**POLISH FINANCIAL SUPERVISION AUTHORITY**

# Consolidated quarterly report QSr 3 / 2013

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

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

For the third quarter of the financial year **2013** comprising the period from **1 July 2013** to **30 September 2013**
Containing the interim condensed consolidated financial statements according to IAS 34 in PLN, and interim condensed financial statements according to IAS 34 in PLN.

publication date: 14 November 2013

**KGHM** Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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

## SELECTED FINANCIAL DATA

**data concerning the interim condensed consolidated financial statements of KGHM Polska Miedź S.A.**

| | in PLN '000 | | in EUR '000 | |
|---|---|---|---|---|
| | **3 quarters of 2013 period from 1 January 2013 to 30 September 2013** | **3 quarters of 2012 period from 1 January 2012 to 30 September 2012 restated** | **3 quarters of 2013 period from 1 January 2013 to 30 September 2013** | **3 quarters of 2012 period from 1 January 2012 to 30 September 2012 restated** |
| I. Sales | 17 985 944 | 19 898 467 | 4 258 943 | 4 743 603 |
| II. Operating profit | 3 464 782 | 5 317 217 | 820 436 | 1 267 573 |
| III. Profit before income tax | 3 295 056 | 5 198 006 | 780 246 | 1 239 155 |
| IV. Total profit for the period | 2 337 361 | 3 983 378 | 553 470 | 949 599 |
| V. Profit for the period attributable to shareholders of the Parent Entity | 2 338 148 | 3 981 784 | 553 656 | 949 219 |
| VI. Profit for the period attributable to non-controlling interest | ( 787) | 1 594 | ( 186) | 380 |
| VII. Other comprehensive income | 372 443 | ( 366 257) | 88 192 | ( 87 312) |
| VIII. Total comprehensive income | 2 709 804 | 3 617 121 | 641 662 | 862 287 |
| IX. Total comprehensive income attributable to the shareholders of the Parent Entity | 2 712 745 | 3 617 820 | 642 358 | 862 454 |
| X. Total comprehensive income attributable to non-controlling interest | ( 2 941) | ( 699) | ( 696) | ( 167) |
| XI. Number of shares issued | 200 000 000 | 200 000 000 | 200 000 000 | 200 000 000 |
| XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity | 11.71 | 19.91 | 2.77 | 4.75 |
| XIII. Net cash generated from operating activities | 3 654 355 | 4 006 233 | 865 325 | 955 047 |
| XIV. Net cash used in investing activities | (3 398 215) | (9 541 243) | ( 804 673) | (2 274 541) |
| XV. Net cash used in financing activities | (1 476 163) | (3 122 289) | ( 349 545) | ( 744 324) |
| XVI. Total net cash flow | (1 220 023) | (8 657 299) | ( 288 893) | (2 063 818) |
| | **At 30 September 2013** | **At 31 December 2012 restated** | **At 30 September 2013** | **At 31 December 2012 restated** |
| XVII. Non-current assets | 26 186 181 | 24 108 431 | 6 210 702 | 5 897 077 |
| XVIII. Current assets | 8 658 022 | 9 854 495 | 2 053 464 | 2 410 473 |
| XIX. Total assets | 34 844 203 | 33 962 926 | 8 264 166 | 8 307 550 |
| XX. Non-current liabilities | 7 038 735 | 7 279 374 | 1 669 410 | 1 780 581 |
| XXI. Current liabilities | 5 123 306 | 4 769 076 | 1 215 119 | 1 166 547 |
| XXII. Equity | 22 682 162 | 21 914 476 | 5 379 637 | 5 360 422 |
| XXIII. Equity attributable to non-controlling interest | 222 714 | 231 585 | 52 822 | 56 647 |

**data concerning the interim condensed financial statements of KGHM Polska Miedź S.A.**

| | in PLN '000 | | in EUR '000 | |
|---|---|---|---|---|
| | **3 quarters of 2013 period from 1 January 2013 to 30 September 2013** | **3 quarters of 2012 period from 1 January 2012 to 30 September 2012 restated** | **3 quarters of 2013 period from 1 January 2013 to 30 September 2013** | **3 quarters of 2012 period from 1 January 2012 to 30 September 2012 restated** |
| I. Sales | 13 673 724 | 15 558 805 | 3 237 840 | 3 709 070 |
| II. Operating profit | 3 120 690 | 5 309 007 | 738 957 | 1 265 616 |
| III. Profit before income tax | 3 081 220 | 5 283 411 | 729 611 | 1 259 514 |
| IV. Profit for the period | 2 244 753 | 4 112 871 | 531 542 | 980 469 |
| V. Other comprehensive income | 235 437 | ( 555 756) | 55 750 | ( 132 487) |
| VI. Total comprehensive income | 2 480 190 | 3 557 115 | 587 292 | 847 982 |
| VII. Number of shares issued | 200 000 000 | 200 000 000 | 200 000 000 | 200 000 000 |
| VIII. Earnings per ordinary share (in PLN/EUR) | 11.22 | 20.56 | 2.66 | 4.90 |
| IX. Net cash generated from operating activities | 2 855 483 | 3 289 170 | 676 158 | 784 107 |
| X. Net cash used in investing activities | (1 864 482) | (10 810 952) | ( 441 496) | (2 577 227) |
| XI. Net cash used in financing activities | (1 406 975) | (3 389 174) | ( 333 162) | ( 807 947) |
| XII. Total net cash flow | ( 415 974) | (10 910 956) | ( 98 500) | (2 601 067) |
| | **At 30 September 2013** | **At 31 December 2012 restated** | **At 30 September 2013** | **At 31 December 2012 restated** |
| XIII. Non-current assets | 23 167 649 | 22 410 582 | 5 494 782 | 5 481 772 |
| XIV. Current assets | 5 622 794 | 5 766 730 | 1 333 585 | 1 410 579 |
| XV. Total assets | 28 790 443 | 28 177 312 | 6 828 367 | 6 892 351 |
| XVI. Non-current liabilities | 2 162 398 | 2 454 910 | 512 866 | 600 487 |
| XVII. Current liabilities | 4 184 384 | 3 798 931 | 992 431 | 929 243 |
| XVIII. Equity | 22 443 661 | 21 923 471 | 5 323 070 | 5 362 621 |

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

# A. Interim condensed consolidated financial statements
(Consolidated financial statements)

## Interim consolidated statement of financial position

| | Note | At 30 September 2013 | 31 December 2012 restated* | 1 January 2012 restated* |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 14 666 | 13 971 | 9 093 |
| Intangible assets | | 2 144 | 1 989 | 663 |
| Investment property | | 65 | 59 | 60 |
| Investments accounted for using the equity method | | 3 956 | 3 911 | - |
| Deferred tax assets | | 529 | 565 | 272 |
| Available-for-sale financial assets | | 889 | 892 | 994 |
| Mine closure financial assets | | 322 | 460 | 112 |
| Derivatives | | 467 | 745 | 899 |
| Trade and other receivables | | 3 148 | 1 516 | 40 |
| | | **26 186** | **24 108** | **12 133** |
| **Current assets** | | | | |
| Inventories | | 4 174 | 3 769 | 2 658 |
| Trade and other receivables | | 2 436 | 2 846 | 1 839 |
| Current corporate tax receivables | | 57 | 77 | 8 |
| Available-for-sale financial assets | | 85 | 149 | 16 |
| Mine closure financial assets | | 1 | - | 2 |
| Derivatives | | 456 | 382 | 860 |
| Cash and cash equivalents | | 1 440 | 2 629 | 13 130 |
| Non-current assets held for sale | | 9 | 2 | 4 |
| | | **8 658** | **9 854** | **18 517** |
| **TOTAL ASSETS** | | **34 844** | **33 962** | **30 650** |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity attributable to shareholders of the Parent Entity** | | | | |
| Share capital | | 2 000 | 2 000 | 2 000 |
| Revaluation reserve from measurement of financial instruments | | 518 | 235 | 536 |
| Exchange differences from the translation of foreign operations statements | | 79 | 19 | 19 |
| Actuarial gains/losses on post-employment benefits | | ( 156) | ( 543) | ( 373) |
| Retained earnings | | 20 018 | 19 971 | 20 920 |
| | | **22 459** | **21 682** | **23 102** |
| **Equity attributable to non-controlling interest** | | **223** | **232** | **289** |
| **TOTAL EQUITY** | | **22 682** | **21 914** | **23 391** |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Trade and other payables | | 820 | 880 | 142 |
| Borrowings, debt securities and finance lease liabilities | A.IV.7 | 1 841 | 1 783 | 194 |
| Derivatives | | 54 | 230 | 538 |
| Deferred tax liabilities | | 1 804 | 1 772 | 129 |
| Employee benefits liabilities | | 1 586 | 1 615 | 1 339 |
| Provisions for other liabilities and charges | | 934 | 999 | 485 |
| | | **7 039** | **7 279** | **2 827** |
| **Current liabilities** | | | | |
| Trade and other payables | | 4 056 | 3 008 | 2 249 |
| Borrowings, debt securities and finance lease liabilities | A.IV.7 | 695 | 1 075 | 104 |
| Current corporate tax liabilities | | 102 | 448 | 1 596 |
| Derivatives | | 61 | 25 | 331 |
| Employee benefits liabilities | | 137 | 133 | 126 |
| Provisions for other liabilities and charges | | 72 | 80 | 26 |
| | | **5 123** | **4 769** | **4 432** |
| **TOTAL LIABILITIES** | | **12 162** | **12 048** | **7 259** |
| **TOTAL EQUITY AND LIABILITIES** | | **34 844** | **33 962** | **30 650** |

* details presented in note A.I.4

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

## A. Interim condensed consolidated financial statements (continued)

### Interim consolidated statement of profit or loss

| | Note | Financial period<br>for the 3 months ended 30 September 2013 | for the 9 months ended 30 September 2013 | for the 3 months ended 30 September 2012 restated* | for the 9 months ended 30 September 2012 restated* |
|---|---|---|---|---|---|
| Sales | A.IV.2 | 5 468 | 17 986 | 6 788 | 19 899 |
| Cost of sales | A.IV.3 | (4 383) | (13 370) | (4 869) | (13 208) |
| **Gross profit** | | **1 085** | **4 616** | **1 919** | **6 691** |
| Selling costs | A.IV.3 | ( 94) | ( 321) | ( 100) | ( 291) |
| Administrative expenses | A.IV.3 | ( 241) | ( 711) | ( 258) | ( 785) |
| Other operating income | A.IV.4 | 160 | 682 | 339 | 1 380 |
| Other operating costs | A.IV.5 | ( 116) | ( 801) | ( 248) | (1 678) |
| **Operating profit** | | **794** | **3 465** | **1 652** | **5 317** |
| Finance costs | A.IV.6 | ( 39) | ( 170) | ( 49) | ( 119) |
| **Profit before income tax** | | **755** | **3 295** | **1 603** | **5 198** |
| Income tax expense | | ( 240) | ( 958) | ( 395) | (1 214) |
| **Profit for the period** | | **515** | **2 337** | **1 208** | **3 984** |
| | | | | | |
| Profit for the period attributable to: | | | | | |
| shareholders of the Parent Entity | | 518 | 2 338 | 1 207 | 3 982 |
| non-controlling interest | | ( 3) | ( 1) | 1 | 2 |
| | | | | | |
| **Earnings per share attributable to the shareholders of the Parent Entity for the reporting period**<br>(in PLN per share) | | | | | |
| - basic | | 2.59 | 11.71 | 6.03 | 19.91 |
| - diluted | | 2.59 | 11.71 | 6.03 | 19.91 |

