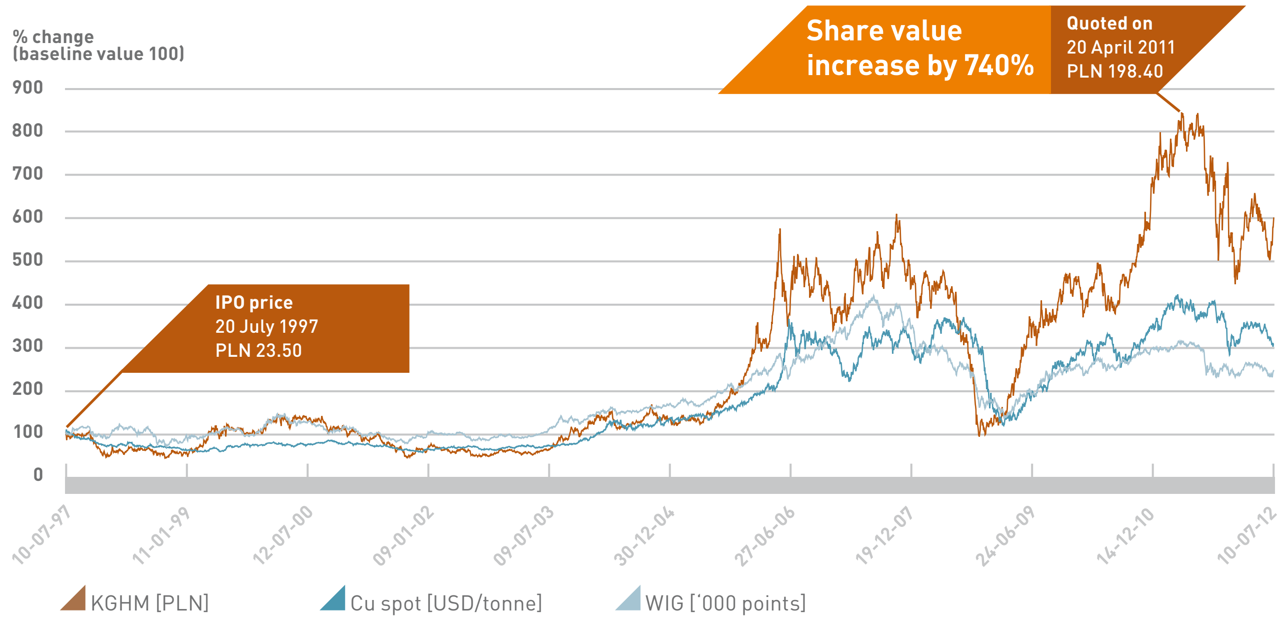
The history of KGHM's market debut actually goes back to a time much earlier than July 1997 and starts with the restructuring of the Company. In September 1991, the state owned enterprise Kombinat Górniczo-Hutniczy Miedzi was transformed into a 100% State Treasury company named KGHM Polska Miedź S.A. The event was the Company's first major step in the direction of the stock exchange. When the prospectus required to admit KGHM shares to public trading was completed, in June 1997 the State Treasury, holder of 200 million shares of Polska Miedź, decided to sell 65.7 million shares under the Initial Public Offering, of which 30 million was intended for the domestic market. Individual investors were buying the shares at a price of PLN 19 and institutional investors at PLN 21. The Company employees also participated in the privatisation process taking up 15% of equity (30 million shares) free of charge.

KGHM shares were for the first time quoted on the Warsaw Stock Exchange on 10 July 1997. On the first day the share price went up to PLN 23.5 and was 23.7% higher than the price paid by the individual investors.

During the 15 years of KGHM's presence on the stock exchange floor, the lowest share price (PLN 9.75) was recorded on 2 October 1998, while the all-time high value was hit on 20 April 2011 when the closing price amounted to PLN 198.40 and was over 740% higher versus the price on the debut date.

KGHM shares are traded on the primary market of the Warsaw Stock Exchange in a continuous trading system and form part of the WIG, WIG20 and RESPECT Indexes and, as of January 2011, also the WIGdiv index.

Quotations of KGHM shares against the WIG index and copper prices



The Company on the stock exchange and investor relations

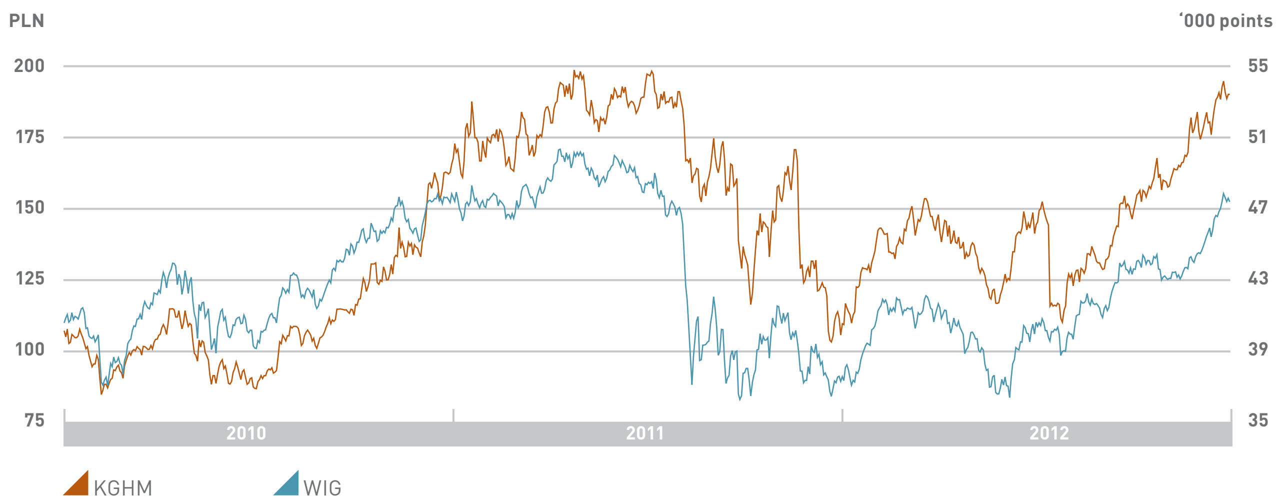
Company's quotations in 2012

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Company are traded on the primary market in a continuous trading system, and are a component of the WIG and WIG20 indexes. Since 19 November 2009, KGHM has been amongst a prestigious group of socially responsible companies, listed in the RESPECT Index. The Company's shares are also included in the WIG-SUROWCE index of companies classified in the "raw materials sector", and in the WIGdiv index of companies with the highest dividend yields, regularly paying dividend to their shareholders.

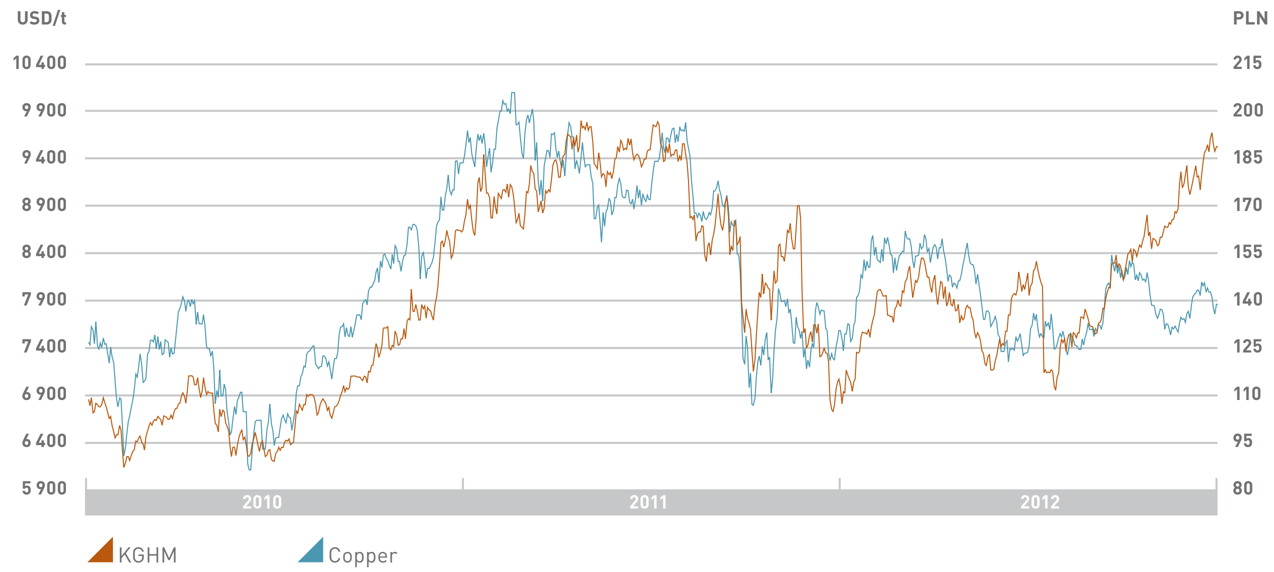
The year 2012 was very successful for the shares of KGHM on the Warsaw Stock Exchange. From the start of the year the Company's shares rose steadily, reaching their half-year maximum of PLN 154.00 on 14 March 2012. As of that date, the Company's shares entered a falling trend, which lasted until May 2012. From that moment on, the shares of KGHM again increased in value – the substantial drop on 12 July was due to a technical adjustment for the dividend value. The Company's shares reached their annual maximum of PLN 194.50 on 19 December 2012. Over the course of 2012, the price of the shares of KGHM increased by 72%, from PLN 110.60 on the last trading day in 2011 to PLN 190.00 on the last trading day in 2012. During this same period the WIG index rose by 26%, and WIG20 by 20%.

In 2012 the shares of KGHM were amongst the most liquid on the Warsaw Stock Exchange. The Company's share of turnover in value terms amounted to 18%. The average per-session trading volume of the shares of KGHM on the Warsaw Stock Exchange in 2012 amounted to 945 thousand.

Share price of KGHM Polska Miedź S.A. versus the WIG index



Share price of KGHM Polska Miedź S.A. versus the price of copper



Dividend

The attractiveness of investments in the shares of KGHM Polska Miedź S.A. stems not only from their high liquidity and growing price of shares, but also the dividend paid by the Company.

The Annual General Meeting of KGHM Polska Miedź S.A. held on 19 June 2013 decided to pay dividend from the profit for the financial year 2012 in the amount of PLN 1 960 m i.e. PLN 9.80 per share.

KGHM Polska Miedź S.A. is among companies with the highest dividend rate on the Warsaw Stock Exchange. The Company is included in the WIGdiv index which lists companies from WIG20, mWIG40 and sWIG80 indexes with the highest dividend rates, which regularly distribute their profits to shareholders.

Ownership structure

At 31 December 2012, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 billion and was divided into 200 million series A shares with the nominal value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the General Meeting.

Key data on the share performance of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange

	Unit	2010	2011	2012
Number of shares	million	200	200	200
Closing price on the last trading day in the year	PLN	173.00	110.60	190.00
Company's market capitalisation at year-end	m PLN	34 600	22 120	38 000
Highest closing price in the year	PLN	173.00	198.40	194.50
Lowest closing price in the year	PLN	86.50	104.60	111.10
Average trading volume per session	'000	966	1 070	945

Capital market indexes

		2010	2011	2012
EPS [PLN]	Profit for the period / number of shares	22.85	56.97	24.34
P/CE	Price per share / financial surplus per share*	6.7	1.8	6.7
P/E	Price per share / earnings per share	7.6	1.9	7.8
MC/S	Market capitalisation **/ revenues from sales	2.2	1.1	1.8
P/BV	Price per share / book value per share ***	2.4	1.0	1.7

* Financial surplus = profit for the period + depreciation/amortisation.
** Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares: PLN 173.00 in 2010; PLN 110.60 in 2011; PLN 190.00 in 2012).
*** Carrying amount of equity at the end of the reporting period.

Dividend paid in the years 2010–2012

	Unit	2010	2011	2012
Dividend paid in the financial year from distribution of profit for the previous year	PLN/share	3.00	14.90	28.34
	PLN m	600	2 980	5 668

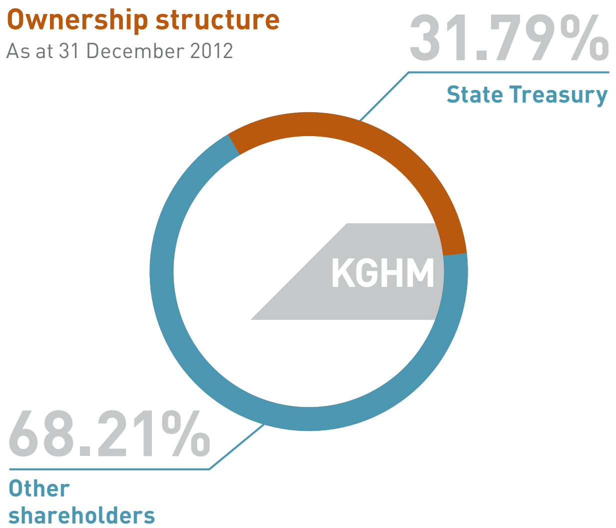
There are no restrictions on the transfer of ownership rights to the Company's shares or on the exercise of voting rights attached to the shares, other than those generally prescribed by the laws in force. The Company has not issued securities which would grant special proprietary rights in respect of the Company.

In 2012 there was no change either in the registered share capital or in the number of issued shares.

There was also no change in the structure of ownership of significant blocks of shares of KGHM. The only shareholder who in 2012 held 5% or more of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the Polish State Treasury. This shareholder held 63 589 900 shares of the Company, granting the same number of votes, representing 31.79% of the share capital of KGHM Polska Miedź S.A. and of the total number of votes at the General Meeting of the Company (based on an announcement dated 12 January 2010).

Ownership structure

As at 31 December 2012



The Company's Management Board is unaware of any agreements which could result in changes in the proportions of shares held by the existing shareholders in the future.

Members of the Company's Supervisory Board and Management Board were not in the possession of shares of KGHM Polska Miedź S.A. or of associated entities.

Investor relations

KGHM Polska Miedź S.A. follows an active investor relations policy, with an aim to create shareholder value, present an accurate picture of the Company and to build trust in the eyes of investors. The Company engages in regular actions targeted at representatives of international investment funds, investment banks, market analysts and individual investors from Metals and Mining sector and from emerging markets. In 2012, KGHM Polska Miedź S.A. presented itself to investors during roadshows and investor conferences. KGHM representatives took part in fourteen conferences organised by international investment banks and brokerage firms, in such countries as Austria, Denmark, Canada, the United States and the UK. The Management Board and senior managers attended 150 individual and 25 group meetings, providing information to representatives of 175 institutional investors.

Publication of the Company's quarterly reports was accompanied by meetings of the Management Board of KGHM with analysts, fund managers and business reporters, which were broadcasted live online. Meeting webcasts are available at the Company's website, under Investors tab.

The Management Board of KGHM Polska Miedź S.A. met with analysts and fund managers during the Investor Day. Over the two days, the Company's visitors had a chance to learn more about the conducted technological processes (including visits to the Polkowice-Sieroszowice mine, the Ore Enrichment Plant, the Głogów smelter and the Cedynia wire rod plant) and saw a number of detailed presentations. The topics discussed included the Company's strategy for the coming years, the growth of the resource base, costs, capital expenditures and risk management.

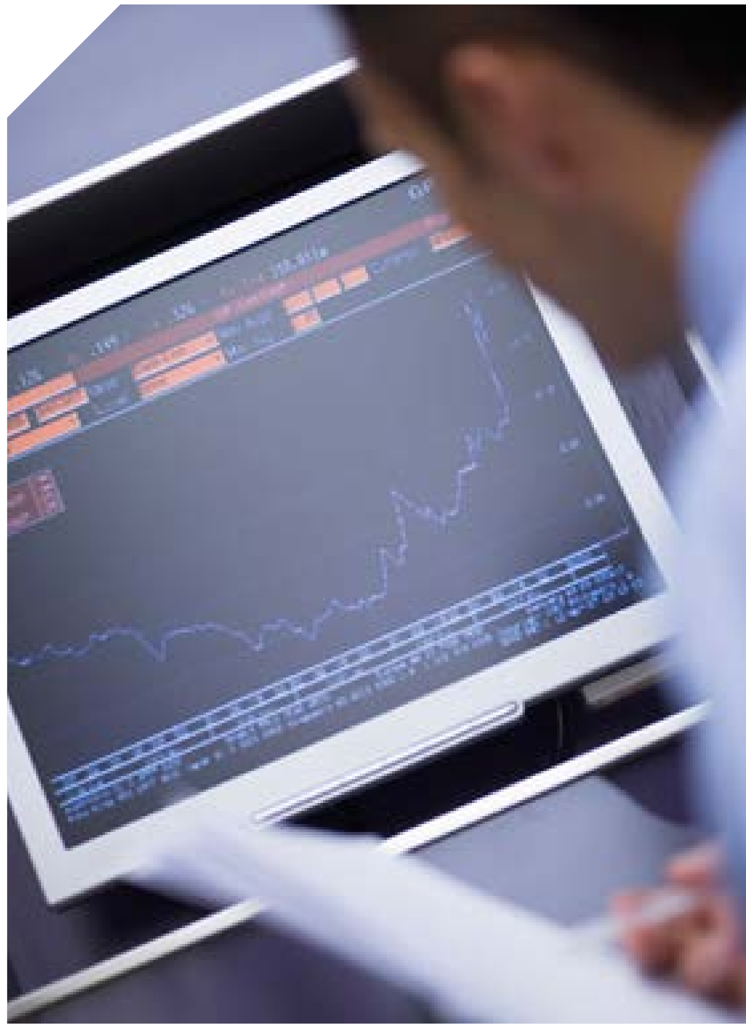
In 2012, one of the IR objectives was to upgrade the Company's market communication to the standards maintained by other companies from the Metals and Mining sector listed on different stock exchanges across the world. To this end, the Company published a report "Mining Assets of KGHM Polska Miedź S.A. in Legnica and Głogów Copper District" prepared by KGHM's own team and the "Technical Report on Copper and Silver Production by KGHM Polska Miedź S.A. in Legnica and Głogów Copper District (LGOM), in South-Western Poland" prepared in line with the Canadian standard NI 43-101 of disclosure of information about resources prepared by Micon International, a company from Canada. The reports respond to a growing demand from the market for information about the Company's production capacity, the resources examined and extracted by KGHM and the prospective resource potential of the copper ore deposits located in the LGOM area.

The evidence of a growing interest in the Company on the part of the capital market is the increasing number of brokerage firms issuing recommendations and writing reports on KGHM Polska Miedź S.A. At present, 21 financial institutions publish analytical reports on KGHM. The chart below shows recommendations issued for KGHM in 2012.

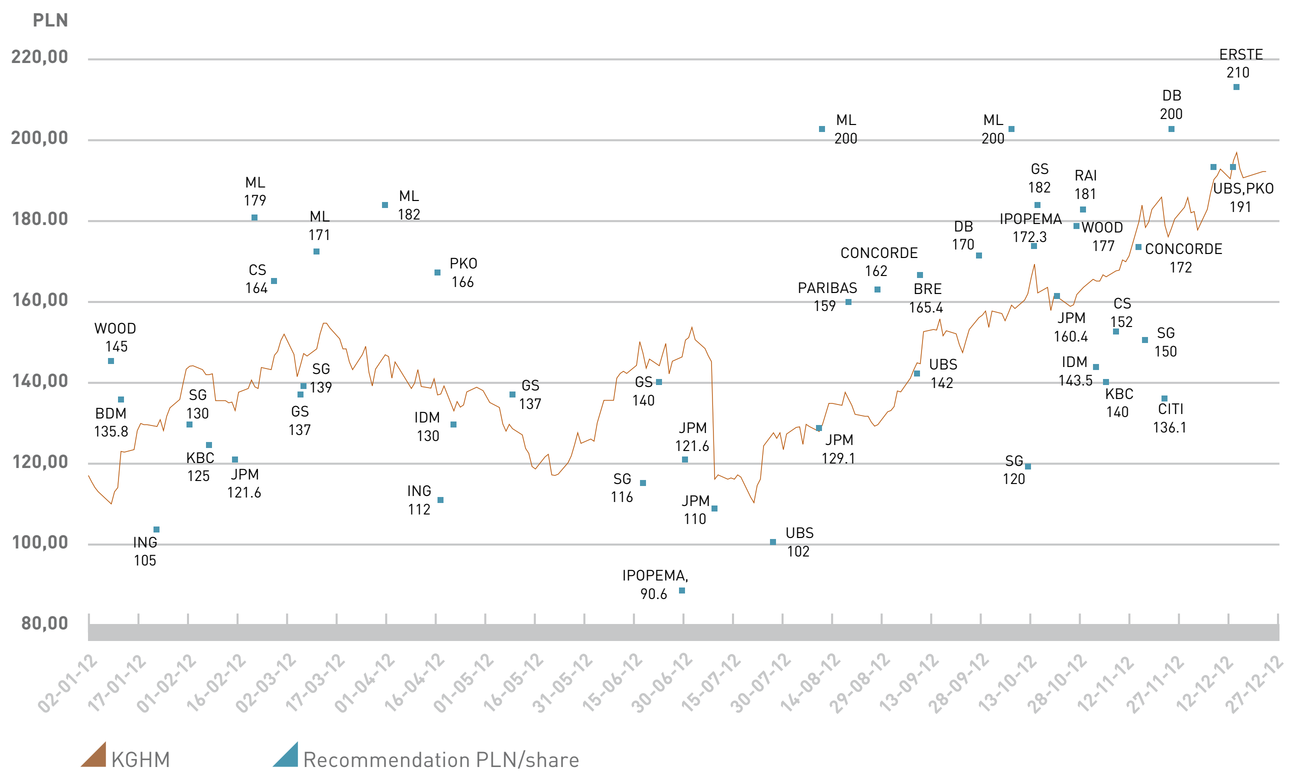
The average valuation in the analytical reports in 2012 amounted to 151.42 PLN/share, with the maximum recommendation at 210 PLN/share.

A significant aspect of the Investor Relations activity area in KGHM Polska Miedź S.A. is the website maintained by the Company which is a comprehensive source of information about the conducted operations. The Investors tab contains information about the Company's current situation (current reports, periodical reports), documents associated with the General Meetings and corporate governance, market forecasts of the Company's performance, presentations from meetings with the Management Board and webcasts.

Electronic media are used to communicate with the investors. In addition to online broadcasts, approximately 35 teleconferences and videoconferences were held. The IR team replied to around 500 questions from investors via electronic mail. Persons interested in receiving current information can subscribe for a newsletter which in 2012 was distributed to 550 recipients. A very attractive



Recommendations issued for KGHM in 2012



form of the Company's communication with the market is the RSS tool. Five thematic channels offer information in the mobile technology about the Company's performance, current stock market data, the scope and nature of the conducted business operations and the product range against the market background. In 2012, the Company for the first time presented to the stakeholders its annual report in a multimedia format which increases transparency and facilitates access to the published data.

In 2012, KGHM Polska Miedź S.A. became a partner to the countrywide campaign launched by the Ministry of State Treasury called "Citizen Shareholding – Informed Investments". The aim of the program is to disseminate educational content and encourage citizens to make informed investments in securities.

In 2012, the Company received a number of prestigious awards and distinctions from the capital market, including:

- "The Best of the Best" award in a competition run by the Institute of Accounting and Taxation for the best annual report and the first award for the online version of the annual report;
- a distinction in the ranking of investor relations from the TREND magazine;
- Golden Share TSR 2012 award for the leader of the ranking published by biznes.pl portal;
- the Bull and Bear Statuette in the competition of Parkiet Stock Exchange Gazette, in the category Company of the Year 2011;
- the Large Pearl in the ranking of the Polish Market business magazine in recognition of persistent implementation of the Company strategy and the leadership among the most dynamic and effective enterprises in Poland;
- the Pearl of the Polish Economy awarded by the Institute of Economic Sciences of the Polish Academy of Sciences in the ranking of manufacturing and service sector companies.

The implementation of the Company's strategy to build value resulted in new resource projects and acquisition of a Canadian mining company Quadra FNX (currently, KGHM INTERNATIONAL LTD.). The sale by KGHM of the shares of Telefonia Dialog S.A. and Polkomtel S.A. was the largest transaction in the history of M&A on the Polish telecommunications market. Today, KGHM Polska Miedź S.A. is a global mining corporation with a diversified portfolio of mining assets located in countries characterized by low degree of business risk.

Investor relations in KGHM is an important area of the Company's operations. The IR team, similarly to the entire KGHM Group, is in the course of transformations and the scope of their responsibilities has now become international. Following delisting of Quadra FNX from the stock exchange in Toronto, the KGHM team took over Investor Relations duties and is now responsible for regular presentation of the business operations, implemented projects and financial performance to investors, also with regard to KGHM INTERNATIONAL LTD. The expanded investor relations activities will focus on upgrading the form and content of communication addressed to the existing and potential capital market participants. Initiatives will be undertaken to enhance the Company's image on the international arena through activities promoting the global nature of the Company's operations and the high quality of its assets to capital market participants.

Calendar of investor events and selected IR activities

Date	Event
19 January 2012	Extraordinary General Meeting
27–29 February 2012	Participation in the BMO Capital Markets, 21st Annual BMO Capital Markets Global Metals & Mining Conference, Florida
29 February 2012	Publication of the consolidated Q4 2011 report
6 March 2012	Conference on the takeover of Quadra FNX
7 March 2012	Participation in the Citi Group Global Resources Conference 2012, London
12–14 March 2012	Roadshow USA – Boston, New York
15 March 2012	Participation in the UniCredit, 13th Annual Emerging Europe Conference, New York
27 March 2012	Publication of forecast for 2012
30 March 2012	Publication of the annual report for 2011 Publication of the consolidated annual report for 2011
12 April 2012	Participation in the Raiffeisen, Institutional Investors Conference Zürs, Austria
25 April 2012	Extraordinary General Meeting
15 May 2012	Publication of the consolidated Q1 report for 2012
15 May 2012	Presentation of performance for Q1 2012. Meeting of the KGHM Management Board with analysts, fund managers and journalists.
29 May 2012	Publication of the Management Board recommendation regarding payment of the dividend
20–21 June 2012	Participation in the RBC Capital Markets' Global Mining & Materials Conference, Toronto
28 June 2012	Annual General Meeting
28 June 2012	Publication of information on payment of the dividend for 2011
13 August 2012	Publication of the consolidated Q2 2012 report.
13 August 2012	Presentation of performance for Q2 2012. Meeting of the KGHM Management Board with analysts, fund managers and journalists.
31 August 2012	Publication of H1 2012 report Publication of the consolidated H1 2012 report
3 September 2012	Extraordinary General Meeting
12–13 September 2012	Participation in the Goldman Sachs, Global Natural Resources Conference, London
20 September 2012	Publication of the report "Mining Assets of KGHM Polska Miedź S.A. in Legnica and Głogów Copper District"
25–26 September 2012	Participation in the DM PKO BP's Mining Sector Investor Day, Katowice
2 October 2012	Participation in the Erste Group Investor Conference, Stegersbach, Austria
10–12 October 2012	Participation in the conference organised by the WSE and Citi for foreign investors, New York
23–24 October 2012	Investor Day
29 October 2012	Publication of the updated forecast of financial performance in 2012
12 November 2012	Publication of the consolidated Q3 2012 report.
12 November 2012	Presentation of performance for Q3 2012. Meeting of the KGHM Management Board with analysts, fund managers and journalists.
19 November 2012	Participation in the conference organised by the WSE and JP Morgan: Polish Corporate Access Day, London
21 November 2012	Extraordinary General Meeting
27 November 2012	Participation in the ING Securities, 15th ING CEO/CFO Investment Forum, Warsaw
28–29 November 2012	Participation in the Scotiabank Mining Conference, Toronto
12 December 2012	Participation in the Macquarie Global Metals & Mining Conference, New York
11 February 2013	Publication of the Technical Report on Copper and Silver Production by KGHM Polska Miedź S.A. in Legnica and Głogów Copper District (LGOM), in South-Western Poland" prepared in line with the standard NI 43-101

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* As of 1 July 2013 renamed to Investor Relations Services Department.

SILVER:
ENERGY FROM MIRRORS

Solar power engineering is probably the fastest growing industry which generates demand for silver. Around 2015, the solar energy sector will consume approximately 2,800 tonnes of silver a year, mainly thanks to India or the US which have been developing and implementing long-term solar power development strategies.

RESULTS AND FORECASTS

In 2012, the Company posted a net profit in excess of PLN 4.8 billion. A decrease versus the record-breaking 2011 results mainly from the impact of external factors i.e. decline in the prices of metals, movements in the foreign exchange rates and introduction in 2012 of a tax on the extraction of certain minerals. When comparing the results for the last financial year against 2011, attention should be paid to one-off sales transactions of telecommunications assets which increased the Company's profit in 2011 by more than PLN 2.6 billion.

Market conditions and trends

Global economy

The growth rates of the major world economies in 2012 came as a disappointment which was not overshadowed even by the Olympic Games held in the European finance capital, London. According to the most recent report of the International Monetary Fund (of April 2013), the global economy grew last year at 3.2% y-o-y i.e. at a rate 0.3 p.p. lower than forecasted a year before. The main themes of 2012 included:

- the liquidity risk in the Eurozone;
- high unemployment in developed economies driving down the internal demand;
- a turbulent macroeconomic environment;
- the fiscal cliff in the United States;
- a more reserved approach of US companies to funding investments;
- a growing disparity between the economies of the United States and the European Union;
- changes in the China's government; and
- continuation of the expansive monetary policy in the richest economic areas.

The investors once again had to face new challenges on the financial markets. The past year did not bring resolution of the structural problems in countries which suffered losses and struggled against the potential insolvency. The unwelcome overall situation triggering insecurity and fears on the part of investors intensified at the end of the year with the weakening economic performance worldwide. The second half of the year was also a period of the fiscal cliff which American decision makers had to face. The turn of 2012 and 2013 was a threshold for the potential extension of the tax reliefs and other preferences and for implementation of the budget cuts. The aim was to slow down the growth of the huge budget deficit and the public debt in the United States (in 2012, the budget deficit stood at 8.5% of the GDP and the public debt at 101.6% of the GDP). Finally, the fiscal crisis was overcome only partially since the majority of the parliament members did not approve all budget cuts. The revenue side of the budget was one source of nervousness on the financial markets, however, tensions were also associated with the expenditure side which, in view of no parliamentary consensus, gave way to savings on the cost side. Such a situation had a bearing on the entire 2013, driving down the global GDP growth forecasts.

The unprecedented solutions in the monetary policy of central banks in the western countries, for instance, further quantitative easing, increased the inflow of funds to emerging markets in recent quarters. As a result of the situation combined with continued repurchase of the US government bonds by the Federal Reserve acting in the capacity of the central bank as part of the quantitative easing, the rates of return on government bonds of emerging countries went down to the lowest levels in history, followed by huge increases at some stock exchanges at the end of the year.

The search for investment value and the sovereign debt crisis confirmed by downgraded ratings of the major global economies (including the US and certain Eurozone countries) led to redefinition of investors' trust and increased interest in emerging markets.

The development of the situation over the year was also interesting in terms of the growing disparity between the US economy and the economies of the European countries. The differences in the changing employment trends and unemployment rates were significant, generally to the benefit of the United States where the unemployment rate last December amounted to 7.8%, (0.9 p.p. down from the previous year), while in the Eurozone unemployment stood at 11.8% and was 1.4 p.p. higher than in 2011. In terms of the economy strength, the United States prevailed again, with a real GDP growth of 2.2% y-o-y versus a decline by 0.6% y-o-y recorded in Europe (according to the IMF estimations).

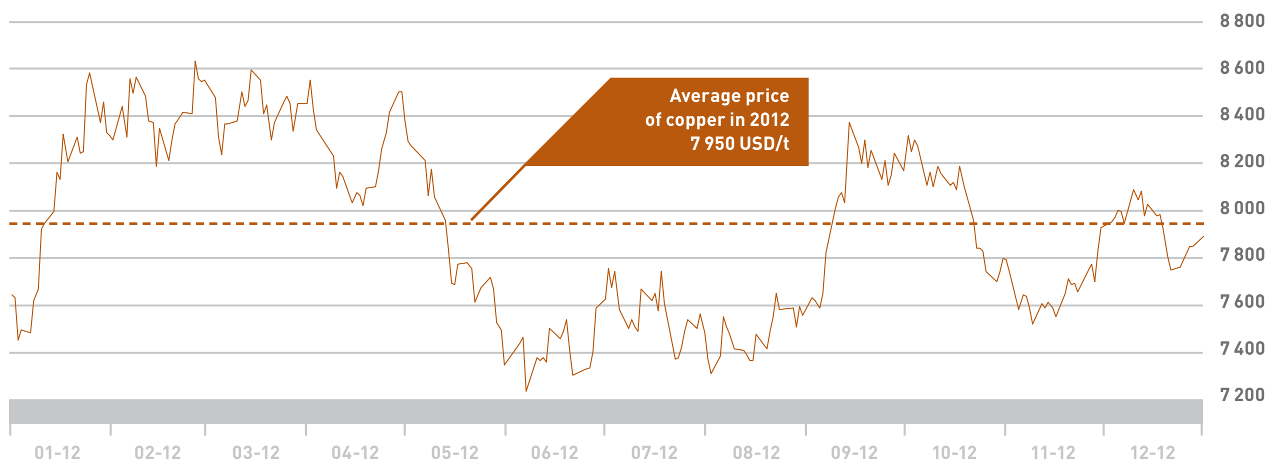
2012 was also an important year for China where changes in the government authorities took place. The retiring leaders of the political scene, President Hi Jintao and Prime Minister Wen Jiabao, were substituted by Xi Jinping as the President and Li Keqiang, the new Prime Minister. The analysts of financial institutions agree that China faces a decade of numerous challenges and economic transformation which will reshape not only the Middle State, but will also set new directions to the global economy. In addition to integration and harmonisation of the Chinese society, the new authorities will need to ensure upholding of the high rate of economic growth and political stability. The two reforms which are currently in the focus of attention in China include the abolishment of the landmark one-child policy and privatisation of rural areas to support further development. Another major task is the continued implementation of the strategy of restructuring the Chinese economy, from the investment and production based model to a consumption-driven model, which will definitely have a huge bearing on the entire global economy.

Situation on the copper market

After the record-breaking 2011, the past 12 months saw a drop in the prices on the copper market. The average price of copper in 2012 approximated 7 950 USD/t, 10% down from the previous year.

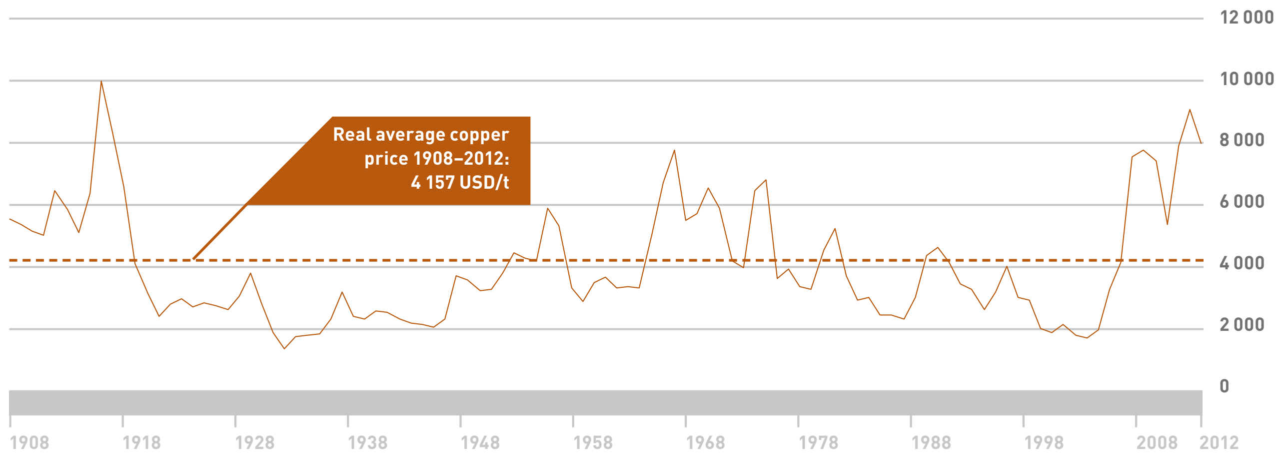
At the beginning of 2012, prices oscillated around 7 500–7 600 USD/t, close to the price level of the last quarter of 2011. The optimism triggered by a considerable demand for cathodes on the Chinese market and symptoms of the possible growth in consumption in Europe boosted the prices to the level of 8 600 USD/t to 8 700 USD/t at the end of February. Subsequently, in view of building up inventories and a weakening demand in China, the price dropped to 7 200–7 700 USD/t around mid-year. The negative market sentiment was caused by the problems in the Eurozone and the escalation of the crisis in the Greek economy. As of Q3, copper began to respond more actively to macroeconomic data and the information published by the central banks. As a result, the increasingly pessimistic figures reported from the global economy triggered a rise in the prices of copper. In this way, the market tried to discount, at least partially, the growing probability of the launch of economic stimulus packages, especially in the US and in China. In response to the observed slowdown in the economic growth rate, the Chinese Government announced large-scale infrastructural investments in the country. Furthermore, the approval of the European Stability Mechanism (ESM) in the Eurozone and announcement of another round of quantitative easing by the FED supported the recovery of demand on the metals market and drove the price of copper up to the level of 8 100- 8400 USD/t.

Daily LME copper cash settlement in 2012 (USD/t)



Source: LME, KGHM

Real average annual copper prices, 1908–2012 (USD/t)



Source: CRU, KGHM

In Q4, the copper prices ranged between 7 500 and 8 400 USD/t and were dictated by the developments in the United States (general election and the fiscal cliff), China (changes in the top level national authorities) and Europe (the recurring problem of indebtedness).

It should be noted that after a period of sudden and considerable movements in the prices between 2009 and 2011, 2012 saw reduction in the volatility on the market of raw materials, including copper.

Copper production

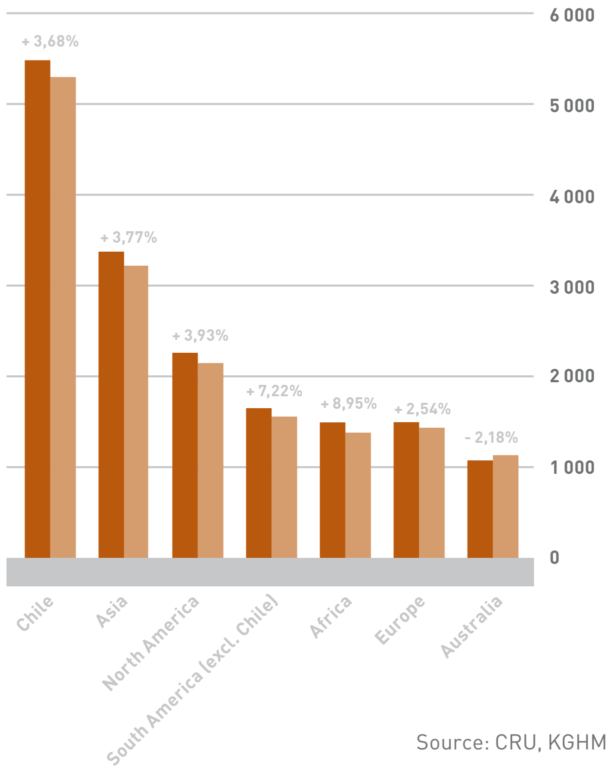
According to data published by CRU International, the global mined copper production in 2012 amounted to 16 553 thousand tonnes (3% up on the previous year) and showed the highest growth rate since 2007. 2012 saw fewer unplanned disturbances in the copper production i.e. less frequent strikes and a more stable copper grade in ore versus the past year. Increase in supply is also a result of commencement of the production stage of new mining projects, including Antapaccay (Peru), Lomas Bayas (Chile) and Salobo (Brazil).

Last year brought a significant reduction of production disturbances due to strikes, compared to 2011 when strikes in Grasberg, Cerro Verde and Escondida mines caused serious problems. A lower number of strikes resulted, among other things, from a change in the approach of the largest mining companies to negotiations and talks with the employees, which they now start several months before the final expiry date of the employee contracts.

In 2012, a substantial increase in output was observed in China, Chile and Congo. On the other hand, many countries recorded a fall in the copper production versus 2011. This group included mainly Indonesia, but also South Africa, Iran, Australia, and Portugal. The past year witnessed stabilization in copper grade in ore, after a series of major falls throughout the last ten years. In the case of concentrate production, average copper grade in ore amounted to 0.70% (versus 0.96% in 2002), while in the SXEW production, the corresponding value was at 0.49% (0.52% in 2002).

Mined copper production in 2011 and 2012 by regions (thousand tonnes)

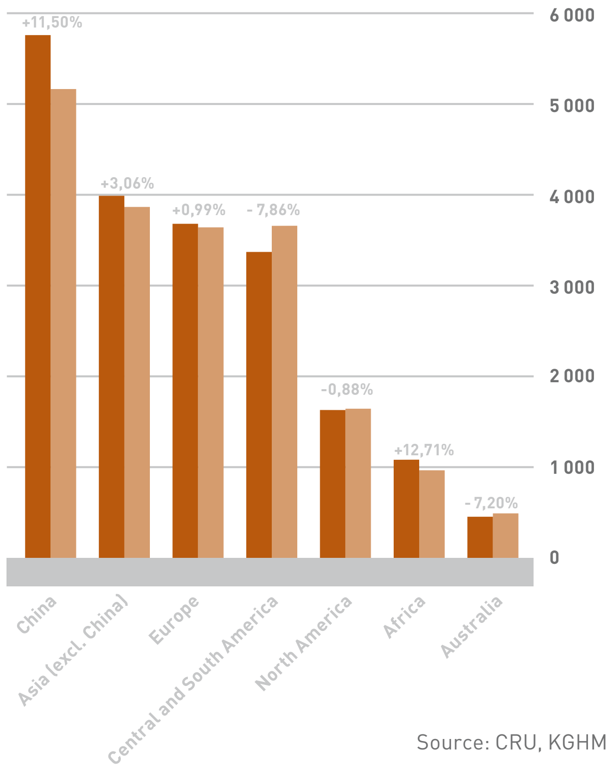
2011 – 16 076 thousand tonnes
2012 – 16 553 thousand tonnes



Source: CRU, KGHM

Refined copper production in 2011 and 2012 by regions (thousand tonnes)

2011 – 19 452 thousand tonnes
2012 – 19 905 thousand tonnes



Source: CRU, KGHM

Refined production in 2012 amounted to 19 905 thousand tonnes and was 2.3% higher than last year. China once more led this rise, with an increase in refined cathode production of 594 thousand tonnes and total output of over 5.76 million tonnes. In 2012, China continued to expand its smelting capacity, with increasing reliance on scrap metal. There was also a stable growth in refined production in Europe, where several technologically advanced scrap processing plants are in operation, accepting even scrap with a very low copper content. Developed European countries, where heavy emphasis is placed on environmental protection and recycling, are important suppliers of scrap to the copper market. There was also a substantial increase in refined production in Africa, particularly in Congo and Zambia, as well as in Japan. The biggest falls in copper production were observed in Indonesia, Philippines, Australia, Chile and Peru.

Copper consumption

According to analyses conducted by CRU International, consumption of refined copper in 2012 increased versus last year by 2.2% to 19 978 thousand tonnes, or in terms of volume by 434 thousand tonnes. This increase was observed mainly in emerging markets and was led by China, the biggest consumer of copper in the world (8.2 million tonnes in 2012 i.e. 41.5% of the global production). In addition to China where demand went up by 428 thousand tonnes, consumption growth was also recorded in Mexico, India, Thailand and Brazil, where the development of the emerging economies triggers requirement for copper arising from infrastructural investments, higher demand for electronics and expansion of the construction sector.

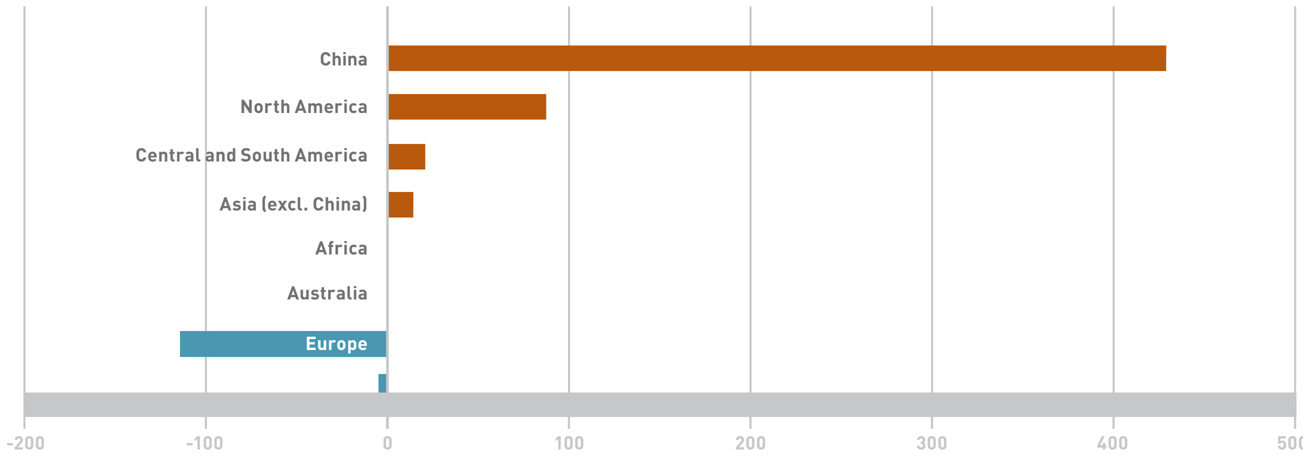
On developed markets, consumption rises were seen in the Unites States and Canada which might be an indication of the improving economic situation in North America.

Simultaneously, there was a clear drop in copper consumption in Europe (Belgium, Germany, Italy and Spain). The weakening of demand in those regions was due to fears of a widening of the debt crisis and deterioration in economic sentiment.

The high copper prices versus aluminium prices (the price ratio of copper versus aluminium occasionally exceeded 4 in 2012) increased the interest of many consumers in materials which can substitute for copper. As a result, widescale research efforts were undertaken to support the use of aluminium in the automobile and energy sectors. The outcomes of the research activities may have impact on the volume of the future demand, if pricing disparities continue to exist.

Over the last several decades the structure of copper consumption has changed substantially. Among the most important factors resulting in increased copper use are: urbanisation and growth of investments related to the development of cities, the increasingly common use of renewable energy sources, growing consumption of electric energy, globalisation leading to increased accessibility of electronic devices and the significant increase in the use of electronic devices in everyday life.

Change of demand for copper in 2012 vs. 2011 (thousand tonnes)



Source: CRU, KGHM

Copper inventories

The beginning of 2012 brought a moderate increase in copper inventories on LME, COMEX and Shanghai exchanges and a considerable increase in the volume of copper stored in unofficial Chinese duty-free warehouses.

Increased demand in the second quarter of the year reduced the level of inventories, both of the exchanges and those stored in unofficial warehouses. In the second part of the year, the trend reversed and copper inventories of the LME, Comex and Shanghai exchanges and inventories in unofficial duty-free warehouses began to grow again. Particularly the latter ones began to have a major impact on the market. Copper stored in unofficial warehouses was often used for the purpose of financial operations involving arbitrage between LME and SHFE and as loan security. The funds raised in this way were later invested, inter alia, on the property market.

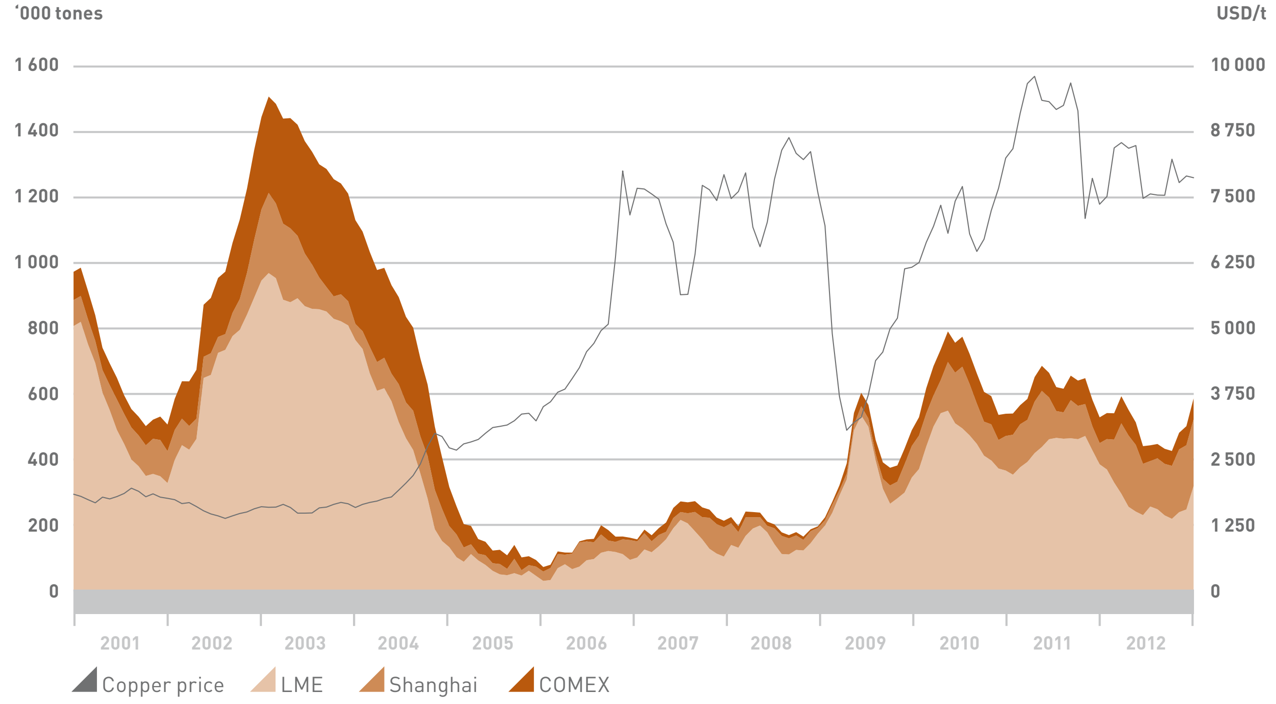
In 2012, Chinese tax law changed. The tax paid to date on the imports of concentrate into China was abolished and replaced with the Value Added Tax. The previous tax restricted, to a high extent, the possibility of further export of cathodes manufactured from imported concentrate. The purpose of the changes was to gradually increase the potential for exporting cathodes from China in order to expand the market for numerous domestic smelters. This was one of the reasons for increased significance of the LME warehouses located in Asia, a tendency observed already in 2011.

The total volume of inventories in official exchange warehouses was relatively stable and, at the end of last year, amounted to 589 thousand tonnes. At the end of 2012, most of the official inventories were found in the LME warehouses (54% of total inventories), while 35% were controlled by the Shanghai exchange and 11% by the American COMEX exchange. The end-of-year volume of unofficial copper inventories in Chinese warehouses was estimated at approximately 700 to 900 thousand tonnes, a growth by some 500 thousand tonnes as of the beginning of the year.

Investment funds

The continuous inflow of capital to the commodities market observed for several years was to some extent inhibited last year. The recent performance of funds investing on the commodities market was clearly less favourable compared to funds investing in equities and bonds. It was another year of struggle for a positive rate of return which many of the funds lost again. According to some of the asset managers active on the market, hedging funds investing on the commodities market lost 20% of their assets last year due to rapid withdrawal of funds by the investors. The rushed exodus was caused by the worst performance in the last decade which also led to closing some of the funds. Additionally, little volatility of the prices of metals did not offer many opportunities for speculation. The number of open positions remained at a stable level. In mid-2012, a tendency to open short positions could have been observed which may mean that a growing number of investors expect falls on the copper market in a short-term perspective.

Copper warehouse inventories, 2000–2012



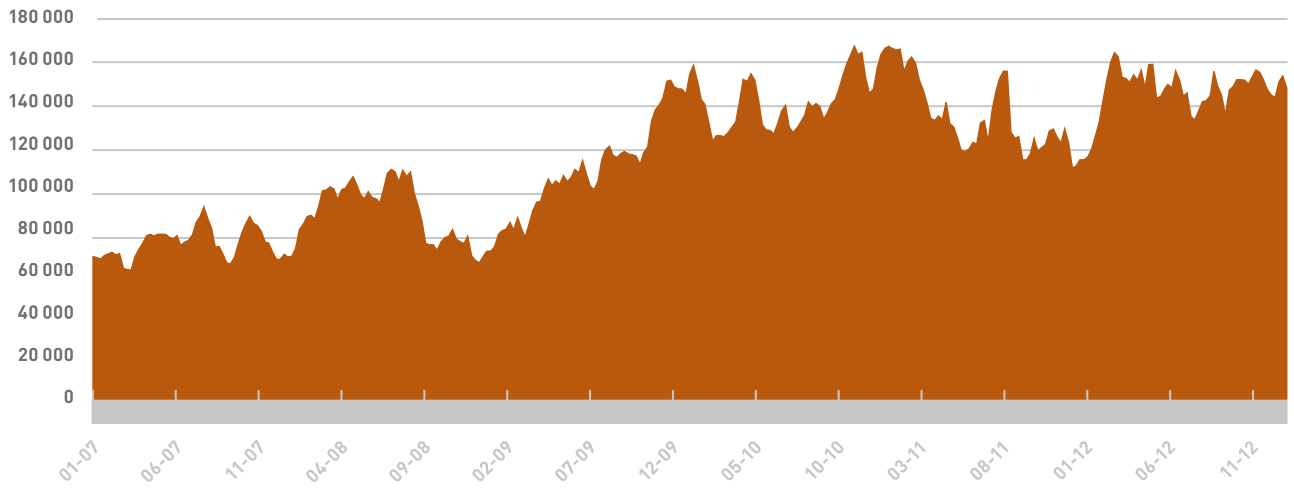
Source: KGHM, LME, COMEX, SHFE

Copper market prospects

Copper prices, like those of most natural resources, are currently determined by the level of global economic growth, the stability of the global financial system and, to an increasing extent, by geopolitical factors. The most serious economic risks to be considered include deepening of the crisis in Europe with more European countries getting into a difficulties and a slowdown in China which may have an impact on the consumption of copper.

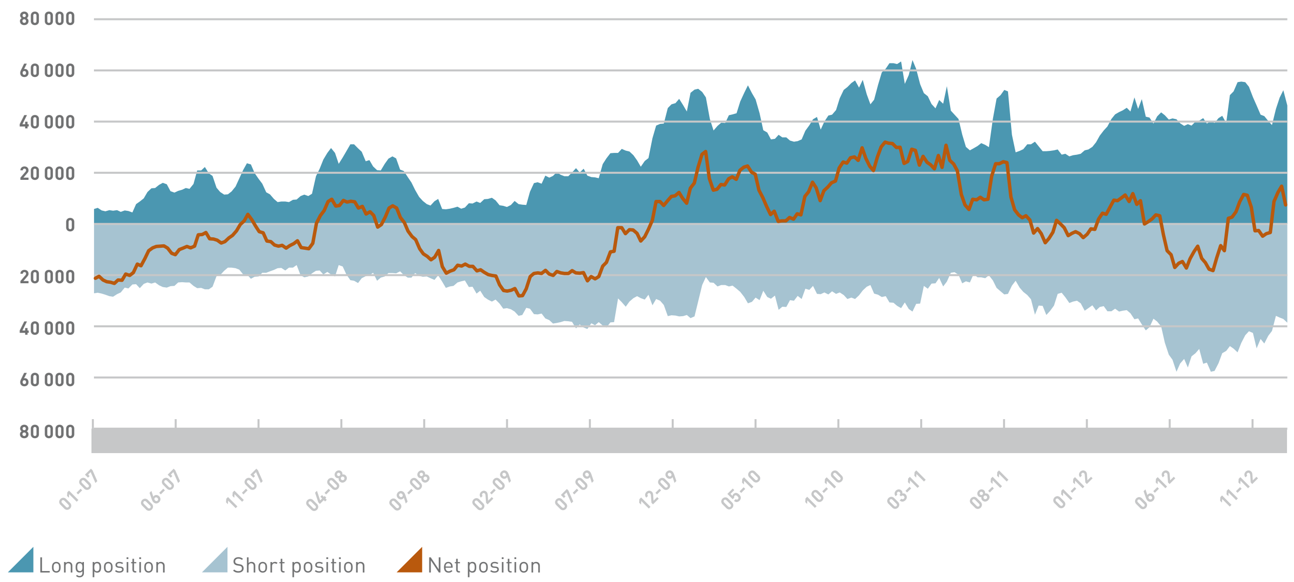
A positive aspect is the possible improvement of the situation in the United States, including the property market which may trigger demand for copper. Following approval by SEC of the possibility of launching ETFs investing in copper, the development of those product may reduce the availability of copper and, consequently, result in a growth in premiums and prices. On the demand side, the long-term prospects of the copper market are favourable. Despite a weaker growth rate, the demand from China is still enormous and other Asian markets which dynamically invest in infrastructure also need copper. On the supply side, despite the expected completion of a number of mining projects within the next 2–3 years, producers have suspended less advanced investment products which can lead to shortages on the copper market in a few years' time.

Number of open positions on copper contracts on COMEX (1 contract = 25 000 lbs)



Source: COMEX, KGHM

Non-commercial net positions on copper contracts on COMEX (1 contract = 25 000 lbs)



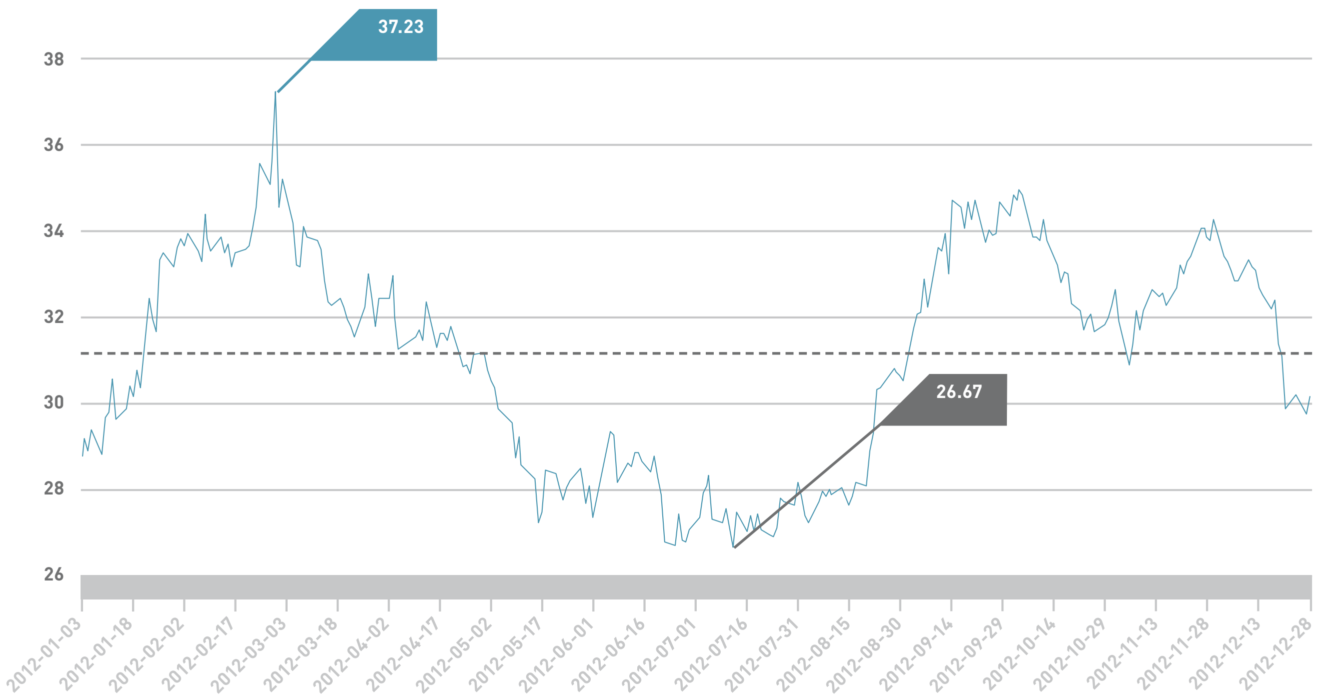
Source: CFTC, KGHM

Silver market

The average annual silver price on the London Bullion Market (LBMA) in 2012 stood at 31.15 USD/troz and was 11% down versus the previous year (35.12 USD/troz). In the first quarter of the year, there was a dynamic increase in the price of silver by approximately 29% (from 28.78 USD/troz to 37.23 USD/troz) and during the fixing on 29 February 2012, the annual record was set. On that day, the price of silver in continuous trading reached the level of 37.46 USD/troz. The silver price rises observed in the first quarter originated from the continuing fears about the condition of the global economy. The risk aversion which made the investors shift some of the assets in the portfolios to precious metals (including silver) resulted mainly from the public announcements of the Chairman and members of the Federal Open Market Committee in the Unites States, including suggestions that additional Quantitative Easing associated with the potential weakening of the US dollar may be required in order to restore growth and reduce unemployment in the American economy. The market sentiment was also deteriorated by the behaviour of the international rating agencies which regularly downgraded the ratings of the Eurozone countries, triggering market falls and driving up the price of silver. One of the stronger fears was that Greece would be unable to implement the budget cuts required by the Troika (ECB, IMF and EC) to launch the new rescue packages. As of the beginning of March, sales transactions dominated the silver market, driven by the relative improvement of moods in the Eurozone. Following fulfilment of part of the requirements by Greece and launch of ECB's financing for banks at very convenient terms, the fears about the financial sector liquidity were weaker and resulted in a series of falls on the markets of precious metals. Mid-year saw another wave of rises on the silver market. This time, investors focused on Spain which recorded a number of all-time highs in bad debt value in the banking sector and requested for funding to rescue its banks against collapse. The situation was so serious that the European Central Bank not only supported Spanish banks but offered to buy Spanish bonds in order to reduce the burden on the country's budget. Moreover, Mario Draghi, President of the European Central Bank, declared in his famous speech that "he would do whatever is necessary to protect the Eurozone against collapse". The combination of all those events which occurred between June and October made investors regain trust in more volatile assets. Their sentiment changed and in October the price of silver returned permanently to a downward trend which continued until the end of 2012. Silver closed 2012 at a price level of 30.15 USD/troz.

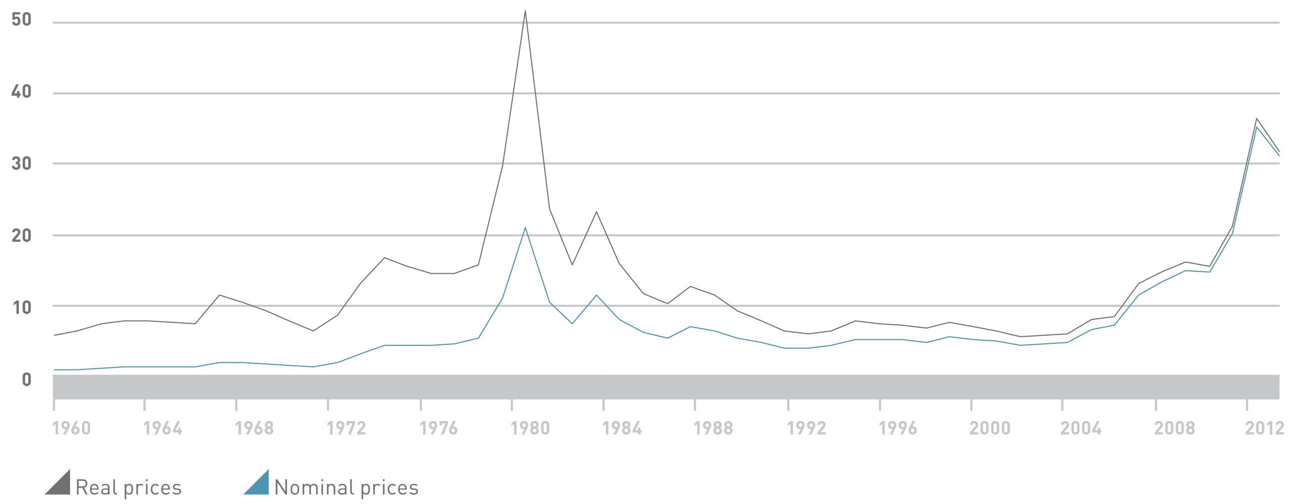
The silver market is markedly smaller than that of gold, and is therefore more susceptible to market volatility. In periods when precious metals are seen as safe havens for protecting capital, silver usually appreciates more rapidly than gold. Likewise, during downturns in economic sentiment, silver prices are again usually more sensitive than gold. This correlation is well reflected by the Gold/Silver Ratio comparing the prices of gold and silver. Over the last several years, the value of the Gold/Silver Ratio averaged 60. Since the beginning of August 2010, when it was around 65, in subsequent months the ratio fell to 31.5 – a long-term minimum. In the same period the price of gold increased by nearly 30% while silver rose meanwhile by nearly 170%. Some investors consider substantial variance from the ratio's average value as a signal of a coming price correction. After a significant correction, in the second half of 2011 silver prices returned to a state of balance. Throughout 2012, the Gold/Silver Ratio ranged between 47.5 and 59 and at the end of the year approximated 55.

Daily silver prices in 2012 and the average price level in 2012 (31.15 USD/troz) – LBMA fixing



Source: The London Bullion Market Association, KGHM

Historical silver prices – LBMA fixing (USD/troz)



Source: CRU, The London Bullion Market Association, KGHM

Gold/silver ratio 2000–2012

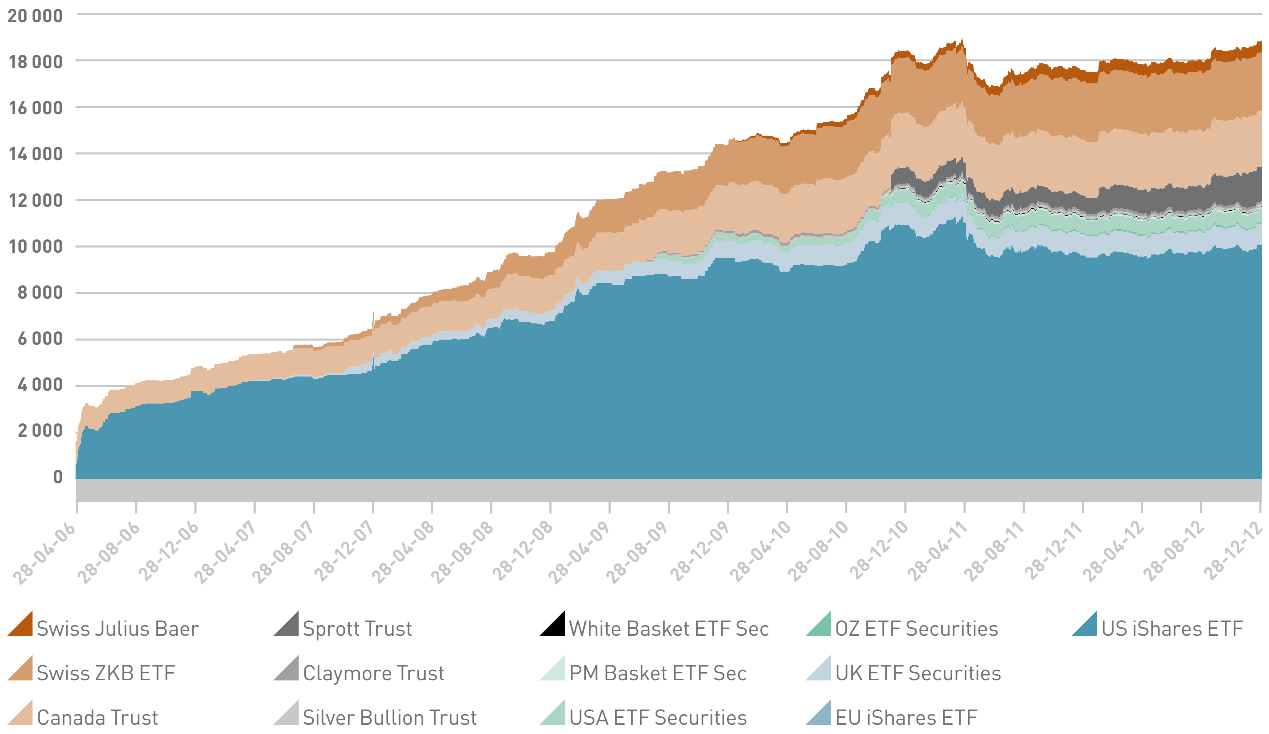
Source: The London Bullion Market Association, KGHM

Operations of Exchange Traded Product Funds

In the seventh year since the inauguration of the first ETP Funds (Exchange Traded Product Funds) physically investing in silver, the volume of the metal in their possession continued to grow. At the end of 2012, fund warehouses held 606 million ounces (40 million ounces more than at the end of 2011), however, the inventories did not exceed the record-breaking 610 million ounces recorded on 25 April 2011.

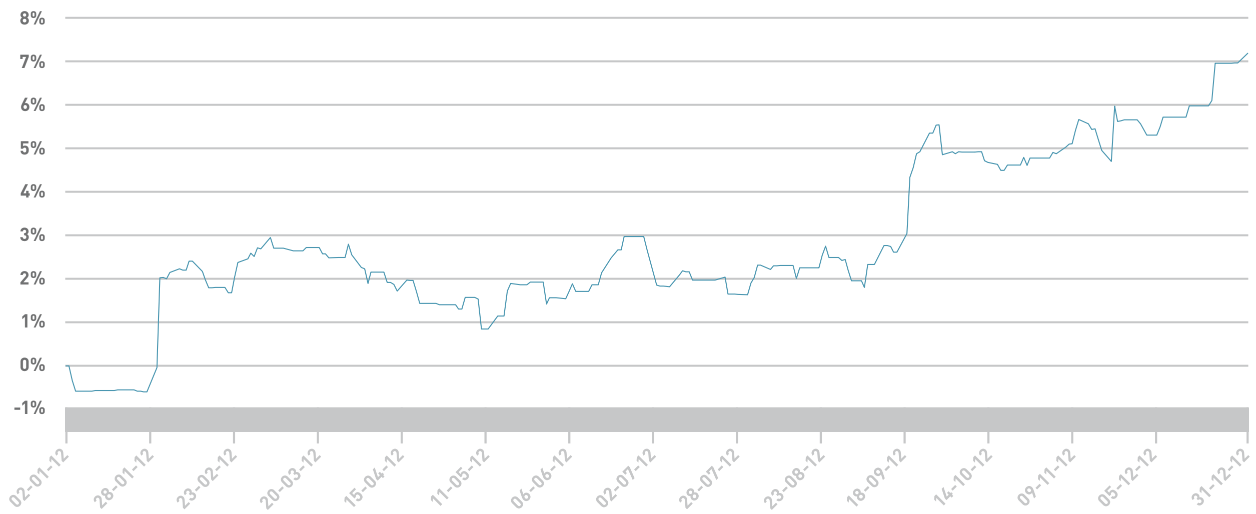
The highest increase in assets was noted in September, at the time of massive buying triggered by the announcement of a new quantitative easing operation by the FED. The share of the funds' assets in the total supply of silver increased by ca. 3% to the level of 58% which means that even relatively minor changes in their holdings may have a significant impact on short-term movements in silver prices.

Assets of the biggest ETP funds on the silver market (tonnes)



Source: CRU, KGHM

Percentage increase in ETP assets versus the beginning of 2012

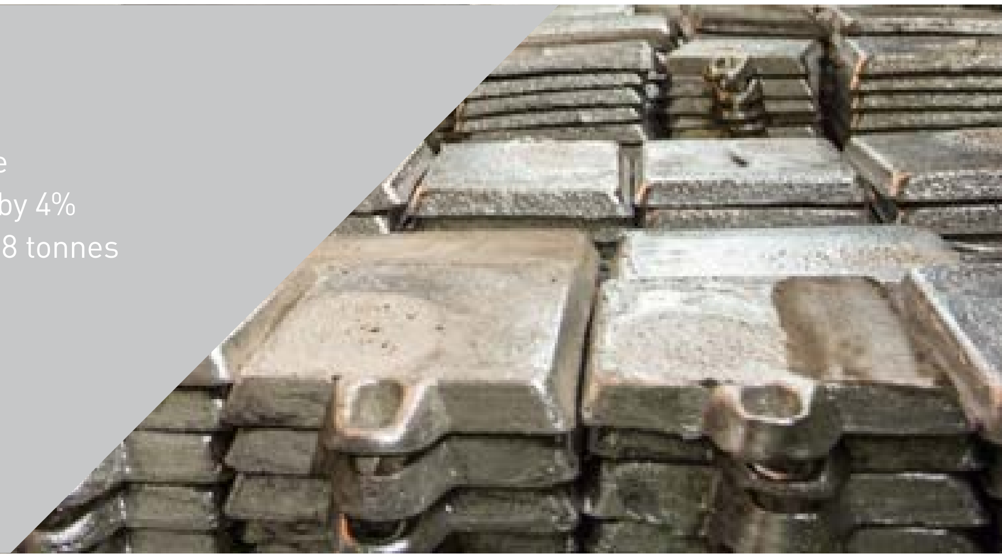


Source: CRU, KGHM

Silver supply

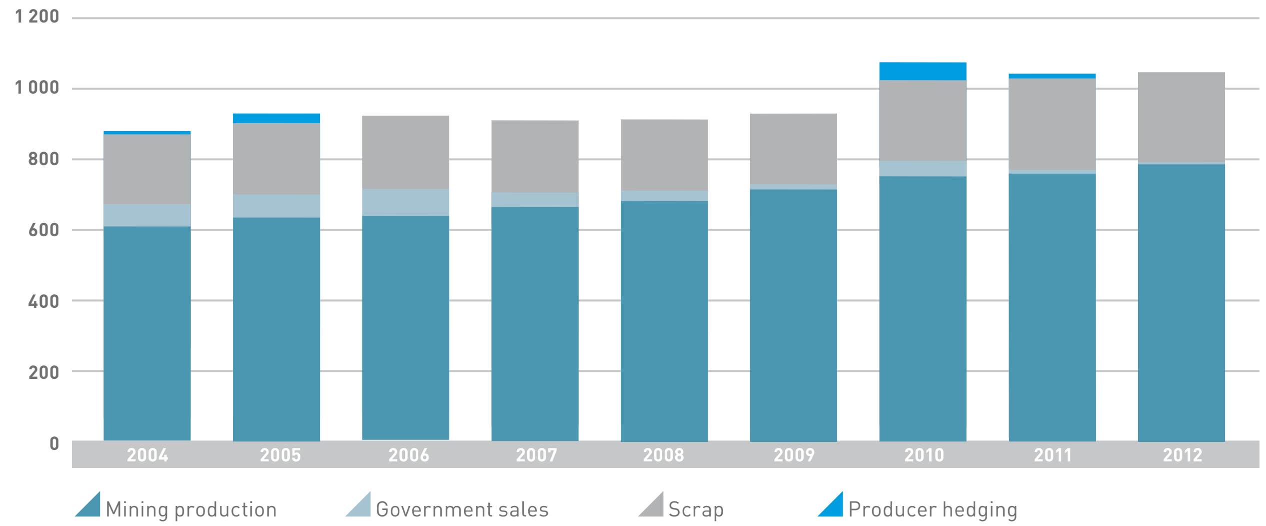
Last year saw another world record of mining production of silver. Compared to 2011, the volume of extracted metal increased by 4% and reached the level of 24 478 tonnes (787 million ounces). This increase occurred mainly in mines producing this metal as a by-product from the extraction of other metals such as gold, zinc, lead and copper (highest growth of 9%

Compared to 2011, the volume of extracted metal increased by 4% and reached the level of 24 478 tonnes (787 million ounces).



was recorded in lead and zinc mines). Although the global production of silver as a by-product in copper mines decreased by 1% versus the previous year, in KGHM Polska Miedź S.A. the output of silver increased. As a result, the Company strengthened its leadership in the global ranking of silver producers published by Thomson Reuters GFMS. The supply of silver scrap in 2012 went down by 1.6% on the previous year when an all-time highest level was recorded and totalled 7 897 tonnes (253.9 million ounces). Such a situation was dictated mainly by a drop in the recovery of silver from old coinage, tableware and jewellery. The supply of silver-bearing waste from photographic industry continued to decline due to systematic takeover of the market by the digital sector. Net government sales of silver decreased from 12 million to 7 million ounces. The total supply of silver, however, went up by 0.89 % to 32 596 tonnes (1 048 million ounces), mainly thanks to mining output which compensated for declines in other segments.

Silver supply 2004–2012 [million ounces]



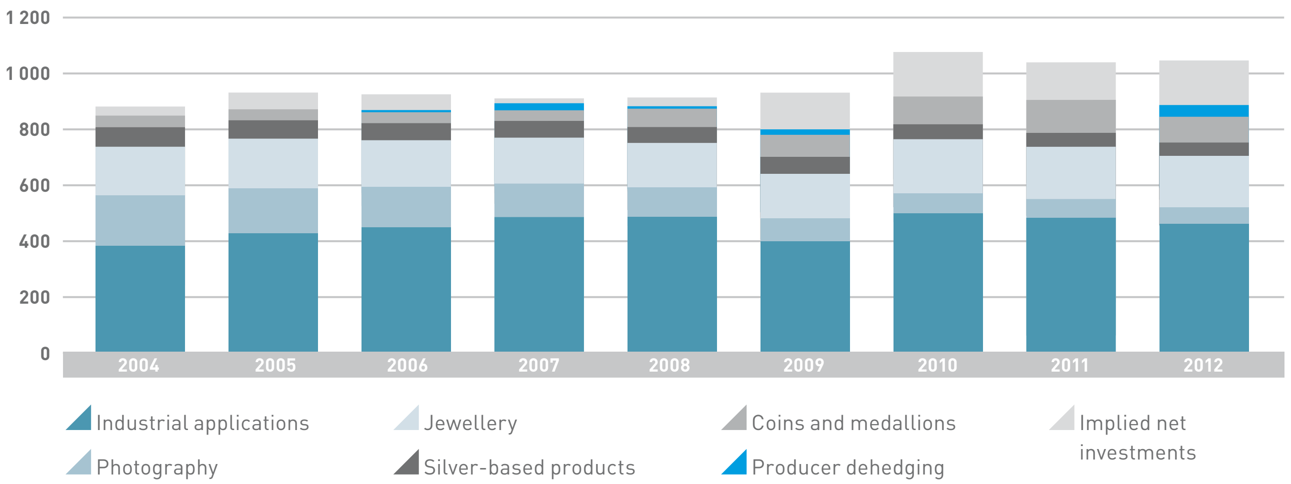
Source: World Silver Survey 2013 – Thomson Reuters GFMS for The Silver Institute.

Silver consumption

Due to the high prices and to a slump in industrial activity industrial demand for silver from the sectors other than ETPs decreased last year by 6.6% to 846 million ounces. Demand for silver fell in every category of industrial use. The highest drop was observed in the production of coinage and medallions (-22%), followed by the photographic industry (-13%), silver products (-7%) and other industrial applications (-4%). In the case of jewellery products, demand was comparable to that of last year. The significant reductions in demand were compensated by net investment demand from ETFs, hedging funds and other exchange players. According to World Silver Survey 2013, the demand from the investment segment of the market increased by 21% and amounted to 160 million ounces. Additionally, in 2012 producers tended not to enter into new hedging transactions or reduced their existing positions. Those activities generated new non-physical net demand of approximately 40 million ounces.

According to World Silver Survey 2013, the demand from the investment segment of the market increased by 21% and amounted to 160 million ounces.

Silver demand 2004–2012 [million ounces]

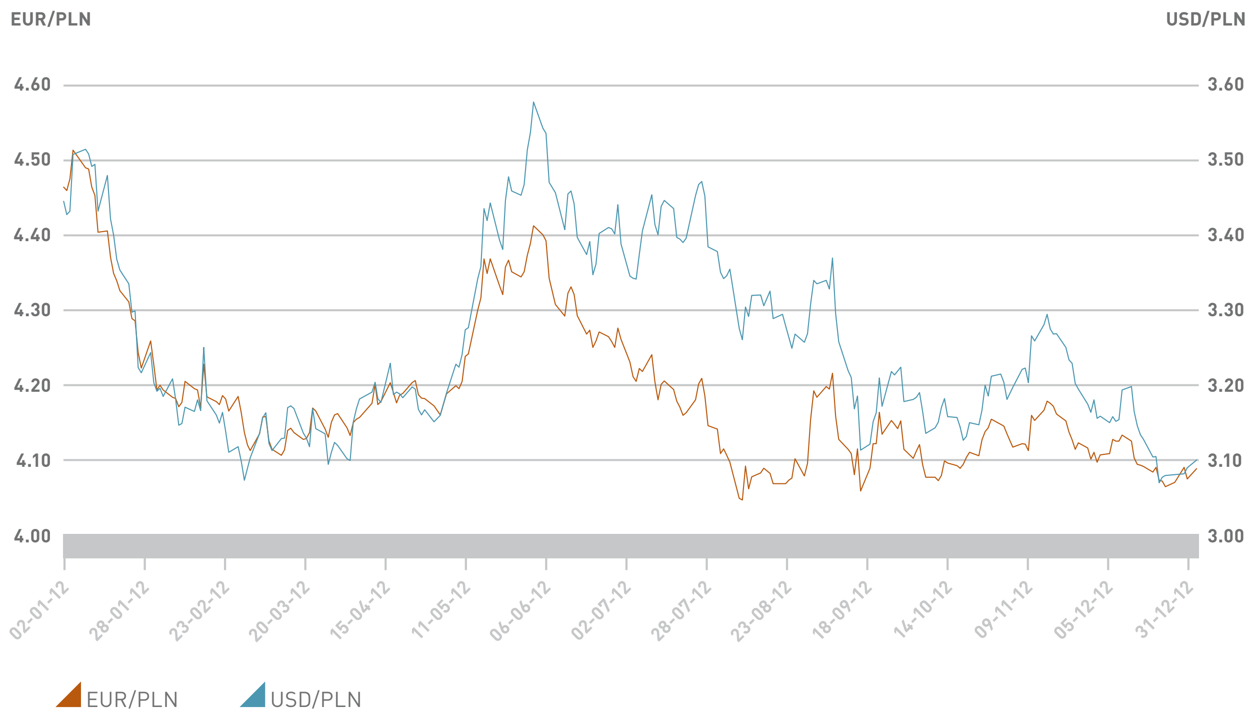


Source: World Silver Survey 2013 – Thomson Reuters for The Silver Institute

Currency market

According to the data of Eurostat, in 2012 Polish economy grew at a rate of 1.9% per annum. This time Poland did not qualify to the group of fastest developing countries in Europe, as was the case in 2011. It is worth noting, however, that Poland's growth rate is by far higher than the aggregated, nominal GDP-weighted average (-0.2%) and median (0.3%) of all the EU member states. An analysis of the components of Poland's gross domestic product shows a marked slowdown in consumption dynamics, which used to be the main growth engine for the entire economy in recent years. Another factor with a negative impact on the economic growth was a decline in investments, to some extent compensated for by net exports.