* details presented in note A.I.4

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

## A. Interim condensed consolidated financial statements (continued)

### Interim consolidated statement of comprehensive income

| | Financial period | | | |
|---|---|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012 restated*** | **for the 9 months ended 30 September 2012 restated*** |
| **Profit for the period** | **515** | **2 337** | **1 208** | **3 984** |
| **Other comprehensive income** | | | | |
| **Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met, due to:** | **( 700)** | **341** | **( 846)** | **( 321)** |
| Available-for-sale financial assets | 93 | 170 | 81 | ( 124) |
| Income tax | ( 16) | ( 19) | ( 11) | 16 |
| | 77 | 151 | 70 | ( 108) |
| Cash flow hedging instruments | ( 229) | 163 | ( 389) | ( 548) |
| Income tax | 43 | ( 31) | 74 | 104 |
| | ( 186) | 132 | ( 315) | ( 444) |
| Exchange differences from the translation of foreign operations statements | ( 591) | 58 | ( 601) | 231 |
| **Other comprehensive income, which will not be reclassified to profit or loss, due to:** | **116** | **31** | **( 22)** | **( 45)** |
| Actuarial gains/(losses) on post-employment benefits | 143 | 38 | ( 28) | ( 56) |
| Income tax | ( 27) | ( 7) | 6 | 11 |
| **Other comprehensive net income for the financial period** | **( 584)** | **372** | **( 868)** | **( 366)** |
| **TOTAL COMPREHENSIVE INCOME** | **( 69)** | **2 709** | **340** | **3 618** |
| Total comprehensive income attributable to: | | | | |
| shareholders of the Parent Entity | ( 67) | 2 712 | 341 | 3 619 |
| non-controlling interest | ( 2) | ( 3) | ( 1) | ( 1) |

* details presented in note A.I.4

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

## A. Interim condensed consolidated financial statements (continued)

### Interim consolidated statement of changes in equity

| | Equity attributable to shareholders of the Parent Entity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Revaluation reserve from measurement of financial instruments** | **Exchange differences from the translation of foreign operations statements** | **Actuarial gains/losses on post-employment benefits** | **Retained earnings** | **Total** | **Equity attributable to non-controlling interest** | **Total equity** |
| **At 1 January 2013 restated*** | **2 000** | **235** | **19** | **( 543)** | **19 971** | **21 682** | **232** | **21 914** |
| Dividends from profit for 2012 paid | - | - | - | - | ( 980) | ( 980) | - | **( 980)** |
| Dividends from profit for 2012 resolved but unpaid | - | - | - | - | ( 980) | ( 980) | - | **( 980)** |
| Offsetting of profit from prior years with actuarial gains and losses | - | - | - | 356 | ( 356) | - | - | **-** |
| **Total comprehensive income** | **-** | **283** | **60** | **31** | **2 338** | **2 712** | **( 3)** | **2 709** |
| Profit for the period | **-** | **-** | **-** | **-** | 2 338 | 2 338 | ( 1) | **2 337** |
| Other comprehensive income | - | 283 | 60 | 31 | - | 374 | ( 2) | **372** |
| Obligation to repurchase of non-controlling interest | - | - | - | - | 21 | **21** | - | **21** |
| Changes in ownership shares in subsidiaries which do not lead to a loss of control | - | - | - | - | 4 | 4 | ( 6) | **( 2)** |
| **At 30 September 2013** | **2 000** | **518** | **79** | **( 156)** | **20 018** | **22 459** | **223** | **22 682** |
| | | | | | | | | |
| **At 1 January 2012** | **2 000** | **536** | **19** | **-** | **20 547** | **23 102** | **289** | **23 391** |
| Change in presentation principles* | - | - | - | ( 373) | 373 | **-** | - | **-** |
| **At 1 January 2012 restated*** | **2 000** | **536** | **19** | **( 373)** | **20 920** | **23 102** | **289** | **23 391** |
| Dividends from profit for 2011 paid | - | - | - | - | (3 400) | **(3 400)** | ( 1) | **(3 401)** |
| Dividends from profit for 2011 resolved but unpaid | - | - | - | - | (2 268) | **(2 268)** | - | **(2 268)** |
| **Total comprehensive income** | **-** | **( 552)** | **234** | **( 45)** | **3 982** | **3 619** | **( 1)** | **3 618** |
| Profit for the period – restated* | - | - | - | - | 3 982 | **3 982** | 2 | **3 984** |
| Other comprehensive income - restated* | - | ( 552) | 234 | ( 45) | - | **( 363)** | ( 3) | **( 366)** |
| Changes due to obtaining control of subsidiaries | - | - | - | - | - | **-** | 7 | **7** |
| Changes in ownership shares in subsidiaries which do not lead to a loss of control | - | - | 11 | - | ( 33) | **( 22)** | ( 53) | **( 75)** |
| **At 30 September 2012 restated*** | **2 000** | **( 16)** | **264** | **( 418)** | **19 201** | **21 031** | **241** | **21 272** |

* details presented in note A.I.4

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

## A. Interim condensed consolidated financial statements (continued)

### Interim consolidated statement of cash flows

| | For the period | |
|---|---|---|
| | from 1 January 2013 to 30 September 2013 | from 1 January 2012 to 30 September 2012 restated* |
| **Cash flow from operating activities** | | |
| Profit for the period | 2 337 | 3 984 |
| Adjustments to profit for the period: | 2 600 | 2 571 |
| Income tax recognised in profit or loss | 958 | 1 214 |
| Amortisation/Depreciation | 1 143 | 1 277 |
| Losses on sale of property, plant and equipment and intangible assets | 30 | 2 |
| Fair value increases of investment properties | ( 4) | - |
| Proceeds from sale of available-for-sale financial assets | ( 18) | - |
| Impairment loss on property, plant and equipment, intangible assets and available-for-sale financial assets | 222 | 2 |
| Interest and share in profits (dividends) | ( 99) | 3 |
| Foreign exchange losses | 29 | 970 |
| Change in provisions | ( 2) | 35 |
| Change in assets/liabilities due to derivatives | 528 | ( 118) |
| Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives | ( 300) | ( 248) |
| Other adjustments | 22 | ( 9) |
| Changes in working capital: | 91 | ( 557) |
| Inventories | ( 404) | ( 499) |
| Trade and other receivables | 379 | ( 430) |
| Trade and other payables | 116 | 372 |
| Income tax paid | (1 283) | (2 548) |
| **Net cash generated from operating activities** | **3 654** | **4 007** |
| **Cash flow from investing activities** | | |
| Purchase of subsidiaries, less acquired cash and cash equivalents | - | (7 055) |
| Purchase of interest in a joint venture | ( 11) | ( 33) |
| Purchase of property, plant and equipment and intangible assets | (2 195) | (1 761) |
| Advances granted for purchase of property, plant and equipment and intangible assets | ( 43) | ( 30) |
| Proceeds from sale of property, plant and equipment and intangible assets | 49 | 22 |
| Purchase of available-for-sale financial assets | ( 42) | - |
| Proceeds from sale of available-for-sale financial assets | 111 | 3 |
| Purchase of mine closure financial assets | ( 56) | ( 92) |
| Proceeds from sale of mine closure financial assets | 200 | - |
| Establishment of deposits | - | ( 11) |
| Termination of deposits | 36 | 31 |
| Loans granted | (1 473) | ( 670) |
| Dividends received | 37 | 57 |
| Other investment expenses | ( 11) | ( 2) |
| **Net cash used in investing activities** | **(3 398)** | **(9 541)** |

* details presented in note A.I.4

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

## A. Interim condensed consolidated financial statements (continued)

## Interim consolidated statement of cash flows (continued)

| | For the period | |
|---|---|---|
| | **from 1 January 2013 to 30 September 2013** | **from 1 January 2012 to 30 September 2012 restated*** |
| **Cash flow from financing activities** | | |
| Capital contributions to a subsidiary from holders of non-controlling interest | 21 | 18 |
| Proceeds from bank and other loans | 950 | 402 |
| Repayments of bank and other loans | (1 358) | ( 76) |
| Payments of liabilities due to finance leases | ( 11) | ( 8) |
| Interest paid | ( 73) | ( 74) |
| Dividends paid to shareholders of the Parent Entity | ( 980) | (3 400) |
| Other financial (expenses)/proceeds | ( 25) | 15 |
| **Net cash used in financing activities** | **(1 476)** | **(3 123)** |
| **Total net cash flow** | **(1 220)** | **(8 657)** |
| Exchange gains/(losses) on cash and cash equivalents | 31 | ( 879) |
| **Movements in cash and cash equivalents** | **(1 189)** | **(9 536)** |
| **Cash and cash equivalents at beginning of the period** | **2 629** | **13 130** |
| **Cash and cash equivalents at end of the period** | **1 440** | **3 594** |
| including restricted cash and cash equivalents | 100 | 97 |

* details presented in note A.I.4

**A. Interim condensed consolidated financial statements (continued)**

# Selected explanatory data

## I. Principles applied in preparing the financial statements

### 1. Introduction

The Parent Entity of the KGHM Polska Miedź S.A. Group is KGHM Polska Miedź S.A. with its registered head office in Lubin, whose shares are traded on a regulated market. The core business of the Parent Entity is the production of copper and silver.

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.

Activities involving the exploitation of copper ores, salt deposits and common minerals are carried out based on concessions held by KGHM Polska Miedź S.A., which were issued by the Minister of Environmental Protection, Natural Resources and Forestry in the years 1993-2004, most of which expire up to 31 December 2013. In view of the above, in 2010 the Parent Entity commenced the project CONCESSIONS 2013, whose goal was to obtain concessions for the extraction of copper ore from those deposits whose concessions will expire in the near future. As part of the work related to this project, the Parent Entity in the years 2010-2013 carried out work related to completing the concession applications together with the requisite appendices and did everything necessary to accomplish the signing, by the Minister of the Environment in August 2013, of three concessions for the extraction of copper ore from the deposits „Polkowice", „Radwanice-Wschód" and „Rudna" and in September 2013 of two concessions for the extraction of copper ore from the deposits „Lubin-Małomice" and „Sieroszowice". One of the concessions, „Lubin – Małomice", still awaits acknowledgement as final.

The final task in the process of the coming into force from 1 January 2014 of the new concessions is approval by the District Mining Office of mine operating plans for the 3 mines. Pursuant to the Law on Geology and Mining, the request to approve the mine operating plans must be submitted at least 30 days prior to the intended start of operations. The Parent Entity submitted the aforementioned plans to the District Mining Office on 31 October 2013.