Overall, 2012 saw appreciation of zloty both versus US dollar and euro. According to the official fixings of the NBP, zloty strengthened versus US dollar during the year from PLN 3.4454 to 3.0996 and versus EUR from 4.4640 to 4.0882. Fortunately, unfavourable movements in FX rates from the point of view of competitiveness of the Polish economy, did not inhibit growth of exports, as confirmed by the results of a survey carried out by the NBP among entrepreneurs. For the USD/PLN, the annual average threshold at which entrepreneurs considered exports sales as unprofitable was 2.9072 while for EUR the corresponding value was 3.8560. During the year, the local maximum and minimum for the currency pair USD/PLN amounted to 3.5575 and 3.0690, respectively. For EUR, the corresponding values were 4.5135 and 4.0465. The strengthening of the zloty did not result only from positive investment sentiment to emerging markets but was also a consequence of data weaker than the consensus reported by the economies of the US and the Eurozone. Worth noting are also the fiscal problems and the interest rate disparities which those countries had to face despite commencement of the Polish monetary easing cycle at the end of the year. Investors looking for attractive investment opportunities focus on real interest rates which, unlike in Poland, remained negative both in the United States and in the EU. Thanks to a higher rate of inflation decrease in the second half of the year, real interest rates in Poland improved considerably, triggering growth in the volume of foreign investments in Poland and, consequently, strengthening of the zloty. The inflow of capital had also a positive impact on the Polish debt market which at the end of 2012 recorded the lowest rates of return in the history.



Source: NBP, KGHM

Resource base*

The resource base for the core technological processes of KGHM Polska Miedź S.A. is the largest deposit of copper ore in Europe, and one of the largest worldwide, situated between Lubin, Sieroszowice and Głogów. To exploit this deposit a mining zone of approximately 468 km^2 was established. The copper ore deposit currently extracted lies at a depth of 600 to 1 380 meters.

Some of the numerous additional chemical elements occurring in the copper ore contribute to improvement of the Company's financial results, for example, silver, nickel and gold. Of particular economic importance for the Company is the relatively high silver content in the extracted ore (44 grams per tonne of ore in 2012). Due to the small depth of the zone mineralized with precious metals, the lack of mineralisation continuity and its high irregularity, the documented concentrations are not treated as an ore meeting the economic criteria for dedicated mining operations. It should however be pointed out that a significant part of the precious metals contained in the copper ore are retained in the concentrate and recovered during the processing of anode slimes.

Current mining areas

KGHM Polska Miedź S.A. holds licenses for the mining of copper ore from the following deposits:
- "Lubin-Małomice"
- "Polkowice"
- "Sieroszowice"
- "Rudna"
- "Radwanice Wschód", and
- "Głogów Głęboki-Przemysłowy".

The concessions held by KGHM authorise the Company to conduct copper ore mining until the year 2013 in the mining regions of "Lubin", "Małomice", "Polkowice", "Sieroszowice" and "Rudna"; until 2015 in the region of "Radwanice Wschód"; until 2046 in the region of "Rudna II"; and until 2054 in the region of "Głogów Głęboki-Przemysłowy".

Ore resources of copper and other metals (Cu, Ag) in areas covered by the concessions issued to KGHM Polska Miedź S.A. (as at 31 December 2012)

Ore in production	Ore resources [mt]	Cu [%]	Ag [g/t]	Amount of Cu [mt]	Amount of Ag [t]
"Lubin-Małomice"	391	1.32	55	5.15	21 527
"Polkowice"	113	2.33	47	2.64	5 333
"Sieroszowice"	289	2.62	61	7.57	17 781
"Radwanice Wschód"	7	1.92	26	0.14	189
"Rudna"	387	1.68	47	6.50	18 081
"Głogów Głęboki-Przemysłowy"	291	2.40	79	7.00	22 917
KGHM Polska Miedź S.A.	1 480	1.96	58	28.98	85 828

Reserves of copper and other metals (Cu, Ag) in areas covered by the concessions issued to KGHM Polska Miedź S.A. (as at 31 December 2012)

Ore in production	Ore resources [mt]	Cu [%]	Ag [g/t]	Amount of Cu [mt]	Amount of Ag [t]
"Lubin-Małomice"	327	1.00	42	3.26	13 787
"Polkowice"	95	1.71	34	1.63	3 202
"Sieroszowice	266	1.92	46	5.11	12 296
"Radwanice Wschód"	8	1.25	18	0.10	137
"Rudna"	238	1.57	44	3.73	10 530
"Głogów Głęboki-Przemysłowy"	233	1.90	61	4.42	14 316
KGHM Polska Miedź S.A.	1 166	1.56	47	18.24	54 268

* Resource base – according to cadastres of 2012, prepared in accordance with the Regulation of the Minister of Environment of 15 November 2011 on cadastres and templates of notifications about mineral ore resources.

Bearing in mind the expiry of some of the mining concessions in 2013, KGHM, acting in conformance with the legal regulations in force in Poland, initiated in 2010 the procedure aimed at obtaining new mining concessions. The Regional Environmental Protection Director in Wrocław issued a decision specifying the applicable environmental requirements, on the basis of which formal applications were submitted to the licensing authority i.e. Minister of Environment

The estimated geological copper ore resources and reserves of KGHM are presented in the tables.

Prospective areas

Two other zones (Gaworzyce and Radwanice Zachód) adjacent to the deposits currently worked by KGHM Polska Miedź S.A. contain considerable copper ore resources. The deposits are now treated as prospective areas which may be brought into operation in the near future.

Along the decline of the deposit, north-west of the ore currently being worked and of Głogów Głęboki Przemysłowy, an area prepared for exploitation, at a depth of up to 1 500 meters, regions of proven increased copper mineralisation are found: Głogów, Bytom Odrzański and Retków.

Apart from the areas covered by the issued mining concessions, the Company is also involved in wide-scale exploration work in the so-called Old Copper Belt ("Grodziecka Trough"), "Gaworzyce-Radwanice" and Szklary, as well as in Germany (Weisswasser project).

- "Grodziecka Trough": a copper-silver ore deposit in the vicinity of Bolesławiec. Documentation of approximately 1.5 million tonnes of copper equivalent in the deposit is planned to allow for the construction of an underground mine. Drilling is currently underway (18 holes), aimed at precise examination of the existing copper ore resources as well as documentation of new resources.
- "Gaworzyce-Radwanice": KGHM is evaluating this copper ore deposit under the currently held concessions. The purpose of this work is to conduct detailed examination of the C1-category ore. During stage one, five holes were drilled. The irregular distribution of the copper ore means that the current pattern of exploratory C1 drillings may turn out to be insufficient and execution of additional drillings is very expensive and not necessarily effective.

Consequently, KGHM Polska Miedź S.A. submitted a request to the Minister of Environment for a change in the terms of concession i.e. resignation from exploratory drillings for the sake of geophysical studies.

- "Szklary": this project involves the possibility of commencement of mining of a lateritic nickel ore deposit in the vicinity of Szklary in Lower Silesia. Advanced work is underway to examine the ore body and to develop a model for an open-pit mine as well as the ore processing technology.
- "Weisswasser" Project: managed by a subsidiary KGHM Kupfer AG. This company has a mining concession for an area in Saxony, along the Polish border, where drillings conducted in the 1960s indicated the occurrence of copper mineralisation.

The company is conducting exploratory drillings and geophysical studies to identify a copper-silver ore deposit similar to those currently being worked by KGHM in Poland. The project is currently at stage 1 which assumes execution of 4 test drill holes and geophysical research.

Production results

The main production objectives set by the Management Board for 2012 included:

- optimum utilisation of the existing resource base and production capacity of the Company;
- optimisation of the copper content in ore and concentrate; and
- maximum utilisation of the production capacity of the metallurgical divisions.

In view of the agreed objectives, the following actions were required:

- upgrading of the deposit extraction system by:
  - appropriate selection of the technological pillars and geometry of the mining fields to minimise the risk of rock bursts,
  - increasing the scope of selective mining (leaving a higher volume of low-grade ore in the mine) and adapting the height of the wheeled machines to the depth of the deposit;
- increasing the scope of drift work to prepare new working areas in the mines and improve knowledge of the deposit;
- gathering more information on gas-related threats (hydrogen sulphide and methane) and implementation of new technical solutions and preventive measures to counteract the threats;
- improving concentration parameters through successive replacement of floatation equipment;
- adapting the production capacity of the concentrators to the amount and quality of the supplied ore;
- continued modernisation of technology at the Głogów I Smelter as part of the Pyrometallurgy Modernisation Program;
- construction of a concentrate warehouse at the Głogów II Smelter;
- modernisation of the casting forms and caissons unit at the Głogów Smelter.

Mine production

Ore extraction by dry weight in 2012 was higher by 464.3 thousand tonnes than in 2011, and amounted to 30.2 million tonnes. The increase in extraction in 2012 was due to an increase in daily extraction on working days and an intensification of work on official holidays.

The average copper content in extracted ore amounted to 1.59% and was lower than that achieved in 2011 (1.61 %). The decrease in Cu content in extracted ore was due to work in regions with lower copper ore mineralisation.

Despite the increase in ore extraction, the decrease in its quality led to a decrease in copper content in extracted ore. The amount of Cu in extracted ore was lower than that achieved in 2011 by 4 t Cu and amounted to 479 253 tonnes.

The amount of ore processed increased by 463.7 thousand tonnes versus 2011. The increase in the amount of Cu in ore directly impacted the amount of copper in concentrate. The content of copper in concentrate was higher by 399 t than the amount produced in 2011 (an increase of 0.09 %). In 2012, the amount of produced copper in concentrate was 427 064 tonnes. The Cu content in concentrate improved from 22.75% in 2011 to 22.95 % in 2012 (increase by 0.9 %).

Mining zone

The mining zone, i.e. the key chain of the mining operations of Polska Miedź, is composed of the following Divisions: ZG Lubin, ZG Polkowice-Sieroszowice and ZG Rudna mines, the Ore Enrichment Division where concentrate for the smelters is prepared and the Tailings Division responsible for deposition and management of floatation waste (tailings) generated during the ore enrichment process.

Safety of work in the Divisions of Polska Miedź is additionally enhanced by the Emergency Mine-Smelter Rescue Division, whose employees are constantly on-duty, ready to provide specialist support in case of need.

Smelter production

The production of electrolytic copper outperformed the plan by 1 683 tonnes (0.3%) and recorded the second highest value in the history of KGHM i.e. 565 834 tonnes. The growth of production resulted from the processing of higher amounts of concentrate and increased share of production from purchased copper-bearing materials in the form of scrap, copper blister and imported concentrates. Supplementing own concentrates with purchased copper-bearing materials allowed for efficient utilisation of the existing production capacity.

The production of other smelter products (silver, wire rod, OFE and round billets) depends on the volume of electrolytic copper production, the type of raw materials used and on market demand.

Polska Miedź produced in 2012 1 274 tonnes of silver i.e. 14 tonnes more (1.1%) than in 2011.

Main production development directions

The main production goals set by the Management Board for 2013 are similar as in the previous years and include optimum utilisation of the existing resource base and production capacity of the Company; obtaining concessions for the mining of copper ores in reserve and prospective areas; and increasing the Company's involvement in the exploration of international mining assets. Additionally, the goals concerning optimisation of the copper content in ore and concentrate have been successively implemented.

In order to achieve stable production volumes in the coming years a number of technical investments and organizational arrangements are required, including:

- expansion of the existing resource base;
- achieving a ventilation breakthrough between the SW-4 shaft and underground workings;
- continuation of the access and preparatory work on intersecting the ore at the level of 1 200 m and below in the Rudna mine in the direction of the Deep Głogów (Głogów Głęboki-Przemysłowy) area;
- implementation of new technical and technological solutions to support mechanisation and automation of the copper ore extraction and processing;
- undertaking effective measures to enhance the safety of the miners and to improve the workplace standards for employees working in difficult climatic conditions;
- continued replacement of floatation machinery;
- optimisation of the concentration process in terms of decreasing the impact of reduced quantity-quality;
- further improvements in the stability and effectiveness of the concentration process parameters by applying the FLOVIS system to control floatation machinery;
- increased liberation of sulphide minerals through changes in the milling units, such as optimising the performance of the mills, application of grinding mediums with a high chromium content and use of vertical mills for secondary milling;
- ensuring safe operation and extension of the Żelazny Most tailings pond;
- continued modernisation of technology at the Głogów I Smelter as part of the Pyrometallurgy Modernisation Program;
- continued implementation of the project of building the Scrap Melting Unit in Legnica Copper Smelter;
- flash furnace maintenance at the Głogów II Smelter; and
- major overhaul of the Contirod line at the Cedynia Wire Rod Plant.

Mine production in 2010–2012

	Unit	2010	2011	2012
Ore extraction (dry weight)	k t	29 303	29 718	30 182
of which mineral extracted from ore	k t	22 448	22 985	23 119
Copper content in ore	%	1.64	1.61	1.59
Copper concentrate (dry weight)	k t	1 841	1 875	1 861
Copper content in concentrate	%	23.11	22.75	22.95

Smelter production in 2010–2012

	Unit	2010	2011	2012
Electrolytic copper	kt	547.1	571.0	565.8
Wire rod	kt	237.3	226.2	228.6
OFE and Cu Ag rod	kt	16.1	16.4	14.4
Round billets	kt	18.7	20.3	18.0
Metallic silver	t	1 161	1 260	1 274
Gold	kg	775.8	703.8	916.4

Review of financial position

Assets

As at 31 December 2012, total assets amounted to PLN 28 177 million, a decrease by PLN 1 075 million (4%) versus the end of 2011.

The most important changes in 2012 were in the following asset items:

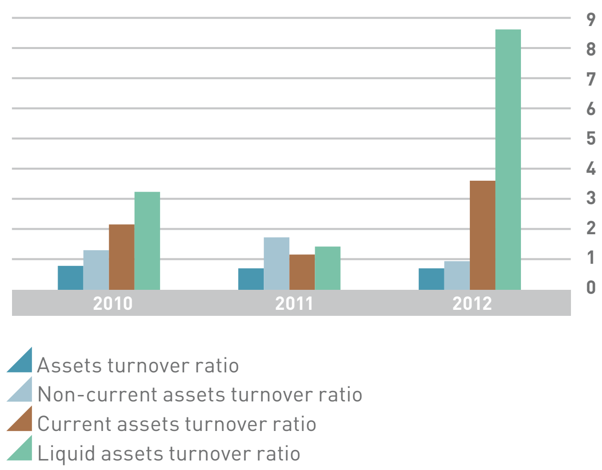
- Shares and investment certificates in subsidiaries and associates and interest in joint ventures – an increase by PLN 9 662 million, mainly due to the acquisition of the Canadian company Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.). In addition, in April 2012, KGHM Polska Miedź S.A. increased its engagement in KGHM AJAX MINING INC. from 51% to 80%. Subsequently, as part of the process of reorganising the structure of the KGHM Polska Miedź S.A. Group, all of the shares were acquired by the indirect subsidiary 0929260 B.C. Unlimited Liability Company in exchange for the newly-issued shares of this company acquired by KGHM Polska Miedź S.A. The remaining equity expenditures mainly involved subsidiaries, including Energetyka Sp. z o.o., whose share capital in 2012 was increased by PLN 67 million designated for the purchase and modernisation of property, plant and equipment. Investments in joint ventures in the amount of PLN 33 million involve the acquisition of shares in the special purpose company Elektrownia Blachownia Nowa Sp. z o.o. founded jointly with Tauron Wytwarzanie S.A.
- Cash and cash equivalents – a decrease by PLN 12 129 million mainly due to expenditures incurred on the realisation of equity investments (mainly the acquisition of 100% of the shares of Quadra FNX Mining Ltd.) and payment of a shareholder dividend in the amount of PLN 5 668 million.
- Inventories – an increase by PLN 636 million, mainly due to an increase in the volume of inventories due to the planned three month maintenance shutdown of the flash furnace of the Głogów II Smelter in the second half of 2013. Also of significance was the unit cost of copper production, representing the basis for inventory valuation. Introduction of the minerals extraction tax had the greatest impact on its increase, which in annual terms amounted to 29%.
- Derivatives – a decrease by PLN 635 million, due to a change in the forward prices of metals and the settlement of derivatives.
- Property, plant and equipment – an increase by 1 167 million, the result of investment activities. In 2012, expenditures in this regard amounted to PLN 1 766 million, of which development-related investments amounted to PLN 1 040 million (60%), while the remainder involved replacement-related investments.
- Receivables – an increase by PLN 185 million, mainly trade receivables, which were higher by PLN 98 million (higher sales) and non-financial receivables, higher by PLN 103 million, mainly in respect of receivables involving taxation, customs and insurance as well as non-financial prepayments.

Current and non-current assets (million PLN)

	31.12.2010*	31.12.2011*	31.12.2012
Property, plant and equipment	6 551	7 277	8 445
Shares and investment certificates in subsidiaries and associates and interest in joint ventures	3 803	2 012	11 674
Deferred tax assets	360	169	266
Available-for-sale financial assets	1 155	992	882
Derivatives	698	1 758	1 123
Trade and other receivables	2 480	1 587	1 772
Inventories	2 012	2 356	2 992
Cash and cash equivalents	2 595	12 836	707
Other assets	175	265	316
Total assets	**19 829**	**29 252**	**28 177**

* Data restated due to a change in accounting policies (Note 2.1.1 of the Financial Statements).

Assets effectiveness ratio



Ratios calculated based on end-of-year balances.

- Available-for-sale financial assets – a decrease by PLN 110 million, mainly due to valuation of the shares of Tauron Polska Energia S.A. at prices lower than at the end of 2011 (in yearly terms the value of these shares listed on the WSE decreased by 11%). In addition, according to the requirements of International Financial Reporting Standards, due to the fact that the decrease in the fair value of the shares of this company versus their cost has lasted over 12 months, an impairment loss was recorded. The amount of this impairment loss which decreased the financial result amounted to PLN 151 million.

The increase in the current assets turnover ratio and in the liquid assets turnover ratio is the result of a decrease in cash and cash equivalents, alongside a substantially unchanged level of sales. At the end of 2011, a significant part of the Company's current assets were in the form of highly liquid financial resources. This structure of assets was due to the need to accumulate financial resources for the execution of the acquisition of Quadra FNX Mining Ltd. at the start of 2012.

Equity and liabilities

In 2012, the main source of financing assets was equity, the share of which in total assets amounted to 78%.

Equity and liabilities (million PLN)

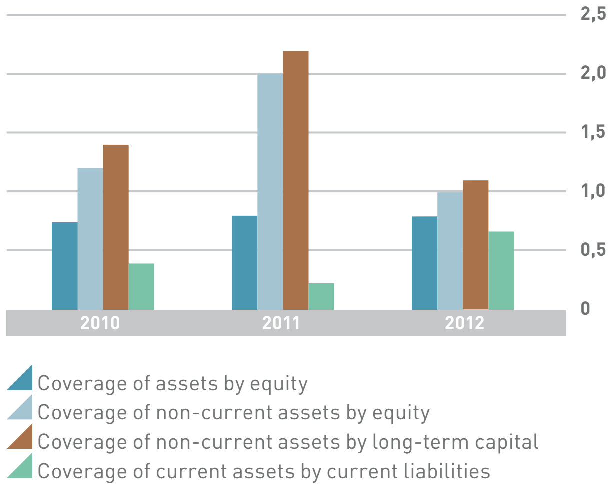
	31.12.2010*	31.12.2011*	31.12.2012
Equity	**14 456**	**23 135**	**21 923**
Share capital	2 000	2 000	2 000
Revaluation reserve from the measurement of available-for-sale financial assets	121	- 39	-
Revaluation reserve from the measurement of cash flow hedging instruments	90	574	286
Retained earnings	12 245	20 600	19 637
Current and non-current liabilities	**5 373**	**6 117**	**6 254**
Trade and other payables	1 742	1 840	2 263
Borrowings and finance lease liabilities	11	-	1 013
Derivatives	1 194	868	253
Current corporate tax liabilities	669	1 588	390
Employee benefits liabilities	1 221	1 323	1 581
Provisions for other liabilities and charges	536	498	754
Total equity and liabilities	**19 829**	**29 252**	**28 177**

* Data restated due to a change in accounting principles (Note 2.1.1 of the Financial Statements).

There were significant changes in the following items of equity and liabilities:

- Equity – a decrease by PLN 1 212 million, due to the following:
  - Profit for 2012 +PLN 4 868 million;
  - Dividend from profit for 2011 -PLN 5 668 million;
  - Other comprehensive income -PLN 412 million (mainly due to the measurement of hedging instruments)
- Loans, borrowings and finance lease payments - in the second half of the year the Company used bank loan financing As at 31 December 2012, bank loan liabilities amounted to PLN 1 013 m (at the end of 2011, bank loan liabilities did not occur).
- Current corporate tax liability – a decrease by PLN 1 198 million, due to settlement of CIT paid for 2011, which in 2011 was paid in the form of fixed monthly prepayments on income tax based on the tax result for 2009. The amount of these prepayments was lower than the actual filed CIT 8 liability for 2011 by PLN 1 588 million, as the tax paid in the form of prepayments for 2012 was lower than the actual amount of taxation for 2012 by PLN 390 million.
- Derivatives – a decrease by PLN 615 million due to a change in forward metals prices, the forward USD/PLN exchange rate, the settlement of instruments during the year and the opening of new transactions on the copper and currency markets. In the case of the currency market there was a decrease in liabilities by PLN 361 million, while for the copper and silver markets there was a decrease in liabilities respectively of PLN 220 million and PLN 34 million.

Assets financing ratios



Ratios calculated based on year-end balances.

The acquisition of Quadra FNX Mining Ltd. had the largest impact on the assets financing ratios. The significant decrease in cash and cash equivalents and the increase in non-current assets related to this transaction resulted in an increase in the coverage of current assets by current liabilities ratio and to a decrease in the ratios describing the coverage of equity and non-current liabilities to non-current assets.

Contingent assets and liabilities

At 31 December 2012, contingent assets of the Company amounted to PLN 414 million and related mainly to guarantees received (in the amount of PLN 182 million), mainly related to securities to cover potential claims by the Company due to the non-execution or improper execution of agreements by contractors and to overpayment of the tax on underground mines (PLN 87 million). Other contingent assets primarily involve promissory note receivables, implementation of projects and inventions and disputed state budget issues.

Contingent liabilities at the end of 2012 amounted to PLN 178 million, including PLN 126 million due to implementation of projects and inventions.

In addition, liabilities towards local government units due to development of the Mining Waste Treatment Facility in the statement of financial position amounted to PLN 193 million.

Financial resources of the Company

The structure of the Company's cash and cash equivalents is presented in the table below:

Structure of cash and cash equivalents (PLN million)

	31.12.2010	31.12.2011	31.12.2012
Cash*	50	8	18
Other monetary assets with a maturity up to 3 months	2 545	12 828	689
Total	**2 595**	**12 836**	**707**

* In hand and on-demand bank deposits.

Loans and borrowings received

In 2012, KGHM Polska Miedź S.A. made use of borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility. Open lines of credit are available in PLN, USD and EUR. At 31 December 2012, liabilities due to borrowings amounted to PLN 1 013 million.

Bank loan balances (million)

Type of borrowing	Currency	Balance in currency	Balance in PLN	Maturity
Working capital facility	USD	90	279	31.08.2013
Overdraft facility	USD	142	441	14.10.2013
Overdraft facility	USD	33	102	25.09.2013
Overdraft facility	EUR	47	191	21.10.2013
Total			**1 013**	

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

In addition in 2013 the Company entered into the following bank loan agreements:

- On 2 January 2013, an overdraft facility agreement was signed for the amount of PLN 200 million, available for the period from 3 January 2013 to 2 January 2014,
- On 2 January 2013, an overdraft facility agreement was signed for the amount of PLN 100 million, available for the period from 7 January 2013 to 19 December 2013,
- On 7 January 2013, a working capital facility agreement was signed for the amount of PLN 200 million, available for the period from 7 January 2013 to 7 January 2014,
- On 17 January 2013, an agreement was signed for an overdraft facility and a working capital facility for the amount of PLN 500 million, available for the period from 4 February 2013 to 3 February 2016.

Interest on the amounts drawn will be based on WIBOR + a bank margin.

Loans granted

On 21 December 2009, the Company granted a loan to "Energetyka" Sp. z o.o. in the amount of PLN 50.3 million. Interest on the loan is based on WIBOR 1M + a margin of 1.49%, with interest payable monthly. Repayment is in forty equal instalments in the amount of PLN 1.3 million payable at the end of each quarter, beginning from 31 March 2010. In 2012, "Energetyka" made partial repayment of the loan in the amount of PLN 5.0 million. At 31 December 2012, the balance of the loan granted was PLN 35.2 million.

On 8 May 2012, KGHM Polska Miedź S.A. granted a loan to KGHM LETIA S.A. in the amount of PLN 7.5 million.

Interest on the loan is based on WIBOR 1M + a margin of 2.5%, with interest capitalised monthly. In accordance with Appendix no. 1 to this loan dated 17 December 2012, repayment of the principal together with interest will be made by 30 June 2013. At 31 December 2012, the balance of the loan granted (together with capitalised interest) amounted to PLN 7.8 million.

Financial guarantees granted and received

In 2012, the Company neither granted nor received financial guarantees.

Evaluation of investment goals realisation versus the resources held, reflecting possible changes in the structure of financing these activities

The cash and cash equivalents and borrowings currently held by the Company guarantee the achievement of its investment goals, both in terms of equity investments as well as capital expenditures.

Statement of profit or loss

The Company posted a profit for 2012 in the amount of PLN 4 868 million, a decrease by PLN 6 526 million (57%) versus profit earned in 2011.

The most important factors with impact on the results are presented in table "Main factors with impact on the financial result".

Basic ratios describing financial liquidity, the profitability of assets and equity and financing is shown in charts.

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The deterioration in these ratios is mainly due to a lower level of cash – at the end of 2011, the Company maintained a high level of cash and cash equivalents to acquire the shares of Quadra FNX Mining Ltd. The decrease in the level of cash and cash equivalents was also due to the payment of a shareholder dividend in an amount higher than in the prior year (PLN 5 668 million in 2012; PLN 2 980 million in 2011).

The decrease in profit resulted in a substantial deterioration in the ratios describing the return on assets (ROA) and the return on equity (ROE).

The increase in the debt ratio is due to the lower level of equity, alongside a similar level of liabilities. It should be pointed out that at 31 December 2012, the Company held liabilities due to bank loans in the amount of PLN 1 013 million, while in 2011 this form of financing was not utilised. Simultaneously, liabilities due to current income tax decreased by PLN 1 198 million.

Basic items of the profit and loss statement (PLN million)

	2010*	2011*	2012
Sales	15 945	20 097	20 737
Operating costs	9 295	10 660	13 602
Profit from operations	**6 650**	**9 437**	**7 135**
Profit on other operating activities	- 1 019	4 324	- 709
Profit on the sale of companies	-	2 662	-
Exchange differences	- 30	895	- 566
Measurement and realisation	- 1 172	321	- 84
Dividends	147	277	57
Other	37	169	- 117
Operating profit (EBIT)	**5 631**	**13 761**	**6 426**
Finance costs	33	34	9
Profit before income tax	5 598	13 727	6 417
Profit for the period	**4 563**	**11 394**	**4 868**
EBITDA (EBIT + depreciation/amortisation)	6 246	14 433	7 198

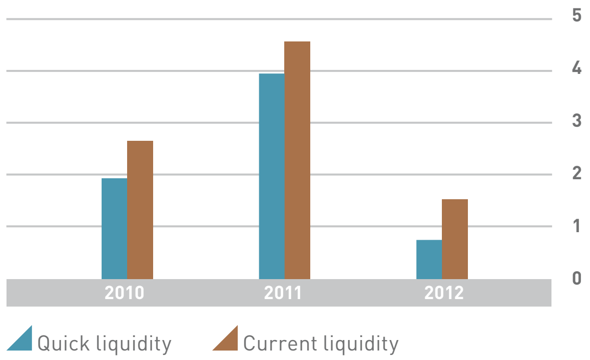
* Data restated due to a change in accounting principles (Note 2.1.1 of the Financial Statements).

Main factors with impact on the financial result

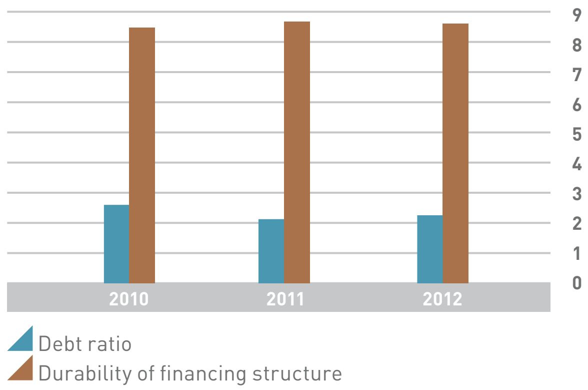
Item	Impact on result (PLN million)	Description
Increase in basic operating costs	-2 942	An increase in costs, mainly due to the impact of the minerals extraction tax in the amount of PLN 1 327 million from April 2012, and on the higher costs of consumption of purchased copper-bearing materials (PLN 762 million).
Sale of subsidiaries and associates	-2 662	In 2011, the Company earned a profit on the sale of Polkomtel S.A. and DIALOG S.A. In 2012 there were no sales of shares of subsidiaries or associates.
Change in prices of basic products (Cu, Ag)*	-2 129	A decrease in the price of copper by 10% and silver by 11%.
Change in exchange rate*	+1 968	A change in the exchange rate from 2.96 USD/PLN to 3.26 USD/PLN.
Exchange differences	-1 461	In 2011 the result on exchange differences amounted to PLN +895 million, while in 2012 it was PLN –(566) million.
Income tax	+784	The lower tax is due to the lower tax base in 2012.
Change in volume of sales of basic products (Cu, Ag, Au)*	+693	An increase in sales due to a higher volume of copper sold by 13.4 kt, silver by 87 t and gold by 247 kg.
Impact of hedging	-314	Including a change in the result due to the measurement and exercise of derivatives (PLN (405) million) and a change in adjustment to sales due to hedging (+PLN 91 million).
Impairment loss on available-for-sale financial assets	-158	At 31 December 2012, an impairment loss was recognised on investments in the total amount of PLN (158) million, of which PLN (151) million was in respect of Tauron Polska Energia S.A., and PLN (7) million was in respect of Abacus Mining & Exploration Corporation.

* Impact on sales.

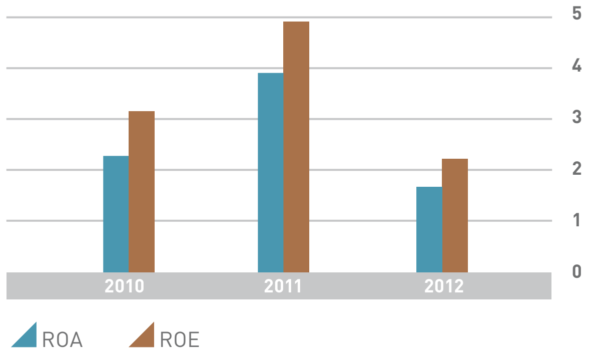
Liquidity ratios



Financial ratios



Profitability ratios



Capital market ratios

The activities of the Company are described by the following ratios:

Capital market ratios

		2010	2011	2012
EPS (PLN)	Profit for the period/number of shares	22.85	56.97	24.34
P/CE	Price per share/ Financial surplus per share*	6.7	1.8	6.7
P/E	Price per share/ Earnings per share	7.6	1.9	7.8
MC/S	Market capitalisation**/ revenues from sales	2.2	1.1	1.8
P/BV	Price per share / book value per share***	2.4	1.0	1.7

* Financial surplus = profit for the period + depreciation/amortisation.
** Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares x PLN 173.00 in 2010; PLN 110.60 in 2011; PLN 190.00 in 2012).
*** Carrying amount of equity at the end of the reporting period.

The capital market ratios were substantially impacted in 2012 by the increase in the Company's share price, from PLN 110.60 at the end of 2011 to PLN 190.00 at the end of 2012. The lower profit for the period had a negative impact.

Operating costs

Unit cost of electrolytic copper production – total (PLN/t)

	2010	2011	2012
Pre-precious metals credit unit cost of copper production	15 540	17 534	21 542
Value of anode slimes	2 557	3 968	4 046
Total unit cost of copper production	12 983	13 566	17 496
Electrolytic copper production (kt)	547.1	571.0	565.8

Unit cost of electrolytic copper production – from own concentrate (PLN/t) and C1 cost of concentrate production (USD/lb)

	2010	2011	2012
Pre-precious metals credit unit cost of copper production	13 661	14 875	19 628
Value of anode slimes	3 174	4 576	5 038
Total unit cost of copper production	10 487	10 299	14 590
Electrolytic copper production from own concentrate (kt)	427.0	446.4	419.1
C1 cost of concentrate production (USD/lb)	1.07	0.63	1.34
production of copper in concentrate (kt)	425.4	426.7	427.1

The Company's operating costs are decisively impacted by the costs of electrolytic copper production, whose share in the Company's costs is about 90%.

The pre-precious metals credit unit cost of copper production (unit cost prior to decrease by the value of anode slimes containing among others silver and gold) increased in 2012 versus 2011 by 4 008 PLN/t, i.e. by 23%, mainly due to the introduction in April of the minerals extraction tax (+2 346 PLN/t) and to an increase in the value of purchased copper-bearing materials (+1 182 PLN/t) due to a higher volume of consumption by 20% with a purchase price at the level of 2011.

The pre-precious metals credit unit cost of copper production from own concentrate increased by 4 753 PLN/t, i.e. by 32%, mainly due to the introduction of the minerals extraction tax (+3 167 PLN/t) and to the increase in expenditures by nature described below (excluding purchased copper-bearing materials), alongside the negative impact of a lower volume of copper production from own concentrate (-6% versus 2011).

C1 cost (cash cost of concentrate production plus administrative and smelting and refining (TC/RC) costs, less depreciation/amortisation and by-product premiums, calculated for payable copper in concentrate) was as follows: 0.63 USD/lb in 2011 and 1.34 USD/lb in 2012.

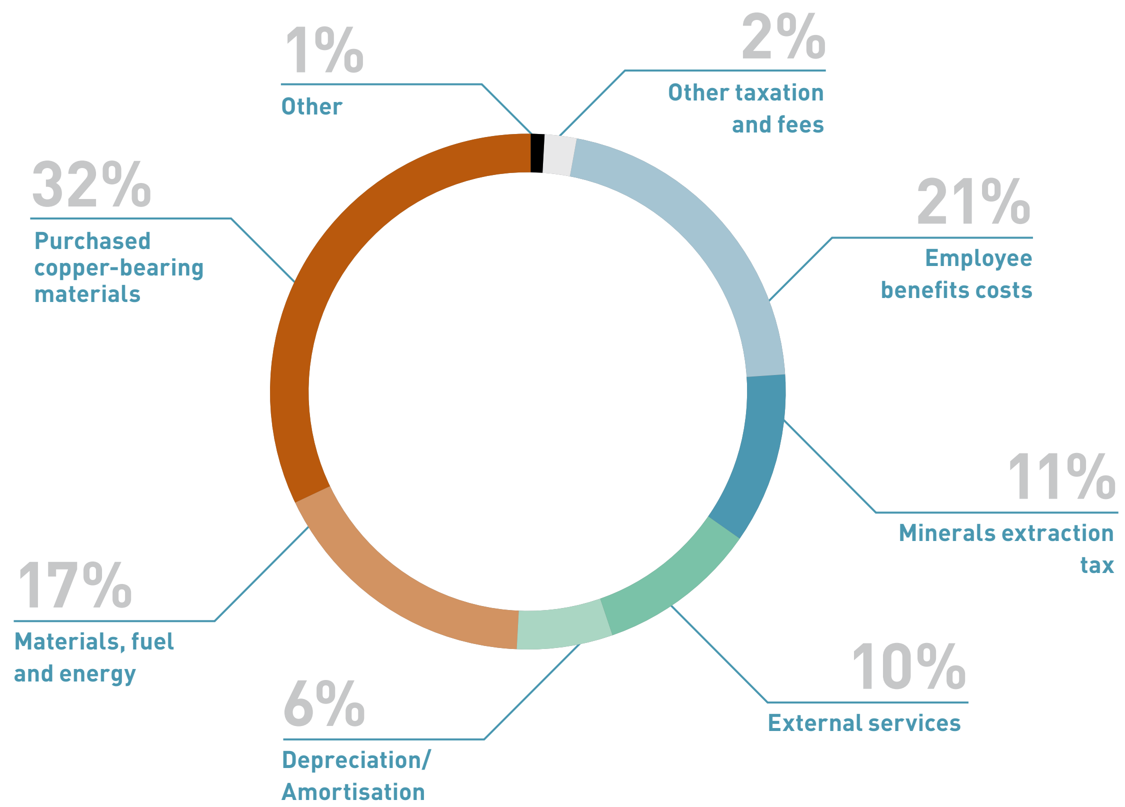
The increase in the C1 cost was mainly due to the introduction from April 2012 of the minerals extraction tax and the lower valuation of silver in by-products, whose price in 2012 was 11% lower than in 2011.

In 2012, total expenses by nature increased by PLN 2 963 million, i.e. by 27%, mainly due to:

- the introduction from April 2012 of the minerals extraction tax (+PLN 1 596 million);
- the higher value of purchased copper-bearing materials (+PLN 762 million) due to an increase in the volume of consumption by 30 kt Cu (of which 25 kt relates to electrolytic copper production);
- employee benefits costs (+PLN 206 million) – mainly due to an increase in remuneration by 5% and
- disability fund contributions by 2 percentage points;
- external services (+PLN 101 million) – mainly due to an increase in the scope of mine development work (+PLN 63 million);
- materials and fuel (+PLN 99 million) – mainly due to an increase in prices;
- depreciation/amortisation (+PLN 100 million) – due to an increase in realised investments in property, plant and equipment (+16%).

The structure of expenses by nature in 2012 is shown in chart below. With respect to prior years, the change in the structure is mainly due to an increase in the share of taxation due to the introduction of the minerals extraction tax (3% in 2011, 14% in 2012) alongside the lower share of other costs.

Structure of expenses by type in 2012



Act on the Mineral Extractions Tax

A significant new cost item starting from April 2012, is the minerals extraction tax. This tax was introduced in accordance with the Act on the Minerals Extraction Tax dated 2 March 2012, which came into force on 18 April 2012.

The mineral extraction tax is charged based on the amount of copper and silver contained in the produced concentrate and depends on the prices of those metals as well as on the USD/PLN exchange rate. The tax is accounted for under manufacturing costs and is not deductible for tax purposes, and therefore does not decrease the taxable base.

Performance of forecasted financial results in 2012

In a current report dated 27 March 2012, the Company published its Budget assumptions for 2012 as approved by the Supervisory Board on the same day. The Budget assumed the achievement in 2012 of revenues from sales in the amount of PLN 19 418 million and profit of PLN 3 804 million.

Along with the improvement in macroeconomic conditions (weakening of the PLN versus the USD), during the year the Company updated its forecast. The final projection of financial results was published in a current report dated 29 October 2012. Basic assumptions, projected results and their realisation are shown in the table.

Due to ongoing updating of the forecast during 2012, the actual financial performance results did not differ substantially from the forecasted amounts.