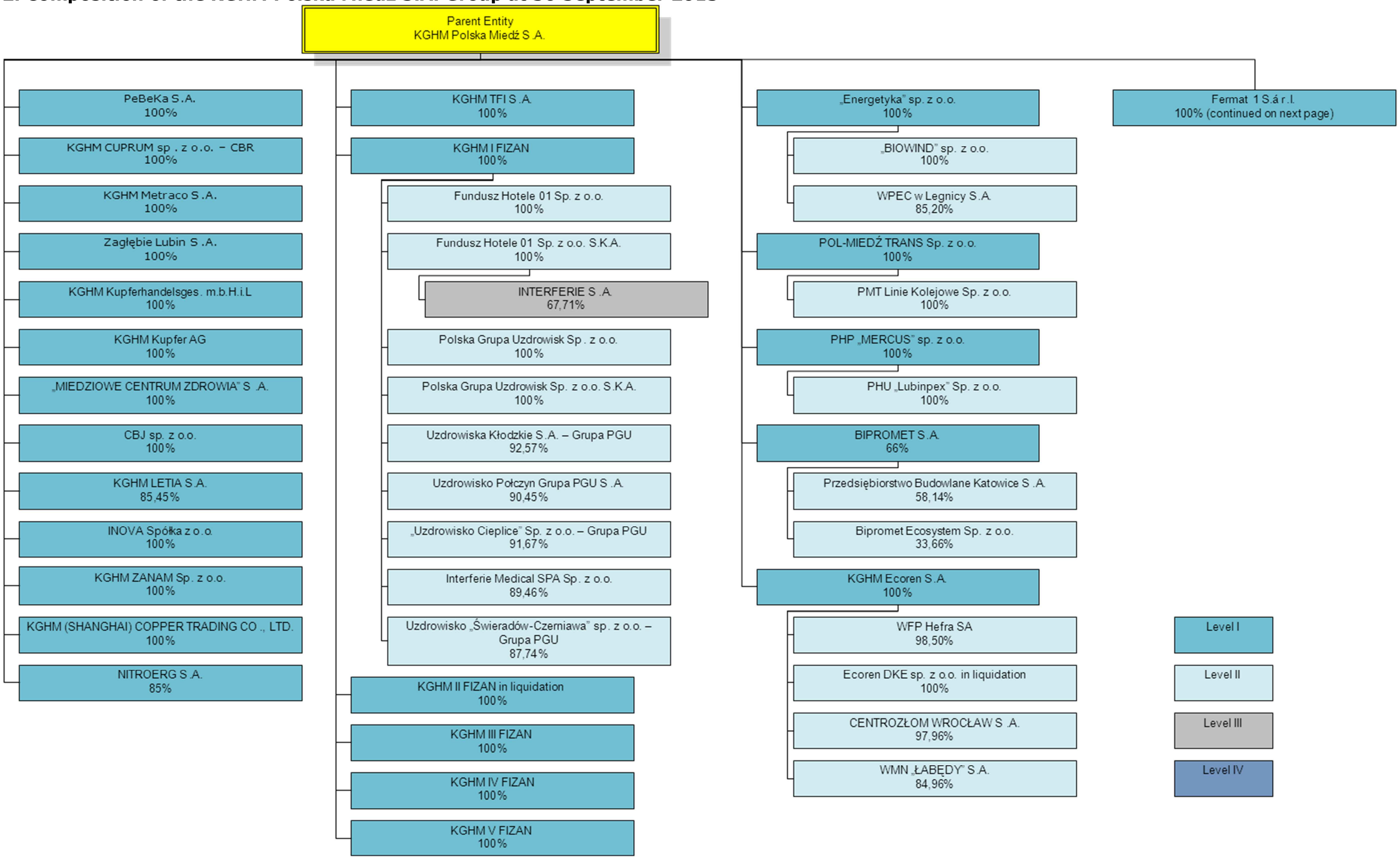
The Management Board believes that the probability that the District Mining Office will not approve the Mine Operating Plans by 31 December 2013 is minimal and does not represent a threat for the going concern assumption of KGHM Polska Miedź S.A.

Detailed information on the process of obtaining concessions may be found in part C.III.1.

The business activities of the Group also include:
- mine production of metals, including copper, nickel, gold, platinum, 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 materials, and
- recovery of associated metals from copper ore.

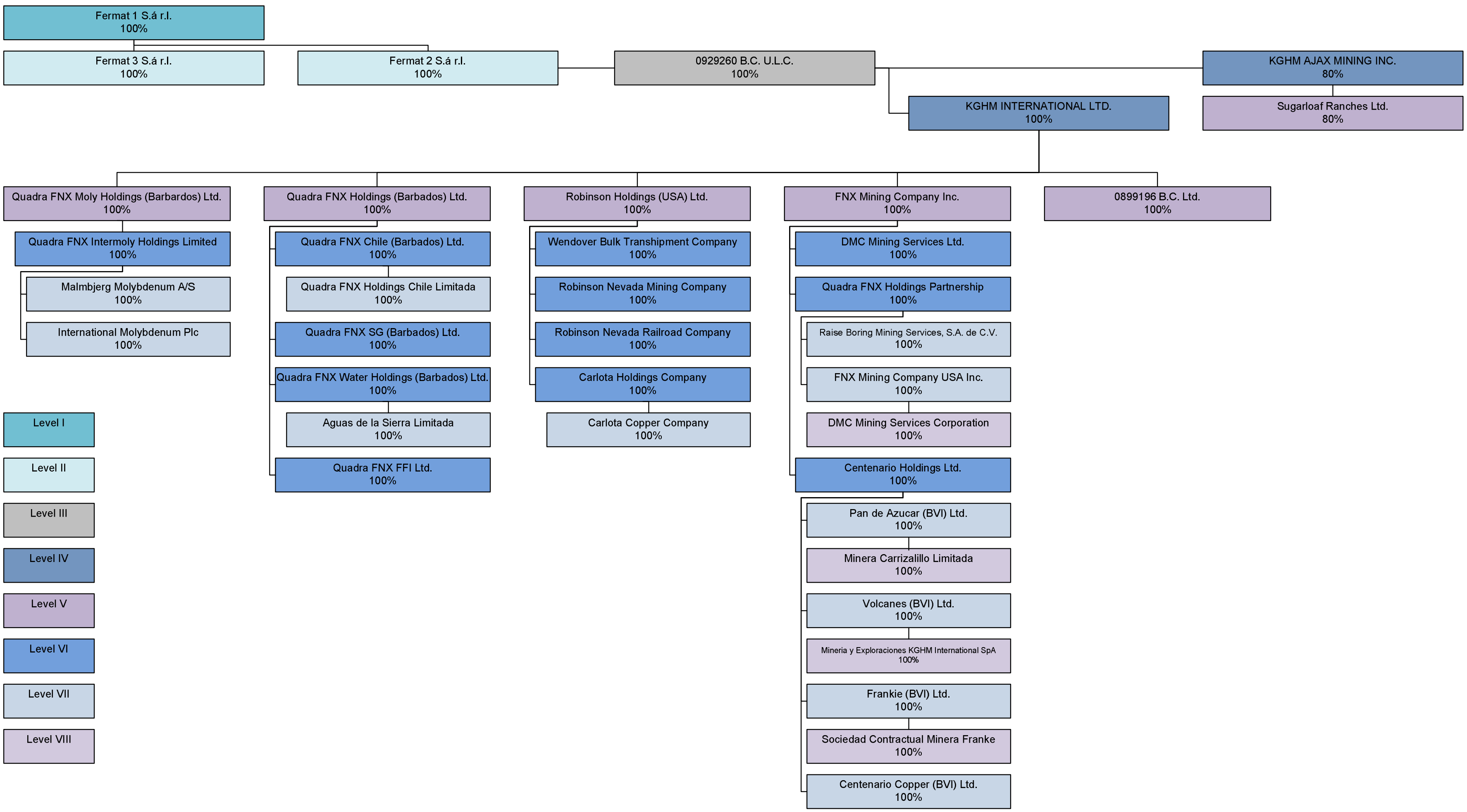
**A. Interim condensed consolidated financial statements (continued)**

## 2. Composition of the KGHM Polska Miedź S.A. Group at 30 September 2013




The percentage share represents the total share of the Group.

## A. Interim condensed consolidated financial statements (continued)



## A. Interim condensed consolidated financial statements (continued)

In the current quarter KGHM Polska Miedź S.A. consolidated 83 subsidiary entities (the subsidiaries of the Group are presented in part A.I.2), and one associated entity (BAZALT-NITRON Sp. z o.o.) and three joint ventures (Sierra Gorda S.C.M., „Elektrownia Blachownia Nowa" sp. z o.o., NANO CARBON Sp. z o.o.) were accounted for using the equity method.

The following quarterly report includes:

1. the interim condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 July to 30 September 2013 and the comparable period from 1 July to 30 September 2012, together with selected explanatory data **(Part A)**,
2. other information to the consolidated quarterly report **(Part B),**
3. the quarterly financial information of KGHM Polska Miedź S.A. for the period from 1 July to 30 September 2013 and the comparable period from 1 July to 30 September 2012 **(Part C)**.

Neither the interim consolidated financial statements at 30 September 2013 nor the interim separate financial statements at 30 September 2013 were audited by a certified auditor.

### 3. Exchange rates applied

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

- for the calculation of turnover, profit or loss and cash flow for the current period, the rate of ***4.2231 PLNEUR*,***
- for the calculation of turnover, profit or loss and cash flow for the comparable period, the rate of ***4.1948 PLNEUR*,***
- for the calculation of assets, equity and liabilities at 30 September 2013, the rate of ***4.2163 PLNEUR,***
- for the calculation of assets, equity and liabilities at 31 December 2012, the rate of ***4.0882 PLNEUR.***

**the rates represent the arithmetic mean of current average exchange rates announced by the NBP on the last day of each month during the period from January to September respectively of 2013 and 2012.*

### 4. Changes in accounting principles and impact of final accounting for an acquisition

The condensed consolidated financial report for the period from 1 July 2013 to 30 September 2013 was prepared in accordance with IAS 34 Interim Financial Reporting and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the consolidated financial statements for the year ended 31 December 2012 and with the separate financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2012.

These financial statements have been prepared using the same principles for the current and comparable periods, applying changes in accounting and presentation principles used in the current period to the comparable period and final accounting for the acquisition of shares in a subsidiary. The effect of changes is presented in the following points:

4.1 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 with respect to the presentation of items of equity. Taking into consideration the nature of individual items of equity and the transparency of the financial data presented, the following actions were performed:

(a) the item of equity „Actuarial gains/losses on post-employment benefits" was separated from „Retained earnings",

(b) the combination in the statement of financial position of homogenous items of equity, i.e. "Revaluation reserve from the measurement of available-for-sale financial assets" and "Revaluation reserve from the measurement of cash flow hedging instruments", into a single item - "Revaluation reserve from the measurement of financial instruments".

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

(a) adoption by the Group from 1 January 2012 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 on specified post-employment benefits 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 30 September 2012, other comprehensive income for the period from 1 January 2012 to 30 September 2012 decreased by PLN 45 million (gross amount of PLN 56 million less deferred tax of PLN 11 million), and simultaneously the profit for the period increased by the same amount. In the statement of profit or loss there was a decrease in:
   - costs of sales in the amount of PLN 21 million,
   - administrative expenses in the amount of PLN 35 million,

   and an increase in deferred tax in the amount of PLN 11 million.

**A. Interim condensed consolidated financial statements (continued)**

(b) changes in the accounting principles regarding recognition in the consolidated financial statements of greenhouse gas emissions allowances granted to Group companies under the National Allocation Plan. The Group decided to present allowances and the respective non-cash subsidies separately and also the principle was adopted that a liability due to greenhouse gas emissions 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 (a detailed description of the change in policy may be found in the consolidated annual report RS 2012). The result of this change on the comparable data for the period from 1 January 2012 to 30 September 2012 was an increase in costs of sales of PLN 13 million due to the recognition of a provision for allowances which should be submitted for redemption and simultaneous recognition of the respective non-cash subsidies received, which increased other operating income in the amount of PLN 12 million. This change decreased profit for the period from 1 January 2012 to 30 September 2012 by PLN 1 million.

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

In the first quarter of 2013 a final accounting for the Quadra FNX Mining Ltd. (Quadra FNX, currently KGHM INTERNATIONAL LTD.) Group acquired on 5 March 2012 was performed.
The shares of Quadra FNX were purchased in execution of the agreement dated 6 December 2011 signed by the Parent Entity of the KGHM Polska Miedź S.A. Group and Quadra FNX under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX. The shares purchased represent 100% of the share capital of Quadra FNX and 100% of the votes at the General Meeting of this company.

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

5 March 2012 was assumed as the date of obtaining control. Until the moment of obtaining control by the KGHM Polska Miedź S.A. Group, the 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 in the USA, Franke in Chile, and McCreedy West, and Levack (with the Morrison deposit) in Canada.
Activities of the acquired Group also include mining projects at the pre-operational stage at various stages of development, including Sierra Gorda in Chile - the company's major development project, involving one of the largest new copper and molybdenum deposits in the world. In addition, exploration projects are conducted in the companies of the KGHM INTERNATIONAL LTD. Group.
The signing of the Agreement is consistent with the strategy of the KGHM Polska Miedź S.A. Group aimed at increasing the resource base as well as copper production.