Projected financial situation of the Company

On 14 February 2013, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2013. The basis for preparing the Budget were the results of 2012 and the assumptions of operating plans. The basic assumptions of the Budget for 2013 are presented in the table.

The decrease in profit versus 2012 is mainly due to:

- a change in the level of the USD/PLN exchange rate;
- lower production volume of basic products due to the planned maintenance shutdown in the Głogów Smelter, and
- recognition of the full-year impact of the minerals extraction tax (in 2012 the Company paid the tax as of 18 April).

The factors mentioned above are also the main reason for the increase in costs of electrolytic copper production from own concentrate and the cash cost of concentrate production – C1.

The assumed decrease in the level of production, and consequently in the sales of basic products, is due to the need to carry out the planned three-month maintenance and modernisation shutdown at the Głogów II Smelter.

Performance of the forecast will be monitored by the Company on an ongoing basis. Should there occur significant deviations from the amounts forecasted, the Company will perform an adjustment to the forecast and immediately publish the information in the form of a current report.

Performance of the Company's financial forecast for 2012

	Unit	Forecast (27.03.2012)	Forecast update (29.10.2012)	Execution 2012	Forecast performance** (%)
Sales	**m PLN**	**19 418**	**20 633**	**20 737**	**100.5**
Profit for the period	**m PLN**	**3 804**	**4 744**	**4 868**	**102.6**
Electrolytic copper production	kt	562.0	564.2	565.8	100.3
of which, from purchased copper-bearing materials	kt	147.3	145.9	146.7	100.5
Silver production	t	1 098	1 199	1 274	106.3
Average annual copper price	USD/t	8 000	7 850	7 950	101.3
Average annual silver price	USD/troz	30.00	30.50	31.15	102.1
USD/PLN exchange rate	USD/PLN	3.09	3.28	3.26	99.4
Total unit cost of electrolytic copper production from own concentrate	PLN/t	15 729	15 077	14 590	96.8
Capital expenditure	m PLN	2 100	1 930	1 766	91.5
Equity investments*	m PLN	10 671	9 833	9 637	98.0

* Purchase of shares and investment certificates, increases of share capital and loans granted and payments to subsidiaries.
** For forecast dated 29 October 2012.

Company Budget assumptions for 2013

	Unit	Performance 2012	Budget 2013
Sales	**PLN m**	**20 737**	**18 930**
Profit for the period	**PLN m**	**4 868**	**3 204**
EBITDA	**PLN m**	**7 198**	**5 337**
Average annual copper price	USD/t	7 950	7 800
Average annual silver price	USD/troz	31.15	32.00
FX rate	USD/PLN	3.26	3.10
Total unit cost of electrolytic copper production from own concentrate	PLN/t	14 590	17 087
C1 cash cost of concentrate production	USD/lb	1.34	1.76
Production of copper in concentrate	kt	427.1	425.1
Electrolytic copper production	kt	565.8	548.0
– of which from purchased copper-bearing materials	kt	146.7	146.6
Silver production	t	1 274	1 075
Capital expenditure	PLN m	1 766	2 470
Equity investments limit *	PLN m	9 637	523

* Purchase of shares and investment certificates, increases of share capital and loans granted and payments to subsidiaries.

Capital expenditures and development

The capital expenditures and costs of uncompleted development incurred in 2012 totalled PLN 1 767 m and were 16% higher versus previous year. The total spending amounted to PLN 1 836 m.
In 2012, approximately 650 investment projects included in the capital expenditures plan were implemented, of which:

- 610 were local projects – replacement investments and standard/ recurrent development projects, minor adaptations and purchases, accounting jointly for 58%, and
- 40 were central projects – development and replacement investments of bigger size and higher complexity and risk, with a significant impact on the Company's growth and implementation of its strategy, accounting jointly for 42%.

Structure of capital expenditures on fixed tangible and intangible assets by project type

Local/Central	Unit	2010	2011	2012
Local	m PLN		897	1 010
Central	m PLN		617	741
At the stage of studies and analyses	m PLN		0	7
Uncompleted development	m PLN		5	9
Total	m PLN	0	1 519	1 767

Structure of capital expenditures on fixed tangible and intangible assets by divisions

Divisions	Unit	2010	2011	2012
Mining	m PLN	985	1 057	1 292
Metallurgy	m PLN	231	218	274
Other	m PLN	47	239	192
Uncompleted development	m PLN		5	9
Total	m PLN	1 263	1 519	1 767

Structure of capital expenditures on fixed tangible and intangible assets: development versus replacement

Replacement/Development	Unit	2010	2011	2012
Replacement	m PLN	520	661	715
Development	m PLN	743	858	1 052
Total	m PLN	1 263	1 519	1 767

Performance of the capital expenditures plan in 2012 (m PLN)

Item	Budget 2012	Performance Jan-Dec 2012	% performance
Capital expenditures, of which:	1 930	1 758	91.1
local	1 056	1 010	95.6
central, including:	864	741	85.8
development from previous years – completed		2	
at the stage of studies and analyses	10	7	71.4
Capital expenditures incurred on development investments unavailable for use – uncompleted		9	
Prepayments paid against future deliveries and work which will be classified as capital expenditures following technical acceptance		69	
Completed scope of work – payments postponed to 2013 when technical acceptance takes place		3	
Overall performance of the capital expenditures plan	1 839	95.3	

The Company's Capital Expenditures Plan does not include expenditures on investments associated with the construction of the AFTON-AJAX mine in Canada and Sierra Gorda in Chile executed by KGHM International and the expenditures associated with KGHM's engagement in the energy sector.

The total value of expenditures on development investments was PLN 1 052 m (22% up on the previous year).

Investment projects are executed in accordance with the "Regulations of implementing capital expenditure projects in KGHM Polska Miedź S.A." which contain a complete set of principles of conduct defined by the Company, in the scope of project management.

Responsibility for the management of projects is delegated to project managers.

Preparation of business cases for the projects is a responsibility of the respective directors, acting as the Project Sponsors.

In classifying projects as central or local, the following is considered:
- the unrepeatability of the activity and its result – uniqueness of the product;
- the degree of project complexity (interdisciplinary nature);
- whether the project is associated with a high risk or not, and
- whether a dedicated project structure is needed, due to the fact that the functional structure of the applicant or the area executing the project does not permit for its implementation.

Major achievements in 2012 roku in the scope of core technological processes

Mining

Replacement of machinery and infrastructure

- 214 mining machines were purchased.
- 35 new flotation units were installed.
- Commencement of the project "Modernisation of the classification units" involving replacement of over 30-year old hydrocyclone batteries with new generation equipment. The project assumes replacement of all 78 old hydrocyclone batteries across the entire Concentration Division.

Development and preparatory work

(as part of the construction of the SW-4 shaft in "Głogów Głęboki-Przemysłowy"):

- 4 524 m of drifts were excavated.
- Successively with the progress in drift execution and preparatory works, technical infrastructure was fitted, including ventilation, air conditioning, power supply, haulage system, supply of process water and dewatering.
- SW-4 shaft sinking by another 168 m.
- Freezing station for the GG-1 shaft has been built.

Mechanical extraction of ore

- The ACT mining complex was made ready for commencement of extraction: laboratory tests were completed; the complex components were delivered and assembled in the pilot division; drifts were prepared and the pilot test site was outfitted for testing.
- Preparations were made for the use of header machines for excavation: the first of the three headers was sunk down and assembled; light conveyor belt was mounted for excavation work.

Resource base:

- As part of the exploration project to evaluate and document the Synklina Grodziecka region, part of the "Niecka Grodziecka" deposit, 9 boreholes were drilled.
- Further 6 boreholes were made to examine the selected section of the brown coal deposit in the identified area near Głogów.

Concessions

- A decision of the Minister of Environment was obtained on acceptance of supplements to the geological documentation of the following deposits: "Lubin-Małomice", "Rudna", "Polkowice and Sieroszowice".

- A decision of the Regional Directorate for Environmental Protection in Wrocław was obtained on the environmental requirements for the project "Extraction of copper ore from the following deposits: Polkowice, Sieroszowice, Radwanice Wschód, Rudna and Lubin-Małomice", effective as of the day of its issue (3 December, 2012).
- Change of the Local Land Use Plant was approved to account for expansion of the Main Facility and construction of the Southern Site.
- A decision amending the concession for exploration and evaluation of copper ore deposits in the area of Synklina Grodziecka was obtained.

Arrangements with regional authorities

- Key agreements with municipalities (Rudna, City of Lubin) were signed on the implementation of changes to the local land use plans.
- Agreements with the Rudna, Polkowice and Grębocice municipalities were concluded concerning enlargement of the Żelazny Most tailings treatment pond above the level of 180 m a.s.l.

Metallurgy

As part of the Pyrometallurgy Modernisation Program, design, construction and assembly work continued in the reporting period with respect to preparing infrastructure for the construction of the flash furnace. Additionally, tender procedures were carried out for the purchase of key equipment for operation of the flash furnace. Contracts were signed for the purchase of strategic equipment for the new technology (steam drier, flash furnace charging unit, recovery boiler, electrofilters, electric furnace power unit).

Commencement of the project "Intensification of smelting in the Głogów II Smelter": Contracts were signed or are in the process of being prepared for the supply of materials, machines and equipment, and for construction and assembly work, with respect to key production units.

Commencement of implementation of the project "Construction of a scrap melting unit at the Legnica Smelter" with respect to development of the Project Concept Plan.

Other

With respect to the Construction of Gas-Steam Blocks at the power plants in Głogów and Polkowice, during the reporting period delivery and assembly of gas turbounits for Polkowice and Głogów was completed. Technical acceptance procedure was carried out for the gas reduction-measurement stations in Polkowice and Głogów and agreements were signed for connection of the gas-steam blocks at Polkowice and Głogów plants to the power grid of TAURON Dystrybucja.

Employment in KGHM Polska Miedź S.A.

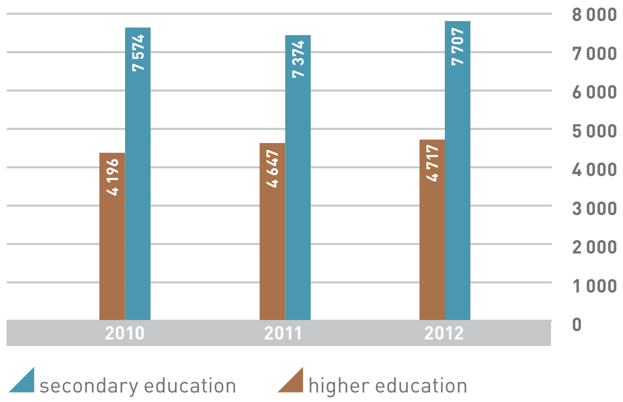
Employment in KGHM Polska Miedź S.A. at the end of 2012 amounted to 18 629 persons, which was 0.1% higher than at the end of the previous year. The employment structure was as follows:

Employment at year-end (persons)	2010	2011	2012
Mines	12 645	12 604	12 618
Smelters	3 869	3 810	3 775
Other	2 125	2 201	2 236
KGHM Polska Miedź S.A.	**18 639**	**18 615**	**18 629**

Structure by education

The level of education in KGHM Polska Miedź S.A. is rising. In 2012, the number of employees with higher and secondary education went up and was as follows:

Structure by education



Human Resources Management System

In 2012 work commenced on the development of a new HR Strategy encompassing indexes and benchmarks to measure the effectiveness of the HR function in KGHM Polska Miedź S.A. Competence development initiatives were also continued, including the one addressed to students of technical schools – the Program of High School Graduate Adaptation - and another one for students of universities and colleges – the Talent Mine, the Powerhouse of Staff.

Employee Retirement Program (PPE)

On 2 March 2004 the Insurance and Pension Fund Supervision Committee registered the employee retirement programs established in all Divisions and in the Head Office of the Company. The PPE in KGHM Polska Miedź S.A. is based on an agreement providing for contribution by the employer of the employees' premiums to PZU FIO umbrella fund, with the following sub-funds:
1. PZU Equity KRAKOWIAK (PZU KRAKOWIAK)
2. PZU Stable Growth MAZUREK (PZU MAZUREK)
3. PZU Debt Securities POLONEZ (PZU POLONEZ).

The basic premium financed by the employer amounts to 6% of the employee's salary. At 31 December 2011, 89.5% of employees were members of the program.

Medical package

Since September 2009, the employees of KGHM Polska Miedź S.A. have had the option to take advantage of prepaid healthcare services provided by Miedziowe Centrum Zdrowia S.A. The monthly cost of the package is PLN 35 per employee and this amount is covered by the employer. Employees can make appointments with specialists and do all kinds of laboratory tests. At 31 December 2012, 52% of employees had opted for the prepaid medical packet.

Purpose and use of the Social Fund in KGHM Polska Miedź S.A. in 2012

In KGHM Polska Miedź S.A., a separate Social Fund is established in each Division of the Company. Disbursement of money from the funds is governed by regulations defined by the employer, in consultation with the trade unions.

In addition to the basic statutory contribution to the Social Fund, additional contributions are made in KGHM pursuant to the provisions of the Collective Labour Agreement. In 2012, the amount of such contribution ranged from 106% to 166 % of the national average monthly salary, on the basis of which the statutory contribution is calculated. The total value of average contributions to the Social Fund (both basic and additional pursuant to the CLA) per one employee amounted to PLN 5 687. This contribution is sufficient to meet the employees' social needs to a significantly higher extent than in other companies. The total amount of money (statutory and additional) paid to the funds in 2012 amounted to PLN 108.8 million.

18.6 thousand employees and over 17.5 thousand retirees and those receiving disability payments are beneficiaries of the Social Fund, together with the members of their families.

The Social Fund is used to finance:

- Holiday benefits.
  Holiday benefits are offered to all employees. Their amount depends on the amount of the average monthly income per family member. The average amount of these benefits in 2012 was approximately PLN 2 370 per employee.
- Holidays for children and youth.
  KGHM organises and subsidises various forms of recreation for children and youth. In 2012, nearly 6 600 children attended various types of camps. The amount of the holiday subsidy depends on the personal, material and family situation of the Fund beneficiary.
- Housing loans.
  The employer grants loans from the Social Fund for the construction or purchase of flats and homes and for their maintenance and modernisation. Loans for the construction or purchase of flats or homes are granted in the amount of approximately PLN 50 000.
- Financing of school-related expenses.
  Employees with children attending school, from first grade to graduation, but no longer than until 21 years of age, receive financing to cover school-related expenses. In 2012 this financing amounted to PLN 2 150.
- Financing of holiday travel.
  Employees working underground, after a continuous period of 3 years in employment without any breaches of the employment terms , are entitled once a year to reimbursement of the costs of holiday travel. In 2012, this benefit ranged from PLN 53 to PLN 84 per person, depending on entitlements to discounts on train tickets and was paid to all members of the employee's family.
- Recuperative holidays.
  In 2011 the Company financed 21-day recuperative holidays for 440 employees.
- In addition to the abovementioned benefits, the following causes were financed by the Funds depending on the provisions of the respective Divisions' regulations:
  - financial assistance for employees, retirees and those receiving disability benefits who have financial difficulties or health problems;
  - gifts for children on Children's Day and Christmas;
  - gift vouchers;
  - cultural and educational activities;
  - sporting-recreational activities.

Regardless of the benefits from the Social Fund, retirees and former employees receiving disability benefits are entitled to a so-called "coal-equivalent benefit" for the equivalent of 2.5 tonnes of coal annually. In 2012 this equivalent amounted to PLN 1 950 per person.

Young Talent Program: the "Talent Mine"

A number of mining companies worldwide offer development programs for graduates, including coaching and opportunities for gaining practical work experience in various functional areas.

KGHM did not have a program addressed to technical university and college graduates in the past. The Talent Mine is a response to the needs of the Company and of the market. Since 2012, the Company has been working closely with a number of technical and economic schools on promoting the initiative. The program assumes identification of talented graduates and supporting them in smooth transition from the academic world to the business and development of future leaders in management and innovative technologies. The program is addressed to graduates of higher education institutions.

The objectives of the "Talent Mine" include:

- development of competences,
- building a group of employees selected from among talented students and young graduates with a high development potential,
- raising the attractiveness of KGHM as an employer,
- adopting a long term, comprehensive approach to investment in young talents within the organisation.

The Program assumes implementation of new solutions and alignment of the key employee processes and is intended to become a model of best practices in the recruitment, development and management of human resources in KGHM. It is also expected to spark transformation of the Company's organisational culture. The direct benefit of the project launch is the availability of well-trained managers specialised in various areas of the organisation for employment in KGHM. The project contributes to the implementation of Pillar V of the KGHM's strategy.

Employment in the KGHM Polska Miedź S.A. Group

In 2012, similarly to the previous years, KGHM Polska Miedź S.A. employed the highest number of staff. The average employment amounted to 18 566 FTEs. Among other Group companies, the highest average number of employees in 2012 was reported in the following companies (headcount in FTEs):

- KGHM INTERNATIONAL LTD. Group – 2 370;
- ZANAM-LEGMET Sp. z o.o. – 2 263;
- PeBeKa S.A. – 1 611;
- POL-MIEDŹ TRANS Sp. z o.o. – 1 050;
- NITROERG S.A. – 994.

Average employment in the KGHM Polska Miedź S.A. Group in 2012 increased by 2 862 FTEs versus 2011, mainly as a result of acquisition of KGHM INTERNATIONAL LTD. Group. Additionally, ZANAM-LEGMET Sp. z o.o. o recorded a growth in the headcount by 541 new FTEs in relation to the development of new activity areas.

Average number of employees in respective years (FTEs)

	2010	2011	2012
White collars	10 051	9 149	9 768
Blue collars	20 877	22 034	24 277
Total	**30 928**	**31 183**	**34 045**

Sponsoring activities of KGHM Polska Miedź S.A. in 2012

The total spending on culture, science and sport in 2012 approximated PLN 38.5 m.

Culture

The Company is perceived as a sponsor of culture and art. KGHM participates in the organisation and offers patronage over major events addressed to local communities and all citizens of Poland. In 2012, KGHM provided support, inter alia, to the following projects:

- special edition of a documentary on Vatican museums "Art and Faith";
- "Battle of Vienna" movie;
- the National Music Forum;
- the Vistula Festival of Polish Film in Russia;
- the Festival of Silver in Legnica;
- Głogów Days;
- Lubin Days;
- "Dymarki Floriańskie", an event in Leszczyna Historical Village and Museum;
- 20th edition of the WOŚP Finals in Legnica;
- Helena Modrzejewska Theatre in Legnica;
- the Festival of Polish Culture in Beijing;
- the Festival of Russian Films 'Sputnik Over Poland';
- 'Stachuriada' – Edward Stachura festival;
- Moniuszko Music Festival;
- A Masked Ball opera; and
- the Kisiel Award.

Science

Polska Miedź supports higher education institutions and research institutes in order to promote close operation and develop relationships between the world of industry and science. The Company provides financial and professional assistance to projects associated with the needs of Polska Miedź and the region. In 2012, KGHM offered co-funding and organisational support to numerous scientific conferences and seminars, including:

- the Robotic Surgery Congress;
- the Trade Education for Industry Conference;
- 5th Scientific Conference of Gastroenterologists from Lower Silesia and Wielkopolska Regions;
- the conference "Poland and Shale Gas: Local Perspective on the Global Business";
- the School of Underground Mining;
- the conference Customers on the Energy Market;
- 6th National Forum of Stock Market Companies' Management;
- the British-Polish PPP Forum conference;
- the Poland, EU and China Economic Forum;
- the Wrocław Global Forum;
- the European Economic Congress;
- the Baltic Forum;
- 10th Cancer Treatment Workshop;
- the project Chinese-European Partnership for Development;
- the Critical Minerals Conference;
- the 14th Scientific and Research Conference "Containers for Liquid and Solid Materials, Industrial Stacks and Hydrotechnical Facilities";
- Air Quality Protection – POL-EMIS 2012;
- 12th Economic Forum in Krynica;
- the Lower Silesia Political and Economic Forum in Krzyżowa;
- the Environment and Energy Forum in Polkowice;
- the Second Polish Geological Congress;
- the 7th SEG Congress of Stock Market Companies;
- the 3rd Congress of Polish Oncology;
- the Conference on the Development of Socially Responsible Business;
- "Europe Quo Vadis" conference;
- the conference "Energy Sector 2012";
- the Lower Silesia Festival of Science;
- the Swedish and Polish Contribution to EU RAW Materials Initiative seminar;
- the 16th International Salt Symposium Quo Vadis Sal;
- the conference on Research and Innovations 2012.

Sports

Sport sponsoring activities are intended to enhance the Company's image. The main aspect of the promoted image is the social mission of KGHM Polska Miedź. KGHM has contributed to the development of the region and today a great number of its inhabitants rely on the business operations of KGHM. Therefore, the Company feels responsible for the future growth of the region and engages in numerous social activities, of which support to sports is an important element. KGHM sponsors sport clubs and events, mainly from the Copper Basin area and Lower Silesia region.

Sport sponsoring is treated as a mission. KGHM is a professional sponsor of sports which it considers a very important sphere of social life. Therefore the Company supports both professional and amateur sports. As the biggest employer in the region, KGHM recognizes the role of sport in building the culture of active recreation among adult people, but also appreciates its educational role for young people.

In 2012, KGHM was one of the main sponsors of the following clubs and sports events:

- Zagłębie Lubin S.A. (football);
- MKS Cuprum Lubin (volleyball);
- MKS Zagłębie Lubin (handball);
- SPR Chrobry Głogów (handball);
- MSPR Siódemka Legnica (handball);
- the Bieg Piastów Race 2012 (cross-country skiing);
- "Szlakiem Grodów Piastowskich" cycling tour;
- Łukasz Kubot (tennis);
- Michał Przysiężny (tennis);
- the 1st Bieg Straceńców Race;
- 18th Chess Tournament for Youth for the Lower Silesia Voivod's Cup;
- Cross-country Skiing Cup – Szklarska Poręba;
- European Football Tournament;
- UEFA Euro 2012 –the fan zones in Legnica and Polkowice; and
- the KGHM Young Football Player Academy.

The Polish Copper Foundation

One of the pillars of Corporate Social Responsibility in KGHM Polska Miedź S.A. is its charitable work performed through the Polish Copper Foundation founded in 2003, a public benefit organisation. The idea to establish the Foundation emerged from the social policy of KGHM. Its creation was a natural extension of the charitable and socially-oriented activities of the Company, which since the very inception supported a variety of local and national projects in Lower Silesia.

Thanks to a structured system of funding social causes and a professional approach to allocation and settlement of donations, the Foundation can afford to be engaged in numerous activities in the sphere of health protection and promotion; science; education and upbringing of children; heritage and recreational tourism for children and young people; as well as numerous actions undertaken in response to crisis situations, such as aid to victims of natural disasters.

In 2012, the Polish Copper Foundation offered 1 894 cash grants totalling over PLN 19 m, of which more than PLN 15 m was donated to various institutions for the implementation of 334 projects and the remaining PLN 4 m was spent on 1560 cash donations to individual beneficiaries.

COPPER: SPACE IMAGING

Copper vapour laser produces green laser light over the Starfire telescope to ensure image stabilisation for the photos of stars taken by the telescope.
Location: Kirtland Air Force Base, New Mexico, US.

PORTFOLIO OF RESOURCE PROJECTS

The Company's development strategy adopted in 2009 assumes growth of the production capacity by obtaining new prospecting and exploration concessions and driving down the average copper production cost.

Geology

Copper deposits worldwide

Copper is one of the most important metals extracted in the world which accounts for approximately 16% of the total value of all extracted metals. The basic production of copper relies on natural primary ores located in many parts of the world. Over 1 000 copper ore deposits are known worldwide, of which close to 400 are currently mined. Of highest industrial significance are porphyry (hydrothermal) copper deposits exploited in Chile, Peru, Mexico, Canada and Kazakhstan. Another type of valuable copper ore bodies are bedded deposits in sedimentary and metamorphic rocks (sediment hosted deposits) which account for over 20% of all documented resources and 10% of the global copper output. Deposits of this kind are found in Poland, Kazakhstan, Zambia and Congo. In addition to the main types of copper ore deposits, of significance are also deposits of copper-bearing pyrites in volcanic and sedimentary rocks found in Australia, Canada, Russia and China and Cu-Ni ore deposits (liquation type) in Australia, Canada and Russia.

Copper ore deposits occur on the land territories of approximately 60 countries of the world and in manganese nodules on the bottom of oceans classified as international waters. The documented global geological resources of copper exceed 1 billion tonnes, including industrial reserves suitable for extraction of 690 million tonnes.

Copper resources in Poland

In Poland, copper mineralisation is mainly associated with Permian rocks which were formed around 250 to 300 million years ago. Such rocks are found in the majority of Poland, however, frequently at a depth of a few hundred or even a few thousand meters below ground level. KGHM exploits six deposits: Lubin-Małomice, Polkowice, Rudna, Sieroszowice, Radwanice Wschód and Głogów Głęboki-Przemysłowy, situated in an area of 40 km by 20 km, between Legnica and Głogów.

The following deposits form a natural extension of the currently worked deposits in the north-western direction: "Radwanice Zachód", "Gaworzyce", "Bytom Odrzański", "Głogów" and "Retków".

Documented copper ore deposits are also found in the 'Old Copper Belt', near Bolesławiec. In recent years, geologist have become increasingly interested in the vast areas of deep Permian rock beds extending from our western border to Poznań in the north, Kalisz in the east and Wrocław in the south. KGHM conducts exploratory work in all those areas.

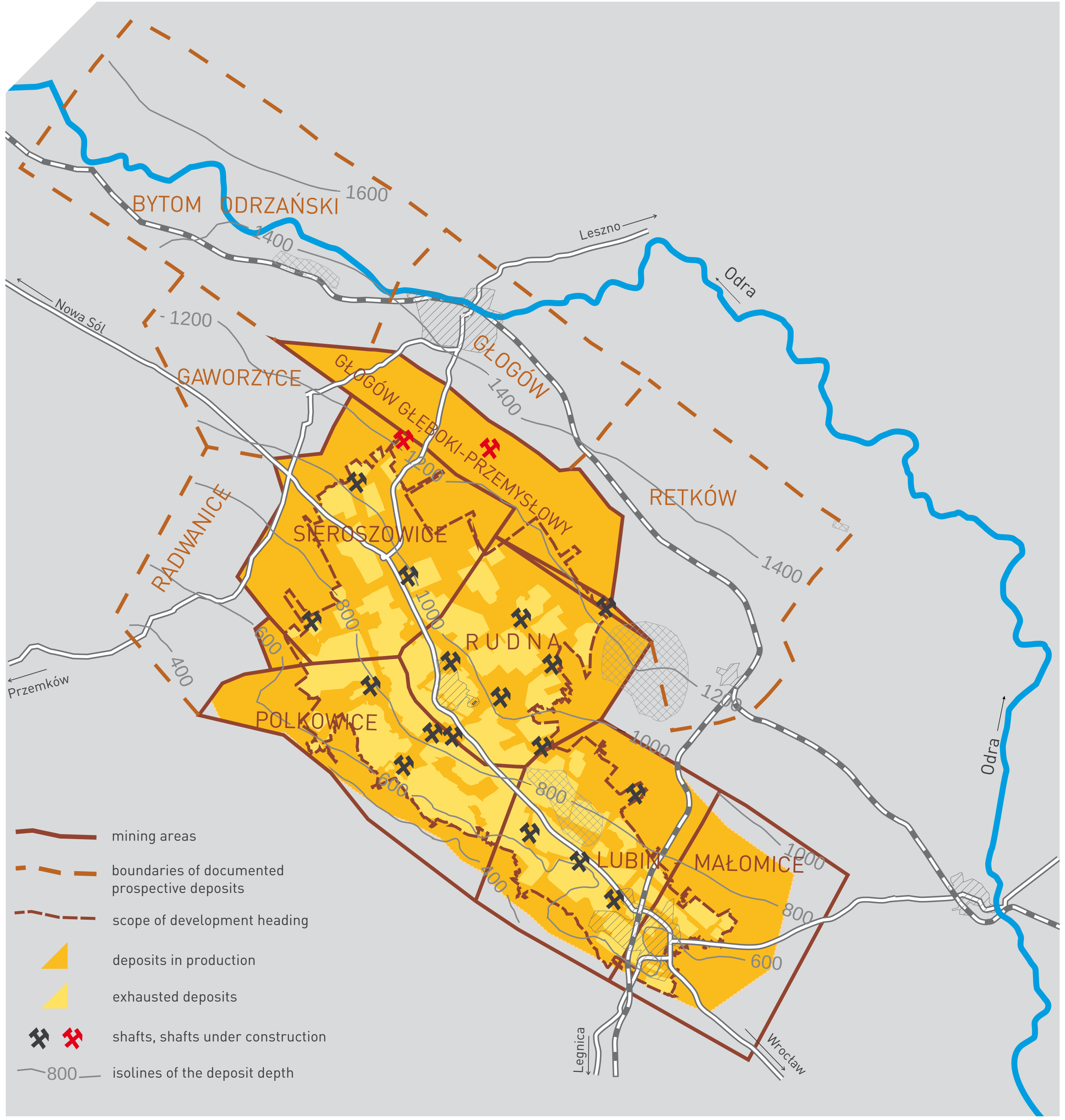
The deepest mining operations are currently carried out at 1 200 meters below the ground level.

Global copper production from primary ore deposits and the global copper resources

	Mining production		Resources
	2011	2012	
United States	1 110	1 150	39 000
Australia	958	970	86 000
Canada	566	530	10 000
Chile	5 260	5 370	190 000
China	1 310	1 500	30 000
Congo	520	580	20 000
Indonesia	543	430	28 000
Kazakhstan	417	420	7 000
Mexico	443	500	38 000
Peru	1 240	1 240	76 000
Poland	427	430	26 000
Russia	713	720	30 000
Zambia	668	675	20 000
Other countries	1 970	2 100	80 000
Total	**16 145**	**16 615**	**680 000**

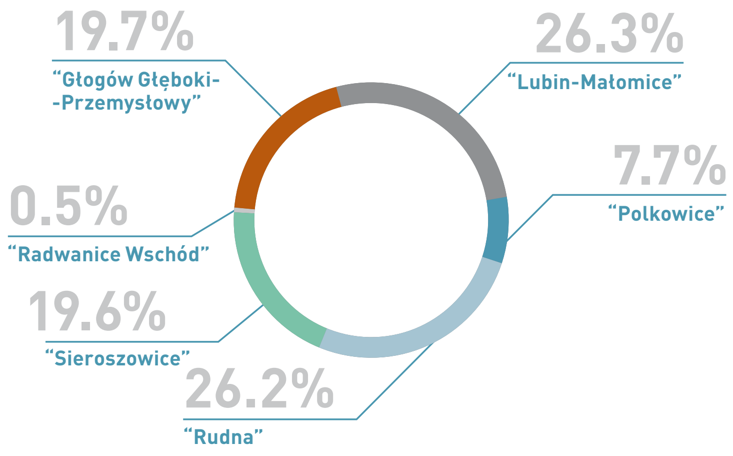
According to U.S. Geological Survey; http://minerals.usgs.gov; January 2013; [ktCu].

Location of the currently exploited and prospective copper ore deposits in Pre-Sudetian Monoclyne



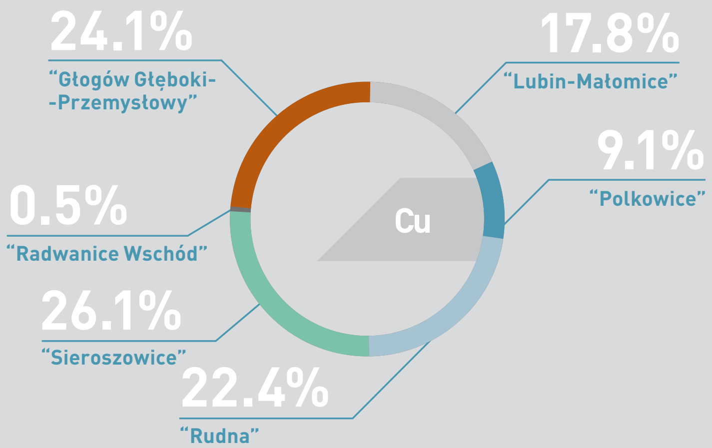
Percentage shares of individual deposits in the overall geological resources

Mine



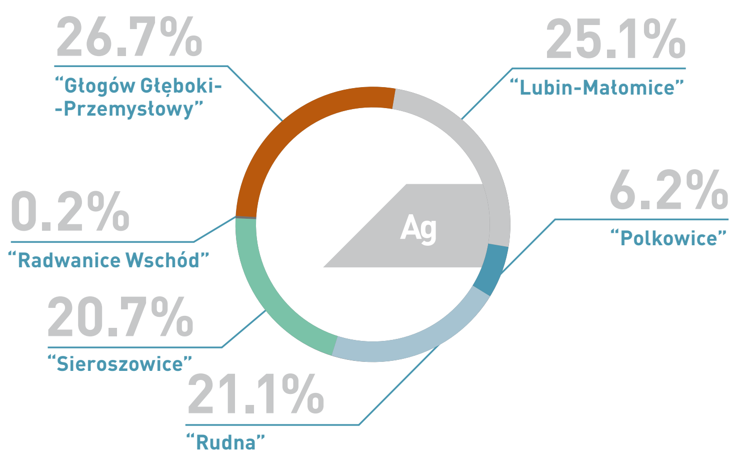
Distribution of Cu resources by deposits

Copper – Cu

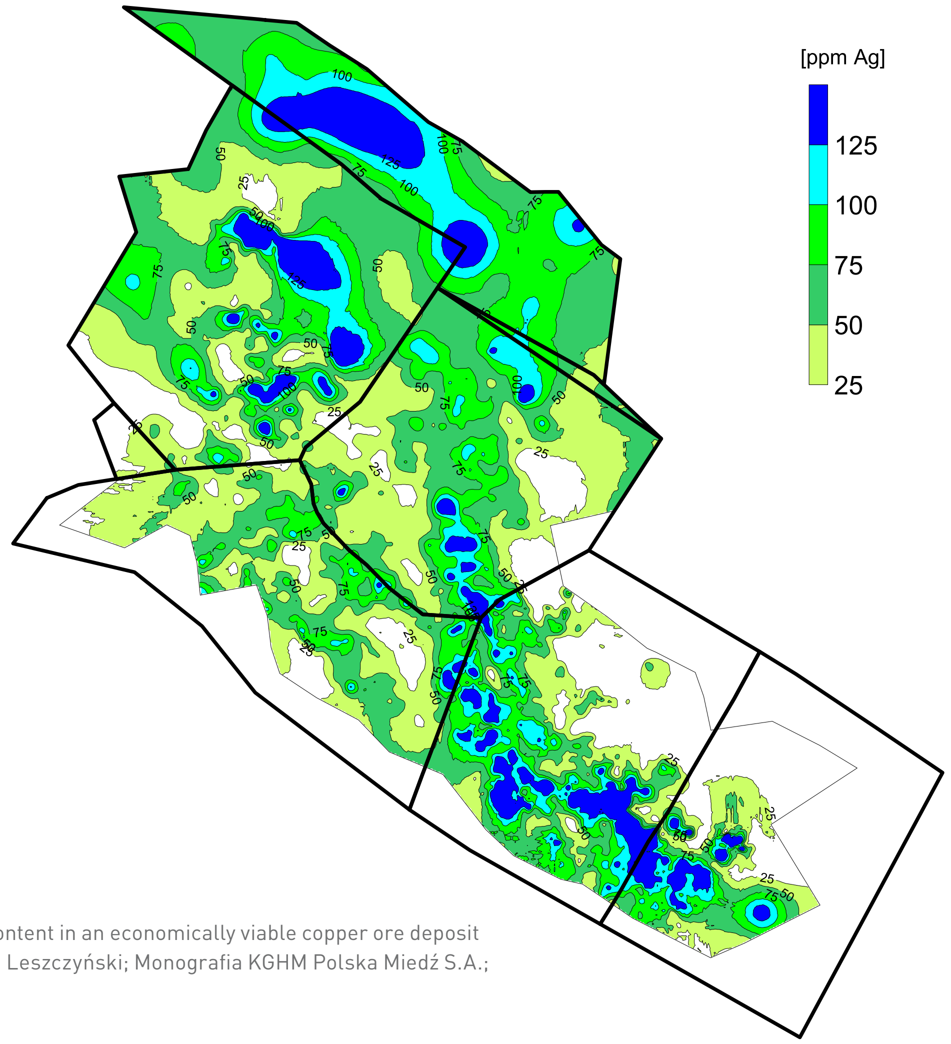


Distribution of Ag resources by deposits

Silver – Ag



A map of silver content in an economically viable copper ore deposits



A map of silver content in an economically viable copper ore deposit (J. Suchan and R. Leszczyński; Monografia KGHM Polska Miedź S.A.; Lubin 2007).

Other metals extracted from copper ore deposits

In addition to copper, KGHM extracts other chemical elements from the worked ore bodies. The list of metals recovered from the mined copper ores and, in some cases, also their volumes, are growing from year to year. At present, besides copper, KGHM also produces silver, making Poland the leading manufacturer of this metal in the world. Moreover, the volume of recovered lead is increasing all the time. In the past, lead used to be a big problem for our smelters due to air emissions, but now it is an additional product. At further stages of the metallurgic processes, other metals are also recovered from waste products, such as nickel, selenium, gold and – the most interesting metal of the future – rhenium.

Silver in copper ore deposits

The most precious extracted metal apart from copper is silver. Silver has always been present in the deposits mined by KGHM i.e. as of the time of the deposit formation. Similarly to copper, the highest content of silver is found in shale and the lowest in dolomites and sandstone.

Silver in ore deposits appears in the form of trace mineral in copper sulphides, such as bornite, chalcosine, djurleite and digenite, and as native silver. In smaller quantities, silver forms amalgamates i.e. natural alloys with other metals.

In the present areas covered by concessions, over one-fourth of silver resources is located in "Głogów Głęboki-Przemysłowy" deposit which is number one deposit in terms of our silver resource potential. A similar amount of silver is found in "Lubin-Małomice" deposit.

According to geologists, the amount of silver content in geological resources of the currently worked copper ores is estimated at over 85 thousand tonnes, of which close to 55 thousand tonnes can be extracted.

Silver, extracted in KGHM mines from the very beginning of its operations, began to be traded under KGHM brand only in 1990s. Earlier, pursuant to a decision of the Government at the time, all silver-bearing products were transported to Szopienice silver smelter where centralised silver production was carried out. Since the construction of a Precious Metals Department at the Głogów smelter in 1993, KGHM has been producing silver under its own brand which has the highest quality marks.

Potential duration of the deposits exploitation

After 50 years of continuous mining operations during which we have extracted over 1 billion tonnes of output and 18 million tonnes of copper, the resources in the areas covered by the concessions are estimated to last another 40–50 years. Therefore, in our applications for concessions renewal, we have requested for the maximum possible validity period of 50 years. This means that we are, at most, halfway through exploitation of the deposits in this region. The forecast does not take into account the potential outcomes of exploratory work. The accuracy of deposit volume estimations was verified and confirmed in 2012 by an independent international auditor, MICON from Canada.