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

## A. Interim condensed consolidated financial statements (continued)

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

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

**The fair value of the item „other assets" also includes intangible assets in the amount of PLN 28 million.

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

**A. Interim condensed consolidated financial statements (continued)**

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

| Items adjusted to fair value | Description | Method/key assumption |
|---|---|---|
| Mineral properties, property, plant and equipment | Assets held by acquired entities | Fair value set by the discounted cash flow method |
| Investment in Sierra Gorda | Investment in joint venture | Fair value set by the discounted cash flow method |
| Intangible assets due to signed services sales contracts | Recognised intangible assets | Fair value set by the discounted cash flow method |
| Inventories | Inventories held by acquired entities | Method based on net realisable value (assuming the rational level of profit on sales) less the costs necessary to make the sale |
| Issued bonds | Senior notes for financing a share of the Sierra Gorda project | Method based on determining the amount of 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 | Separation of embedded instruments pursuant to the terms of the host contract and based on forward copper market prices as at the date control was obtained, fair value equal to zero at the date of separation |
| Deferred tax | Recognised deferred tax from adjustment to fair value | Tax rates were applied which are in force in the countries where the Group operates (Canada – 33%, USA – 35%, Chile – 22%) |

Based on final accounting for the acquisition, an adjustment was also made in the comparable period respecting a change in depreciation of the assets measured at fair value.
The impact of the depreciation of non-current assets and the realisation of inventories and liabilities decreased profit before taxation:

– for the period from 1 July to 30 September 2012 by PLN 66 million,

*(for the period from 1 January to 30 September 2012 by PLN 82 million),*
and increased profit for the period due to deferred income tax:

- for the period from 1 July to 30 September 2012 by PLN 23 million,

*(for the period from 1 January to 30 September 2012 by PLN 43 million).*

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

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

## A. Interim condensed consolidated financial statements (continued)

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

Costs related to the acquisition incurred to 30 September 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 the first three quarters of 2012.

Revenues of the KGHM INTERNATIONAL LTD. Group recognised in the consolidated statement of profit or loss of the KGHM Polska Miedź S.A. Group for the period from the moment of acquisition to 30 September 2012 amounted to PLN 2 644 million, while the profit for this same period amounted to PLN 89 million at the level of the carrying amount.

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 the nine months of 2012 would have shown revenues in the amount of PLN 20 535 million and a profit for the period in the amount of PLN 4 085 million.

4.4 From 1 January 2013 the following standards and interpretations are binding for the Group:

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

**A. Interim condensed consolidated financial statements (continued)**

## II. Information on significant changes in estimates

### 1. Provisions for future liabilities

The effects of revision or recognition of estimates of future liabilities (provisions) were settled in the financial result and other comprehensive income of the current quarter, and in particular due to:

1.1 provisions for future employee benefits due to one-off retirement or disability payments, jubilee awards, post-mortem benefits and the coal equivalent also paid after the period of employment. The result of this change in estimates, mainly as a result of changes in macroeconomic assumptions, is a decrease in the provision of PLN 132 million which was settled as:

- an increase in other comprehensive income of PLN 143 million

  (after reflecting the deferred tax effects, an increase in other comprehensive income of PLN 116 million),
- a decrease in profit before taxation of PLN 11 million

  (after reflecting the deferred tax effects, a decrease in profit for the period of PLN 9 million),

*(a decrease in the provision by PLN 25 million since the beginning of the financial year which was settled as:*

- *an increase in other comprehensive income of PLN 38 million*

  *(after reflecting the deferred tax effects, an increase of PLN 31 million),*
- *a decrease in profit before taxation of PLN 13 million*

  *(after reflecting the deferred tax effects, a decrease of PLN 10 million),*

1.2 provision for future costs of decommissioning (restoration) of the Group's mines, comprising the estimated costs of dismantling and removing technological facilities (waste storage facility, facility for neutralisation of production tailings), for which the obligation for restoration upon the conclusion of activities is a result of separate law or standard practice. The result of this change in estimates is a decrease in the provision of PLN 137 million, which was settled as an increase in the financial result of PLN 1 million and a decrease of property, plant and equipment of PLN 118 million, and as an increase in other comprehensive income due to exchange differences from the translation of foreign operations provisions of PLN 18 million. The decrease in the provision caused a decrease in deferred tax assets in the amount of PLN 23 million.

*(a decrease in the provision by PLN 42 million since the beginning of the financial year, which was settled as a decrease in the financial result in the amount of PLN 17 million and as a decrease in property, plant and equipment in the amount of PLN 61 million, and a decrease in other comprehensive income in the amount of PLN 2 million. The decrease in the provision caused a decrease in deferred tax assets in the amount of PLN 15 million)*

1.3 provisions for future employee remuneration costs together with charges of PLN 212 million, paid (in accordance with the Collective Labour Agreement) on the occasion of mining or smelting holidays and after approval of the annual financial statements.

(*provision as at 30 September 2013 amounted to PLN 496 million).*

The revision and recognition of other provisions for liabilities did not significantly impact the current period profit.

### 2. Deferred tax

As a result of differences between the carrying amount and the tax base of statement of financial position items there is a change in the estimated value of the deferred tax asset and the deferred tax liability.

The deferred tax asset decreased in the current quarter by PLN 67 million, of which:

- PLN 23 million was settled as a decrease in profit,
- PLN 28 million was settled as a decrease in other comprehensive income due to actuarial losses,
- PLN 1 million was settled as a decrease in other comprehensive income due to measurement of available-for-sale financial assets and derivative hedging instruments,
- PLN 15 million was settled as a decrease in other comprehensive income due to exchange differences from measurement of the deferred tax asset of subsidiaries with a functional currency other than PLN.

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

**A. Interim condensed consolidated financial statements (continued)**

*(a decrease in the deferred tax asset since the beginning of the financial year in the amount of PLN 156 million, which was settled as:*

| | |
|---|---|
| *- a decrease in profit,* | *PLN 26 million,* |
| *- a decrease in other comprehensive income due to measurement of available–for-sale financial assets and derivative hedging instruments,* | *PLN 125 million,* |
| *- a decrease in other comprehensive income due to actuarial gains and losses,* | *PLN 8 million,* |
| *- an increase in other comprehensive income due to exchange differences from measurement of the deferred tax asset of subsidiaries with a functional currency other than PLN,* | *PLN 3 million)* |

The deferred tax liability decreased in the current quarter by PLN 139 million, of which:

- PLN 3 million was settled as an increase in profit,
- PLN 25 million was settled as an increase in other comprehensive income due to measurement of hedging financial instruments and available–for-sale financial assets,
- PLN 111 million was settled as an increase in other comprehensive income due to exchange differences from measurement of the deferred tax liability of subsidiaries with a functional currency other than PLN.

*(a decrease in the deferred tax liability since the beginning of the financial year in the amount of PLN 87 million, which was settled as:*

| | |
|---|---|
| *- an increase in profit,* | *PLN 28 million,* |
| *- an increase in other comprehensive income due to measurement of hedging financial instruments, and available–for-sale financial assets* | *PLN 74 million,* |
| *- a decrease in other comprehensive income due to exchange differences from measurement of the deferred tax liability of subsidiaries with a functional currency other than PLN,* | *PLN 15 million)* |

After offsetting the deferred tax asset and deferred tax liability, as at 30 September 2013 in the statements of financial position at the level of subsidiaries, the deferred tax asset was set at PLN 529 million, while the deferred tax liability - at PLN 1 804 million.

## III. Financial and tangible assets

**1. In the current quarter the most important changes in financial assets concerned the following:**

a) in **investments accounted for using the equity method**
– a decrease in the value of the share of the Sierra Gorda joint venture of PLN 244 million, due to translation of the investments' value from the functional currency of the subsidiary (USD) to the functional currency of the Group (PLN) applying a lower USD/PLN exchange rate at 30 September 2013 versus the exchange rate at 28 June 2013 (a change from 3.3175 USDPLN to 3.1227 USDPLN),

*(an increase in exchange differences since the beginning of the financial year in the amount of PLN 29 million (a change in the exchange rate from 3.0996 USDPLN at 31 December 2012 to 3.1227 USDPLN at 30 September 2013),*

b) in **available-for-sale financial assets**
- a decrease due to the realisation of a sale transaction of PLN 77 million,
- an increase due to the reversal of impairment losses recognised in other comprehensive income of PLN 88 million,
- an increase due to the recognition in other comprehensive income of a gain from measurement of PLN 6 million.

*(since the beginning of the financial year :*
- *an increase due to an acquisition of assets of PLN 42 million,*
- *a decrease due to the realisation of a sale transaction of assets of PLN 102 million,*
- *a decrease due to the recognition in profit or loss of impairment losses on shares in the amount of PLN 182 million,*
- *an increase due to the reversal of impairment losses of PLN 94 million recognised in other comprehensive income).*

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

**A. Interim condensed consolidated financial statements (continued)**

c) in **derivatives (assets and liabilities)** - as a result of changes in macroeconomic factors and settlement of derivative transactions falling in the third quarter of 2013, the fair value of open positions in derivatives as at 30 September 2013 decreased. As a result of measurement of derivatives as at 30 September 2013, profit or loss for the third quarter was credited in the amount of PLN 32 million and other comprehensive income was charged in the amount of PLN 229 million (excluding the deferred tax effect). As a result of realisation of derivatives, profit or loss for the third quarter was credited in the amount of PLN 76 million. Total profit or loss for the current quarter was credited in the amount of PLN 108 million. For detailed information on derivatives of the Parent Entity see part C.III.5 of this report.

## 2. The fair value hierarchy of financial instruments

Investments in listed companies (classified as available-for-sale financial assets) are classified under level 1 of the fair value hierarchy. All remaining financial instruments are classified by the Group under level 2 of the fair value hierarchy. The manner and techniques for measuring financial instruments which are measured to fair value have not changed in comparison to the manner and techniques for measurement as at 31 December 2012.
There was no transfer by the Group of financial instruments between individual levels of fair value hierarchy in either the reporting or the comparative periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

# IV. Selected additional explanatory notes

## 1. Information on property, plant and equipment and intangible assets

### Purchase and sale of property, plant and equipment

| | Financial period | |
|---|---|---|
| | **for the 9 months ended 30 September 2013** | **for the 9 months ended 30 September 2012** |
| Purchase of property, plant and equipment | 1 999 | 1 486 |
| Net sale of property, plant and equipment | 14 | 8 |

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

| | At | |
|---|---|---|
| | **30 September 2013** | **31 December 2012** |
| Payables due to purchase of property, plant and equipment and intangible assets | 219 | 293 |

### Capital commitments not recognised in the consolidated statement of financial position

| | At | |
|---|---|---|
| | **30 September 2013** | **31 December 2012** |
| Capital commitments, of which: | **2 750** | **2 207** |
| - for the purchase of property, plant and equipment | 2 711 | 2 167 |
| - for the purchase of intangible assets | 39 | 40 |
| Capital commitments related to the Sierra Gorda S.C.M. project, of which: | **5 798** | **7 093** |
| - for investing activities | 1 362 | 2 307 |
| - for operating activities | 4 436 | 4 786 |
| **Total capital commitments:** | **8 548** | **9 300** |

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

## A. Interim condensed consolidated financial statements (continued)

### 2. Sales

| | Financial period | | | |
|---|---|---|---|---|
| | for the 3 months ended 30 September 2013 | for the 9 months ended 30 September 2013 | for the 3 months ended 30 September 2012 | for the 9 months ended 30 September 2012 |
| Copper, nickel, precious metals, smelter by-products | 4 568 | 15 375 | 5 833 | 17 104 |
| Energy | 10 | 69 | 10 | 66 |
| Services | 269 | 960 | 383 | 1 026 |
| Mining machinery, transport vehicles for mining and other | 11 | 31 | 13 | 40 |
| Merchandise – smelter products | 149 | 437 | 37 | 399 |
| Other merchandise | 227 | 359 | ( 1) | 276 |
| Scrap and materials | 22 | 63 | 25 | 60 |
| Other finished goods | 212 | 692 | 488 | 928 |
| **Total sales** | **5 468** | **17 986** | **6 788** | **19 899** |