Exploration in the region

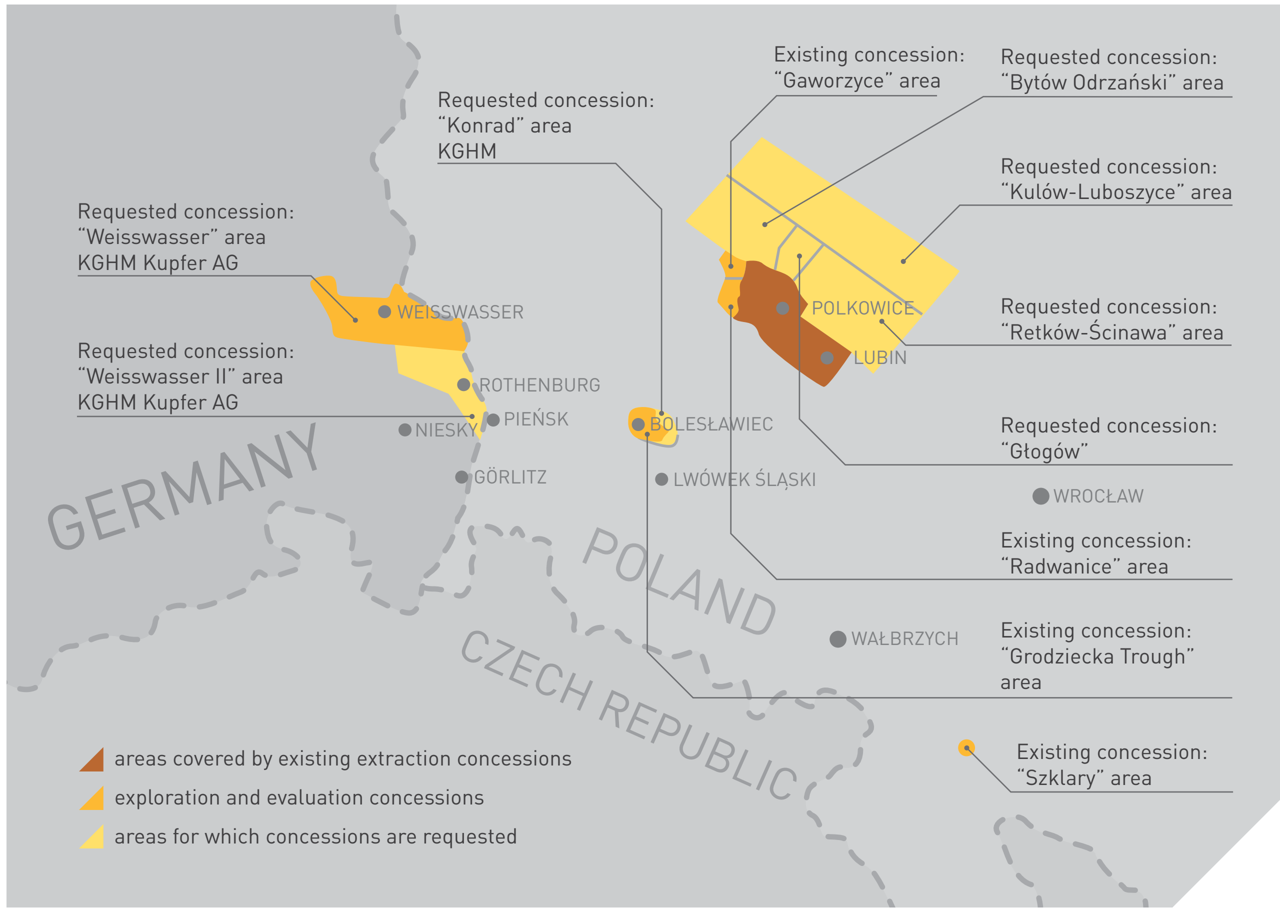
KGHM Polska Miedź S.A. has been pursuing the strategy adopted by the Company for the period 2009–2018 concerning the Development of the Resource Base by prospecting for new deposits in the region and obtaining new exploration and evaluation concessions to expand its resource base and maintain stable volume of mining production in the future. Under the currently held concessions, the Company has been conducting intensive exploration and evaluation work in the following areas: "Gaworzyce", "Radwanice", "Grodziecka Trough", "Szklary" and "Weisswasser" in Germany.

Exploration and evaluation concessions

"Gaworzyce", "Radwanice"

The purpose of the conducted work is to carry out detailed examination of the C1-category ore. During stage one, five holes were drilled. The irregular distribution of the economically viable copper ore (so called red spots) means that the current pattern of exploratory C1 drillings may turn out to be insufficient and execution of additional drillings is very expensive and not necessarily effective. Consequently, in February 2012 a request was submitted to the Minister of Environment for a change in the terms

Concessions and prospective areas



of concession i.e. resignation from exploratory drillings for the sake of superficial geophysical studies.

"Grodziecka Trough"

The "Grodziecka Trough" licensed area is situated in the so called Old Copper Belt, in the vicinity of Bolesławiec. The project assumed documentation of approximately 1.5 million tonnes of copper equivalent in the deposit to allow for the construction of an underground mine. Under the concession obtained in 2009 for exploration and examination of the copper ore deposit a drilling project is currently underway to examine in detail the existing resources and document new resources. To date 9 drillholes were executed and the collected samples underwent specialist tests. In the meantime, a decision of the Ministry of Environment was obtained amending the concession and allowing for the commencement of the next stage of geological work involving a new series of drillings.

"Szklary"

The purpose of the project is to evaluate, document and define the method of development of the nickel ore deposit "Szklary", to the north of Ząbkowice Śląskie. Under the project, in 2012 work on the technical aspects of development of the Szklary nickel ore deposit was completed. The deliverables of the work include a comprehensive study of the method of access to the deposit, a concept for the location of the mining complex and a waste management concept. Additionally, a number of actions were undertaken to optimise the technology of processing the nickel ore from the Szklary deposit. In Quarter 4 of 2012, economic analyses of the project began in order to assess the feasibility of the investment stage of the project. In September 2012, the Company applied to the Ministry of Environment for extension of the concession for evaluation of the nickel ore deposit.

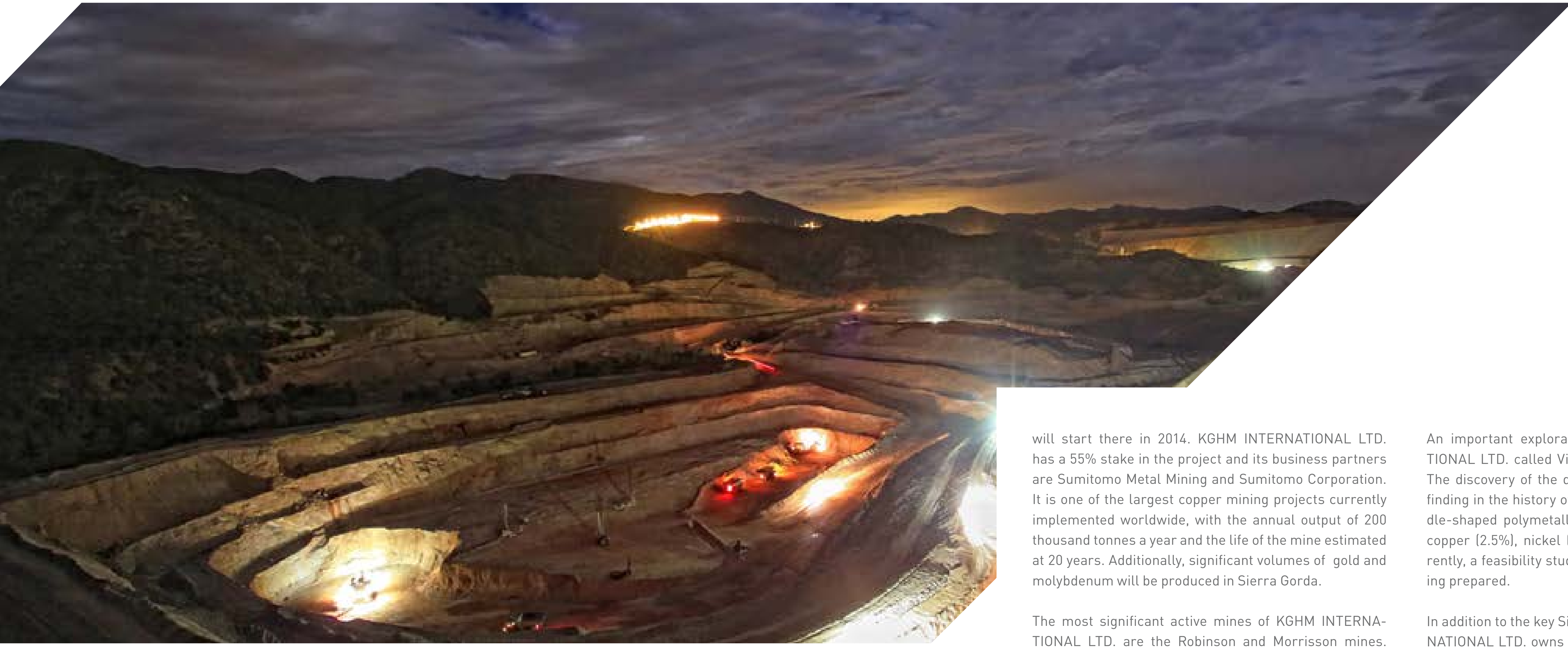
"Weisswasser"

This project is managed by the KGHM subsidiary Kupfer AG. The company holds a license for exploration work in the region of Saxony, along the Polish border. Drillings carried out in the Spremberg-Weisswasser area in the 1960s indicated the occurrence of copper mineralisation with characteristics similar to the Polish deposits in the Copper Basin. On the basis of the analysis of archival documents, a prospective area was identified, south of the town of Weisswasser. In 2012, the first stage of exploratory drilling was completed, involving geophysical research and execution of 4 tests drillholes. Currently, legal and administrative proceedings are in progress to commence stage two of the project.

Prospective areas for which exploration and evaluation concessions are applied for

To the north-west of the currently licensed areas of mining operations of KGHM Polska Miedź S.A., there occur areas where in Zechstein formations rich copper and silver mineralisation was discovered. Some of these areas contain copper ore deposits documented in the 1980s which require more detailed examination and economic assessment. These areas represent a natural direction of expansion of the Company's resource base and, in the future, can become mining production areas.

In 2012, KGHM Polska Miedź S.A. applied to the Minister of Environment for new exploration and evaluation concessions for the following areas: Retków-Ścinawa, Głogów, Bytom Odrzański and Kulów-Luboszyce.



Acquisition of Quadra FNX Mining Ltd.

One of the key events in the history of KGHM Polska Miedź S.A. and the development of its resource base was the friendly takeover of a Canadian company Quadra FNX Mining Ltd. (currently renamed to KGHM INTERNATIONAL LTD.) based in Vancouver. KGHM purchased 100% of shares of the company listed on the Toronto Stock Exchange for a sum of USD 2.9 billion. The transaction finalised on 5 March 2012 contributed to the implementation of the Company's development strategy adopted in 2009, in particular by increasing its production capacity and reducing the average cost of copper production. The acquisition has been the biggest foreign investment in the history of Poland.

As a result of acquiring the dynamically developing enterprise, KGHM became owner of mines situated in three foreign countries (Chile, the United States and Canada) and of world class development projects (including Sierra Gorda and Victoria in the Sudbury region). Following the takeover, the copper resources of the KGHM Group increased by more than 28% to 37.4 million tonnes, making the Company number four in the world. Thanks to geographic diversification of the portfolio of projects executed by KGHM the risk associated with its business operations has been significantly reduced.

As of the takeover, the copper production output of the entire Group grew by approximately 100 thousand tonnes per annum and in the long run an equally important benefit will be the reduction of the unit production cost. Cost savings will be possible thanks to the opening of new low-cost mines (Sierra Gorda and Victoria). Furthermore, the production of nickel and precious metals went up and after the launch of Sierra Gorda mine, the KGHM Group will become the global leader in the manufacture of molybdenum.

The most valuable asset of the acquired company is the currently constructed Sierra Gorda open-pit mine in the north of Chile, on the Atacama desert. The production will start there in 2014. KGHM INTERNATIONAL LTD. has a 55% stake in the project and its business partners are Sumitomo Metal Mining and Sumitomo Corporation. It is one of the largest copper mining projects currently implemented worldwide, with the annual output of 200 thousand tonnes a year and the life of the mine estimated at 20 years. Additionally, significant volumes of gold and molybdenum will be produced in Sierra Gorda.

The most significant active mines of KGHM INTERNATIONAL LTD. are the Robinson and Morrisson mines. The open-pit Robinson mine is situated in Nevada, a state famous for its mining industry, and is one of the oldest copper mines in the United States. The annual copper production exceeds 50 thousand tonnes and, additionally, considerable amounts of gold are extracted (over one tonne a year). The other mine owned by the company, Carlota, is also located in the United States, in a mining-friendly state of Arizona. Its copper output is smaller (slightly above 10 thousand tonnes), however, thanks to the applied solvent extraction and electrowinning (SX-EW) technology, the mine produces cathode copper without the metallurgic process.

The second most important mine operated by KGHM INTERNATIONAL LTD. is the underground Morrisson mine situated in one of the most famous metal mining regions in the world –Sudbury, in Ontario, Canada. The mine has access to one of the largest polymetallic deposits in the region and in addition to approximately 18 thousand tonnes of copper a year, produces large quantities of nickel, gold and palladium, significantly reducing the production costs. Two other operations of KGHM INTERNATIONAL LTD. in the Sudbury are McCreedy and Podolsky which mine smaller deposits of similar characteristics to the Morrisson deposit and produce copper nickel, gold, platinum and palladium.

An important exploration project of KGHM INTERNATIONAL LTD. called Victoria is also located in Sudbury. The discovery of the deposit was the most spectacular finding in the history of the region. It is a very rich, spindle-shaped polymetallic deposit with a high content of copper (2.5%), nickel (2.5%) and precious metals. Currently, a feasibility study for an underground mind is being prepared.

In addition to the key Sierra Gorda project, KGHM INTERNATIONAL LTD. owns another mine in Chile, the Franke mine near the city of Tal Tal which produces slightly above 15 thousand tonnes of cathode copper a year using the SX-EW technology, similar to that applied in the Carlota mine.

The international mining assets will play a major role in the further development of the KGHM Group. With access to highly-skilled human resources and a rich portfolio of development projects situated in world-famous metallogenic provinces, in countries with a stable political and economic situation, the assets will become the engine of shareholder value growth in the coming years. Even now, the share of international production assets n the total value of KGHM is estimated by the analysts at close to 40%.

Another measure of the finalised transaction success is the price of the shares of KGHM at the Warsaw Stock Exchange over the period of one year since the takeover date went up by more than 60%, considerably outperforming other large copper manufacturers and the industry average. Thanks to the acquisition, KGHM Polska Miedź S.A. built a powerful global organisation and secured stable prospects for the development of the Company's resource base worldwide.

RHENIUM: REINFORCED TURBINES

Rhenium is a component of superalloys used in the aviation industry, power engineering and marine engineering for the manufacture of gas turbine blades, combustion chambers and other elements exposed to high temperatures.
The only factory in Europe producing metallic rhenium from its own sources is based in Legnica.

THE **KGHM** POLSKA MIEDŹ S.A. GROUP

The KGHM Polska Miedź S.A. Group consists of numerous companies with highly diversified business operations. The Parent Entity is KGHM Polska Miedź S.A.
The acquisition of a Canadian mining Group Quadra FNX Mining Ltd. (renamed to KGHM INTERNATIONAL LTD.) in 2012 had a major impact on the structure of the Group. As a result of the transaction, the number of subsidiaries making up the KGHM Group increased by 34 companies and the acquisition was the largest capital investment in the 20-year history of the Group.

General information on the Group

The KGHM Polska Miedź S.A. Group has developed over the last 20 years. During the initial phase, most entities emerged as a result of separation of specific operational areas of KGHM. In this way, in 1993 the Group's first companies were founded.

At the end of 2012 the KGHM Polska Miedź S.A. Group numbered 85 entities, including three closed-ended non-public investment funds.

In subsequent years, there were changes to the composition of the Group and the number of entities it contained.

The Parent Entity of the Group is KGHM Polska Miedź S.A. At the end of 2012 the KGHM Group numbered 85 entities, including three closed-ended non-public investment funds. Additionally, the KGHM Group held stakes in two associates and two joint ventures.

The structure of the Group changed considerably following the acquisition which took place in the first half of 2012, when KGHM Polska Miedź S.A. took over 100% of the shares of Quadra FNX Mining Ltd. based in Vancouver (forming a separate Group). As a result, the number of companies making up the KGHM Group increased by 34 entities. The takeover of Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.) has been the largest capital investment in the history of the KGHM Group, of critical significance for the achievement of the Group's strategy which focuses mainly on expansion of the resource base to grow the production of copper. Thanks to the acquisition, the production of mined copper in the KGHM Group in 2012 increased by more than 100 thousand tonnes. The overall copper production totalled 673.3 thousand tonnes i.e. 18% up on 2011 and in 2018 is expected to exceed 180 thousand tonnes a year which means a 25% increase versus the pre-acquisition level of KGHM Group production.

The core activity of KGHM INTERNATIONAL LTD. Group is the mining production of metals (mainly copper and also nickel, gold, platinum and palladium) at its mines situated in the USA, Chile and Canada. Additionally, a number of mining projects in the pre-operational stage are carried out in Chile, Canada and Greenland, as well as exploratory projects.

As a result of the takeover of KGHM INTERNATIONAL LTD., KGHM Polska Miedź S.A. has become a global mining corporation with geographically diversified production assets and mining projects situated in low-risk countries. In 2012, the KGHM Group moved up to the seventh place (versus ninth in 2011) in the global ranking of mining manufacturers of copper.

The scope of operations of other members of the KGHM Polska Miedź S.A. Group is wide and varied. The Group companies offer products and services associated with the core business of KGHM (including exploration for and mining of deposits of copper and other metals; mine construction; generation of electricity and heat; mining equipment and machinery; research and development) and unrelated to the technological processes of KGHM, such as companies, mainly manufacturing, provide services to transport, commerce, healthcare or capital investments. A great majority of the companies, mainly manufacturing undertakings, provide services to KGHM.

Information on the management of the Group in 2012

In 2012, new management solutions were implemented in the KGHM Polska Miedź S.A. Group.

Operating segments

In 2012, new management solutions were implemented in the KGHM Polska Miedź S.A. Group, in response to changes in the Group structure resulting from takeover of the shares of Quadra FNX Mining Ltd. The transaction had a significant impact on the structure of assets and generation of revenues in the KGHM Group, in which KGHM Polska Miedź S.A. and the operating segments of the KGHM INTERNATIONAL LTD. Group are now the most important components.

For reporting purposes, five major operating segments were defined which are subject to in-depth review of the management bodies. The operating segments are at the same time treated as reporting segments:

KGHM Polska Miedź S.A.
- the segment consists solely of KGHM Polska Miedź S.A.

KGHM INTERNATIONAL LTD. Group
- the segment consists of the companies from the KGHM INTERNATIONAL LTD. Group.

Sierra Gorda Project
- the segment consists of the Sierra Gorda S.C.M. joint venture.

Resource base development
- the segment consists of companies engaged in exploration for and evaluation of mineral resources; these companies are ultimately expected to conduct mining operations.

Support of technological processes
- the segment consists of companies directly associated with the technological processes of the Parent Entity; In the period under review, KGHM Metraco S.A. was allocated to this segment due to its important role in securing the supply of copper scrap to KGHM Polska Miedź S.A. (comparable data were restated to correspond with the data presentation in the current period).

Other segments
- all other Group companies unrelated to the mining industry.

Structure of the KGHM Polska Miedź S.A. Group as at 31 December 2012

KGHM Polska Miedź S.A.

- PeBeKa S.A. – 100%
- ZANAM-LEGMET Sp. z o.o.[5] – 100%
- KGHM TFI S.A. – 100%
- KGHM III FIZAN – 100%
- KGHM II FIZAN – 100%
- KGHM I FIZAN – 100%
  - Polska Grupa Uzdrowisk Sp. z o.o.[2] – 100%
  - Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.[3] – 100%
  - Fundusz Hotele 01 Sp. z o.o. – 100%
  - Interferie Medical SPA Sp. z o.o. – 89%
  - ZUK S.A. – 92%
  - Uzdrowisko Połczyn S.A. – 90%
  - "Uzdrowisko Cieplice" sp. z o.o. – 92%
  - Uzdrowisko "Świeradów-Czerniawa" sp. z o.o. – 88%
  - Fundusz Hotele 01 Sp. z o.o. S.K.A. – 100%
    - INTERFERIE S.A. – 68%
- INOVA Spółka z o.o. – 100%
- KGHM CUPRUM sp. z o.o. – CBR – 100%
- CBJ sp. z o.o. – 100%
- KGHM Metraco S.A. – 100%
- KGHM (SHANGHAI) COPPER TRADING CO., LTD. – 100%
- KGHM Ecoren S.A. – 100%
  - Ecoren DKE sp. z o.o. – 100%
  - CENTROZŁOM WROCŁAW S.A. – 85%
  - WFP Hefra SA – 99%
  - Walcownia Metali Nieżelaznych "ŁABĘDY" S.A. – 85%
- POL-MIEDŹ TRANS Sp. z o.o. – 100%
  - PMT Linie Kolejowe Sp. z o.o. – 100%
- Fermat 1 S.à r.l. – 100%
  - Fermat 3 S.à r.l. – 100%
  - Fermat 2 S.à r.l. – 100%
    - 0929260 B.C. Unlimited Liability Company – 100%
      - KGHM AJAX MINING INC. – 80%
        - Sugarloaf Ranches Ltd. – 80%
    - KGHM INTERNATIONAL LTD. Group[4] – 100%
- KGHM Kupfer AG – 100%
- KGHM Kupferhandelsges.m.b.H.i.L – 100%
- "MCZ" S.A. – 100%
- Zagłębie Lubin S.A. – 100%
- KGHM LETIA S.A. – 85%
- TUW-CUPRUM – 97%
- PHP "MERCUS" sp. z o.o. – 100%
  - PHU "Lubinpex" Sp. z o.o. – 100%
  - "Mercus Software" sp. z o.o. – 100%
  - PHU "Mercus Bis" Sp. z o.o.[1] – 32%
- "Energetyka" sp. z o.o. – 100%
  - WPEC w Legnicy S.A. – 85%
  - "BIOWIND" sp. z o.o. – 100%
- BIPROMET S.A. – 66%
  - Przedsiębiorstwo Budowlane Katowice S.A. – 58%
  - Bipromet Ecosystem Sp. z o.o. – 34%
- NITROERG S.A. – 85%
  - BAZALT-NITRON Sp. z o.o.[1] – 26%
  - „Elektrownia Blachownia Nowa" Sp. z o.o.[1] – 50%

1. Unconsolidated entities.
2. Change of the name – formerly Fundusz Uzdrowiska 01 Sp. zo.o.
3. As of 9 January 2013 operating under the name Polska Grupa Uzdrowisk Sp. z o.o.
4. Structure of the Group is presented in Chart 2.
5. In June 2013 the company was renamed to KGHM ZANAM sp. z o.o.

Structure of the KGHM INTERNATIONAL LTD. Group (formerly Quadra FNX Mining Ltd.) as at 31 December 2012

KGHM INTERNATIONAL LTD.

- Quadra Mining Australia PTY Limited – 100%
- FNX Mining Company Inc. – 100%
  - DMC Mining Services Ltd. – 100%
  - Quadra FNX Holdings Partnership – 100%
    - Raise Boring Mining Services S.A. de C.V. – 100%
    - FNX Mining Company USA Inc. – 100%
      - DMC Mining Services Corporation – 100%
  - Centenario Holdings Ltd. – 100%
    - Centenario Copper (BVI) Ltd. – 100%
    - Pan de Azucar (BVI) Ltd. – 100%
      - Minera Carrizalillo Limitada – 100%
    - Volcanes (BVI) Ltd. – 100%
      - Mineria y Exploraciones KGHM International SpA – 100%
    - Frankie (BVI) Ltd. – 100%
      - Sociedad Contractual Minera Franke – 100%
- 0899196 B.C. Ltd. – 100%
- Quadra FNX Holdings (Barbados) Ltd. – 100%
  - Quadra FNX SG (Barbados) Ltd. – 100%
  - Quadra FNX FFI Ltd. – 100%
  - Quadra FNX Water Holdings (Barbados) Ltd. – 100%
    - Aquas de la Sierra Limitada – 100%
  - Quadra FNX Chile (Barbados) Ltd. – 100%
    - Quadra FNX Holdings Chile Limitada – 100%
    - Sierra Gorda S.C.M.[1] – 55%
- Quadra FNX Moly Holdings (Barbados) Ltd. – 100%
  - Quadra FNX Intermoly Holdings Limited – 100%
    - Malmbjerg Molybdenum A/S – 100%
    - International Molybdenum Plc – 100%
- Robinson Holdings (USA) Ltd. – 100%
  - Wendover Bulk Transhipment Company – 100%
  - Robinson Nevada Mining Company – 100%
  - Robinson Nevada Railroad Company – 100%
  - Carlota Holdings Company – 100%
    - Carlota Copper Company – 100%

1. Unconsolidated entity.

Selected entities from the KGHM Polska Miedź S.A. Group

KGHM INTERNATIONAL LTD.

KGHM INTERNATIONAL

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations of the major companies from the KGHM INTERNATIONAL LTD. Group:

- mining production of metals, including copper, nickel, gold, platinum and palladium;
- exploration for and evaluation of mineral resources;
- services including mine shaft sinking, preparatory works, construction of surface and underground mine structures, mining drilling, tunnel drilling for civil engineering, feasibility studies and design services.

Major strengths:

- mining operations conducted in the following mines:
  - Robinson (USA) – an open-pit mine; production of copper and precious metals concentrate,
  - Carlota (USA) – an open-pit mine; production of cathode copper,
  - Franke (Chile) - an open-pit mine; production of cathode copper,
  - McCreedy West, Levack (with Morrison deposit) and Podolsky (Canada) – underground mines; sales of copper and nickel ores;
- total copper production in the KGHM INTERNATIONAL LTD. Group in 2012 amounted to 110.5 thousand tonnes;
- implementation of a mining project in pre-operational stage: Sierra Gorda in Chile as part of a joint venture (Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and Sumitomo Group companies - Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%). The Sierra Gorda project entails the construction of an open pit mine at one of the largest copper and molybdenum deposits in the world. The start of production in Sierra Gorda is envisaged for 2014. During the 20 years of its operation, Sierra Gorda will be one of the biggest copper, molybdenum and gold mines in the world (annual production: approx. 220 thousand tonnes of copper, 11 thousand tonnes of molybdenum; and 2 tonnes of gold) and the estimated cost of copper production will be in the lowest quartile of the cost curve for copper producers worldwide;
- implementation of the Victoria exploration project in Canada (copper, nickel, gold and platinum ore deposit).

Significant events in 2012:

- takeover of a 100% stake in the company's share capital by KGHM Polska Miedź S.A. and delisting of the shares from the stock exchange;
- continuation of the Sierra Gorda project – as at the end of 2012, 92% of the design work was completed and the advancement of the construction work was estimated at 33%;
- continuation of the Victoria project in Sudbury Region in Canada – execution of preparatory works for the operation of the copper, nickel and precious metals ore deposit and efforts aimed at obtaining the required licenses for construction of a mine.

PeBeKa S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- underground construction, including drifts and associated assembly, construction and drilling work, construction of shafts and drifts with complete equipment;
- construction and engineering services, comprising general, hydrotechnical, civil and specialty construction, including the construction of mine surface facilities, industrial plants, underground metro tunnels and stations, the construction and repair of pipes and other hydrotechnical works.

Major strengths:

Know-how in the execution of the following work:

- underground and surface facilities and infrastructure for mines – the company is the general contractor for mining works at KGHM Polska Miedź S.A.;
- underground metro tunnels and stations – the company was the general contractor for three metro stations in Warsaw and a portion of the route tunnels;
- infrastructural construction facilities, including a multimodal transport hub in Warsaw, a road tunnel in Bielsko Biała, a section of a tram tunnel and an underground station for the Rapid Tramway project in Kraków, a railway connection to the Okęcie airport in Warsaw, tunnels in Turkey, Israel, Algeria and Hong-Kong, and other projects;
- sports facilities – construction of a new 16 000-seat stadium for Zagłębie Lubin football club;
- industrial facilities.

Main directions of growth:

- launch of the service of comprehensive execution of mine drifts using automated mining technology (mine road header complex technology for the mechanical extraction of ore), to increase the rate of progress on underground drifts;
- enhancement of competences in the scope of sinking of shafts by implementing surface drilling services (exploratory, test and freezing holes);
- development of underground drilling services.

Significant events in 2012:

- execution of works for KGHM Polska Miedź S.A. associated with operability of deposits in the area of Deep Głogów (Głogów Głęboki Przemysłowy);
- completion of a railway connection to the Okęcie airport in Warsaw and construction of a tramway route in Poznań;
- award of one more title of the "Pearl of the Polish Economy", in the ranking prepared by the Polish Market business magazine.

"Energetyka" sp. z o.o.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- generation, transmission and distribution of heat and electricity;
- generation and distribution of potable and industrial water;
- collection and treatment of household and industrial wastewater;
- utilisation of stormwater, process water and treated water wastewater;
- services related to those operations.

Major strengths:

- comprehensive supply of energy and water and wastewater management services to KGHM Polska Miedź S.A.;
- satisfying the demand for heat of KGHM and neighbouring towns;
- production and distribution of potable water for neighbouring communities;
- utilisation of throat gas generated during the copper smelting process in the company's boilers;
- securing the supply of compressed air to ensure continuity of the technological processes of.

Main directions of growth:

- focus on the demand for heat and electricity of KGHM Polska Miedź S.A. (satisfying the energy needs related to the main technological process) and of the region;
- centralised management of the energy system, including assumption of the role of the operator of gas-steam blocks in Polkowice and Głogów (an investment of KGHM Polska Miedź S.A.), management of energy supply to the manufacturing facilities of the KGHM Polska Miedź S.A. Group;
- use of renewable energy sources (including biomass blocks, wind energy, photovoltaic energy and cultivation of energy crops on a larger scale).

Significant events in 2012:

- implementation of major investments with a total worth of PLN 90 million (of which more than 60% account for development investments), including modernisation of steam boilers, pipelines (couplings) and the main conduit;
- takeover of heat generation for the entire city of Lubin;
- award winner of the Business and Consumer Programme under the auspices of the Delegation of the European Commission – obtaining the certificate "Reliable Company 2012".

WPEC w Legnicy S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 85%

Scope of activities, main focus of operations:

- generation, transfer, distribution and trading in heat in the following cities: Legnica, Głogów, Lubin, Chocianów, Chojnów, Ścinawa and Złotoryja;
- maintenance and service of the following types of installations and systems: water and wastewater, heating, natural gas and air conditioning.

Major strengths:

- over 36 years of experience in supplying heat to households and businesses;
- 11 power plants with a total capacity of 219 MW;
- operation of heating networks for the following cities: Legnica, Lubin, Chocianów, Chojnów, Głogów, Ścinawa and Złotoryja.

Main directions of growth:

- upgrading the performance parameters of the operated networks and enhancement of the service quality standards;
- management of the network infrastructure using Geographic Information Systems (EC.GIS) and telemetry, representing a compendium of knowledge about the technological network infrastructure;
- implementation of modern technological solutions ensuring reliable, environment-friendly and cost effective energy supply;
- improvement in the environmental aspects of the conducted business operations and building a positive image of an environment-friendly company.

Significant events in 2012:

- successful applications for funding under Measure 9.2. Effective energy distribution, Priority Axis IX Environment-friendly energy infrastructure and energy efficiency of the Operational Programme Infrastructure and Environment 2007–2013 and under Measure 5 of the Regional Operational Programme;
- implementation of significant investments in the heat generation infrastructure;
- obtaining a Reliable Company certificate and a Fair Play Business certificate;
- winning the prestigious "Lower Silesia Business Certificate" for the second time.

ZANAM-LEGMET Sp. z o.o.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- manufacture of machines and equipment for the mining sector, production of equipment used in cargo shipping systems, transportation units, quarrying and open-pit mines;
- providing investment, repair and maintenance services;
- production of steel and iron castings.

Major strengths:

- one of the largest manufacturers of machinery and equipment for the mining industry in Poland;
- manufacture, maintenance and overhauls of mining machinery and equipment, including belt conveyors, lifting equipment and shafts equipment for KGHM Polska Miedź S.A.;
- the current range of products and services offered includes mining machines, belt conveyors, crushers, steel constructions, castings, bolts, flotation machines, shafts' equipment, service, overhauls and maintenance and other mining services (employee transport and construction services: restructuring of workings, building of chambers, bridges and dams).

Main directions of growth:

- maintaining the position of the leading supplier of mining machinery to KGHM Polska Miedź S.A.;
- improving the quality and reliability of the manufactured machinery and raising the quality standards of the provided support services;
- expansion of the maintenance activities and providing other services to KGHM Divisions;
- development of new technologies;
- expansion into new markets of Central Asia, Russia and Ukraine.

Significant events in 2012:

- commissioning of a modern manufacturing line for the production of longwall support systems;
- launch of new services offered by the Company i.e. transport of emulsion explosives and longwall reinforcement in mines (a consortium with NITROERG S.A.);
- award of the 'Pearl of the Polish Economy 2012' title in the Large Pearl category and of the Bronze Innovation Laurel (Polish Market magazine and the Institute of Economics of the Polish Academy of Sciences) in recognition of the persistent implementation of the Company's policy and strategy and leadership among the most dynamic and efficient enterprises in Poland;
- award of the title of a "Reliable Mining Sector Employer" – Rzeczpospolita daily and winning the competition for the Reliable Employer of the Year; award of the title of a Reliable Employer in the Lower Silesia Region;
- award of the Quality International 2012 certificate (Business Trends – Rzeczpospolita daily) in the following categories: top quality management and top quality product LKP-1601B loader.

KGHM CUPRUM sp. z o.o. – CBR

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- research and development work in the following sectors: geology, hydrogeology and geophysics, mining, rock mass mechanics, geodesics, ventilation, automation, electrification and mechanisation of mines, ore enrichment, tailings storage, environmental protection, mine reclamation and new energy technologies;
- implementation of interdisciplinary projects involving all stages of R&D processes, from research and design activities, to evaluation of environmental impact, feasibility studies and supervision of implementation;
- leasing of office space and conference rooms.

Major strengths:

- the company has a status of a Research and Developmen and is recognised as category 2 scientific entity;
- involved in research and development work for KGHM Polska Miedź S.A. in the area of mining, processing and environmental protection;
- implementation of projects at the Wieliczka Salt Mine as part of the cultural heritage protection program;
- cooperation with R&D centres of the Polish and foreign higher education institutions;
- certified integrated quality management system and research laboratories management system.

Main directions of growth:

- development of globally innovative solutions for the core technological processes of KGHM Polska Miedź S.A. with a focus on cost savings and protection of the natural environment;
- supporting implementation of the key components of the KGHM Polska Miedź S.A.'s strategy;
- maintaining the status of a Research and Development Centre and a research organisation;
- increasing the funding of its own R&D activities;
- active participation in domestic and foreign research projects, scientific organisations and mining industry platforms.

Significant events in 2012:

- participation in international R&D projects under the 7th Framework Program: IRIS, ProMine, LAGUNA – LBNO, I2Mine;
- participation in the development of the sector research programme "Innovative Development of the Non-Ferrous Metals Industry";
- implementation of a complex project of an underground copper mine in Kazakhstan;
- a number of awards and distinctions, including the Innovation Certificate and the "Innovative Product" distinction awarded by the Institute of Economics of the Polish Academy of Sciences and the MSN Research Network; a gold medal at 61st Global Fair "BRUSSELS INNOVA 2012".

BIPROMET S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 66%

Scope of activities, main focus of operations:

- design services, including services provided to heavy industry customers (major focus of the company's design services);
- comprehensive implementation of investment projects, including:
  - investment project preparation: conceptual designs with feasibility studies, business plans, economic analyses, restructuring studies, product-service offering, preparing execution timetables,
  - investment project execution: general contracting and turnkey investment execution; acting as a substitute investor; exercising owner's and investor's supervision; delivery picking; assembly and commissioning; staff training; productive start-ups and preliminary operation support;
- other activities – printing and measurement services;
- rental and leasing of office space.

Major strengths:

- extensive experience in design services, highly-qualified engineering staff and archived documentation covering a period of over 60 years;
- providing design services at every stage of the process, from technical- economic analyses to project execution and owner's supervision in the following areas:
  - heavy industry – non-ferrous metals smelting, recovery and processing of non-ferrous metals scrap,
  - industrial and general construction,
  - environmental protection – air (electrofilters, bag filters).

Main directions of growth:

- strengthening its competitive position on the environmental protection market, in the metals sector, power sector and on the construction and installation services markets;
- maintaining its leading role in Poland in design and contracting services in the metals sector (in particular, non-ferrous metals).

Significant events in 2012:

- the company is the general designer in the Pyrometallurgy Modernisation Program at the Głogów smelter of KGHM and has implemented a number of other projects in smelters owned by KGHM, including development of the investment program and the spatial development concept for the construction of the Scrap Smelting Facility in Legnica Copper Smelter;
- construction of the Scrap Melting Plant in "Legnica Copper" Smelter.

KGHM Kupfer AG

Scope of activities, main focus of operations:

- exploration for and mining of deposits of copper and other minerals.

Major strengths:

- implementation of "Weisswasser" project, one of the local exploration projects of KGHM Polska Miedź S.A., involving evaluation of the deposit of copper and other minerals in the vicinity of the Weisswasser city in Germany.

Significant events in 2012:

- completion of Stage 1 of the project (exploratory drillings);
- specification of exploratory activities in Stage 2 of the project (geophysical measurements).

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

KGHM AJAX MINING INC.

Scope of activities, main focus of operations:

- exploration for and evaluation of mineral ore deposits.

Major strengths:

- implementation of the Afton–Ajax copper/gold project located in British Columbia, Canada, one of the international exploration projects of KGHM Polska Miedź S.A.

Significant events in 2012:

- increase in the KGHM Polska Miedź S.A. Group's stake in the Company's share capital from 51% to 80%;
- continuation of the proceedings aimed at obtaining an environmental permit and a mining license for construction of a mine.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 80%

KGHM Ecoren S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

The company is involved in the production of metals and their compounds as well as the management of industrial waste;
Main areas of business operations:

- recovery of rhenium from acidic industrial wastewater generated by the smelter;
- management of copper slag i.e. processing into road-building aggregate;
- processing of furnace waste from the smelters and recovery of copper and silver;
- processing of waste electrical and electronic equipment.

Major strengths:

- implementation of projects aimed at reducing the environmental impact of industrial waste generated by KGHM Polska Miedź S.A.;
- third-largest global producer of rhenium and the only European producer of rhenium from its own resources;
- participation in research projects: ProMine (EU programme focusing on new technologies and nanotechnologies) and KomCerMet (an EU programme implemented by a Consortium composed of research institutions and industrial partners);
- membership in the Precious Metals and Rhenium Consortium.

Main directions of growth:

Maximisation of skills in the following areas:

- utilisation of waste from the main technological processes of KGHM Polska Miedź S.A. in the manufacture of new products;
- use of the technology for recovery and production of other metals and raw materials from waste.

Significant events in 2012:

- conducting research on the utilisation of rhenium products and products of other rare metals, as well as copper slag and other industrial waste;
- implementation of an investment project associated with the production of aggregate – building a permanent processing plant.

Centrum Badań Jakości sp. z o.o.

GRUPA KAPITAŁOWA KGHM POLSKA MIEDŹ S.A.
CENTRUM BADAŃ JAKOŚCI
SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ
W LUBINIE

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

The Company offers comprehensive services in the scope of:

- analyses and control of technological processes in mines, smelters and ore enrichment plants of KGHM Polska Miedź S.A.;
- flue gas emission and ambient concentration monitoring;
- physical, chemical and microbiological analyses of water, wastewater, water extracts and soil;
- tests of parameters in the workplace and in general environment;
- tests of solid waste and solid fuels;
- physical, chemical, microbiological and organoleptic tests of food;

including sampling and sample preparation and processing of the test results.

Major strengths:

- complex offering of industrial tests for the purpose technological processes of KGHM Polska Miedź S.A.;
- comprehensive range of research in the scope of natural environment and work environment;
- high management quality evidenced by the implementation of the PN-EN ISO 9001 standard and the management system based on the Balanced Scorecard;
- high quality of research and testing services evidenced by the implementation of the PN-EN ISO/IEC 17025 standard and accreditation by the Polish Centre for Accreditation; the Company's accreditation covers approximately 1,100 testing methods (fixed and flexible range) in the scope of industrial, environmental, workplace and food analyses, including the sampling procedures (Scope of Accreditation no. AB 412).

Main directions of growth:

- upgrading and development of analytical background to grow the scope of industrial services provided to the division of KGHM Polska Miedź S.A;
- implementation of the new Qem-Scan-MLA technology to enhance the efficiency of extraction and flotation;
- enhancement of the integrated management system, including accreditation of new test methods and expanding the research area within the flexible accreditation range;
- development of long-term cooperation with scientific and research centres and renowned laboratories in Poland and abroad.

Significant events in 2012:

- implementation and achievement of maximum efficiency of the System for Automatic Preparation and Measurement of Technological Samples (the most advanced laboratory of this kind in Europe);
- purchase and commissioning of the Mineral Liberation Analyzer (MLA) which will be used for mineralogical and lithological studies – opening of the most advanced mineralogical research centre in Poland;
- opening a fully-furnished chromatography lab (extension of the range of services to include testing of air quality and flue gas).

INOVA Centrum Innowacji Technicznych Spółka z o.o.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- designing and manufacturing various types of specialist power generation and supply equipment and automation and control systems for belt conveyors and ventilation stopping;
- providing services in the scope of certification, attestation, valuation and electromagnetic compatibility (EMC) testing in the accredited Certification Office;
- designing and implementing innovative solutions in the scope of underground communication;
- implementation of tailor-made projects meeting the client's individual requirements.

Major strengths:

- 48 years of experience in mining electronics, communication, implementation of pilot projects (designing, assembly, commissioning, testing and technical analyses) and running the mining geophysics station and the seismic services unit;
- implementation of development work and manufacturing of electronic equipment (transformer stations, long-wall substations, ventilation stopping control systems, AC power compensators), automation and control equipment (PROMOS and PROTOS systems, conveyor belt supply systems), trunking of the aboveground and underground communication systems, S-160 mine shaft radio communication system and RATRA rescue communication system;
- certification, attestation and valuation of self-propelled vehicles and mining machinery, hoisting cranes and pressure tanks, mine shaft equipment, non-invasive material testing and reinforcement of the working floor;
- the company's Certification Office is an entity accredited by the Polish Centre for Accreditation and notified in the European Union – the scope of notification covers Directives 98/37/EC and 94/9/EC;
- specialist services in the scope of testing electronic equipment to check conformance with electromagnetic compatibility standards;
- integrated quality, environment and work safety management system.

Main directions of growth:

- continuous development of the commercial offering by adding new products and services as part the conducted development activities;
- growth the capacity to manufacture mining electronics and automation equipment;
- expanding the scope of operations to include service and maintenance of electrical equipment;
- implementation of new technical solutions to increase the functional value of the underground communication system, automation and monitoring systems.

POL-MIEDŹ TRANS Sp. z o.o.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- road transport – passenger, cargo and specialist;
- railway transport – cargo and specialist;
- trading in oil-based products.

Major strengths:

- main carrier for KGHM Polska Miedź S.A. with respect offering passenger and cargo transport services and direct supplier of fuel to the divisions of KGHM;
- a railway company using its own wagons and locomotives, on both its own railway lines and those operated by PKP (Polish national rail);
- presence on the market of shipping services.

Main directions of growth:

- growing the capacity as a mass railway carrier – maintenance of the 4th place among private carriers in terms of service volume;
- meeting the logistic needs of the technological processes of KGHM Polska Miedź S.A. and of the Group;
- maintenance of the role of transport service provider for employees of KGHM with a simultaneous increase in the share of on-demand transport services;
- maintenance of the role of exclusive logistic operator for oil-based products of KGHM and continuous acquisition of new customers;
- discontinuation of universal transport services.

Significant events in 2012:

- modernisation of the rolling stock;
- restructuring of redundant assets and property;
- reduction of employee headcount.

PHP "MERCUS" sp. z o.o.

PRZEDSIĘBIORSTWO HANDLOWO-PRODUKCYJNE
mercus sp. z o.o.
Grupa Kapitałowa KGHM Polska Miedź S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- trading in domestic and imported goods – wholesale trade, supply of materials and resources to manufacturing sites of KGHM Polska Miedź S.A. as well as other businesses;
- trading in consumer goods (wholesale and retail) through its own sales network;
- import and export of goods and production-related services;
- production of bundled electrical cables for domestic and foreign customers and of hydraulic cables for mining and construction machinery and equipment.

Major strengths:

- over 20 years of experience in commercial operations,
- a prominent logistic operator and supplier of materials and spare parts for the technological processes of KGHM;
- owner of a wholesale and retail sales network (including interior decoration showrooms and department stores) with its own foreign trade office.

Main directions of growth:

- focus on the operations within the Material Logistics Centre for the KGHM Polska Miedź S.A. Group;
- searching for cost saving opportunities when buying goods and materials, particularly for the purpose of technological processes of KGHM.

Significant events in 2012:

- award of the Responsibility Emblem – HR Leader 2012 in the ranking organized by Biznes Magazyn – Strefa Gospodarki, (a supplement to Gazeta Prawna);
- award of the title "Pearl of the Polish Economy" in the category of Large Pearls by the Polish Market monthly.

CENTROZŁOM WROCŁAW S.A.

Centrozłom Wrocław® S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 85%

Scope of activities, main focus of operations:

- purchase and sale of steel/iron scrap, non-ferrous metals and steel alloys;
- recovery and recycling of scrap, steel, non-ferrous metals;
- collection and disassembly of used vehicles;
- collection and processing of waste electrical and electronic equipment;
- distribution of smelter products;
- manufacture of containers.

Major strengths:

- well-developed distribution network consisting of 12 branches and wholesale warehouses furnished with specialty equipment for collection and processing of scrap and processing of smelter products;
- conducting operations on the territory of the following provinces: Opolskie, Dolnośląskie, Lubuskie, Łódzkie and Wielkopolskie;
- cooperation with the biggest smelters in Poland.

Main directions of growth:

- growth of smelter products sales;
- increase in the volume of scrap turnover by expanding the area of operations with a simultaneous alignment of the infrastructure to more rigorous environmental requirements;
- development of a concept of non-scrap waste management;
- growth of the company's share in the steel market with a simultaneous increase in profitability;
- commencement of trading in cathode copper.

Significant events in 2012:

- allotment of free of charge shares to entitled employees resulting in a change in the company's shareholding structure.

NITROERG S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 85%

Scope of activities, main focus of operations:

- manufacture of explosives and initiation systems for underground and open-pit mining;
- production of NITROCET 50® fuel additive used to increase the cetane count and to improve the quality of diesel fuel.

Major strengths:

- market recognition and high esteem of the NITROERG S.A. brand both in Poland and abroad;
- stable position among manufacturers of explosives, initiation systems and fuel additives in Poland and in Europe;
- wide product range;
- long history and experience in the manufacturing operations;
- 100% market share of NITROERG S.A. in the domestic market of dynamite and detonating cords;
- satisfying the majority of demand for explosives from the mines of KGHM Polska Miedź S.A.

Main directions of growth:

- efforts to maintain the company's strong position as an independent manufacturer of explosives and blasting materials;
- expanding the company's scope of activities to include its own blasting services;
- increasing exports to existing markets;
- intensifying actions aimed at enhancement of quality and production methods;
- continuation of research activities to create a comprehensive product offer;
- growing the share in the market of open-pit mines;
- expansion to new markets, including foreign countries.

Significant events in 2012:

- receipt of the 'Business Oak' title awarded by the Trade and Industry Chamber in Tarnowskie Góry;
- organizing a conference for blasting specialists on the rules of labelling and packing explosives;
- award of the "Achilles JQS" certificate evidencing the company's admission to the Achilles Joint Qualification System for suppliers to the oil sector in Norway and Denmark;
- commencement of investments related to detonating cords – concentration and growth of the production capacity of detonating cords and shock tubes – construction of a new plant.

KGHM TFI S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- establishment and management of investment funds and acting as an intermediary in the sales and redemption of participation units;
- management of financial instruments portfolios;
- investment advisory services.

Major strengths:

- participation in the implementation of the long-term strategy of KGHM Polska Miedź S.A., which assumes gradual engagement in businesses unrelated to the core business;
- establishment and management of non-public, closed-ended investment funds:
  - KGHM I FIZAN – healthcare-related investments,
  - KGHM II FIZAN – focus on renewable energy projects,
  - KGHM III FIZAN – investments in the advanced technologies sector,
  - KGHM IV FIZAN – investments in property.

Main directions of growth:

- implementation of the long-term company strategy, assuming, inter alia, establishment of the Polish Spa Group, which will give the KGHM I FIZAN fund a significant market share in the medical spa sector and an increase in the consolidated value of the entity;
- investments of the KGHM II FIZAN fund in renewable energy and incineration of household waste;
- investments of the KGHM III FIZAN fund in the advanced technologies sector drawing on daw materials generated in the course of technological processes of KGHM;
- launch of a new closed-ended KGHM IV FIZAN fund investing in property with an aim to ensure optimized management of real estate assets owned by the KGHM Group;
- active search for domestic and foreign investors interested in co-financing of projects launched both by the new funds and the respective existing funds.

Significant events in 2012:

- in November 2012 a new investment fund called KGHM IV FIZAN was founded, with a strategy assuming investments in property and real estate development and management projects; the fund did not commence operations in 2012; the first issue of the investment certificates took place in Q2 2013.

KGHM Metraco S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- Wholesale trade of:
  - scrap copper (core business), iron and steel, aluminium and aluminium alloys and lead,
  - chemicals,
  - road and industrial salt,
  - copper rod, copper granules, cathode copper, as well as cables and wires.

Major strengths:

- the largest customer for copper scrap in Poland, with a market share exceeding 75%;
- leading road salt distributor in Poland;
- the largest importer of sulphite lye in Europe;
- operator of the most modern Sulphuric Acid Terminal in Poland.

Main directions of growth:

- comprehensive and efficient services provided to KGHM Polska Miedź S.A. in the scope of raw materials and strategic products, based on the company's logistic and shipping operations;
- increasing the volume of copper scrap purchased for KGHM smelters;
- growing the sales of road salt on the domestic and European markets through the development and promotion of the "KGHM SÓL" brand;
- expansion of the commercial and shipping operations beyond the KGHM Polska Miedź S.A. Group.

Significant events in 2012:

- discontinuation of sulphuric acid trading;
- completion of an investment project – construction of a sulphuric acid storage and transfer facility in Szczecin and takeover of the role of an operator of the Sulphuric Acid Terminal providing services to KGHM Polska Miedź S.A.;
- obtaining the KIG certificate, the Lower Silesia Business Certificate in the 21st edition of the event and admission to the "FAIR PLAY Company 2012" programme;
- 71st place in the 15th edition of the Top 500 Enterprises in Poland ranking announced by Rzeczpospolita.

KGHM (SHANGHAI) COPPER TRADING CO., LTD.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- wholesale trade, import and export of copper and silicone goods and products, chemicals, mechanical and electrical equipment and office articles;
- providing business consultancy services.

Major strengths:

Know-how in the following areas:

- active promotion of the KGHM brand and of the Group products on the dynamically developing Chinese market;
- ensuring the presence of KGHM Polska Miedź S.A. at the centre of the most important copper sales market with rapid and direct access to information on the current situation in China, changes in the trends and market conditions;
- membership of the Asian section of the International Copper Association of copper manufacturers;
- analysing opportunities and preparing direct purchase transactions of goods for the KGHM Polska Miedź S.A. Group. on the Chinese market (the company acts as an intermediary for KGHM).

Main directions of growth:

- execution of procurement projects for the KGHM Polska Miedź S.A. Group.

Significant events in 2012:

- promotion of the KGHM brand as the manufacturer of copper, silver and rhenium by attendance of industry conferences and seminars;
- execution of orders for test materials and equipment purchased from Chinese suppliers for KGHM Divisions;
- analysis of the potential demand of the Chinese market for KGHM by-products and products of the KGHM Group.

"MCZ" S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- hospital services, general and specialty medical practice;
- providing healthcare services, including hospital treatment, medical examinations and consultations, occupational medicine, radiological and laboratory diagnostic tests, rehabilitation;
- main organisational units: MCZ hospital in Lubin (including nine specialist hospital wards, radiology department, laboratory diagnostics department and several specialist surgery offices), Outpatient Clinic of the Copper Industry Specialist Healthcare Centre in Lubin, outpatient clinics in Lubin, Legnica, Głogów, Rudna and Chobienia, Copper Industry Centre for Medical Rehabilitation and the Copper Industry Psychological Testing Centre.

Major strengths:

- medical services provided under general health insurance;
- provision of medical services in well-organised facilities, with modern equipment and medical apparatus, staffed by experienced, highly-qualified medical personnel;
- providing occupational medicine services and offering prepaid medical care packages.

Main directions of growth:

- completion of construction of an outpatient clinic in Legnica in a new location and commencement of operations extended to include new medical services;
- investments in state-of-the-art medical equipment;
- attempts to increase the quota of patients admitted under agreements with the National Health Fund;
- increasing revenues from prepaid medical care packages and alignment of the provided specialist services to the expectations of insurance companies offering private health insurance.

Significant events in 2012:

- commencement of operations of the MCZ Invasive Neuroradiology Centre by the Regional Specialist Hospital in Legnica;
- opening of new healthcare facilities – outpatient clinics in Rudna and Chobienia;
- ranked second in Poland among non-public surgical hospitals and second in the ranking of the best hospitals in Lower Silesia region according to Rzeczpospolita and the Healthcare Quality Monitoring Centre.

Zagłębie Lubin S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Scope of activities, main focus of operations:

- organisation of professional sports events;
- management of a football club;
- extra school sports education, activities and recreation, including youth training;
- promotion of sports and development activities.

Major strengths:

- owner of one of the best football stadiums in Poland;
- a football club with over 60-year history and two national championship titles;
- runner up title won by the Young Premier League team in Poland's Championship in 2011/2012;
- a bronze medal in the national championship won by the junior team;
- participation of the junior team in the finals of the Poland's Championship (4 best teams in the country).

Main directions of growth:

- providing high-quality entertainment and sports competition, including satisfactory performance of the first team;
- development of youth sports and promoting sports among young people from the regions of Lower Silesia, Lubuskie Province and Wielkopolska;
- building a high-quality, modern football training centre for the Football Academy and the first team;
- promoting the activities of the football club as an important element of corporate social responsibility of KGHM.

Significant events in 2012:

- a friendly match against AS Roma in Chicago;
- launch of the Young Footballer Academy project, including initial steps aimed at building of a sports and training centre which will be the main pillar of the newly founded Academy;
- a new record in the sales of season tickets in the fall of 2012/13, including family season tickets;
- the Mole Mascot of Zagłębie Lubin football club voted the most friendly club mascot in T-Mobile Premier League;
- organizing matches between employees of companies from KGHM Polska Miedź S.A. Group for the Cup of Zagłębie Lubin President;
- winning most points in the spring of 2011/12 and the title of "Knights of the Spring".

KGHM LETIA S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 85.45%

Scope of activities, main focus of operations:

- promotion of scientific achievements and technology transfers;
- running a technology park;
- property sales and rentals.

Major strengths:

- offering office space and investment land to potential customers and investors interested in locating their operations in the park and cooperating with the KGHM Polska Miedź S.A. Group;
- Letia Business Centre – a modern office building with a total usable space of around 8 000 m2 equipped with additional infrastructure, such as conference rooms, an exhibition centre, meeting rooms, as well as, restaurant facilities and guest rooms;
- ownership of investment land in an attractive location;
- business-related activities: development of knowledge-based economy by making use of the scientific and industrial potential of the region and establishing close relationships between science and business, including joint implementation and acquisition of new EU projects.

Significant events in 2012:

- completion of the LCB (Letia Business Centre) construction – a modern office and exhibition centre in Legnica with hotel and restaurant facilities;
- first tenants moving into LBC;
- commencement of operations of the LBC Conference Centre.

TUW-CUPRUM

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 96.88%

Scope of activities, main focus of operations:

- mutual life and property insurance services;
- coverage in the scope of personal accident insurance, health insurance, property insurance in domestic and foreign transport, natural disaster insurance, insurance against other types of physical damage and third party liability insurance.

Major strengths:

- 19 years of experience in the insurance business;
- operations within two mutual associations: "Polska Miedź" and "PGL Lasy Państwowe";
- focus on industrial risks – comprehensive product solutions;
- excellent financial standing of the company.

Main directions of growth:

- ensuring maximum security of the insurance activities and solvency of TUW-CUPRUM due to transfer of the members' risks;
- providing insurance services and offering low-cost property insurance to members of TUW-CUPRUM through premium refund;
- further growth of TUW-CUPRUM through the creation of new mutual insurance associations and launch of new insurance products.

Significant events in 2012:

- awarded in the competition "Quality International 2012", in the category QI ORDER – top quality management organised under the auspices of the Ministry of Regional Development and Polish Agency for Enterprise Development (PARP);
- activities aimed at promoting the concept of mutual insurance (business meetings, press publications).

ANNUAL FINANCIAL STATEMENTS

GOLD: PRECIOUS METAL

Au – a rare, inimitable and indestructible metal, for many ages widely accepted throughout the world as a vehicle of monetary value.

Although gold has been substituted by paper and electronic money and is not used as a currency anymore, in the difficult times of the financial and economic crisis it is perceived as the safest capital investment and its value has been growing again.

ANNUAL SEPARATE FINANCIAL STATEMENTS

Independent Registered Auditor's Opinion

to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

We have audited the accompanying financial statements of KGHM Polska Miedź Spółka Akcyjna (hereinafter called "the Company") with its registered office in Lubin, ul. Marii Skłodowskiej-Curie 48, which comprise the statement of financial position as at 31 December 2012, showing total assets and total liabilities and equity of PLN 28.177 million, the statement of profit or loss for the period from 1 January to 31 December 2012, showing a net profit of PLN 4.868 million, the statement of comprehensive income for the period from 1 January to 31 December 2012, showing a total comprehensive income of PLN 4.456 million, the statement of changes in equity, the statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

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

Our responsibility was to perform an audit of the accompanying financial statements and to express an opinion on whether the financial statements comply in all material respects with the applicable accounting policies and whether they present fairly, in all material respects, the Company's financial position and results, and whether the accounting records constituting the basis for their preparation are properly maintained.

We conducted our audit in accordance with the following:
a. the provisions of Chapter 7 of the Act;
b. national standards of auditing issued by the National Chamber of Registered Auditors.

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

In our opinion, and in all material respects, the accompanying financial statements:
a. give a fair and clear view of the Company's financial position as at 31 December 2012 and of the financial results for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union;
b. comply in form and content with the applicable laws and the Company's Memorandum of Association;
c. have been prepared on the basis of properly maintained accounting records, in accordance with the applicable accounting policies.

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

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

Marcin Sawicki
Key Registered Auditor
No. 11393

Wrocław, 27 March 2013

Statement of financial position

ASSETS

	At		
	31 December 2012	31 December 2011 restated	1 January 2011 restated
Non-current assets			
Property, plant and equipment	8 445	7 277	6 551
Intangible assets	175	151	87
Shares and investment certificates in subsidiaries	11 641	2 012	2 643
Investments in associates and interest in joint ventures	33	-	1 160
Deferred tax assets	266	169	360
Available-for-sale financial assets	882	992	750
Mine closure financial assets	141	112	84
Derivatives	742	899	404
Trade and other receivables	85	84	86
	22 410	**11 696**	**12 125**
Current assets			
Inventories	2 992	2 356	2 012
Trade and other receivables	1 687	1 503	2 394
Available-for-sale financial assets	-	-	405
Mine closure financial assets	-	2	4
Derivatives	381	859	294
Cash and cash equivalents	707	12 836	2 595
	5 767	**17 556**	**7 704**
TOTAL ASSETS	**28 177**	**29 252**	**19 829**

Amounts in tables in million PLN, unless otherwise stated

EQUITY AND LIABILITIES

	At		
	31 December 2012	31 December 2011 restated	1 January 2011 restated
Equity			
Share capital	2 000	2 000	2 000
Revaluation reserve from measurement of available-for-sale financial assets	-	(39)	121
Revaluation reserve from measurement of cash flow hedging instruments	286	574	90
Retained earnings	19 637	20 600	12 245
TOTAL EQUITY	**21 923**	**23 135**	**14 456**
LIABILITIES			
Non-current liabilities			
Trade and other payables	36	12	14
Borrowings and finance lease liabilities	-	-	8
Derivatives	230	538	712
Employee benefits liabilities	1 471	1 216	1 128
Provisions for other liabilities and charges	718	484	518
	2 455	**2 250**	**2 380**
Current liabilities			
Trade and other payables	2 227	1 828	1 728
Borrowings and finance lease liabilities	1 013	-	3
Current corporate tax liabilities	390	1 588	669
Derivatives	23	330	482
Employee benefits liabilities	110	107	93
Provisions for other liabilities and charges	36	14	18
	3 799	**3 867**	**2 993**
TOTAL LIABILITIES	**6 254**	**6 117**	**5 373**
TOTAL EQUITY AND LIABILITIES	**28 177**	**29 252**	**19 829**

Amounts in tables in million PLN, unless otherwise stated

Statement of profit or loss

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated
Sales	20 737	20 097
Cost of sales	(12 786)	(9 853)
Gross profit	**7 951**	**10 244**
Selling costs	(113)	(111)
Administrative expenses	(703)	(696)
Other operating income	1 400	5 093
Other operating costs	(2 109)	(769)
Operating profit	**6 426**	**13 761**
Net finance costs	(9)	(34)
Profit before income tax	**6 417**	**13 727**
Income tax expense	(1 549)	(2 333)
Profit for the period	**4 868**	**11 394**
Earnings per share for the annual period (in PLN per share)		
- basic	24.34	56.97
- diluted	24.34	56.97

Statement of comprehensive income

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated
Profit for the period	**4 868**	**11 394**
Other comprehensive income:		
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	**(249)**	**324**
Available-for-sale financial assets	48	(198)
Income tax	(9)	38
	39	(160)
Cash flow hedging instruments	(355)	598
Income tax	67	(114)
	(288)	484
Other comprehensive income, which will not be reclassified to profit or loss	**(163)**	**(59)**
Actuarial losses	(201)	(73)
Income tax	38	14
Other comprehensive net income for the financial period	**(412)**	**265**
TOTAL COMPREHENSIVE INCOME	**4 456**	**11 659**

Amounts in tables in million PLN, unless otherwise stated

Statement of changes in equity

	Share capital	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging instruments	Retained earnings	Total equity
At 1 January 2012 restated	**2 000**	**(39)**	**574**	**20 600**	**23 135**
Dividends from profit for 2011 - paid	-	-	-	(5 668)	(5 668)
Total comprehensive income	-	39	(288)	4 705	4 456
Profit for the period	-	-	-	4 868	4 868
Other comprehensive income	-	39	(288)	(163)	(412)
At 31 December 2012	**2 000**	**-**	**286**	**19 637**	**21 923**
At 1 January 2011 restated	**2 000**	**121**	**90**	**12 245**	**14 456**
Dividends from profit for 2010 - paid	-	-	-	(2 980)	(2 980)
Total comprehensive income	-	(160)	484	11 335	11 659
Profit for the period	-	-	-	11 394	11 394
Other comprehensive income	-	(160)	484	(59)	265
At 31 December 2011 restated	**2 000**	**(39)**	**574**	**20 600**	**23 135**

Amounts in tables in million PLN, unless otherwise stated

Statement of cash flows

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated
Cash flow from operating activities		
Profit for the period	4 868	11 394
Total adjustments to profit for the period:	2 583	(1 341)
Income tax recognised in profit or loss	1 549	2 333
Amortisation/Depreciation	772	672
Gains on sale of a subsidiary and an associate	-	(2 662)
Impairment loss on loan, property, plant and equipment, and available-for-sale financial assets	185	-
Interest and share in profits (dividends)	(58)	(288)
Foreign exchange (gains)/losses	856	(871)
Change in provisions	70	34
Change in assets/liabilities due to derivatives	(2)	(546)
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives	(333)	(241)
Other adjustments	4	(7)
Changes in working capital:	(460)	235
Inventories	(636)	(344)
Trade and other receivables	(180)	544
Trade and other payables	356	35
Income tax paid	(2 748)	(1 285)
Net cash generated from operating activities	**4 703**	**8 768**

Amounts in tables in million PLN, unless otherwise stated

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated
Cash flow from investing activities		
Purchase of shares and investment certificates in subsidiaries	(9 604)	(201)
Proceeds from sale and liquidation of shares in subsidiaries	-	982
Purchase of interest in joint ventures	(33)	-
Proceeds from sale of shares in an associate	-	3 672
Purchase of property, plant and equipment and intangible assets	(1 647)	(1 406)
Advances granted for purchase of property, plant and equipment and intangible assets	(93)	(59)
Proceeds from sale of property, plant and equipment and intangible assets	16	6
Purchase of available-for-sale financial assets	-	(1 566)
Proceeds from sale of available-for-sale financial assets	-	1 548
Purchase of mine closure financial assets	(27)	(26)
Establishment of deposits	-	(450)
Termination of deposits	-	800
Loans granted	(8)	-
Repayments of loans granted	5	5
Interest received	3	12
Dividends received	57	277
Other investment expenses	(4)	(4)
Net cash (used in)/generated from investing activities	**(11 335)**	**3 590**
Cash flow from financing activities		
Proceeds from borrowings	1 039	-
Payments of finance leases liabilities	-	(13)
Dividends paid	(5 668)	(2 980)
Other financial proceeds/(expenses)	10	-
Net cash used in financing activities	**(4 619)**	**(2 993)**
Total net cash flow	**(11 251)**	**9 365**
Exchange gains on cash and cash equivalents	(878)	876
Movements in cash and cash equivalents	**(12 129)**	**10 241**
Cash and cash equivalents at beginning of the period	**12 836**	**2 595**
Cash and cash equivalents at end of the period	**707**	**12 836**
including restricted cash and cash equivalents	1	3

Amounts in tables in million PLN, unless otherwise stated

ANNUAL CONSOLIDATED FINANCIAL STATEMENTS

Independent Registered Auditor's Opinion

to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

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

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

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

We conducted our audit in accordance with the following:
a. the provisions of Chapter 7 of the Act;
b. national standards of auditing issued by the National Chamber of Registered Auditors.

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

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

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

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

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

Wrocław, 27 March 2013

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Consolidated statement of financial position

ASSETS

	Note	31 December 2012	31 December 2011 restated*	1 January 2011 restated*
		At		
Non-current assets				
Property, plant and equipment	6	14 116	9 093	8 671
Intangible assets	7	2 259	663	605
Investment property	8	59	60	60
Investments accounted for using the equity method	9	3 078	-	1 431
Deferred tax assets	22	637	272	593
Available-for-sale financial assets	10	892	994	752
Mine closure financial assets	11	460	112	84
Derivatives	12	745	899	404
Trade and other receivables	13	1 516	40	14
		23 762	**12 133**	**12 614**
Current assets				
Inventories	14	3 769	2 658	2 222
Trade and other receivables	13	2 846	1 839	2 728
Current corporate tax receivables		77	8	4
Available-for-sale financial assets	10	149	16	416
Mine closure financial assets	11	-	2	4
Derivatives	12	382	860	298
Cash and cash equivalents	15	2 629	13 130	3 087
Non-current assets held for sale		2	4	1
		9 854	**18 517**	**8 760**
TOTAL ASSETS		**33 616**	**30 650**	**21 374**

* Details presented in note 2.1.2.

The accounting policies and other explanatory information presented on pages 143 to 239 represent an integral part of these financial statements
Amounts in tables in million PLN, unless otherwise stated

EQUITY AND LIABILITIES

	Note	31 December 2012	31 December 2011 restated*	1 January 2011 restated*
		At		
Equity attributable to shareholders of the Parent Entity				
Share capital	16	2 000	2 000	2 000
Revaluation reserve from measurement of available-for-sale financial assets	17	(51)	(38)	120
Revaluation reserve from measurement of cash flow hedging instruments	17	286	574	90
Exchange differences from the translation of foreign operations statements	17	(235)	19	-
Retained earnings	18	19 478	20 547	12 461
		21 478	**23 102**	**14 671**
Non-controlling interest	19	**232**	**289**	**256**
TOTAL EQUITY		**21 710**	**23 391**	**14 927**
LIABILITIES				
Non-current liabilities				
Trade and other payables	20	733	142	136
Borrowings, debt securities and finance lease liabilities	21	1 783	194	174
Derivatives	12	230	538	712
Deferred tax liabilities	22	1 760	129	168
Employee benefits liabilities	23	1 615	1 339	1 222
Provisions for other liabilities and charges	24	999	485	521
		7 120	**2 827**	**2 933**
Current liabilities				
Trade and other payables	20	3 025	2 249	2 106
Borrowings, debt securities and finance lease liabilities	21	1 075	104	96
Current corporate tax liabilities		448	1 596	672
Derivatives	12	25	331	482
Employee benefits liabilities	23	133	126	111
Provisions for other liabilities and charges	24	80	26	47
		4 786	**4 432**	**3 514**
TOTAL LIABILITIES		**11 906**	**7 259**	**6 447**
TOTAL EQUITY AND LIABILITIES		**33 616**	**30 650**	**21 374**

* Details presented in note 2.1.2.

The accounting policies and other explanatory information presented on pages 143 to 239 represent an integral part of these financial statements
Amounts in tables in million PLN, unless otherwise stated

Consolidated statement of profit or loss

	Note	For the period from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Continued operations			
Sales	25	26 705	22 107
Cost of sales	26	(18 079)	(11 631)
Gross profit		**8 626**	**10 476**
Selling costs	26	(402)	(187)
Administrative expenses	26	(1 082)	(849)
Other operating income	28	1 669	4 605
Other operating costs	29	(2 217)	(813)
Operating profit		**6 594**	**13 232**
Finance costs	30	(146)	(52)
Share of profits of investments accounted for using the equity method		-	188
Profit before income tax		**6 448**	**13 368**
Income tax expense	33	(1 645)	(2 300)
Profit for the period from continued operations		**4 803**	**11 068**
Discontinued operations			
Profit for the period from discontinued operations		-	60
Profit for the period		**4 803**	**11 128**
Profit for the period attributable to:			
shareholders of the Parent Entity		4 802	11 127
non-controlling interest		1	1
Earnings per share from continued operations attributable to the shareholders of the Parent Entity for the reporting period (in PLN per share)			
- basic	35	24.01	55.34
- diluted	35	24.01	55.34
Earnings per share from discontinued operations attributable to the shareholders of the Parent Entity for the reporting period (in PLN per share)			
- basic	35	-	0.30
- diluted	35	-	0.30

* Details presented in note 2.1.2.

The accounting policies and other explanatory information presented on pages 143 to 239 represent an integral part of these financial statements
Amounts in tables in million PLN, unless otherwise stated

Consolidated statement of comprehensive income

	Note	For the period from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Profit for the period – continued operations		**4 803**	**11 068**
Profit for the period – discontinued operations		**-**	**60**
Profit for the period		**4 803**	**11 128**
Other comprehensive income – continued operations			
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	26	**(570)**	**363**
Available-for-sale financial assets		(6)	(195)
Income tax		(7)	37
	17	(13)	(158)
Cash flow hedging instruments		(355)	598
Income tax		67	(114)
	17	(288)	484
Exchange differences from the translation of foreign operations statements	17,19	(269)	37
Other comprehensive income, which will not be reclassified to profit or loss		**(170)**	**(66)**
Actuarial losses*		(210)	(82)
Income tax		40	16
Other comprehensive net income for the financial period		**(740)**	**297**
TOTAL COMPREHENSIVE INCOME		**4 063**	**11 425**
Total comprehensive income attributable to:			
shareholders of the Parent Entity		4 066	11 406
non-controlling interest		(3)	19
Total comprehensive income attributable to shareholders of the Parent Entity			
from continued operations		4 066	11 346
from discontinued operations		-	60

* Details presented in note 2.1.2.

The accounting policies and other explanatory information presented on pages 143 to 239 represent an integral part of these financial statements
Amounts in tables in million PLN, unless otherwise stated

Consolidated statement of changes in equity

	Note	Equity attributable to shareholders of the Parent Entity						Equity attributable to non-controlling interest	Total equity
		Share capital	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging instruments	Exchange differences from the translation of foreign operations statements	Retained earnings	Total		
At 1 January 2012 restated*		2 000	(38)	574	19	20 547	23 102	289	23 391
Dividends from profit for 2011 - paid	36	-	-	-	-	(5 668)	(5 668)	(1)	(5 669)
Total comprehensive income		-	(13)	(288)	(265)	4 632	4 066	(3)	4 063
Profit for the period		-	-	-	-	4 802	4 802	1	4 803
Other comprehensive income	17, 19	-	(13)	(288)	(265)	(170)	(736)	(4)	(740)
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19	-	-	-	11	(33)	(22)	(53)	(75)
At 31 December 2012		2 000	(51)	286	(235)	19 478	21 478	232	21 710
At 1 January 2011		2 000	120	90	-	12 456	14 666	256	14 922
Change in accounting policies*		-	-	-	-	5	5	-	5
At 1 January 2011 restated*		2 000	120	90	-	12 461	14 671	256	14 927
Dividends from profit for 2010 paid	36	-	-	-	-	(2 980)	(2 980)	-	(2 980)
Total comprehensive income		-	(158)	484	19	11 061	11 406	19	11 425
Profit for the period – restated*		-	-	-	-	11 127	11 127	1	11 128
Other comprehensive income - restated*	17, 19	-	(158)	484	19	(66)	279	18	297
Obligation to repurchase of non-controlling interest		-	-	-	-	(2)	(2)	-	(2)
Changes due to obtaining control of subsidiaries	19	-	-	-	-	-	-	22	22
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19	-	-	-	-	7	7	(8)	(1)
At 31 December 2011 restated*		2 000	(38)	574	19	20 547	23 102	289	23 391

* Details presented in note 2.1.2.

The accounting policies and other explanatory information presented on pages 143 to 239 represent an integral part of these financial statements
Amounts in tables in million PLN, unless otherwise stated

Consolidated statement of cash flows

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Cash flow from operating activities			
Profit for the period		4 803	11 128
Adjustments to profit for the period:		3 588	(714)
Income tax recognised in profit or loss		1 645	2 307
Amortisation/Depreciation		1 453	913
Losses on the sale of property, plant and equipment and intangible assets		6	9
Losses on the sale and fair value changes of investment property		-	4
Gains on the sale of available-for-sale financial assets		-	(17)
Gains on the sale of subsidiaries and an associate	4,28,9	-	(2 311)
Impairment loss on property, plant and equipment, intangible assets, available-for-sale financial assets and allowances for impairment of loans granted		203	11
Share in profits of associates accounted for using the equity method		-	(188)
Interest and share in profits (dividends)		8	(23)
Foreign exchange losses/(gains)		852	(866)
Change in provisions		68	36
Change assets/liabilities due to derivatives		(5)	(542)
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives		(333)	(242)
Other adjustments		16	(49)
Changes in working capital:		(325)	244
Inventories		(287)	(436)
Trade and other receivables		(346)	568
Trade and other payables		308	112
Income tax paid		(2 870)	(1 316)
Net cash generated from operating activities		5 521	9 098

The accounting policies and other explanatory information presented on pages 143 to 239 represent an integral part of these financial statements
Amounts in tables in million PLN, unless otherwise stated

Consolidated statement of cash flows

	Note	For the period from 1 January 2012 to 31 December 2012	For the period from 1 January 2011 to 31 December 2011 restated*
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents	4	(7 010)	(117)
Proceeds from sale and liquidation of subsidiaries	4	-	892
Purchase of an entity accounted for using the equity method		(33)	-
Proceeds from sale of associates		-	3 672
Purchase of property, plant and equipment and intangible assets		(2 402)	(1 859)
Advances granted for purchase of property, plant and equipment and intangible assets		(93)	(68)
Proceeds from sale of property, plant and equipment and intangible assets		42	19
Purchase of available-for-sale financial assets		-	(1 586)
Proceeds from sale of available-for-sale financial assets		3	1 560
Purchase of mine closure financial assets		(93)	(26)
Establishment of deposits		(43)	(518)
Termination of deposits		66	800
Loans granted	32.2.4	(1 251)	-
Interest received		1	9
Dividends received		57	277
Other investment proceeds/(expenses)		(6)	(6)
Net cash (used in)/generated from investing activities		**(10 762)**	**3 049**
Cash flow from financing activities			
Capital contributions to a subsidiary from holders of non-controlling interest		17	-
Proceeds from bank and other loans		1 439	141
Repayments of bank and other loans		(86)	(105)
Payments of liabilities due to finance leases		(11)	(24)
Interest paid		(139)	(12)
Dividends paid to shareholders of the Parent Entity	36	(5 668)	(2 980)
Donations received		19	-
Other financial proceeds		-	1
Net cash used in financing activities		**(4 429)**	**(2 979)**
Total net cash flow		**(9 670)**	**9 168**
Exchange (losses)/gains on cash and cash equivalents		(831)	875
Movements in cash and cash equivalents		(10 501)	10 043
Cash and cash equivalents at beginning of the period	15	13 130	3 087
Cash and cash equivalents at end of the period	15	2 629	13 130
including restricted cash and cash equivalents		99	10

* Details presented in note 2.1.2.

The accounting policies and other explanatory information presented on pages 143 to 239 represent an integral part of these financial statements
Amounts in tables in million PLN, unless otherwise stated

Accounting policies and other explanatory information

1. General information

Company name, registered office, activities

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

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

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

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

The principal activities of the Parent Entity comprise:

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

The business activities of the Group also include:

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

Going concern assumption

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

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

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

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

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

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

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

Status at the date of signing the financial statements

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

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

Planned actions following the date of signing of the financial statements

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

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

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

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

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

If however agreement on the concession decisions is not reached, the Parent Entity has the right to submit a complaint. The timeframe for submitting a complaint begins from the date the aforementioned decisions are delivered/handed over to the parties and lasts 7 days from the receipt or announcement of a decision. The complaint, in accordance with art. 17 of the APC, is forwarded to the Government Appeals Collegium – being the higher level administrative body with respect to a mayor. The appeals body will also be able to maintain in force the appealed decisions, as well as make a decision in reference to the essence of the matter. Under current law, this should occur within a month of the date of receipt of a complaint.

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

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

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

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

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

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

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

Period of operation

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

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

Composition of the Management Board of the Parent Entity

The 7th-term Management Board of KGHM Polska Miedź S.A. as at 1 January 2012 consisted of:
- Herbert Wirth – President of the Management Board,
- Maciej Tybura – I Vice President of the Management Board (Finance) (to 28 June 2012),
- Wojciech Kędzia –Vice President of the Management Board (Production).

On 27 June 2012, due to expiration of the term of office of the Management Board, the Supervisory Board of KGHM Polska Miedź S.A. appointed Herbert Wirth as President of the 8th-term Management Board, as well as the following Members of the Management Board:
- Włodzimierz Kiciński (from 28 June 2012),
- Wojciech Kędzia,
- Dorota Włoch (from 28 June 2012),
- Adam Sawicki (from 1 September 2012).

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

The composition and scope of duties of the Management Board at 31 December 2012 was as follows:
- Herbert Wirth – President of the Management Board,
- Włodzimierz Kiciński – I Vice President of the Management Board (Finance),
- Wojciech Kędzia – Vice President of the Management Board (Production),
- Adam Sawicki – Vice President of the Management Board (Corporate Affairs)
- Dorota Włoch – Vice President of the Management Board (Development).

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

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

Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

2. Main accounting policies

2.1. Basis of preparing financial statements

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

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

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

2.1.1. New standards

From 1 January 2012 the following new and changed standards and interpretations are binding for the Group:
- **Amendments to IFRS 7 Disclosures** – Transfers of Financial Assets.

In addition, the Group decided on the early application from 1 January 2012 of non-obligatory standards and interpretations approved for use by the European Union:
- **Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
- **Amendments to IAS 12 Income Taxes** - Deferred Tax: Recovery of Underlying Assets;
- **Amendments to IAS 1 Presentation of Financial Statements** – Presentation of items of Other Comprehensive Income;
- **Amended IAS 19 Employee benefits.**

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

The changes are described in note 2.1.2.

Non-obligatory standards and interpretations approved for use by the European Union which the Group did not apply earlier:
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine
- Amendments to MSSF 7 Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 1 First-time Adoption of IFRS: Government loans.

Standards and interpretations which are not binding and have not been adopted by the European Union up to the date of publication of these consolidated financial statements.
- IFRS 9 Financial instruments
- Mandatory Effective Date and Transition Disclosures. Amendments to IFRS 9 and IFRS 7
- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities.
- Annual Improvements 2009-2011 cycle
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance.

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

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

The changes in the principles of presentation of the comparable period, which did not impact the financial data presented in the financial statements for the reporting and comparable periods, were:
- a change in the nominal value of the presentation currency, from thousand PLN to million PLN. This change enabled the aggregation and classification of immaterial financial data in accordance with their nature and function, and also limited the scope of published financial information to key categories of the financial statements, making them more understandable,
- a change in the name of the statement of financial position item in which financial assets acquired using the Mine Closure Fund are presented. Considering the substantial amount of these assets and a better reflection of their nature and designation, the name of the item in assets was changed from „Held-to-maturity investments" to „Mine closure financial assets",
- changes in the presentation of property, plant and equipment. As a result of the acquisition of KGHM INTERNATIONAL LTD. there was a substantial increase in the value of the Group's property, plant and equipment, with a significant change in their structure. To adapt the presentation of property, plant and equipment to their mining and metallurgical nature, property, plant and equipment has been separated into two main categories: "Mining and metallurgical assets", presenting those assets closely related to the mining and metallurgical activities, and "Other assets not related to the mining and metallurgical activities",
- a change in the presentation of the statement of comprehensive income. Taking into consideration the clarity and transparency of the presented financial data, the Group decided to present the income and expenses of the reporting period in two financial statements: the statement presenting profit or loss (the statement of profit or loss) and in the statement which begins with profit or loss and presents other comprehensive income (the statement of comprehensive income),
- a change in the presentation of other comprehensive income. The Group decided on the early adoption of changes to IAS 1 Presentation of Financial Statements - Presentation of Other Comprehensive Income Items, consequently the presentation of other comprehensive income items is done in two groups, which pursuant to other IFRS principles:
  - will be reclassified to profit or loss when specified conditions are met, and
  - will not be reclassified to profit or loss,
- changes in the presentation of individual items of equity. To improve the transparency and clarity of the financial data, the Group decided to present other comprehensive income in the statement of financial position under the individual categories of this income. As a result of these changes, in the statement of financial position the item „Accumulated other comprehensive income" was replaced by the following equity items:
  - "Revaluation reserve from the measurement of available-for-sale financial assets"
  - "Revaluation reserve from the measurement of cash flow hedging instruments"
  - "Exchange differences from the translation of foreign operations statements".