### 3. Expenses by nature

| | Financial period | | | |
|---|---|---|---|---|
| | for the 3 months ended 30 September 2013 | for the 9 months ended 30 September 2013 | for the 3 months ended 30 September 2012 restated* | for the 9 months ended 30 September 2012 restated* |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 449 | 1 143 | 502 | 1 277 |
| Employee benefit expenses | 1 143 | 3 427 | 1 157 | 3 345 |
| Materials and energy | 2 140 | 6 330 | 2 205 | 6 349 |
| External services | 574 | 1 801 | 747 | 2 018 |
| Taxes and charges** | 557 | 1 833 | 696 | 1 365 |
| Advertising costs and representation expenses | 9 | 37 | 10 | 45 |
| Property and personal insurance | 7 | 24 | 10 | 27 |
| Other costs of which: | ( 7) | 144 | 30 | 94 |
| Impairment losses on property, plant and equipment | - | 54 | 4 | 6 |
| Write-down of inventories | ( 35) | 5 | ( 1) | - |
| Reversal of impairment losses on property, plant and equipment, intangible assets, and of write-down of inventories | ( 6) | ( 16) | ( 7) | ( 10) |
| Other operating costs | 34 | 101 | 34 | 98 |
| **Total expenses by nature** | **4 872** | **14 739** | **5 357** | **14 520** |
| Cost of merchandise and materials sold (+) | 391 | 811 | 188 | 596 |
| Change in inventories of finished goods and work in progress (+/-) | ( 232) | ( 335) | ( 114) | ( 240) |
| Cost of manufacturing products for internal use (-) | ( 313) | ( 813) | ( 204) | ( 592) |
| **Total cost of sales, selling costs and administrative expenses** | **4 718** | **14 402** | **5 227** | **14 284** |

* details presented in note A.I.4

** The minerals extraction tax is a significant item in operating costs.
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 period from 1 January to 30 September 2013, amounted to PLN 1 463 million (for the period from 18 April 2012 to 30 September 2012, PLN 1 025 million).

The basis for calculating this tax is the amount of copper and silver in produced concentrate, the market prices of these metals and the USD/PLN exchange rate. The tax is accounted for under manufacturing costs and is not deductible for corporate income tax purposes.

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

## A. Interim condensed consolidated financial statements (continued)

### 4. Other operating income

| | Financial period | | | |
|---|---|---|---|---|
| | for the 3 months ended 30 September 2013 | for the 9 months ended 30 September 2013 | for the 3 months ended 30 September 2012 restated* | for the 9 months ended 30 September 2012 restated* |
| Income and gains on financial instruments, classified under other operating activities, resulting from: | 108 | 544 | 303 | 1 227 |
| Measurement and realisation of derivatives | 30 | 285 | 242 | 978 |
| Interest | 78 | 202 | 60 | 190 |
| Dividends received | - | 37 | - | 57 |
| Other | - | 20 | 1 | 2 |
| Gain on a bargain purchase of KGHM INTERNATIONAL LTD. | - | - | - | 37 |
| Release of unused provisions | 13 | 17 | 3 | 15 |
| Penalties and compensation | 5 | 11 | 7 | 13 |
| Management fee for Sierra Gorda S.C.M. | 20 | 60 | 20 | 47 |
| Other operating income/gains | 14 | 50 | 6 | 41 |
| **Total other operating income** | **160** | **682** | **339** | **1 380** |

* details presented in note A.I.4

### 5. Other operating costs

| | Financial period | | | |
|---|---|---|---|---|
| | for the 3 months ended 30 September 2013 | for the 9 months ended 30 September 2013 | for the 3 months ended 30 September 2012 | for the 9 months ended 30 September 2012 |
| Costs and losses on financial instruments, classified under other operating activities, resulting from: | 79 | 703 | 218 | 1 515 |
| Measurement and realisation of derivatives | 56 | 493 | 217 | 972 |
| Foreign exchange losses | 25 | 25 | - | 541 |
| Impairment losses on financial assets | ( 1) | 182 | 1 | 2 |
| Other | ( 1) | 3 | - | - |
| Losses on the sale of property, plant and equipment | 19 | 33 | 4 | 5 |
| Donations granted | - | 17 | - | 86 |
| Provisions for liabilities | 7 | 17 | 12 | 24 |
| Contributions to a voluntary organisation | 3 | 12 | ( 6) | - |
| Other operating costs/losses | 8 | 19 | 20 | 48 |
| **Total other operating costs** | **116** | **801** | **248** | **1 678** |

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

## A. Interim condensed consolidated financial statements (continued)

### 6. Finance costs

| | Financial period | | | |
|---|---|---|---|---|
| | for the 3 months ended 30 September 2013 | for the 9 months ended 30 September 2013 | for the 3 months ended 30 September 2012 | for the 9 months ended 30 September 2012 |
| Interest expense: | 35 | 104 | 34 | 85 |
| On bonds | 31 | 93 | 32 | 75 |
| On bank and other loans and due to finance leases | 4 | 11 | 2 | 10 |
| Foreign exchange losses/(gains) on borrowings | ( 16) | 13 | ( 3) | ( 6) |
| Changes in provisions and liabilities arising from the approach of the maturity date of liabilities (unwinding of discount effect) | 5 | 31 | 18 | 37 |
| Other finance costs | 15 | 22 | - | 3 |
| **Total finance costs** | **39** | **170** | **49** | **119** |

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

| | At | |
|---|---|---|
| | 30 September 2013 | 31 December 2012 |
| **Non-current** | **1 841** | **1 783** |
| Bank loans | 189 | 165 |
| Loans | 5 | 8 |
| Debt securities* | 1 608 | 1 593 |
| Finance lease liabilities | 39 | 17 |
| **Current** | **695** | **1 075** |
| Bank loans** | 640 | 1 057 |
| Loans | 3 | 3 |
| Debt securities - interest | 35 | 5 |
| Finance lease liabilities | 17 | 10 |
| **Total** | **2 536** | **2 858** |

*  relates to issued bonds by KGHM INTERNATIONAL LTD.

** the decrease in value versus 31 December 2012 results from the decrease of debt under bank loan agreements held by the Parent Entity

### 8. Related entities transactions

| | Financial period | | | |
|---|---|---|---|---|
| | for the 3 months ended 30 September 2013 | for the 9 months ended 30 September 2013 | for the 3 months ended 30 September 2012 | for the 9 months ended 30 September 2012 |
| **Sales to related entities** | | | | |
| To associates | 1 | 2 | 1 | 2 |
| To other related entities | - | 14 | 1 | 5 |
| **Total sales to related entities** | **1** | **16** | **2** | **7** |

| | Financial period | | | |
|---|---|---|---|---|
| | for the 3 months ended 30 September 2013 | for the 9 months ended 30 September 2013 | for the 3 months ended 30 September 2012 | for the 9 months ended 30 September 2012 |
| **Purchases from related entities** | | | | |
| From other related entities | 5 | 28 | 7 | 32 |
| **Total purchases from related entities** | **5** | **28** | **7** | **32** |

## A. Interim condensed consolidated financial statements (continued)

| | At 30 September 2013 | 31 December 2012 |
|---|---|---|
| **Trade and other receivables from related entities** | | |
| Loan granted to the jointly-controlled entity Sierra Gorda S.C.M. | 3 080 | 1 471 |
| From associates | 1 | - |
| From related entities | 8 | 3 |
| **Total receivables from related entities** | **3 089** | **1 474** |

| | At 30 September 2013 | 31 December 2012 |
|---|---|---|
| **Trade payables towards related entities** | | |
| Towards other related entities | 7 | 4 |
| **Total payables towards related entities** | **7** | **4** |

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

The remaining transactions, which were collectively significant, between the Group and the government and entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, and were carried out at arm's length. These transactions involved the purchase by companies of the Group of materials and services to meet the needs of their current operating activities (fuel, energy, transport services). Turnover from these transactions for the period from 1 January to 30 September 2013 amounted to PLN 796 million (for the period from 1 January to 30 September 2012 – PLN 610 million), and the unsettled balance of liabilities from these transactions as at 30 September 2013 amounted to PLN 70 million (as at 31 December 2012: PLN 47 million).

| | Financial period | |
|---|---|---|
| **Remuneration of the Supervisory Board of the Parent Entity (in PLN '000)** | **for the 9 months ended 30 September 2013** | **for the 9 months ended 30 September 2012** |
| Remuneration due to service in the Supervisory Board, salaries and other current employee benefits | 755 | 1 031 |
| **Total** | **755** | **1 031** |

| | Financial period | |
|---|---|---|
| **Remuneration of the Management Board of the Parent Entity (in PLN '000)** | **for the 9 months ended 30 September 2013** | **for the 9 months ended 30 September 2012** |
| Salaries and other current employee benefits | 7 001 | 4 078 |
| Benefits due to termination of employment | - | 42 |
| **Total** | **7 001** | **4 120** |

| | Financial period | |
|---|---|---|
| **Remuneration of other key management personnel (in PLN '000)** | **for the 9 months ended 30 September 2013** | **for the 12 months ended 31 December 2012** |
| Salaries and other short-term employee benefits | 4 201 | 18 463 |
| **Total** | **4 201** | **18 463** |

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

## A. Interim condensed consolidated financial statements (continued)

### 9. Contingent assets and liabilities and other liabilities not recognised in the statement of financial position

| | At 30 September 2013 | Increase/(decrease) since the end of the last financial year |
|---|---|---|
| **Contingent assets** | **535** | **82** |
| Guarantees received | 275 | 64 |
| Disputed State budget issues | 22 | ( 7) |
| Promissory notes receivables | 102 | 21 |
| Inventions, implementation of projects | 44 | 4 |
| Real estate tax on underground workings | 87 | - |
| Other | 5 | 5 |
| **Contingent liabilities** | **888** | **163** |
| Guarantees and collateral, of which: | 641 | 109 |
| guarantees granted under a contract for the supply of electricity within the Sierra Gorda S.C.M. project | 431 | ( 88) |
| security for purchase environmental bonds by KGHM INTERNATIONAL LTD. | 190 | - |
| Promissory note liabilities | 33 | 20 |
| Disputed issues, pending court proceedings | 47 | 21 |
| Liabilities due to implementation of projects and inventions | 127 | ( 1) |
| Real estate tax on underground workings | 35 | 17 |
| Other | 5 | ( 3) |
| **Liabilities not recognised in the statement of financial position** | **320** | **( 9)** |
| liabilities towards local government entities due to expansion of the tailings pond | 186 | ( 7) |
| liabilities due to operating leases | 134 | ( 2) |

The value of the above items was determined based on estimates.

## V. Strategy realisation

During the reporting period the Group consistently realised the adopted directions of development based on the Strategy for the years 2009-2018 currently in force, concentrating on three areas:

### 1. Improving productivity – investments in new technology

Strategic investments in this regard were as follows:

*Research into the development and application of mechanical mining technology in the mines of KGHM Polska Miedź S.A.*:

- Operational testing continued using the ACT mining complex at a research station in the pilot section of the Polkowice-Sieroszowice mine. Positive results from this testing will form the basis for the decision to implement the ACT mining complex technology in the mines of KGHM Polska Miedź S.A.
- Improvements were realised and experience gathered from the production trials performed on drift tunnelling project using a group of three combines aimed at determining the technical and economic justification for implementation of combine technology in the performance of mine development work in the mines of KGHM Polska Miedź S.A. As this project represents a turning point in development of the copper mines of KGHM Polska Miedź S.A., the excavation of drifts using the group of three combines is being conducted as part of the work to access the deposit „Głogów Głęboki Przemysłowy" (Deep Głogów) in the Polkowice-Sieroszowice mine.