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

(a) early adoption by the Group of changes to IAS 19 Employee Benefits, in accordance with rules regarding transition. The changes introduced by the Group involved the recognition of actuarial gains and losses from the measurement of specified benefits programs following the period of employment in other comprehensive income and not as previously in profit or loss. As a result of the application of this standard in the

consolidated financial statements as at 31 December 2011, other comprehensive income for the period from 1 January 2011 to 31 December 2011 decreased by PLN 66 million (PLN 81 million less deferred tax in the amount of PLN 15 million), and simultaneously the profit for the period increased by the same amount. In the statements of profit or loss for the period from 1 January to 31 December 2011 the following items were decreased:
- costs of sales by PLN 33 million,
- administrative expenses by PLN 48 million, and

deferred income tax was increased by PLN 15 million.

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

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

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

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

The impact of changes on the quarterly results published in 2012

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

Amounts in tables in million PLN, unless otherwise stated

Impact of final accounting for the acquisition on the comparable data

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

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

Amounts in tables in million PLN, unless otherwise stated

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

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

2.2. Accounting policies

2.2.1. Property, plant and equipment

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.2.2. Intangible assets

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

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

Goodwill

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

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

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

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

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

Development costs

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

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

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

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

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

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

Research expenditure is recognised as an expense as incurred.

Greenhouse gas emission allowances

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

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

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

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

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

Other intangible assets

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

Other intangible assets are measured at cost at initial recognition.

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

If payment for an intangible asset is deferred for a period which is longer than standard for ordinary buyer's credit (in practice a period of over 1 year is assumed), its purchase price should reflect the amount which would be paid in cash. The difference between this amount and the total payment is recognised in profit or loss as interest cost (a discount of liabilities) in financial costs in the period of repayment (settlement) of liabilities. Exchange differences which arise from liabilities in a foreign currency which are related to the acquisition or construction of an item of intangible assets are recognised in profit or loss in the period in which they are incurred.

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

Intangible assets (excluding goodwill, greenhouse gas emission allowances, water rights, exploration and evaluation assets and intangible assets not yet available for use) are amortised using the straight-line method over their anticipated useful lives, which are as follows for the specific types of intangible assets:
- Development costs – 5–15 years,
- Software – 2–8 years,
- Concessions, licenses and patents – 2 –5 years,
- Other intangible assets, including rights to geological information – 50 years.

The amortisation method and the amortisation rate are subject to review at the end of each reporting period.

As in the case of goodwill, intangible assets not yet available for use (under construction) are not amortised, but are tested annually for impairment. Any potential impairment loss is recognised in profit or loss in accordance with the principles described in point 2.2.4.

2.2.3. Exploration and evaluation assets

Intangible assets and property, plant and equipment used in the exploration for and evaluation of mineral resources are recognised as exploration and evaluation assets, but they do not include expenditures on development work related to mineral resources or expenditures incurred:
a) prior to the commencement of exploration for and evaluation of mineral resources, i.e. expenditures incurred prior to the acquisition of legal rights to carry out exploratory activities within a specified area, and
b) after the technical feasibility and commercial viability of extracting a mineral resource is demonstrable.

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

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

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

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

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

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

Any potential impairment losses are recognised prior to reclassification.

2.2.4. Impairment of non-financial assets

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

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

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

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

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

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

than the highest of the following amounts: fair value less costs to sell, value in use and zero.

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

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

2.2.5. Investment property

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

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

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

2.2.6. Investments in subsidiaries

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

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

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

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

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

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

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

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

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

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

2.2.7. Investments accounted for using the equity method

Associates

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

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

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

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

Joint Ventures

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

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

2.2.8. Financial Instruments

2.2.8.1. Classification of financial instruments

Financial instruments are classified into one of the following categories:
- financial assets measured at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets,
- financial liabilities measured at fair value through profit or loss,
- other financial liabilities,
- derivative hedging instruments.

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

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

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

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

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

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

a) such classification eliminates or significantly reduces any inconsistency in respect of measurement or recognition (also defined as "an accounting mismatch"), that would otherwise arise from measuring assets or liabilities or recognising gains or losses using a different basis; or

b) a group of financial instruments is managed properly and the performance of the group is evaluated on the fair value basis, in accordance with a documented risk management or investment strategy.

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

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

Loans and receivables

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

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

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

Available-for-sale financial assets

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

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

Other financial liabilities

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

Hedging instruments

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

Instruments initially designated as hedging instruments excluded from hedge accounting

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

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

2.2.8.2. Initial measurement and derecognition of financial instruments

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

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

2.2.8.3. Measurement of financial instruments at the end of the reporting period

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

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

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

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

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

Loans and receivables, held-to-maturity investments

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

Other financial liabilities

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

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

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

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

2.2.8.4. Fair value

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

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

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

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

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

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

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

2.2.8.5. Impairment of financial assets

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

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

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

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

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

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

2.2.8.6. Embedded derivatives

Initial recognition of derivatives

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

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

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

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

2.2.8.7. Hedge accounting

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

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

Derivatives used in cash flow hedges

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

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

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

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

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

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

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

Discontinuation of hedge accounting

The Group ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the Group revokes its designation of a given instrument as a hedging instrument. The Group may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in accumulated other comprehensive income until the hedged item affects profit or loss.

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

2.2.9. Inventories

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

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

Inventory additions are measured in accordance with the following principles:
- materials and merchandise – at cost,
- finished goods, half-finished products – at actual manufacturing cost,
- work in progress – based on valuation of the work-in-progress inventories.

Inventory disposals are measured in accordance with the following principles:
- materials and merchandise – at average cost based on the weighted average cost of a given item,
- finished goods, half-finished products and work in progress – based on weighted average actual manufacturing cost.

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

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

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

2.2.10. Trade and other receivables

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

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

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

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

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

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

2.2.11. Cash and cash equivalents

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

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

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

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

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

2.2.13. Equity

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

2.2.14. Liabilities

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

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

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

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

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

2.2.15. Leases

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

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

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

2.2.16. Accrued expenses

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

Accruals include among others:
- remuneration and the related surcharges paid on a one-off basis, relating to annual periods,
- accrued taxes and local fees,
- short-term accruals for unused annual leave,
- provisions for costs resulting from the requirement to redeem property rights resulting from certificates of origin of energy from renewable resources and cogeneration, and
- provisions for costs arising from the obligation to redeem allowances for emissions of CO_2.

2.2.17. Deferred income

Deferred income includes mainly:
- monetary resources received to finance the acquisition or manufacture of fixed assets under construction or development work, which are recognised as income over the periods necessary to match them with the depreciation of the assets financed by these resources, and
- the amount being the equivalent fair value of CO_2 emissions allowances received free of charge which are settled in profit or loss matching actual CO_2 emissions, in the scope in which such emissions were covered by allowances received,
- prepayment by Franco Nevada under an agreement for the supply of 50% of gold, platinum and palladium content in ore extracted by the KGHM INTERNATIONAL LTD. Group.

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

2.2.18. Provisions

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

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

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

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

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

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

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

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

2.2.19. Employee benefits

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

The amount of the liability due to these benefits is equal to the present value of the defined benefit obligation at the end of the reporting period, and reflects actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the end of the reporting period by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of future benefit payment, with maturities similar to those of the liabilities due to be paid. According to IAS 19, Employee benefits, the discount rate should be based on the market yields of highly liquid commercial bonds with low risk. Should there be no developed market for such bonds, and such a situation does exist in Poland, the yield on government bonds at the end of the reporting period should be applied. Market rates of return used for estimating of provisions are discussed in note 3.

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

2.2.20. Income taxes

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

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:
- is not a business combination, and
- at the time of the transaction, affects neither the accounting profit nor taxable profit.

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

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

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

2.2.21. Contingent liabilities

Contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or

b) a present obligation that arises from past events but is not recognised because:
   - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
   - the amount of the obligation (liability) cannot be measured with sufficient reliability.

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

2.2.22. Presentation of income and costs in the reporting period

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

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

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

Consequently, in the group of items which, under other IFRSs, will be reclassified to profit or loss when specified conditions are met, the following are recognised:
- gains and losses of the period regarding the fair value measurement of available-for-sale financial assets,
- gains and losses from the fair value measurement of the effective portion of future cash flow hedging instruments, and
- exchange differences from the translation of foreign operations, including related tax effect.

For those items which will not be reclassified to profit or loss the following is recognised:
- actuarial gains or losses, including related tax effect.

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

2.2.23. Revenues

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

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

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

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

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

Moment of recognition of revenues

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

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

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

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

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

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

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

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

2.2.24. Costs

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

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

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

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

In addition, costs for the given reporting period which affect profit or loss for the period include **other operating costs**, indirectly connected with operating activities, including in particular:
- costs and losses on financial investments,
- losses from the measurement and realisation of traded derivatives and the ineffective portion of losses arising from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities,
- impairment losses on held-to–maturity investments, available-for-sale financial assets, loans and other investments,
- provisions recognised for disputed issues, penalties, compensation and other costs indirectly related to operating activities,
- donations granted,
- losses on disposal of property, plant and equipment and intangible assets, and

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

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

Functional and presentation currency

Items included in the financial statements of Group entities are measured using the currency of the primary economic environment in which the Group's entities operate, i.e. in the functional currency. The functional currency of individual Group entities is the currency in which the given entity generates and expends cash, in particular:
- the functional currency of entities operating in Poland is the złoty (zł, PLN),
- the functional currency of entities operating in the subgroup KGHM INTERNATIONAL LTD. is the US dollar ($, USD),
- the functional currency of the remaining entities is the currency of the given economic environment.

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

Transactions and balances

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

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

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

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

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

2.2.26. Borrowing costs

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

Borrowing costs consist of interest and other borrowing-related costs incurred, and include in particular:
- interest costs calculated using the effective interest method in accordance with IAS 39,
- financial charges due to financial leasing contracts recognised in accordance with IAS 17,
- exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

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

Borrowing costs for loans which were drawn without a specified purpose, but which were allocated to finance the acquisition or production of a qualifying asset, affect the initial value of the qualifying asset by the amount of the capitalisation rate applied to the expenditures on that asset. The capitalisation rate is the weighted average of all borrowing costs of an entity that are outstanding during a given period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. Exchange differences on borrowings drawn in a foreign currency (both specific and general) affect the initial value of the qualifying asset to the extent in which it represents an adjustment of interest costs. The amount of the exchange differences adjusting the interest cost is the difference between the cost of interest on similar financing which a Group would have drawn in its functional currency and the financing cost incurred in the foreign currency.

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

2.2.27. Government grants

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

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

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

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

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

2.2.28. Segment reporting

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

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

2.2.29. Earnings per share

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

2.2.30. Statement of cash flows

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

2.2.31. Capital management

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

In accordance with market practice, the effective use of capital is monitored among others on the basis of the following ratios:
- The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets, and
- The ratio showing the relationship of borrowings and finance lease liabilities less cash and cash equivalents to EBITDA. EBITDA is operating profit plus depreciation/amortisation.

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

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

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

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

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

The acquired property rights are initially measured at cost, equivalent to:
- the cost of a given certificate of origin based on current market price, or
- the amount of the negotiated contractual price if such rights are purchased in off-session market transactions.

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

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

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

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

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

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

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

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

3. Important estimates and assumptions

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

Estimates and assumptions of importance for the consolidated financial statements of the Group are presented below.

(a) Settlement of the acquisition of subsidiaries

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

(b) Joint ventures (jointly controlled entities)

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

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

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

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

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

(c) Property, plant and equipment – depreciation

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

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

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

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

(d) Testing for impairment

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

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

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

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

(e) Valuation of inventories

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

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

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

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

(g) Measurement of future employee benefits liabilities

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

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

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

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

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

This provisions represents the discounted to present value estimated future decommissioning costs of mines and other facilities. Revaluation of this provision at the end of the reporting period is affected by the following indicators:
a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
b) the real discount rate calculated based on the yield of treasury bonds with the maturities nearest to planned financial outflow (nominal discount rate) and the forecast rate of inflation,
c) the rate of return on investments in US 10-year treasury notes, and
d) the rate of return on investments in 5-year and 10-year government bonds issued by the National Bank of Canada.

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

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

In the KGHM INTERNATIONAL LTD. Group, in order to estimate provisions for the decommissioning costs of mines and other technological facilities located in individual countries, the following discount rates were applied:
- 1.2%–1.8% – in the United States,
- 1.8% – in Canada.

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

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

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

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

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

(i) Deferred tax assets/liabilities

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

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

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

(j) Investment property

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

Impact of changes in the indicators on the balance of liabilities

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

Amounts in tables in million PLN, unless otherwise stated

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

Entity	Head office	Scope of activities	% of Group's share as at 31 December 2012	% of Group's share as at 31 December 2011
"BIOWIND" sp. z o.o.	Lubin	generation, transfer and distribution of electricity	100	100
BIPROMET S.A.	Katowice	construction, urban planning, and technology design, erection of complete facilities or parts thereof, civil and water engineering, property leasing	66	66
Bipromet Ecosystem Sp. z o.o.	Katowice	execution of central heating and ventilation installations	33.66	33.66
CBJ sp. z o.o.	Lubin	technical research and analyses, measurement of imissions and emissions, industrial research	100	100
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	85	85
DFM ZANAM-LEGMET Sp. z o.o.	Polkowice	repair and manufacture of machinery	100	100
Ecoren DKE sp. z o.o.	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	100	100
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat, water-sewage management	100	100
Fermat 1 S.á r.l.	Luxembourg	foundation, development, management or exercise of control of other companies	100	100
Fermat 2 S.á r.l.	Luxembourg	foundation, development, management or exercise of control of other companies	100	100
Fermat 3 S.á r.l.	Luxembourg	foundation, development, management or exercise of control of other companies	100	-
Fundusz Hotele 01 Sp. z o.o.	Wrocław	financial activities, trade in real estate, management consulting	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Wrocław	financial activities, retail and wholesale of different merchandise and products	100	100
Polska Grupa Uzdrowisk sp. z o.o. – former Fundusz Uzdrowiska 01 Sp. z o.o.	Wrocław	financial holding activities, financial services, turnover and real estate services	100	100
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A. – since 9 January 2013 Polska Grupa Uzdrowisk Sp. z o.o. SKA	Warsaw	financial activities, retail and wholesale of different merchandise and products	100	100
INOVA Spółka z o.o.	Lubin	inspections and control of machinery, R&D work	100	100
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	67.71	66.82
Interferie Medical SPA Sp. z o.o.	Lubin	hotel services, recreation, rehabilitation, health tourism and wellness	89.46	89.17
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	80	51
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100
KGHM Ecoren S.A.	Lubin	production of ammonium perrhenate and road-building material, sale of raw materials for the production of abrasives, the processing and recovery of metals from ores, mineral resources and industrial waste	100	100
KGHM Kupfer AG	Berlin	exploration for and evaluation of deposits of copper and other metals in Europe	100	100
KGHM I FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM II FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM III FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM Kupferhandelsges. m.b.H.i L.	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation, technology transfer, operation of a technology park, property sale and rental	85.45	85.45
KGHM Metraco S.A.	Legnica	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt, spedition services	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	wholesale activities, import/export of copper/silicon products and chemicals, mechanical and electrical equipment, office materials, commercial consulting services	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	hospital services, physician practice, activities related to protecting human health, occupational medicine	100	100
NITROERG S.A.	Bieruń	production of explosives and detonation agents used in mining	85	85
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
Przedsiębiorstwo Budowlane Katowice S.A.	Katowice	construction of complete facilities or parts thereof, general and specialty construction	58.08	58.08
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
Sugarloaf Ranches Limited	Vancouver	agricultural activity	100*	-

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

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

* Actual Group share.

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

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

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

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

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

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

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

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

As part of the activities related to acquiring the shares of KGHM INTERNATIONAL LTD., the KGHM Polska Miedź S.A. Group created a holding structure, as a result of which in 2012 the following companies were founded:
- a company under the name 0929260 B.C. UNLIMITED LIABILITY COMPANY with its registered head office in Vancouver, Canada (on 3 January 2012); the share capital of the founded company amounted to CAD 100 and was paid for in cash,
- a company under the name Fermat 3 S.à r.l. with its registered head office in Luxembourg (on 15 February 2012), in which, 20 000 shares was acquired with a nominal value of 1 USD/share for USD 20 000 paid for in cash, representing 100% of the share capital of Fermat 3 S.à r.l.

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

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

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

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

Revenues of the KGHM INTERNATIONAL LTD. Group recognised in the consolidated statement of profit or loss of the KGHM Polska Miedź S.A. Group for the period from

Fair value of the net assets acquired, the gain on a bargain purchase and the purchase price at the date control (in M PLN)

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

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

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

the moment of acquisition to 31 December 2012 amounted to PLN 3 836 million, while the profit for this same period amounted to PLN 231 million.

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

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

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

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

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

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

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

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

Acquisition of shares of Sugarloaf Ranches Ltd.

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

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

Final accounting for the acquisition of NITROERG S.A

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

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

Amounts in tables in million PLN, unless otherwise stated

Changes in 2011

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

Fair value of net assets of Uzdrowisko "Świeradów-Czerniawa" Sp z o.o.

	Note	At the acquisition date
Property, plant and equipment		30
Intangible assets		8
Current trade and other receivables		2
Total assets		**40**
Borrowings and other long-term sources of financing		2
Current trade and other payables		4
Employee benefits liabilities		1
Deferred tax liabilty		5
Provisions for other liabilities and charges		1
Total liabilities		**13**
Assets at the acquisition date		**27**
Net assets attributable to the Group		24
% in net assets		87.74%
Purchase price		21
Total cash flow from the acquisition less cash and cash equivalents received		21
Gain on a bargain purchase – final accounting	28	**3**

Establishment of new entities in 2011

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

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

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

Sale and liquidation of subsidiaries in 2011

Sale of DIALOG S.A. Group – discontinued operations

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

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

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

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

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

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

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

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

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

Liquidation of KGHM Polish Copper Ltd.

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

5. Information on business segments

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

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

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

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

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

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

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

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

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

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

KGHM INTERNATIONAL LTD. Group

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

Sierra Gorda project

Sierra Gorda S.C.M.

Resource base development

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

Support of the core business

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

Other segments

NITROERG S.A.
PHP „MERCUS" sp. z o.o.
KGHM Ecoren S.A.
CENTROZŁOM WROCŁAW S.A.
WMN „ŁABĘDY" S.A.
WFP Hefra SA
Ecoren DKE spółka z o.o.
PHU „Lubinpex" Sp. z o.o.
PMT Linie Kolejowe Sp. z o.o.
KGHM TFI S.A.
INTERFERIE S.A.
Interferie Medical SPA Sp. z o.o.
ZUK S.A.
Uzdrowisko Połczyn S.A.
„Uzdrowisko Cieplice" Sp. z o.o.
Uzdrowisko „Świeradów-Czerniawa" Sp. z o.o.
Fundusz Hotele 01 Sp. z o.o.
Fundusz Hotele 01 Sp. z o.o. S.K.A.
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.
Polska Grupa Uzdrowisk sp. z o.o.
KGHM I FIZAN
KGHM II FIZAN
KGHM III FIZAN
„MIEDZIOWE CENTRUM ZDROWIA" S.A.
Zagłębie Lubin S.A.
KGHM LETIA S.A.
KGHM (SHANGHAI) COPPER TRADING CO., LTD.
KGHM Kupferhandelsges. m.b.H.i.L
Przedsiębiorstwo Budowlane Katowice S.A.
Bipromet Ecosystem Sp. z o.o.

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

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

Information on business segments

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

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

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

* Result analysed in a given segment.

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

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

Amounts in tables in million PLN, unless otherwise stated

Information on business segments for the comparable period

	For the period from 1 January to 31 December 2011 - restated								
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda project	Resource base development	Support of the core business	Other segments	Discontinued operations	Consolidation adjustments	Total continued operations
Sales	20 097	-	-	-	5 120	2 493	506	(6 109)	**22 107**
Inter-segment sales	748	-	-	-	3 997	846	19	(5 610)	**-**
External sales	19 349	-	-	-	1 123	1 647	487	(499)	**22 107**
Operating costs	(10 660)	-	-	(7)	(5 071)	(2 929)	(447)	6 447	**(12 667)**
Depreciation/Amortisation	(672)	-	-	-	(92)	(68)	(65)	51	**(846)**
Operating profit/(loss)	13 761	-	-	(1)	90*	5*	68	(691)	**13 232**
Profit/(loss) before income tax	**13 727**	**-**	**-**	**-**	**80**	**(3)**	**67**	**(503)**	**13 368**
Income tax expense	(2 333)	-	-	-	(19)	(3)	(7)	62	**(2 300)**
Profit/(loss) for the period	**11 394***	**-**	**-**	**-**	**61**	**(6)***	**60**	**(441)**	**11 068**
	At 31 December 2011 - restated								
Segment assets	**29 252**	**-**	**-**	**324**	**2 074**	**2 215**	**-**	**(3 215)**	**30 650**
Liabilities	**6 117**	**-**	**-**	**21**	**971**	**642**	**-**	**(492)**	**7 259**
Other information									
Capital expenditure	1 519	-	-	58	197	206	66	(89)	**1 957**
EBITDA (operating profit plus depreciation/amortisation)	**14 433**	**-**			**182**				
% of sales to KGHM Polska Miedź S.A.					**75%**				
Production and cost data									
Payable copper ('000 t)	571.0								
including from purchased copper-bearing materials ('000 t)	124.6								
Silver (t)	1 259.6								
Gold (kg)	703.8								
C1 cash cost of copper in concentrate production (USD/lb)	0.63								

* Result analysed in a given segment.

Amounts in tables in million PLN, unless otherwise stated

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

Main customers

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

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

Amounts in tables in million PLN, unless otherwise stated

6. Property, plant and equipment

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

* Details presented in note 2.1.2

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

7. Intangible assets

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

* Details presented in note 2.1.2

** Relates to the KGHM INTERNATIONAL LTD. Group

Amounts in tables in million PLN, unless otherwise stated

8. Investment property

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

9. Investments accounted for using the equity method

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

Amounts in tables in million PLN, unless otherwise stated

10. Available-for-sale financial assets

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

11. Mine closure financial assets

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

Amounts in tables in million PLN, unless otherwise stated

12. Derivatives

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

Amounts in tables in million PLN, unless otherwise stated

13. Trade and other receivables

	Note	At 31 December 2012	31 December 2011
Trade and other non-current receivables			
Deposits of over 12 months		1	34
Loans granted*		1 470	-
Other financial receivables		20	5
Impairment allowances		-	(1)
Total loans and financial receivables, net	31.1	**1 491**	**38**
Prepayments		25	2
Total non-financial receivables, net		**25**	**2**
Trade and other non-current receivables, net:		**1 516**	**40**
Trade and other current receivables			
Trade receivables		2 248	1 388
Unsettled derivative instruments receivables**		22	30
Loans granted		1	2
Deposits of over 3 up to 12 months		47	35
Other financial receivables		64	68
Impairment allowances		(70)	(71)
Total loans and financial receivables, net	31.1	**2 312**	**1 452**
Other non-financial receivables, including:		507	397
– due to taxes and other charges		415	346
– advances granted		80	34
Prepayments		53	18
Impairment allowances		(26)	(28)
Total non-financial receivables, net		**534**	**387**
Trade and other current receivables, net		**2 846**	**1 839**
Total trade and other non-current and current receivables, net		**4 362**	**1 879**

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

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

Amounts in tables in million PLN, unless otherwise stated

14. Inventories

	Note	At	
		31 December 2012	31 December 2011
Materials		669	307
Half-finished products and work in progress		2 162	1 682
Finished goods		811	581
Merchandise		127	88
Total carrying amount of inventories, net		**3 769**	**2 658**

15. Cash and cash equivalents

	Note	At	
		31 December 2012	31 December 2011
Cash in hand		1	1
Cash at bank		562	52
Other cash		28	8
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		2 038	13 069
Total cash and cash equivalents	**31.1**	**2 629**	**13 130**

16. Share capital

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

Subsidiaries and associates, and also other entities accounted for using the equity method in the consolidated financial statements do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2012 and 31 December 2011 there were no changes in the registered share capital or in the number of shares.

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

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

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

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

Amounts in tables in million PLN, unless otherwise stated

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

	Note	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging instruments	Exchange differences from the translation of foreign operations statements	Retained earnings	Total
At 1 January 2012 restated*		**(38)**	**574**	**19**	**20 547**	**21 102**
Dividends from profit for 2011 - paid		-	-	-	**(5 668)**	**(5 668)**
Total comprehensive income		**(13)**	**(288)**	**(265)**	**4 632**	**4 066**
Profit for the period		-	-	-	4 802	**4 802**
Other comprehensive income		(13)	(288)	(265)	(170)	**(736)**
Fair value losses on available-for-sale financial assets		(163)	-	-	-	**(163)**
Amount transferred to profit or loss due to settlement of available-for-sale financial assets		(1)	-	-	-	**(1)**
Amount transferred to profit or loss due to impairment of available-for-sale financial assets		158	-	-	-	**158**
Impact of effective cash flow hedging transactions	32.1.5	-	(22)	-	-	**(22)**
Amount transferred to profit or loss due to the settlement of hedging instruments	32.1.5	-	(333)	-	-	**(333)**
Actuarial losses from the measurement of benefits following the period of employment		-	-	-	(210)	**(210)**
Exchange differences from the translation of foreign operations statements		-	-	(265)	-	**(265)**
Deferred income tax		(7)	67	-	40	**100**
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	11	(33)	**(22)**
At 31 December 2012		**(51)**	**286**	**(235)**	**19 478**	**19 478**

* Details presented in note 2.1.2.

Amounts in tables in million PLN, unless otherwise stated

	Note	Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging instruments	Exchange differences from the translation of foreign operations statements	Retained earnings	Total
At 1 January 2011*		**120**	**90**	**-**	**12 456**	**12 666**
Change in accounting policies		-	-	-	5	5
At 1 January 2011 restated*		**120**	**90**	**-**	**12 461**	**12 671**
Dividends from profit for 2010 - paid		-	-	-	(2 980)	(2 980)
Total comprehensive income		**(158)**	**484**	**19**	**11 061**	**11 406**
Profit for the period restated*		-	-	-	11 127	**11 127**
Other comprehensive income restated*		(158)	484	19	(66)	**279**
Fair value losses on available-for-sale financial assets		(190)	-	-	-	**(190)**
Amount transferred to profit or loss due to settlement of available-for-sale financial assets		(10)	-	-	-	**(10)**
Amount transferred to profit or loss due to impairment of available-for-sale financial assets	29	5	-	-	-	**5**
Impact of effective cash flow hedging transactions	32.1.5	-	840	-	-	**840**
Amount transferred to profit or loss due to the settlement of hedging instruments	32.1.5	-	(242)	-	-	**(242)**
Actuarial losses from the measurement of benefits following the period of employment		-	-	-	(82)	**(82)**
Exchange differences from the translation of foreign operations statements		-	-	19	-	**19**
Deferred income tax	22	37	(114)	-	16	**(61)**
Obligation to repurchase of non-controlling interest		-	-	-	(2)	**(2)**
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	-	7	**7**
At 31 December 2011 restated*		**(38)**	**574**	**19**	**20 547**	**21 102**

* Details presented in note 2.1.2.

Amounts in tables in million PLN, unless otherwise stated

18. Retained earnings

	At		
	31 December 2012	31 December 2011 restated*	1 January 2011 restated*
Undistributed profit/(loss) from prior years	(730)	(146)	(616)
including valuation of the employee shares put option	(70)	(70)	(67)
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	720	693	693
Reserve capital created and utilised in accordance with the Statutes of Group entities	14 686	8 939	7 655
Profit for the current period	4 802	11 061	4 729
Total retained earnings	**19 478**	**20 547**	**12 461**

* Details presented in note 2.1.2.

Based on the Commercial Partnerships and Companies Code, the Group companies are required to create reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.

As at 31 December 2012, this statutory reserve capital in the Group entities amounts to PLN 720 million, of which PLN 660 million relates to the Parent Entity.

19. Changes in equity attributable to non-controlling interest

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
At beginning of the period	**289**	**256**
Non-controlling interest in profits of subsidiaries	1	1
Dividend paid to non-controlling shareholders	(1)	-
Changes in equity attributable to non-controlling interest due to obtaining /(losing) control of subsidiaries	-	22
Changes in ownership shares in subsidiaries which do not result in loss of control	(53)	(8)
Changes in equity attributable to non-controlling interest due to exchange differences from the translation of foreign operations statements	(4)	18
At end of the period	**232**	**289**

* Details presented in note 2.1.2.

Amounts in tables in million PLN, unless otherwise stated

20. Trade and other payables

	Note	At		
		31 December 2012	31 December 2011 restated*	1 January 2011 restated*
Trade and other non-current payables				
Trade payables		5	20	12
Put option liabilities for employee shares		85	74	68
Other financial liabilities		30	14	11
Total financial liabilities (scope of IFRS 7)	**31.1**	**120**	**108**	**91**
Deferred income		613	33	45
including liabilities due to Franco Nevada streaming contract		564	-	-
Other non-financial liabilities		-	1	-
Total non-financial liabilities		**613**	**34**	**45**
Total trade and other non-current payables		**733**	**142**	**136**
Trade and other current payables				
Trade payables		1 273	1 056	890
including payables due to purchase, construction of property, plant and equipment and intangible assets		292	279	231
Payables due to unsettled derivatives		16	17	50
Other financial liabilities		54	30	21
Total financial liabilities (scope of IFRS 7)	**31.1**	**1 343**	**1 103**	**961**
Employee benefits liabilities		198	181	169
Liabilities due to taxes and social security		524	317	307
Other non-financial liabilities		49	54	46
Special funds		169	138	112
Deferred income		96	35	86
Accruals		646	421	425
of which bonus paid on a one-off basis together with the related surcharges recognised in the costs of financial year		353	305	295
Total non-financial liabilities		**1 682**	**1 146**	**1 145**
Total trade and other current payables		**3 025**	**2 249**	**2 106**
Total trade and other non-current and current payables		**3 758**	**2 391**	**2 242**

* Details presented in note 2.1.2.

Amounts in tables in million PLN, unless otherwise stated

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 2012	31 December 2011
WPEC w Legnicy S.A.	1 770 000	20,00	32	30
"Uzdrowisko Cieplice" Sp. z o.o.	13 110	256,50	3	3
ZUK S.A.	379 500	40,06	13	12
Uzdrowisko Połczyn S.A.	179 550	16,51	3	2
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	1 881	1 560,30	3	2
CENTROZŁOM WROCŁAW S.A.	1 650 000	18,87	31	25
Put option liabilities for employee shares			**85**	**74**

21. Borrowings, debt securities and finance lease liabilities

	Note	At	
		31 December 2012	31 December 2011
Bank loans		165	177
Loans		8	1
Finance lease liabilities		17	16
Debt securities*		1 593	-
Total non-current borrowings, debt securities and finance lease liabilities		**1 783**	**194**
Bank loans**		1 057	92
Loans		3	2
Finance lease liabilities		10	10
Debt securities - interest		5	-
Total current borrowings, debt securities and finance lease liabilities		**1 075**	**104**
Total borrowings, debt securities and finance lease liabilities	31.1	**2 858**	**298**

* Relate to senior notes issued by KGHM INTERNATIONAL LTD. (details in note 35.3).
** Of which PLN 1 013 million relates to bank loans of KGHM Polska Miedź S.A. (details in notes 22.1).

Amounts in tables in million PLN, unless otherwise stated

22. Deferred tax

	Note	At		
		31 December 2012	31 December 2011 restated*	1 January 2011 restated*
Net deferred tax assets at the beginning of the period, of which:		**143**	**425**	**291**
Deferred tax assets at the beginning of the period		**272**	**593**	**347**
Deferred tax liabilities at the beginning of the period		**(129)**	**(168)**	**(56)**
(Charged)/Credited to profit	33	71	(65)	168
(Decrease)/Increase in other comprehensive income	17	100	(61)	(20)
Deferred tax liabilities at the date of obtaining control of subsidiaries		(1 435)	(9)	(50)
Exchange differences from the translation of deferred tax of foreign operations		(2)	-	-
Reclassification of deferred tax to assets held for sale in connection with the reclassification of an investment in a subsidiary to assets held for sale		-	(152)	-
Discontinued operations		-	5	36
Net deferred tax assets (liabilities) at the end of the period, of which:		**(1 123)**	**143**	**425**
Deferred tax assets at the end of the period		**637**	**272**	**593**
Deferred tax liabilities at the end of the period		**(1 760)**	**(129)**	**(168)**

* Details presented in note 2.1.2.

As at 31 December 2012, the deferred tax asset of KGHM INTERNATIONAL LTD. amounted to PLN 258 million, and the deferred tax liability to PLN 1 615 million, of which PLN 651 million represents a deferred tax liability in the books of KGHM INTERNATIONAL LTD. and PLN 964 million represented a deferred tax liability due to the fair value measurement of net assets acquired, due to provisional accounting for the acquisition of KGHM INTERNATIONAL LTD.

Amounts in tables in million PLN, unless otherwise stated

Realisation periods of deferred tax assets/liabilities

Deferred tax assets	At	
	31 December 2012	31 December 2011
in the period of over 12 months from the end of the reporting period	413	119
in the period of 12 months from the end of the reporting period	224	153
Total	**637**	**272**

Deferred tax liabilities	At		
	31 December 2012	31 December 2011 restated*	1 January 2011 restated*
in the period of over 12 months from the end of the reporting period	1 702	127	165
in the period of 12 months from the end of the reporting period	58	2	3
Total	**1 760**	**129**	**168**

* Details presented in note 2.1.2.

23. Employee benefits

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

	At	
	31 December 2012	31 December 2011
Jubilee awards	348	314
Retirement and disability benefits	258	245
Coal equivalent	1 077	850
Other benefits	65	56
Carrying amount of liabilities	**1 748**	**1 465**
Of which:		
Carrying amount of non-current liabilities	1 615	1 339
Carrying amount of current liabilities	133	126

Main actuarial assumptions at 31 December 2012

	2013	2014	2015	2016	2017 and beyond
discount rate	4,20%	4,20%	4,20%	4,20%	4,20%
rate of increase in coal prices	3,30%	3,00%	3,00%	3,00%	3,00%
rate of increase in the lowest salary	0,00%	4,00%	4,00%	4,00%	4,00%
expected inflation	2,70%	2,50%	2,50%	2,50%	2,50%
future expected increase in salary	2,00%	2,50%	2,50%	2,50%	2,50%

Amounts in tables in million PLN, unless otherwise stated

24. Provisions for other liabilities and charges

	Note	At	
		31 December 2012	31 December 2011
Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment		1 021	483
Disputed issues and court proceedings, and other provisions		58	28
Total provisions	**30**	**1 079**	**511**
Of which:			
Non-current provisions		999	485
Current provisions		80	26

25. Sales

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

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Copper, precious metals, smelter by-products	22 988	19 612
Salt	47	80
Energy	81	88
Services	1 402	474
Mining machinery, transport vehicles for mining and other	47	17
Electro-mechanical products	238	224
Merchandise – smelting products	549	421
Other merchandise	359	564
Scrap and materials	83	66
Other goods	911	561
Total continued operations	**26 705**	**22 107**
Discontinued operations	**-**	**487**
Total	**26 705**	**22 594**
Of which:		
Net revenues from the sale of products, merchandise and materials – domestic	5 311	5 358
Net revenues from the sale of products, merchandise and materials – foreign	**21 394**	**16 749**

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Average copper price on LME (USD/t)	7 950	8 811
Average exchange rate (USD/PLN) per NBP	3.26	2.96

Amounts in tables in million PLN, unless otherwise stated

Construction services contracts

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Income due to realisation of contracts recognised for the period	1 027	163

Income due to realisation of contracts recognised for the period are presented in note 25 Sales in the item – Services.

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

	At	
	31 December 2012	31 December 2011
Total income due to realisation of contracts	1 523	536
Total costs incurred so far due to realisation of contracts	1 317	478
Gains due to realisation of contracts	**206**	**58**

Amounts in tables in million PLN, unless otherwise stated

26. Expenses by nature

	Note	For the period from 1 January 2012 to 31 December 2012	For the period from 1 January 2011 to 31 December 2011 restated*
Depreciation of property, plant and equipment and amortisation of intangible assets	6, 7, 9	1 453	846
Employee benefits expenses	27	4 570	3 620
Materials and energy		8 730	6 759
External services		2 754	1 367
Taxes and charges**		2 051	419
Advertising costs and representation expenses		75	64
Property and personal insurance		37	32
Research and development costs not capitalised in intangible assets		9	6
Other costs, of which:		151	82
Impairment losses on non-current and current assets	6, 7	58	28
Reversal of impairment of non-current and current assets	6, 7	(11)	(7)
Losses from the disposal of financial instruments	31.3	9	6
Other operating costs		95	55
Total expenses by nature		**19 830**	**13 195**
Cost of merchandise and materials sold (+)		793	583
Change in inventories of finished goods and work in progress (+/-)		(164)	(367)
Cost of manufacturing products for internal use (-)		(896)	(744)
Total cost of sales, selling costs and administrative expenses from continued operations		**19 563**	**12 667**
Total cost of sales, selling costs and administrative expenses from discontinued operations		-	**435**
Total		**19 563**	**13 102**

* Details presented in note 2.1.2.
** A new significant item of operating costs in the Parent Entity is the minerals extraction tax. This tax was introduced in accordance with the Act on the minerals extraction tax dated 2 March 2012, which came into force on 18 April 2012. The amount of the tax, recognised in operating costs in the current reporting period, was PLN 1 596 million.

Amounts in tables in million PLN, unless otherwise stated

27. Employee benefits expenses

	Note	For the period from 1 January 2012 to 31 December 2012	For the period from 1 January 2011 to 31 December 2011 restated*
Remuneration		3 388	2 694
Costs of social security		1 109	898
Costs of future employee benefits paid during the period of employment		73	28
Total continued operations	**26**	**4 570**	**3 620**
Discontinued operations		**-**	**82**
Total		**4 570**	**3 702**

* Details presented in note 2.1.2.

28. Other operating income

	Note	For the period from 1 January 2012 to 31 December 2012	For the period from 1 January 2011 to 31 December 2011 restated*
Income and gains from financial instruments classified under other operating activities, resulting from:	31.3	1 434	2 137
Measurement and realisation of derivatives		1 185	1 038
Interest		246	192
Foreign exchange gains		-	889
Other income		3	18
Increase in fair value of investment property		1	-
Gain on sale of associate		-	2 313
Gains on a bargain purchase of subsidiaries	4	-	3
Gains from the sale of intangible assets		3	-
Interest on non-financial receivables		2	5
Dividends received		57	27
Reversal of impairment losses on fixed assets under construction	6	-	3
Reversal of allowance for impairment of other non-financial receivables		2	3
Government grants and other donations received		27	46
Release of unused provisions		25	21
Surpluses identified in current assets		3	2
Penalties and compensation received		17	23
Foreign exchange gains - non-financial		-	11
Management fee for Sierra Gorda S.C.M.**		68	-
Other operating income/gains		30	11
Total other operating income – continued operations		**1 669**	**4 605**
Discontinued operations		**-**	**28**
Total		**1 669**	**4 633**

* 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.

Amounts in tables in million PLN, unless otherwise stated

29. Other operating costs

	Note	For the period from 1 January 2012 to 31 December 2012	For the period from 1 January 2011 to 31 December 2011
Costs and losses on financial instruments classified under other operating activities, resulting from:	31.3	2 007	728
Measurement and realisation of derivatives		1 246	715
Foreign exchange losses		592	-
Impairment losses on available-for-sale financial assets		160	5
Other costs		9	8
Decrease in fair value of investment property		-	1
Losses on the sale of investment property		-	2
Losses on the sale of property, plant and equipment, and intangible assets		8	8
Allowances for impairment of other non-financial receivables		-	1
Impairment losses on fixed assets under construction and intangible assets not yet available for use	6	2	5
Interest on overdue non-financial liabilities		3	-
Donations granted		93	16
Provisions created		46	15
Penalties and compensation		6	4
Non-culpable shortages in tangible current assets, cash and losses due to force majeure		1	2
Contributions to a voluntary organisation		10	11
Other operating costs/losses		41	20
Total other operating costs – continued operations		**2 217**	**813**
Discontinued operations		**-**	**12**
Total		**2 217**	**825**

Amounts in tables in million PLN, unless otherwise stated

30. Finance costs

	Note	For the period from 1 January 2012 to 31 December 2012	For the period from 1 January 2011 to 31 December 2011
Interest due to:	31.3	126	11
Bonds		107	-
Bank, loans, finance leases		19	11
Foreign exchange (gains)/losses on borrowings	31.3	(33)	5
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount effect)	24	38	32
Changes in liabilities due to measurement of put option for employee shares arising from the approach of maturity date of a liability (unwinding of discount effect)		10	3
Changes in other liabilities arising from the approach of the maturity date of liabilities (unwinding of discount effect)	31.3	1	-
Other finance costs		4	1
Total finance costs – continued operations		**146**	**52**
Discontinued operations		**-**	**1**
Total		**146**	**53**

Amounts in tables in million PLN, unless otherwise stated

31. Financial instruments

31.1. Carrying amount

Classes of financial Instruments	Note	At 31 December 2012							
		Categories of financial instruments							
						Other financial liabilities			
		Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabili-ties measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total
Debt securities		8	-	296	-	-	-	-	**304**
Available-for-sale financial assets	10	8	-	-	-	-	-	-	**8**
Mine closure financial assets	11	-	-	296	-	-	-	-	**296**
Listed shares	10	1 022	-	-	-	-	-	-	**1 022**
Unlisted shares	10	11	-	-	-	-	-	-	**11**
Trade receivables (net)	13	-	-	2 196	-	-	-	-	**2 196**
Cash and cash equivalents and deposits		-	-	2 841	-	-	-	-	**2 841**
Mine closure financial assets	11	-	-	164	-	-	-	-	**164**
Trade and other receivables	13	-	-	48	-	-	-	-	**48**
Cash and cash equivalents	15	-	-	2 629	-	-	-	-	**2 629**
Loans granted	13	-	-	1 470	-	-	-	-	**1 470**
Other financial assets (net)	13	-	-	90	-	-	-	-	**90**
Derivatives – Currency (net)	12	-	1	-	(17)	-	-	462	**446**
Derivatives - Commodity contracts – metals (net)	12	-	-	-	(18)	-	-	443	**425**
Embedded derivatives	12	-	3	-	(2)	-	-	-	**1**
Trade payables	20	-	-	-	-	(1 278)	-	-	**(1 278)**
Borrowings	21	-	-	-	-	(1 233)	-	-	**(1 233)**
Debt securities – issued bonds	21	-	-	-	-	(1 598)	-	-	**(1 598)**
Other financial liabilities		-	-	-	-	(185)	(27)	-	**(212)**
Trade and other payables	20	-	-	-	-	(185)	-	-	**(185)**
Borrowings, debt securities and finance lease liabilities	21	-	-	-	-	-	(27)	-	**(27)**
Total		**1 041**	**4**	**6 893**	**(37)**	**(4 294)**	**(27)**	**905**	**4 485**

Amounts in tables in million PLN, unless otherwise stated

Classes of financial instruments	Note	At 31 December 2011 – restated*							
		Categories of financial instruments							
						Other financial liabilities			
		Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss**	Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total
Debt securities	10	8	-	-	-	-	-	-	**8**
Listed shares	10	989	-	-	-	-	-	-	**989**
Unlisted shares	10	11	-	-	-	-	-	-	**11**
Participation units of investment funds	10	2	-	-	-	-	-	-	**2**
Trade receivables (net)	13	-	-	1 328	-	-	-	-	**1 328**
Cash and cash equivalents and deposits		-	-	13 313	-	-	-	-	**13 313**
Mine closure financial assets	11	-	-	114	-	-	-	-	**114**
Trade and other receivables	13	-	-	69	-	-	-	-	**69**
Cash and cash equivalents	15	-	-	13 130	-	-	-	-	**13 130**
Loans granted	13	-	-	1	-	-	-	-	**1**
Other financial assets (net)	13	-	-	92	-	-	-	-	**92**
Derivatives – Currency (net)	12	-	-	-	(63)	-	-	59	**(4)**
Derivatives - Commodity contracts – metals (net)	12	-	12	-	(253)	-	-	1 135	**894**
Trade payables	20	-	-	-	-	(997)	-	-	**(997)**
Borrowings	21	-	-	-	-	(272)	-	-	**(272)**
Other financial liabilities		-	-	-	-	(135)	(26)	-	**(161)**
Trade and other payables	20	-	-	-	-	(135)	-	-	**(135)**
Borrowings, debt securities and finance lease liabilities	21	-	-	-	-	-	(26)	-	**(26)**
Total		**1 010**	**12**	**14 734**	**(316)**	**(1 404)**	**(26)**	**1 194**	**15 204**

* 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.

Amounts in tables in million PLN, unless otherwise stated

31.2. 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.

Classes of financial instruments	Note	At					
		31 December 2012			31 December 2011		
		Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Listed shares	31.2	1 022	-	-	989	-	-
Participation units of investment funds	31.2	-	-	-	2	-	-
Other financial receivables	13	-	22	-	-	30	-
Derivatives - currency, of which:	31.2	-	446	-	-	(4)	-
Assets		-	489	-	-	400	-
Liabilities		-	(43)	-	-	(404)	-
Derivatives financial instruments – metals, of which:	31.2	-	425	-	-	894	-
Assets		-	637	-	-	1 359	-
Liabilities		-	(212)	-	-	(465)	-
Embedded derivatives	31.2	-	1	-	-	-	-
Other financial liabilities	21	-	(16)	-	-	(17)	-

Amounts in tables in million PLN, unless otherwise stated

32. Financial risk management

The main financial risks to which the Group is exposed in the conduct of its business are:
- market risks:
  - risk of changes in metal prices (commodity risk),
  - risk of changes in foreign exchange rates (currency risk),
  - price risk related to investments in debt securities and participation units in investment funds,
  - price risk related to investments in shares of listed companies,
  - risk of changes in interest rates,
- liquidity risk,
- credit risk.

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

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

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

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

32.1. Market risk

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

32.1.1. Principles of market risk management in the Parent Entity

The Parent Entity actively manages the market risk to which it is exposed. In accordance with applied policy, the objectives of the market risk process are:
- to limit fluctuations in financial result,
- to increase the probability of meeting budget assumptions,
- to maintain a healthy financial condition,
- to support the process of undertaking strategic decisions relating to investing activity, with attention to sources of capital for this activity.

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

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

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

The Parent Entity continuously monitors metal and currency markets, which are the basis for decisions on implementing hedging strategies.

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

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

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

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

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments). Primarily applied are cash flow hedging instruments meeting the requirements for effectiveness as understood by hedge accounting. The effectiveness of the financial hedging instruments applied by the Parent Entity in the reporting period is continually monitored and assessed (details in Note 2.2.8.7 Accounting policy – Hedge accounting).

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

One of the measures used as an auxiliary tool in making decisions in the market risk management process is EaR - Earnings at Risk (profit for the period exposed to risk). This measure indicates the lowest possible level of profit for the period for a selected level of confidence (for example, with 95% confidence the profit for the period for a given year will be not lower than…). The EaR methodology enables the calculation of pre-tax profit incorporating the impact of changes in market prices of copper, silver and foreign exchange rates in the context of budgeted results.

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

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

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

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

32.1.2. Commodity risk

The Parent Entity is exposed to the risk of changes in market prices of copper, silver and gold. Other companies of the Group are additionally exposed to the risk of changes in market prices of nickel, lead, molybdenum, platinum and palladium.

In the Parent Entity the price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange (LME) for copper and from the London Bullion Market Association (LBMA) for silver and gold. The Parent Entity's commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month. As a result the Parent Entity is exposed to the risk of decline in metals prices from the moment of entering into a sale contract until the moment of setting the contractual average metal price from the month of dispatch.

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

The analysis of the Group's exposure to the risk of changes in metal prices should be performed on a net basis, i.e. by deducting the volume of metals contained in materials purchased from external sources, from the volume of sales.

Exposure of the Group to commodity risk is presented below:

	For the period			
	from 1 January 2012 to 31 December 2012		from 1 January 2011 to 31 December 2011	
	Sales	Purchases	Sales	Purchases
Copper [tonnes]	685 408	195 112	572 941	154 881
Silver [tonnes]	1 267	35	1 180	52

Sensitivity of the Group's financial instruments to commodity risk at the end of the reporting period is presented in Note 35.1.6 Sensitivity analysis of commodity and currency risk.

32.1.3. Currency risk

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

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

Sensitivity of the Group's financial instruments to currency risk at the end of the reporting period is presented in Note 35.1.6 Sensitivity analysis of commodity and currency risk.

32.1.4. Commodity and currency risk management in the Parent Entity

In the Group only the Parent Entity applies hedging strategies, as understood by the hedge accounting. In order to reduce the market risk, related to changes in commodity prices and in foreign exchange rates, the Parent Entity makes use mainly of derivatives.

The nominal of copper price hedging strategies settled in 2012 represented approx. 35% (in 2011 35%) of the total[1] sales of this metal realised by the Parent Entity. With respect to silver sales this figure amounted to approx. 27% (in 2011 9%). In the case of the currency market, hedged revenues from sales represented approx. 16% (in 2011 19%) of total revenues from sales realised by the Parent Entity.

In 2012 the Parent Entity implemented copper price hedging strategies with a total volume of 196.5 thousand tonnes and a time horizon falling in years 2013-2015, using options (Asian options), including: option strategies: seagull and collar.

During the reporting period no silver price hedging strategies were implemented by the Parent Entity.

In the case of the forward currency market, in 2012 the Parent Entity implemented transactions hedging revenues from sales with a total nominal amount of USD 720 million and a time horizon falling in years 2014-2015. The Parent Entity made use of option strategies: collars (European options).

1. Relates to the sales of products from own concentrates and from purchased copper-bearing materials.

Amounts in tables in million PLN, unless otherwise stated

Condensed table of open transactions in derivatives

(by type of hedged asset and instruments used as at 31 December 2012; the hedged nominal/volume included in the presented periods is equally balanced in the months)

COPPER MARKET

	Instrument	Volume [tonnes]	Option execution price [USD/t] Sold call option	Purchased put option	Sold put option²	Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t] Participation limited to	Hedge limited to
I half of 2013	Seagull	19 500	9 500	7 200	4 700	-383	6 817	9 500	4 700
	Collar	10 500	12 000	8 500	-	-460	8 040	12 000	-
	Collar	10 500	11 500	8 200	-	-333	7 867	11 500	-
	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Collar	3 000	9 200	7 200	-	-320	6 880	9 200	-
	Collar	9 000	9 300	7 300	-	-340	6 960	9 300	-
	Total	**73 500**							
II half of 2013	Collar	10 500	12 000	8 500	-	-460	8 040	12 000	-
	Collar	10 500	11 500	8 200	-	-333	7 867	11 500	-
	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Collar	19 500	9 300	7 600	-	-290	7 310	9 300	-
	Total	**61 500**							
TOTAL 2013		**135 000**							
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
	Total	**40 500**							
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
	Total	**40 500**							
TOTAL 2014		**81 000**							
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
	Total	**21 000**							
II half of 2015	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Total	**21 000**							
TOTAL 2015		**42 000**							

2. 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).

SILVER MARKET

	Instrument	Volume [million troz]	Option execution price [USD/troz] Sold call option	Purchased put option	Sold put option²	Average weighted premium [USD/troz]	Effective hedge price [USD/troz]	Limitations [USD/troz] Participation limited to	Hedge limited to
I half of 2013	Seagull	1.80	65.00	40.00	20.00	-1.98	38.02	65.00	20.00
	Total	**1.80**							-
II half of 2013	Seagull	1.80	65.00	40.00	20.00	-1.98	38.02	65.00	20.00
	Total	**1.80**							
TOTAL 2013		**3.60**							

CURRENCY MARKET

	Instrument	Notional [million USD]	Option execution price [USD/PLN] Sold call option	Purchased put option	Sold put option²	Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Limitations [USD/PLN] Participation limited to	Hedge limited to
I half of 2013	Seagull	240	4.0000	3.1500	2.6000	-0.0332	3.1168	4.0000	2.6000
	Collar	240	4.2000	3.2000	-	-0.0650	3.1350	4.2000	-
	Total	**480**							
II half of 2013	Seagull	240	4.0000	3.1500	2.6000	-0.0230	3.1270	4.0000	2.6000
	Collar	240	4.2000	3.2000	-	-0.0650	3.1350	4.2000	-
	Total	**480**							
TOTAL 2013		**960**							
I half of 2014	Seagull	180	4.5000	3.5000	2.7000	-0.0506	3.4494	4.5000	2.7000
	Collar	180	4.5000	3.4000	-	-0.0093	3.3907	4.5000	-
	Total	**360**							
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	-
	Total	**360**							
TOTAL 2014		**720**							
I half of 2015	Collar	180	4.5000	3.4000	-	-0.0080	3.3920	4.5000	-
	Total	**180**							
II half of 2015	Collar	180	4.5000	3.4000	-	-0.0080	3.3920	4.5000	-
	Total	**180**							
TOTAL 2015		**360**							

2. 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).

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

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

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Impact on sales	**333**	**242**
Impact on other operating activities	**(61)**	**323**
(Losses)/gains from realisation of derivatives	(267)	69
Gains from measurement of derivatives	206	254
Total impact of derivatives on profit or loss:	**272**	**565**

The impact of derivatives on revaluation reserve from measurement of cash flow hedging instruments.

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
As at the beginning of the period (excluding the deferred tax effects)	**709**	**111**
Amount recognised in the reporting period due to cash flow hedging transactions	(22)	840
Amount transferred to revenues from sale – reclassification adjustment	(333)	(242)
As at the end of the period (excluding the deferred tax effects)	**354**	**709**
Of which:		
– commodity price risk hedging transactions (copper and silver) – derivatives	163	709
– currency risk hedging transactions – derivatives	191	-

The fair value of derivatives of the Group and receivables/ liabilities due to unsettled derivatives.

	At 31 December 2012		At 31 December 2011	
	Derivatives	Receivables / (liabilities) due to unsettled derivatives[3]	Derivatives	Receivables / (liabilities) due to unsettled derivatives[4]
Financial assets	1 127	22	1 759	30
Financial liabilities	(255)	(16)	(869)	(17)
Fair value	**872**	**6**	**890**	**13**

The remaining information on derivatives was presented in note 12: Derivatives and in note 34: Financial instruments.

3. Settlement date falls on 3 January 2013.
4. Settlement date falls on 4 January 2012.

Amounts in tables in million PLN, unless otherwise stated

32.1.6. 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[5]:

Potential exchange rates changes

	At 31 December 2012				At 31 December 2011			
	USD/PLN	EUR/PLN	GBP/PLN	CAD/PLN	USD/PLN	EUR/PLN	GBP/PLN	CAD/PLN
SPOT / FIX	3.0996	4.0882	5.0119	3.1172	3.4174	4.4168	5.2691	-
DOWN 95%	2.5687	3.6603	4.4796	2.6980	2.8094	3.8497	4.5139	-
	-17%	-10%	-11%	-13%	-18%	-13%	-14%	-
UP 95%	3.7349	4.6345	5.6764	3.6343	4.1824	5.1795	6.2085	-
	20%	13%	13%	+17%	22%	17%	18%	-

Potential metal prices changes

	At 31 December 2012		At 31 December 2011	
	Copper [USD/t]	Silver [USD/troz]	Copper [USD/t]	Silver [USD/troz]
SPOT / FIX	7 907	29,95	7 590	28,18
DOWN 95%	5 570	18,72	5 196	17,06
	-30%	-37%	-32%	-39%
UP 95%	10 435	43,44	10 254	41,89
	32%	45%	35%	49%

5. 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, GPB/PLN and CAD/PLN exchange rates.

Currency structure of financial instruments exposed to commodity and currency risk

Financial instruments	Value at risk as at 31 December 2012					Value at risk as at 31 December 2011				
	Total PLN million	USD million	EUR million	GBP million	CAD million	Total PLN million	USD million	EUR million	GBP million	CAD million
Debt securities	**20**	-	-	-	6	**-**	-	-	-	-
Shares	**145**	-	-	-	47	**-**	-	-	-	-
Trade receivables (net)	**1 075**	187	111	8	-	**949**	154	95	1	-
Cash and cash equivalents	**772**	83	40	1	111	**8 030**	1 796	391	31	-
Other financial assets (net)	**41**	8	3	-		**85**	9	9	2	-
Derivatives – Currency	**446**	-	-	-	-	**(4)**	-	-	-	-
Derivatives – Metals	**425**	137	-	-	-	**894**	262	-	-	-
Embedded derivatives	**1**	-	-	-	-	**-**	-	-	-	-
Trade payables	**(205)**	(26)	(13)	-	(22)	**(62)**	(4)	(11)	-	-
Borrowings	**(1 085)**	(265)	(65)	-	-	**(72)**	-	(16)	-	-
Other financial liabilities	**(27)**	(8)	(1)	-	-	**(27)**	(7)	(1)	-	-

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

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

SENSITIVITY ANALYSIS OF THE GROUP TO COMMODITY RISK as at 31 December 2011

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK [PLN million]	31.12.2011 CARRYING AMOUNT [PLN million]	COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			10 254		5 196		41.89		17.06	
			+ 35%		- 32%		+ 49%		- 39%	
			profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income
Derivatives – Commodity contracts - Metals	894	894	(625)	(758)	(216)	1 884	70	(413)	(152)	545
IMPACT ON PROFIT OR (LOSS)			**(625)**		**(216)**		**70**		**(152)**	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(758)**		**1 884**		**(413)**		**545**

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

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK [PLN million]	31.12.2012 CARRYING AMOUNT [PLN million]	USD/PLN				EUR/PLN				GBP/PLN				CAD/PLN			
			3.73		2.57		4.63		3.66		5.68		4.48		3.63		2.70	
			+20%		-17%		+13%		-10%		+13%		-11%		+17%		-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	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	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		-		-									
IMPACT ON PROFIT OR (LOSS)			**(291)**		**(352)**		**26**		**(20)**		**5**		**(5)**		**60**		**(48)**	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(158)**		**1 036**												

SENSITIVITY ANALYSIS OF THE GROUP TO CURRENCY RISK as at 31 December 2011

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK [PLN million]	31.12.2011 CARRYING AMOUNT [PLN million]	USD/PLN				EUR/PLN				GBP/PLN				CAD/PLN			
			4.18		2.81		5.18		3.85		6.21		4.51		-		-	
			+ 22%		- 18%		+ 17%		- 13%		+18%		-14%		-		-	
			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	profit or (loss)	other compreh. income
Trade receivables (net)	949	1 328	95		(76)		59		(44)		1			(1)				
Cash and cash equivalents	8 030	13 313	1 113		(885)		242		(180)		24			(19)				
Other financial assets (net)	85	92	6		(5)		6		(4)		2			(1)				
Derivatives – Currency contracts	(4)	(4)	(548)	(334)	117	562	(6)		5									
Derivatives – Commodity contracts - Metals	894	894	39	161	(31)	(128)												
Trade payables	(62)	(997)	(3)		2		(7)		3		-	-						
Borrowings	(72)	(272)					(10)		8									
Other financial liabilities	(27)	(161)	(4)		3		(1)		1									
IMPACT ON PROFIT OR (LOSS)			**698**		**(875)**		**283**		**(211)**		**27**			**(21)**	-		-	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(173)**		**434**										-		-

32.1.7. Price risk related to investments in debt securities

As at 31 December 2012, the Group held Treasury bonds in the amount PLN 304 million with a variable interest rate.

Group's investments in debt securities and in participation units of investment funds are slightly exposed to price risk.

32.1.8. Price risk related to the purchase of shares of listed companies

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

As at 31 December 2012, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange, held by the Group, was PLN 1 022 million.

32.1.9. Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the Group's results. The Group is exposed to this risk due to loans granted, deposits, zero-balance cash-pool services and borrowing.

The balance of loans granted as at 31 December 2012 amounted to PLN 1 470 million. This item is represented by a loan granted by KGHM INTERNATIONAL LTD. for the financing of a joint venture, created with companies of the Sumitomo Group to realise a mining project in Chile. This loan is based on a fixed interest rate.

The balance of cash and cash equivalents in the Group as at 31 December 2012 amounted to PLN 2 629 million.

In 2012, the Group made use of borrowing in the form of bank loans, loans granted and issued bonds.

Sensitivity analysis of listed companies shares to price changes as at 31 December 2012

	31 December 2012 CARRYING AMOUNT [PLN million]	Percentage change of share price				31 December 2011 CARRYING AMOUNT [PLN million]	Percentage change of share price	
		+22%		-13%			+50%	-14%
		Profit or (loss)	Other compreh. Income	Profit or (loss)	Other compreh. Income		Other compreh. Income	
Listed shares	1 022	-	288	(116)	(19)	989	494	(138)

In 2012 the Group financed its current operations using borrowing in the form of both an overdraft facility as well as a working capital facility. Open lines of credit are available in PLN, USD and EUR. Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

At 31 December 2012, the Group held liabilities due to bank loans drawn in the amount of PLN 1 222 million.

BANK LOANS LIABILITIES

Bank loan currency	Balance of bank loan drawn in the currency [million]	Balance of bank loan drawn in PLN [million]	Of which bank loans:	
			Short-term	Long-term
PLN	-	136	38	98
USD	265	822	822	-
EUR	64	264	197	67
	-	1 222	1 057	165

As at 31 December 2012, the Group held liabilities due to long-term loans in the amount of PLN 8 million, and liabilities due to short-term loans in the amount of PLN 3 million based on fixed interest rates.

As at 31 December 2012, the Group held liabilities due to issued senior notes in the amount of PLN 1 598 million. KGHM INTERNATIONAL LTD. is the issuer of these bonds, which are based on fixed interest rate of 7.75% with a maturity falling in 2019.

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

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

32.2. Credit risk

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

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

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

- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- loans granted,
- debt securities and participation units of investment funds,
- guaranties granted.

32.2.1. Credit risk related to cash and cash equivalents and bank deposits

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

All entities with which deposit transactions are entered into by the Group operate in the financial sector. These are solely banks with the highest[6], medium-high[7] and medium[8] credit ratings, an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD. credit risk in this regard is continuously monitored through the on-going review of the financial condition and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the level of concentration of 92% of the periodically unallocated cash and cash equivalents, showing the assessed creditworthiness of the financial institutions[9].

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

As at 31 December 2012 the maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounted to 16% (as at 31 December 2011 – 25%).

6. 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.
7. 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.
8. 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.
9. Weighed by amount of deposits

32.2.2. Credit risk related to derivative transactions

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

The following table presents the structure of ratings[10] of the financial institutions with whom the Group engaged in derivatives transactions, representing an exposure to credit risk[11].

Rating levels	At	
	31 December 2012	31 December 2011
Highest	12%	12%
Medium-high	82%	84%
Medium	6%	4%

Taking into consideration the fair value of open derivative transactions entered into by the Group and unsettled derivatives, as at 31 December 2012, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 17% (as at 31 December 2011: 24%).

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

In order to reduce cash flows as well as credit risk, the Parent Entity carries out net settlement (based on framework agreements entered into with its customers) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty.

32.2.3. Credit risk related to trade and other financial receivables

Group companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade and other receivables. The vast majority of sales go to EU countries.

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[12], frozen funds on bank accounts, registered pledges[13], 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[14].

Geographical concentration of credit risk for trade receivables arising from sales of copper and silver (representing the majority of total receivables):

	At					
	31 December 2012			31 December 2011		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	19%	53%	28%	23%	50%	27%

10. As at 31 December 2012 there was a change in the methodology for calculating the structure of ratings, in order to reflect the measurement of open and unsettled positions in derivatives in individual financial institutions at the end of the reporting period. The structure as at 31 December 2011 presented in the above table was calculated in accordance with the new methodology.
11. Weighed by positive fair value of open and unsettled derivatives.
12. In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.
13. 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.
14. 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.

To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2012 the Parent Entity had secured 82% of its trade receivables.

The total value of the Group's net trade receivables as at 31 December 2012, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 2 196 million (as at 31 December 2011: PLN 1 328 million).

The concentration of credit risk in the Group results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, as at 31 December 2012 the balance of receivables from 7 of the Group's largest clients, in terms of trade receivables at the end of the reporting period, represented 32% of the trade receivables balance (as at 31 December 2011: 42%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

The following Group companies have significant trade receivables: KGHM Polska Miedź S.A. PLN 1 082 million, the KGHM INTERNATIONAL LTD. Group PLN 792 million, KGHM Metraco S.A. PLN 76 million, CENTROZŁOM WROCŁAW S.A. PLN 70 million, WPEC w Legnicy S.A. PLN 28 million, NITROERG S.A. PLN 28 million, PHP "MERCUS" sp. z o.o. PLN 15 million, WMN "ŁABĘDY" S.A. PLN 14 million, „MIEDZIOWE CENTRUM ZDROWIA" S.A. PLN 14 million, KGHM Ecoren S.A. PLN 12 million, DFM ZANAM-LEGMET Sp. z o.o. PLN 12 million, POL-MIEDŹ TRANS Sp. z o.o. PLN 12 million.

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

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.

32.2.4. Credit risk related to loans granted

As at 31 December 2012 the carrying amount of loans granted by the Group amounted to PLN 1 470 million.

This item is represented by a loan granted by KGHM INTERNATIONAL LTD. for the financing of a joint venture, created with companies of the Sumitomo Group to realise a mining project in Chile. This loan is based on a fixed interest rate and payable on demand of the lender.

Credit risk related to the loan granted is dependent on the risk connected with mine project realisation and presently is considered to be moderate.

32.2.5. Credit risk related to investments in debt securities

As at 31 December 2012, the Group held Treasury bonds in the carrying amount PLN 304 million.

These investments classified as available-for-sale financial assets are slightly exposed to price risk because of the nature of the issuer. The investment policies of the Group restrict the possibility of purchasing this category of asset to investments in government securities and money market funds, depositing financial resources in money market instruments and in government securities whose time remaining to maturity does not exceed one year, or whose interest is set for a period of no longer than one year.

In terms of mine closure financial assets, KGHM INTERNATIONAL LTD. as at 31 December 2012 held government environmental bonds amounting to PLN 296 million. Due to the nature of the issuer, this investment is only slightly exposed to risk.

32.2.6. Other information related to credit risk

Aging analysis of financial assets overdue as at the end of the reporting period, for which no impairment loss has been recognised

	At 31 December 2012					
	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
Trade receivables	200	164	15	7	8	6
Other financial receivables	3	2	-	1	-	-
	At 31 December 2011					
Trade receivables	107	85	12	3	2	5

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

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

Trade receivables (category: loans and financial receivables)

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Impairment allowance at the beginning of the period	13	60	86
Increase due to obtaining control of a subsidiary		-	2
Changes recognised in profit or loss		-	12
Decrease due to loss of control of a subsidiary		-	(20)
Utilisation		(4)	(27)
Other (decreases)/increase		(4)	7
Impairment allowance at the end of the period	13	52	60

Other financial assets (category: loans and financial receivables)

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Impairment allowance at the beginning of the period	13	12	13
Increase due to obtaining control of a subsidiary		-	1
Changes recognised in profit or loss		7	4
Decrease due to loss of control of a subsidiary		-	(2)
Other decreases		(1)	(4)
Impairment allowance at the end of the period	13	18	12

Amounts in tables in million PLN, unless otherwise stated

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

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Impairment loss at the beginning of the period	6	1
Changes recognised in profit or loss	159	5
Impairment loss at the end of the period	165	6

32.3. Liquidity risk and capital management

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

Contractual maturities for financial liabilities as at 31 December 2012

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	1 264	9	5	-	-	1 278	1 278
Borrowings	26	1 043	63	46	68	1 246	1 233
Debt securities	-	-	-	1 550	-	1 550	1 598
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	-
Total financial liabilities by maturity	1 366	1 091	274	1 660	457	4 848	

Amounts in tables in million PLN, unless otherwise stated

Contractual maturities for financial liabilities as at 31 December 2011

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	982	7	8	-	-	**997**	**997**
Borrowings	72	24	55	44	86	**281**	**272**
Derivatives – Currency contracts	1	-	-	-	-	**1**	**404**
Derivatives – Commodity contracts - metals	10	46	5	-	-	**61**	**465**
Other financial liabilities	43	14	100	19	3	**179**	**161**
Guarantees granted	8	6	8	-	27	**49**	**-**
Total financial liabilities by maturity	**1 116**	**97**	**176**	**63**	**116**	**1 568**	

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

In 2012, the Group held guarantees granted. These items represent contingent liabilities and do not materially affect the liquidity risk of the Group.

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

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

In order to minimise risk associated with loss of liquidity, in 2012 the Group made use of borrowing in the form of bank and other loans, and issued bonds. This involved the use of both investment and working capital loans, as well as current accounts.

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

CREDIT LINES as at 31 December 2012

Type of bank loan	Bank loan currency	Balance of bank loan in the currency	Balance of bank loan in PLN
Working capital facility and overdraft facility	USD	123	-
Working capital facility and overdraft facility	EUR	50	-
Working capital facility and overdraft facility	PLN	-	1 300

Amounts in tables in million PLN, unless otherwise stated

KGHM INTERNATIONAL LTD. engages in borrowing in the form of issued senior notes in the amount of PLN 1 598 million (of which PLN 1 593 million – long-term part, PLN 5 million – current part – interest) with maturity falling in 2019. These notes, issued in a private placement, give KGHM INTERNATIONAL LTD. the opportunity for early redemption, to 15 June 2014 up to 35% of the issue, and after this date up to 100% of the issue, at their nominal price, plus a premium if redemption is made prior to 15 June 2017. Also, in case of a change in the ownership structure of KGHM INTERNATIONAL LTD., every note holder has the right to demand their redemption. The acquisition in 2012 by KGHM Polska Miedź S.A. of the shares of KGHM INTERNATIONAL LTD. did not result in any demands for redemption by the holders of these notes.

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

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

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	
	31 December 2012	31 December 2011
Net Debt/EBITDA	0,02	0,00
Equity ratio	0,58	0,75

In 2012 and 2011 there were no external equity requirements imposed on the Parent Entity, including in the credit agreements entered into by the Parent Entity.

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

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

In the first half of 2012, a cash management service in the KGHM Polska Miedź S.A. Group - the zero-balance cash pool, based on the variable WIBOR rate with a credit limit on the account of PLN 229 million at 31 December 2012 was implemented.

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

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

As at 31 December 2012, the following companies were participants of the cash pool system in the Group:

- KGHM Metraco S.A.,
- ZANAM-LEGMET Sp. z o.o.,
- INTERFERIE S.A.,
- KGHM Ecoren S.A.,
- PeBeKa S.A.,
- POL-MIEDŹ TRANS Sp. z o.o.,
- CBJ sp. z o.o.,
- WPEC w Legnicy S.A.,
- PHP „MERCUS" sp. z o.o.,
- Interferie Medical SPA Sp. z o.o.,
- „Energetyka" sp. z o.o.,
- INOVA Spółka z o.o.,
- PMT Linie Kolejowe Sp. z o.o.,
- Zagłębie Lubin S.A.

Amounts in tables in million PLN, unless otherwise stated

33. Income tax

Income tax

	Note	For the period from 1 January 2012 to 31 December 2012	For the period from 1 January 2011 to 31 December 2011 restated*
Current income tax		1 724	2 243
Deferred income tax	22	(71)	65
Adjustments to income tax from prior periods		(8)	(8)
Total continued operations		**1 645**	**2 300**
Discontinued operations		**-**	**(7)**
Total		**1 645**	**2 293**

* Details presented in note 2.1.2.

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

	For the period from 1 January 2012 to 31 December 2012	For the period from 1 January 2011 to 31 December 2011 restated*
Profit before tax	6 449	13 371
Tax calculated using the domestic rate (2012: 19%, 2011: 19%)	1 269	2 539
Effect of applying other tax rates abroad:	64	-
Canada (2012: 25%, 2011: 26.5%)	6	-
USA (2012: 35%, 2011: 35%)	64	-
Other countries	(6)	-
Tax effect of non-taxable income	(139)	(64)
Tax effect of expenses not deductible for tax purposes **	417	56
Tax-deductible expenses due to reversal of an impairment loss in connection with the sale of a subsidiary	-	(220)
Utilisation of previously-unrecognised tax losses	(28)	(5)
Tax losses on which deferred tax assets were not recognised	43	2
Deductible temporary differences on which deferred tax assets were not recognised	27	-
Adjustments to income tax from prior periods	(8)	(8)
Income tax expense the average income tax rate applied was 25.5% (2011: 17.2%)	**1 645**	**2 300**

* Details presented in note 2.1.2.
** Tax effect of expenses not deductible for tax purposes in 2012 mainly related to the minerals extraction tax. Details in note 29.

Amounts in tables in million PLN, unless otherwise stated

34. Minerals extraction tax

The table below presents all types of taxation due to extraction with which the KGHM Polska Miedź S.A. Group is charged.

Area	Tax due to extraction in force in the given country	Basis for calculating tax	Tax rates of the given country	Tax calculation formula	Amount charged due to the tax for the period from 01.01.12 to 31.12.12 (PLN million)	Presentation in the consolidated statement of comprehensive income
Poland	Minerals extraction tax:					
	- copper	290 799 t	PLN 4 129.32*	Multiple of the amount of copper in concentrates, expressed in tonnes, and the tax rate set applying the applicable model	1 201	Taxes and charges in expenses by nature, presented in note 29
	- silver	774 337 kg	PLN 510.45*	Multiple of the amount of silver in concentrates, expressed in kg, and the tax rate set applying the applicable model	395	Taxes and charges in expenses by nature, presented in note 29
USA (Nevada)	Nevada Net proceeds tax	USD 93 003 040	5%	Multiple of the basis for calculating tax and the tax rate	15	Income tax
Canada (Ontario)	Ontario Mining tax	USD 49 040 225	10%	Multiple of the basis for calculating tax and the tax rate	16	Income tax

* Average tax rate calculated for the period from the date of coming into force of the Act dated 2 March 2012 on the minerals extraction tax, i.e. from 18 April 2012 to the end of the reporting period, i.e. to 31 December 2012.

Ad.1. Tax rates for a given month are calculated in accordance with conditions specified by the Act dated 2 March 2012 on the minerals extraction tax (Journal of Laws dated 3 April 2012, item 362), as presented in the following table:

Type of mineral	Average mineral price **	Tax rate binding for the month	Additional restrictions
Copper	> PLN 15 000	0.033 x average copper price + (0.001 x average copper price) ^ 2.5	tax rate not higher than 16 000 PLN/t
	<= PLN 15 000	(average copper price – PLN 12 000) x 0.44	tax rate not lower than 0.5% of the average price of copper
Silver	> PLN 1 200	0.125 x average silver price +(0.001 x average silver price) ^ 4	tax rate not higher than 2 100 PLN/kg
	<= PLN 1 200	(average silver price - 1000) x 0.75	tax rate not lower than 0.5% of the average price of silver

** The Minister responsible for public finance announces, through public announcement, by the 10th day of each month, in the Journal of Laws of the Republic of Poland "Monitor Polski", the average price per tonne of copper and the average price per kilogram of silver for the previous month.

Ad.2. For calculating tax in the United States the following amounts were assumed :
- 103 409 405 – taxable income in USD set based on Nevada Administrative Code in force in the state of Nevada;
- 107 175 587 – actual production in the reporting period;
- 1/119 167 757 – the reciprocal of the planned production volume in the reporting period.

Ad.3. The basis for calculating tax in Canada is the actual pre-tax profit for the reporting period.

35. Earnings per share

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Profit from continued operations attributable to shareholders of the Parent Entity	4 802	11 127
Weighted average number of ordinary shares (million)	200	200
Basic/diluted earnings per share (PLN/share)	24,01	55.34
Profit from discontinued operations attributable to shareholders of the Parent Entity	-	60
Weighted average number of ordinary shares (million)	-	200
Basic/diluted earnings per share (PLN/share)	-	0.30

There are no dilutive potential ordinary shares.
* Details presented in note 2.1.2.

Amounts in tables in million PLN, unless otherwise stated

36. Dividend paid

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

The right to dividend date was set at 16 July 2012, and dividend payment date at 20 August 2012 – 1st instalment and 16 November 2012 – 2nd instalment.

All shares of the Parent Entity are ordinary shares.

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

The right to dividend date was set at 16 July 2012, the dividend payment date at 31 July 2012.

In 2011 in accordance with Resolution No. 6/2011 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 15 June 2011 regarding the appropriation of the Parent Entity profit for financial year 2010, the amount of PLN 2 980 000 thousand, representing PLN 14.90 per share, was allocated as a shareholders dividend.

The right to dividend date was set at 11 July 2011, and dividend payment date at 12 August 2011.

37. Assets and liabilities not recognised in the statement of financial position

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

	At	
	31 December 2012	31 December 2011
Contingent assets	**448**	**426**
-disputed State Budget issues	29	29
-guarantees received	211	186
-promissory note receivables	81	89
-real estate tax on mining facilities	87	85
-inventions, implementation of projects	40	37
Contingent liabilities	**732**	**210**
-guarantees of which:	539	49
guarantees granted under a contract for the supply of electricity within the Sierra Gorda S.C.M. project	519	-
-promissory note liabilities	13	24
-disputed issues, pending court proceedings	26	14
-preventive measures in respect of mine-related damages	-	8
- liabilities due to implementation of projects, inventions	128	114
-real estate tax on mining facilities	18	-
-other	8	1
Liabilities not recognised in the statement of financial position		
- liabilities towards local government entities due to expansion of the tailings pond	193	-
- liabilities due to operating leases	136	23

Amounts in tables in million PLN, unless otherwise stated

Assets not recognised in the consolidated statement of financial position

The most important items in contingent assets were the following:

- bid securities and security deposits received by the Group in the form of bank and insurance guarantees related to the economic activities conducted by the Group - PLN 211 million,
- overpayment of the real estate tax on mining facilities. The appeals process is underway at the Local Government Appeal Court for the return of overpayment due to a judgement of the Constitutional Tribunal dated 13 September 2011 - PLN 87 million.

Liabilities not recognised in the consolidated statement of financial position

KGHM Polska Miedź S.A., in compensation for the negative impact of the Parent Entity's activities on some surrounding municipalities, signed agreements in which it committed to the payment of funds to these municipalities for the purposes and under the conditions stipulated in the agreements.

Based on the specific stipulations of these agreements, at 31 December 2012, the Parent Entity recognised in the statement of financial position liabilities in the amount of PLN 48 million, a provision in the amount of PLN 6 million, as well as contractual liabilities which were not recognised in the statement of financial position in the amount of PLN 193 million.

The liabilities recognised in the statement of financial position (in the non-current part in the amount of PLN 27 million, in the current part in the amount of PLN 21 million) represent liabilities of the Parent Entity to make cash payments to municipalities to 2014 in the amounts and schedules specified in agreements. The non-current part of these liabilities is recognised at a discounted amount.

The provision recognised by the Parent Entity (in the non-current part in the amount of PLN 4 million, in the current part in the amount of PLN 2 million) represents liabilities of KGHM Polska Miedź S.A. made by the Parent Entity to the payment of funds to these municipalities equivalent to 4% of the amount of investment expenditures realised in a given year for development and formation of the „Żelazny Most" tailings pond to the capacity of 700 million m^3 and a dam crown height of 180 m a.s.l., though not less than EUR 375 thousand. The amount of the non-current part of the provision is recognised at its discounted rate.

Liabilities not recognised in the statement of financial position in the amount of PLN 193 million represent commitments of KGHM Polska Miedź S.A. stipulated in agreements with municipalities to the payment of funds to these municipalities in a specified amount. In respect of this, the dates for making the initial payments are tied to the date on which the waste stored in the tailings pond exceeds the dam's crown height as defined in the agreement. This event will be the signal to recognise in the statement of financial position these liabilities.

As at 31 December 2012, the amount of liabilities not recognised in the statement of financial position is shown at their present value.

38. Subsequent events

Forecast of results for 2013

On 14 February 2013, the Supervisory Board of the Parent Entity approved the Budget of KGHM Polska Miedź S.A. for 2013 submitted by the Management Board. The bases for preparation of the Budget were the preliminary results for 2012 and the assumptions of individual operating plans (detailed data on the approved budget is presented in the Report on the activities of the Group, point 7.10).

Sierra Gorda CAPEX definitive cost estimate

On 1 March 2013 the Management Board of the Parent Entity announced the definitive cost estimate and scheduled startup for the Company's flagship Sierra Gorda copper-molybdenum-gold project in Chile, 55% owned by KGHM INTERNATIONAL Ltd. (100% subsidiary of KGHM Polska Miedź S.A.), 31.5% owned by Sumitomo Metal Mining and 13.5 % owned by Sumitomo Corporation. Detailed information is presented in the Report on the activities of the Group, point 9.

Elections by employees of persons to the Supervisory Board of the Parent Entity

As a result of elections carried out on 12-13 March 2013, the employees of the Parent Entity chose the following two persons to the Supervisory Board: Józef Czyczerski and Leszek Hajdacki.

The persons elected by the employees of the Parent Entity become members of the Eighth Term Supervisory Board from the moment of adoption of appropriate resolutions by the General Meeting of KGHM Polska Miedź S.A.

Borrowing agreements entered into by the Parent Entity

- On 2 January 2013, an overdraft facility agreement was signed for the amount of PLN 200 million, available for the period from 3 January 2013 to 2 January 2014,
- On 2 January 2013, an overdraft facility agreement was signed for the amount of PLN 100 million, available for the period from 7 January 2013 to 19 December 2013,
- On 7 January 2013, a working capital facility agreement was signed for the amount of PLN 200 million, available for the period from 7 January 2013 to 7 January 2014,
- On 17 January 2013, an agreement was signed for an overdraft facility and a working capital facility for the amount of PLN 500 million, available for the period from 4 February 2013 to 3 February 2016.

Interest on the amounts drawn will be based on WIBOR + a bank margin.

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