*The Pyrometallurgy Modernisation Program,* with respect to which design and construction-assembly work continued on construction of the main elements of the flash furnace production line at the Głogów I smelter, including the foundations and construction of the furnace hall, the power switching station for the main facilities and installations, and the electric furnace slag pouring reserve front.

**A. Interim condensed consolidated financial statements (continued)**

## 2. Developing the resource base

The strategy for developing the resource base comprises two areas:

*Exploration of new deposits in the region*

- With respect to the exploration of new deposits on the region, work continued on acquiring concessions for the exploration and investigation of copper ore deposits in areas adjacent to the concessioned mining areas of KGHM Polska Miedź S.A. Proceedings continue in the Concessioning Body (the Ministry of the Environment) on the applications of KGHM Polska Miedź S.A. on the granting of concessions for the exploration and investigation of copper ore deposits in the areas „Głogów", „Bytom Odrzański" and „Kulów-Luboszyce".
- In August 2013, the concession for the exploration and investigation of the copper ore deposit in the areas „Retków-Ścinawa" became final. In September work continued on preparing an exploration project for the realisation stage.
- In August 2013, KGHM Polska Miedź S.A. received a decision altering the concessions for the investigation of copper ore deposits in the area „Gaworzyce" and „Radwanice", which enable commencement of work on Stage II, comprised of the conduct of surface geophysical research.
- With respect to the scope of realisation of Stage II exploration and investigation work in the concessioned area „Synklina Grodziecka", in August one of the drillholes was completed and drilling commenced on the next three holes. A decision was taken to increase the scope of geological work by a further 3 holes. In addition, proceedings continued in the concessioning body regarding an application submitted in the second quarter of 2013 by KGHM Polska Miedź S.A. on the granting of a concession for the exploration and investigation of the copper ore deposit in the area „Konrad", directly adjacent to the concessioned area „Synklina Grodziecka".
- In September 2013, KGHM Polska Miedź S.A. applied to the Minister of the Environment on the granting of a concession for the exploration and investigation of the potassium-magnesium salt deposit in the vicinity of Puck along with associated minerals, i.e. copper and silver ores and rock salt.
- At the turn of August and September 2013, the subsidiary KGHM Kupfer AG, carrying out an exploration project in the area „Weisswasser" in Germany, conducted work related to confirmation by the Saxon Mining Office (SOBA) of the exploration plan in the area „Weisswasser".
- Work was performed related to preparing geological documentation for the concessioned area „Szklary I". Planned date for submitting this documentation to the concessioning body – fourth quarter 2013.

*Acquisition and development of mining projects globally*

- Sierra Gorda project in Chile (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%) – construction of an open pit mine and concentrator. At the end of the reporting period, 69.72% of project construction was completed. In terms of construction of the main facilities and technical infrastructure of the mine, work continued on preparing the wet and dry areas of the concentrator, construction of the tailings facility, salt water pipeline and power lines. Start of production is planned in the second quarter of 2014.
- Victoria project in the Sudbury Basin in Canada (KGHM INTERNATIONAL LTD. 100%) – work was carried out on obtaining necessary permitting and performing technical-economic analyses on the possibilities for developing the copper-nickel ore. Detailed information on this project may be found in part A.VI. of this report.
- Afton-Ajax project in Canada (KGHM Polska Miedź S.A. 80%, Abacus Mining and Exploration Corp. 20%) – in areas adjacent to the Ajax deposit exploratory work and geophysical research was carried out as well as exploratory drilling. Investigation also continues on existing areas of the deposit – drilling in the areas Rainbow and Ajax North. Work is in progress on an alternative concept for realising the project, including the siting of some of the mine facilities, to enable a substantial reduction of the mine's impact on the neighbouring infrastructure of the town of Kamloops.

## A. Interim condensed consolidated financial statements (continued)

### 3. Diversifying sources of revenues and gaining gradual independence from energy prices

*Projects aimed at increasing the generation of energy for internal needs*

- Construction of gas-steam blocks at the Głogów and Polkowice power plants – final handover continued, including start-up testing and preparatory work related to the handover of the gas-steam blocks for operation.
- Production of synthetic gas through the underground gasification of brown coal in the Copper Belt (LGOM) – as part of Stage II of the project work continued on investigation of the brown coal deposit. Drilling began on the extreme southern edge of the concession area, aimed at determining the continuity of the coal structure. The first of three drillholes planned in this area was executed. The other two drillholes are currently being executed. The completion of geological exploratory-investigation work in Stage II is planned by the end of 2013.

*Energy projects on a national scale, whose realisation will enable diversification of the structure of revenues and will increase the market value of KGHM*

- Construction of a power generation source based on the utilisation of natural gas as the raw material for its generation, on the grounds of the existing Blachownia Power Plant – the special purpose company „Elektrownia Blachownia Nowa" sp. z o.o. (KGHM Polska Miedź S.A. 50%, Tauron S.A. 50%) performed a competitive scenario analysis of the planned power plant using various market scenarios and technological variants. The results of this competitive scenario analysis and technical-economic analysis show that the project to build an approx. 850 MW gas-steam block requires continuation of activities aimed at optimising the parameters of investment. Work continues aimed at verifying the project, with consideration of the possible deferment of project realisation.
- Exploration for and extraction of shale gas in Poland (KCT Project) – the parties to the framework agreement (Polskie Górnictwo Naftowe i Gazownictwo S.A. (PGNiG), KGHM Polska Miedź S.A., ENEA S.A., PGE Polska Grupa Energetyczna S.A., and TAURON Polska Energia S.A.) signed with respect to cooperation on the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted to PGNiG for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo area with respect to the Kochanowo, Częstkowo and Tępcz pads, continued arrangements and business-taxation analyses regarding the potential cooperation model.
- Preparation for the construction and operation of the first Polish nuclear power plant – in the reporting period the parties to the project (KGHM Polska Miedź S.A., ENEA S.A., PGE Polska Grupa Energetyczna S.A., and TAURON Polska Energia S.A.) continued conceptual analyses, among others with respect to the business model of cooperation and project economic feasibility analyses. On 23 September 2013, the parties initialled the Shareholders Agreement of PGE EJ1 sp. z o.o. („Shareholders Agreement"), which will be signed after receiving approval of the corporate bodies of each of the parties. The Shareholders Agreement obliges the parties to enter into an Agreement for the purchase of shares in PGE EJ1 sp. z o.o., a special purpose company founded in order to build and operate a nuclear power plant („Shares Purchase Agreement"). According to the Shareholders Agreement, PGE will sell to the other parties to the Shareholders Agreement a block of 438 000 shares, representing altogether 30% of the share capital of PGE EJ1 sp. z o.o., subsequent to which PGE will own 70% of the share capital of PGE EJ1 sp. z o.o. KGHM Polska Miedź S.A. will purchase 146 000 shares, representing 10% of the share capital of PGE EJ1 sp. z o.o. The Shareholders Agreement also describes the principles of cooperation of all of the parties regarding the project to prepare and build a nuclear power plant in Poland. PGE and each of the business partners will be obliged to enter into a Shares Purchase Agreement after meeting two conditions precedent:
  - receipt of a decision regarding the unconditional approval by the President of UOKiK (the Office of Competition and Consumer Protection) to carry out the concentration,
  - adoption of a resolution on the Polish Nuclear Energy Program by the Council of Ministers in 2013.

## VI. KGHM INTERNATIONAL LTD. - results

Significant events in the third quarter of 2013

- Record results at the Franke mine – thanks to a change in the ore blend ratio from two deposits, production of 5.8 million tonnes was achieved, the highest level in the history of this mine.
- Despite the record results at Franke, in the third quarter of 2013 copper production decreased in the whole KGHM INTERNATIONAL LTD. Group by 23% to 21.3 kt versus 27.7 kt produced in the third quarter of 2012, mainly due to the substantial, temporary decrease in extracted ore grade at the Robinson mine and the closure of the Podolsky mine in the first quarter of 2013. Copper sales were 29% lower than in the third quarter of 2012, reaching 21.5 kt.
- By the end of the third quarter the Sierra Gorda project had completed 70% of project construction. Production start according to the schedule will be in 2014.

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

**A. Interim condensed consolidated financial statements (continued)**

- On 1 August 2013, subsidiaries of KGHM Polska Miedź S.A.: KGHM INTERNATIONAL LTD. and FNX Mining Company Inc. entered into an agreement with Vale Canada Limited (wholly-owned subsidiary of Vale S.A.) which provides the framework for INTERNATIONAL LTD. to develop the Victoria project. KGHM INTERNATIONAL LTD. will retain its 100% ownership of Victoria and Vale will receive a 2.25% Net Smelter Return royalty on all future production from the project.
- At the same time, KGHM INTERNATIONAL LTD., FNX Mining Company Inc. and Vale re-negotiated and signed on 1 August 2013 an off-take agreement for all of KGHM INTERNATIONAL's production from its mines in the Sudbury basin in Ontario, Canada. Vale will purchase polymetallic ore from KGHM INTERNATIONAL LTD. and process it at Vale's Clarabelle mill in Sudbury. The contract is valid for the full life of all KGHM INTERNATIONAL's Sudbury mines, including future production from Victoria.

Production results of KGHM INTERNATIONAL LTD. mines in the third quarter of 2013 and the third quarter of 2012.

| | **Financial period** | |
|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 3 months ended 30 September 2012** |
| **Copper production** [kt], *of which:* | **21.3** | **27.7** |
| Robinson(1) | 8.4 | 13.7 |
| Morrison(3) | 4.7 | 4.3 |
| Franke(2) | 5.8 | 4.8 |
| Carlota(2) | 2.0 | 2.8 |
| Podolsky(3) | 0.2 | 1.7 |
| McCreedy West(3) | 0.1 | 0.5 |
| **Nickel production** [t], *of which:* | **1 043.3** | **1 088.6** |
| Morrison(3) | 725.7 | 635.0 |
| Podolsky(3) | 45.4 | 90.7 |
| McCreedy West(3) | 272.2 | 362.9 |
| **Precious metals production** (gold, platinum, palladium) [koz], *of which:* | **21.5** | **23.2** |
| Robinson(1) | 7.5 | 10.2 |
| Morrison(3) | 12.9 | 9.3 |
| Podolsky(3) | 0.5 | 1.6 |
| McCreedy West(3) | 0.6 | 2.1 |
| **C1 [USD/lb]*** | **2.41** | **2.33** |

*(1) payable metal produced in concentrate*
*(2) produced in cathode*
*(3) shipped payable metal produced in ore*

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

In the third quarter of 2013, copper production by KGHM INTERNATIONAL LTD. decreased by 6.4 kt to 21.3 kt. The main reason for the decrease in production was the shift in production at the Robinson mine in the second half of 2013 to the Liberty pit, which has a low grade ore (return of production to the richer Ruth pit is planned for the second half of 2014). Consequently, despite the somewhat higher volume of ore extracted by this mine, copper production decreased by 38%.

In the third quarter of 2013, the KGHM INTERNATIONAL LTD. Group continued the realisation of projects belonging to its mining assets portfolio: Sierra Gorda, a development project in the pre-operational phase located in northern Chile, and the exploration project Victoria in the Sudbury Basin in Canada. Information on the projects being realised by KGHM INTERNATIONAL LTD. may be found in part A.V.2 of this report.

The unit cash cost C1 in the third quarter of 2013 was higher by 3% than that in the third quarter of 2012, mainly due to a decrease by 29% in sold payable copper.

**A. Interim condensed consolidated financial statements (continued)**

Financial results of the KGHM INTERNATIONAL LTD. Group in the third quarter of 2013 and third quarter of 2012 (excluding the effects of final accounting for the acquisition).

| | Financial period | | | |
|---|---|---|---|---|
| | for the 3 months ended 30 September 2013 | | for the 3 months ended 30 September 2012 | |
| | PLN million* | USD million | PLN million* | USD million |
| **Net revenues from sales**** | 710 | 224 | 1 176 | 358 |
| **Profit from mining operations***** | 18 | 6 | 213 | 65 |
| **Adjusted EBITDA****** | 142 | 45 | 315 | 96 |
| **Profit for the period** | 42 | 14 | 179 | 55 |
| **Capex (excluding Sierra Gorda project)** | 139 | 44 | 99 | 30 |
| **Founding of Sierra Gorda project** | 596 | 187 | 494 | 151 |

**data calculated using the arithmetic mean of current average exchange rates announced by the NBP on the last day of each month, respectively for 2012 and 2013*
***revenues from sales less TC/RC charges*
**** revenues from sales less costs of goods sold*
***** profit from mining operations adjusted by amortisation/depreciation, estimated recovery of metals in ore, administrative expenses and management fee for Sierra Gorda JV*

In the third quarter of 2013, the KGHM INTERNATIONAL LTD. Group recorded a 38% decrease in net revenues from sales resulting from a decrease in the volume of sold payable copper (due to the aforementioned decrease in production) and a decrease in the achieved average price of copper sold by 12%, to USD 7 253 per tonne versus the comparable prior year period. Revenues from sales in the third quarter of 2013 was also impacted by a 47% decrease in revenues from mining services rendered versus the third quarter of 2012. The decrease in production volume and in metals prices were also the cause of the lower profit from mining operations by 90%, as well as of adjusted EBITDA by 53%.

In the third quarter of 2013, KGHM INTERNATIONAL LTD. recorded a profit for the period of USD 14 million, versus a profit for the third quarter of 2012 of USD 55 million. The decrease in profit for the third quarter of 2013 versus the third quarter of 2012 was mainly due to a decrease in profit achieved on mining operations of USD 59 million, mainly due to the decrease in revenues from sales.

## VII. Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

## VIII. Information on the issuance, redemption and repayment of debt and equity securities

There was no issuance, redemption or repayment of debt and equity securities in the Group during the reporting period.

## IX. Information related to paid (declared) dividend, total and per share

In accordance with Resolution No. 5/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2013 regarding the appropriation of Parent Entity's profit for financial year 2012, the amount of PLN 1 960 million, representing PLN 9.8 per share, was allocated as a shareholders dividend.
The right to dividend date was set at 12 July 2013.
The dividend payment dates:
- 1st instalment of 4.90 PLN per share: 14 August 2013,
- 2nd instalment of 4.90 PLN per share: 14 November 2013.

All Parent Entity shares are ordinary shares.

**A. Interim condensed consolidated financial statements (continued)**

## X. Business segments

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

As a result of significant changes made in 2012 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 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, which will carry out mining,
- support of the core business – this segment comprises companies directly related to the core business of the Parent Entity*.

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

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

Due to a change during the prior reporting periods in the Group's organisational structure and a change in the composition of its reporting segments, 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.

**A. Interim condensed consolidated financial statements (continued)**

# Reporting segments of the KGHM Polska Miedź S.A. Group as at 30 September 2013

**KGHM Polska Miedź S.A.**

**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.
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.
Minera 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.
KGHM ZANAM Sp. z o.o. (formerly 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. in liquidation
PHU "Lubinpex" Sp. z o.o.
PMT Linie Kolejowe Sp. z o.o.
KGHM TFI S.A.
INTERFERIE S.A.
Interferie Medical SPA Sp. z o.o.
Uzdrowiska Kłodzkie S.A. – Grupa PGU
Uzdrowisko Połczyn Grupa PGU S.A.
„Uzdrowisko Cieplice" Sp. z o.o. – Grupa PGU
Uzdrowisko „Świeradów - Czerniawa" Sp. z o.o. – Grupa PGU
Fundusz Hotele 01 Sp. z o.o.
Fundusz Hotele 01 Sp. z o.o. S.K.A.
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.
Polska Grupa Uzdrowisk Sp. z o.o.
KGHM I FIZAN
KGHM II FIZAN in liquidation
KGHM III FIZAN
KGHM IV FIZAN
KGHM V FIZAN
"MIEDZIOWE CENTRUM ZDROWIA" S.A.
Zagłębie Lubin S.A.
KGHM LETIA S.A.
KGHM (SHANGHAI) COPPER TRADING CO., LTD.
KGHM Kupferhandelsges. m.b.H.i.L.
Przedsiębiorstwo Budowlane Katowice S.A.
Bipromet Ecosystem Sp. z o.o.

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

## A. Interim condensed consolidated financial statements (continued)

| | **Financial period for the 9 months ended 30 September 2013** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **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 | 13 674 | 2 595 | - | - | 4 161 | 2 238 | - | (4 682) | **17 986** |
| Inter-segment sales | 205 | - | - | - | 3 628 | 816 | | (4 649) | **-** |
| External sales | 13 469 | 2 595 | - | - | 533 | 1 422 | | ( 33) | **17 986** |
| Operating costs | (10 293) | (2 402) | - | ( 4) | (4 125) | (2 195) | ( 153) | 4 770 | **(14 402)** |
| Depreciation/Amortisation | ( 621) | ( 376) | - | ( 1) | ( 102) | ( 59) | ( 122) | 138 | **(1 143)** |
| Operating profit/(loss) | 3 121 | 316* | - | ( 4) | 67* | 59* | ( 153) | 59 | **3 465** |
| **Profit/(loss) before income tax** | **3 081** | **201** | **-** | **( 4)** | **56** | **51** | **( 153)** | **63** | **3 295** |
| Income tax expense | ( 836) | ( 104) | - | - | ( 15) | ( 11) | 48 | ( 40) | **( 958)** |
| **Profit/(loss) for the period** | **2 245*** | **97*** | **-** | **( 4)** | **41** | **40*** | **( 105)** | **23** | **2 337** |
| | **At 30 September 2013** | | | | | | | | |
| **Segment assets** | **28 790** | **11 680** | **7 146** | **471** | **2 511** | **2 416** | **(4 324)** | **(13 846)** | **34 844** |
| **Liabilities** | **6 347** | **3 712** | **5 536** | **17** | **1 095** | **610** | **(4 430)** | **( 725)** | **12 162** |
| **Other information** | | | | | | | | | |
| Investments accounted for using the equity method | 33 | 1 643** | - | - | - | 2 | 2 278 | - | **3 956** |
| Capital expenditure | 1 489 | 332 | 2 564 | 70 | 185 | 68 | (2 546) | ( 35) | **2 127** |
| **EBITDA** (operating profit plus depreciation/amortisation) | **3 742** | **692** | | | **169** | | | | |
| **% of sales to KGHM Polska Miedź S.A.** | | | | | **84%** | | | | |
| **Production and cost data** | | | | | | | | | |
| Payable copper (‘000 t) | 417.5 | 76.4 | | | | | | | |
| - including from purchased copper-bearing materials (‘000 t) | 113.1 | - | | | | | | | |
| Nickel (‘000 t) | - | 3.3 | | | | | | | |
| Molybdenum (‘000 t) | - | 0.4 | | | | | | | |
| Silver (t) | 864.2 | 2.0 | | | | | | | |
| Gold (‘000 troz) | 22.5 | 43.7 | | | | | | | |
| Platinum (‘000 troz) | - | 9.3 | | | | | | | |
| Palladium (‘000 troz) | - | 21.5 | | | | | | | |
| C1 cash cost of copper in concentrate production (USD/lb)**** | 1.74 | 2.21 | | | | | | | |

„Adjustment restating to measurement/principles under IFRS” – respecting adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 30 September 2013.
* result analysed in a given segment
** Sierra Gorda S.C.M. accounted for using the equity method
*** 55% share of the Group in Sierra Gorda S.C.M.
**** C1 cash cost of copper production - cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, minerals extraction tax, administrative expenses, smelter treatment and refining charges (TC/RC) less by-product revenues

## A. Interim condensed consolidated financial statements (continued)
## Information on business segments for the comparable period

**Financial period for the 9 months ended 30 September 2012 – restated**

| | **KGHM Polska Miedź S.A.** | **KGHM INTERNATIONAL LTD.** | **Sierra Gorda project ***** | **Resource base development** | **Support of the core business** | **Other segments** | **Adjustment restating to measurement/ principles under IFRS** | **Consolidation adjustments** | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| Sales | 15 559 | 2 644 | - | - | 4 518 | 2 096 | - | (4 918) | **19 899** |
| Inter-segment sales | 468 | - | - | - | 3 736 | 708 | - | (4 912) | **-** |
| External sales | 15 091 | 2 644 | - | - | 782 | 1 388 | - | ( 6) | **19 899** |
| Operating costs | (9 808) | (2 482) | - | ( 6) | (4 494) | (2 065) | ( 313) | 4 884 | **(14 284)** |
| Depreciation/Amortisation | ( 585) | ( 291) | - | - | ( 83) | ( 57) | ( 298) | 37 | **(1 277)** |
| Operating profit/(loss) | 5 309 | 261* | - | ( 7) | 59* | 52* | ( 276) | ( 81) | **5 317** |
| **Profit/(loss) before income tax** | **5 283** | **177** | **-** | **( 7)** | **50** | **51** | **( 276)** | **( 80)** | **5 198** |
| Income tax expense | (1 170) | ( 88) | - | - | ( 13) | ( 11) | 87 | ( 19) | **(1 214)** |
| **Profit/(loss) for the period** | **4 113*** | **89*** | **-** | **( 7)** | **37** | **40*** | **( 189)** | **( 99)** | **3 984** |
| | | | | | **At 31 December 2012 - restated** | | | | |
| **Segment assets** | **28 177** | **11 416** | **4 689** | **375** | **2 341** | **2 290** | **(1 476)** | **(13 820)** | **33 992** |
| **Liabilities** | **6 254** | **3 674** | **3 092** | **17** | **1 080** | **628** | **(1 995)** | **( 655)** | **12 095** |
| **Other information** | | | | | | | | | |
| Investments accounted for using the equity method | 33 | 1 656** | - | - | - | - | 1 466 | - | **3 155** |
| Capital expenditure | 1 104 | 251 | 1 679 | 77 | 142 | 94 | (1 679) | ( 23) | **1 645** |
| **EBITDA** (operating profit plus depreciation/amortisation) | **5 894** | **552** | | | **142** | | | | |
| **% of sales to KGHM Polska Miedź S.A.** | | | | | **80%** | | | | |
| **Production and cost data** | | | | | | | | | |
| Production and cost data relating to KGHM INTERNATIONAL LTD. respect the period of 9 months of 2012 | | | | | | | | | |
| Payable copper (‘000 t) | 418.7 | 79.8 | | | | | | | |
| - including from purchased copper-bearing materials (‘000 t) | 106.7 | - | | | | | | | |
| Nickel (‘000 t) | - | 3.5 | | | | | | | |
| Molybdenum (‘000 t) | - | 0.1 | | | | | | | |
| Silver (t) | 956.2 | 2.9 | | | | | | | |
| Gold (‘000 troz) | 20.8 | 36.7 | | | | | | | |
| Platinum (‘000 troz) | - | 10.7 | | | | | | | |
| Palladium (‘000 troz) | - | 20.9 | | | | | | | |
| C1 cash cost of copper in concentrate production (USD/lb)**** | 1.24 | 2.54 | | | | | | | |

„Adjustment restating to measurement/principles under IFRS” – respecting adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 30 September 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.
**** C1 cash cost of copper production - cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, minerals extraction tax, administrative expenses, smelter treatment and refining charges (TC/RC) less by-product revenues

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

## A. Interim condensed consolidated financial statements (continued)

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

The geographical breakdown reflects the location of end clients.

| | Financial period | |
|---|---|---|
| | **for the 9 months ended 30 September 2013** | **for the 9 months ended 30 September 2012** |
| Poland | 3 649 | 4 122 |
| Germany | 3 430 | 3 573 |
| China | 1 958 | 2 224 |
| The United Kingdom | 1 943 | 2 905 |
| The Czech Republic | 1 287 | 1 256 |
| The USA | 939 | 412 |
| Canada | 905 | 1 189 |
| Hungary | 578 | 590 |
| France | 561 | 623 |
| Italy | 546 | 944 |
| Turkey | 376 | 225 |
| Switzerland | 329 | 291 |
| Austria | 210 | 274 |
| Japan | 160 | 191 |
| Belgium | 150 | 189 |
| South Korea | 89 | 134 |
| Denmark | 86 | 89 |
| Slovakia | 82 | 119 |
| Bulgaria | 37 | 50 |
| Slovenia | 29 | 22 |
| Bosnia and Herzegovina | 26 | 23 |
| Ukraine | 23 | 18 |
| Holland | 17 | 17 |
| Finland | 8 | 11 |
| Other countries (dispersed sale) | 568 | 408 |
| **Total** | **17 986** | **19 899** |

### Main customers

During the period from 1 January 2013 to 30 September 2013, and in the comparable period, the revenues from no single customer exceeded 10% of the revenues of the Group.

57.02% of the non-current assets of the Group are located in the country of origin of the Parent Entity. The remaining 42.98% of the non-current assets are located in the following countries: Chile – 20.95%; Canada - 16.91%; the USA – 4.29%; other countries – 0.83%.

## XI. Effects of changes in the economic structure, including due to the combination of economic entities, to the takeover or sale of entities of the KGHM Polska Miedź S.A. Group, to long-term investments, or to the separation, restructurisation or to discontinuation of operation

**<u>Changes during the period from 1 July 2013 to 30 September 2013</u>**

### Acquisition of non-controlling shares in CENTROZŁOM WROCŁAW S.A.

In the third quarter of 2013, KGHM Ecoren S.A. acquired employee shares, in accordance with the provisions of contracts to purchase the shares entered into between KGHM Ecoren S.A. and 150 non-controlling shareholders of CENTROZŁOM WROCŁAW S.A. in the amount of 1 411 282 shares (representing 3.74% of the company's equity). The total value of the shares acquired is PLN 6 million, and was settled in the consolidated financial statements with put option liabilities for employee shares of CENTROZŁOM WROCŁAW S.A. The balance of these liabilities as at 30 September 2013 amounted to PLN 6 million.

**A. Interim condensed consolidated financial statements (continued)**

As at 30 September 2013, the Group held 97.96% of the equity of CENTROZŁOM WROCŁAW S.A. Acquisition of these shares represents realisation of obligation due to an irrevocable purchase offer submitted by KGHM Ecoren S.A., as part of a sales agreement by the State Treasury of shares of CENTROZŁOM WROCŁAW S.A., of all other shares acquired by the employees during the privatisation of CENTROZŁOM S.A.
KGHM Polska Miedź S.A. in its consolidated financial statements accounted for the acquisition of a total of 3.74% of non-controlling interest through a decrease in the equity attributable to non-controlling interest in the amount of PLN 7 million, an increase in equity on the valuation of employee shares put options in the amount of PLN 6 million, and an increase in retained earnings attributable to shareholders of the parent entity in the amount of PLN1 million.

**Changes during the period from 1 January 2013 to 30 June 2013**

**Opening of liquidation proceedings for Ecoren DKE Sp. z o.o.**

On 2 April 2013 the Ordinary General Shareholders Meeting of Ecoren DKE Sp. z o.o resolved to dissolve the company, to put the company into liquidation and to choose a liquidator – Andrzej Gruszczyński, who was the previous President of the Management Board of this company. An application for the liquidation of Ecoren DKE Sp. z o.o. was submitted to the District Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court of Registration on 4 April 2013. KGHM Ecoren S.A. (a subsidiary of KGHM Polska Miedź S.A.) owns of 100 % of the shares of Ecoren DKE Sp. z o.o.

**Acquisition of non-controlling shares in CENTROZŁOM WROCŁAW S.A.**

KGHM Ecoren S.A. acquired employee shares, in accordance with the provisions of contracts to purchase the shares entered into between KGHM Ecoren S.A. and 290 non-controlling shareholders of CENTROZŁOM WROCŁAW S.A.:
- on 28 May 2013 of 726 813 shares (representing 6.61% of the company's equity),
- on 27 June 2013 of 286 963 shares (representing 2.61% of the company's equity),

The total value of the shares acquired is PLN 19 million, and was settled in the consolidated financial statements with put option liabilities for employee shares of CENTROZŁOM WROCŁAW S.A. The balance of these liabilities as at 30 June 2013 amounted to PLN 12 million.
As at 30 June 2013, the Group held 94.22% of the equity of Centrozłom S.A. Acquisition of these shares represents realisation of obligation due to an irrevocable purchase offer submitted by KGHM Ecoren S.A., as part of a sales agreement by the State Treasury of shares of CENTROZŁOM WROCŁAW S.A., of all other shares acquired by the employees during the privatisation of CENTROZŁOM S.A.
KGHM Polska Miedź S.A. in its consolidated financial statements accounted for the acquisition of a total of 9.22% of non-controlling interest through a decrease in the equity attributable to non-controlling interest in the amount of PLN 18 million, an increase in equity on valuation of employee shares put options in the amount of PLN 14 million, and an increase in retained earnings attributable to shareholders of the parent entity in the amount of PLN 4 million.

**Acquisition of investment certificates of KGHM II FIZAN, KGHM IV FIZAN, KGHM V FIZAN**

On 19 April 2013, KGHM Polska Miedź S.A. acquired 4 970 investment certificates of the investment fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN closed-end non-public investment fund) for PLN 8.5 thousand per certificate, paid in cash in the amount of PLN 42.2 million.

On 23 May 2013, KGHM Polska Miedź S.A. acquired 100 investment certificates of the investment fund KGHM IV Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM IV FIZAN closed-end non-public investment fund) for PLN 10 thousand per certificate, paid in cash in the amount of PLN 1 million.

On 3 June 2013, KGHM Polska Miedź S.A. acquired 4 210 investment certificates of the investment fund KGHM V Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM V FIZAN closed-end non-public investment fund) for PLN 10 thousand per certificate, paid in cash in the amount of PLN 42.1 million.

The managing body of the KGHM closed-end non-public investment funds is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The share of the KGHM Polska Miedź S.A. Group in the capital of the investment fund is 100%. The investment objective of the KGHM IV FIZAN Fund is to develop the property projects of KGHM Polska Miedź S.A. which are at an early stage of investment development (development of an investment plan, land development plan) and to optimise the operations of the existing property belonging to entities of the KGHM Polska Miedź S.A. Group. The investment objective of the KGHM V FIZAN Fund is to invest capital in attractive sectors (apart from those in which the other funds managed by KGHM TFI S.A. have invested), creating synergy for the KGHM Polska Miedź S.A. Group based on the benefits arising from the diversification of activities.

**Opening of proceedings to liquidate KGHM II FIZAN**

On 18 June 2013 the General Meeting of the closed-end non-public investment fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN), resolved to dissolve the Fund. The application to liquidate KGHM II FIZAN was submitted to the Regional Court in Warsaw, Section VII Civil Registrations on 19 June 2013. The liquidator of KGHM II FIZAN is KGHM TFI S.A.

**A. Interim condensed consolidated financial statements (continued)**

**XII. Subsequent events**

From the end of the reporting period to the date of publication of the report for the third quarter of 2013, no events occurred requiring disclosure in this report.

## B. Other information to the consolidated quarterly report

**Position of the Management Board with respect to the possibility of achieving previously-published forecasts of results for 2013, in light of the results presented in this consolidated quarterly report relative to forecasted results**

The Management Board of KGHM Polska Miedź S.A. has not published a forecast of Group results.

In the current report dated 15 February 2013, KGHM Polska Miedź S.A. published a forecast of Company's results for 2013. In accordance with the above-mentioned forecast, KGHM Polska Miedź S.A. assumes achievement of revenues from sales, profit for the period and EBITDA in 2013 respectively at the level of PLN 18 930 million, PLN 3 204 million and PLN 5 337 million.

The revenues from sales achieved after the 9 months of 2013 in the amount of PLN 13 674 million, profit for the period of PLN 2 245 million and EBITDA of PLN 3 742 million represent respectively 72%, 70% and 70% of the forecasted results.

Despite the deterioration in macroeconomic conditions, at present KGHM Polska Miedź S.A. does not anticipate a divergence from the projected financial results for 2013 of 10% and more, mainly due to an increase in production and sales volumes.

It should also be noted that given the high volatility in macroeconomic conditions, the measurement of financial assets, including derivatives, may be subject to substantial volatility, and may at the end of the reporting period result in a change in the level of profit for the period.

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

At the date of publication of the consolidated report for the second quarter of 2013, i.e. at 14 August 2013, the only shareholder owning at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the State Treasury – which owned 63 589 900 shares of KGHM Polska Miedź S.A., representing 31.79% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on a notification dated 12 January 2010).

Following publication of the consolidated report for the second quarter of 2013, KGHM Polska Miedź S.A. was not notified by any shareholder of any change in the ownership structure of a significant block of shares.

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

**Ownership of shares of KGHM Polska Miedź S.A. or of rights to them by management or supervisory personnel of KGHM Polska Miedź S.A., as at the date of publication of the consolidated quarterly report, based on information held by KGHM Polska Miedź S.A. Changes in ownership during the period following publication of the prior consolidated quarterly report**

The Members of the Management Board of KGHM Polska Miedź S.A., at the date of publication of the consolidated report for the second quarter of 2013, i.e. at 14 August 2013, did not own any shares of KGHM Polska Miedź S.A. or rights to them. At the date of preparation of this report, Marcin Chmielewski, Vice President of the Management Board, appointed to the Management Board of KGHM Polska Miedź S.A. on 2 September 2013, owned 93 shares of KGHM Polska Miedź S.A. Based on information held by KGHM Polska Miedź S.A., the persons serving as Members of the Management Board of the Company did not sell/buy shares of KGHM Polska Miedź S.A. or rights to them during the period from the publication of the prior consolidated quarterly report do the date of preparation of this report.

Among the Members of the Supervisory Board of KGHM Polska Miedź S.A., at the date of publication of the consolidated report for the second quarter of 2013, i.e. at 14 August 2013 and at the date of preparation of this report, only Marek Panfil owned 90 shares of KGHM Polska Miedź S.A. Based on information held by KGHM Polska Miedź S.A., the persons serving as Members of the Supervisory Board of the Parent Entity did not sell/buy shares of KGHM Polska Miedź S.A. or rights to them during the period.

**B. Other information to the consolidated quarterly report (continued)**

**List of proceedings being pursued in a court, an appropriate body for arbitration, or in a body of public administration**

As at 30 September 2013, the total value of on-going proceedings before courts, bodies appropriate for arbitration proceedings and bodies of public administration respecting liabilities and debtors, of KGHM Polska Miedź S.A. and subsidiaries, did not represent at least 10% of the equity of KGHM Polska Miedź S.A.

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

During the period from 1 January 2013 to 30 September 2013, neither KGHM Polska Miedź S.A. nor any of its subsidiaries entered into significant transactions with related entities under other than arm's length conditions.

**Information on the granting by KGHM Polska Miedź S.A. or by its subsidiaries of collateral on credit or loans, or of guarantees – jointly to a single entity or subsidiary thereof if the total value of such collateral or guarantees represents the equivalent of at least 10% of the equity of KGHM Polska Miedź S.A.**

During the period from 1 January 2013 to 30 September 2013, neither KGHM Polska Miedź S.A. nor its subsidiaries granted collateral on credit or loans, nor did they grant guarantees to a single entity or subsidiary thereof whose total value would represent at least 10% of the equity of KGHM Polska Miedź S.A.

**Other information which in the opinion of KGHM Polska Miedź S.A. is significant for the assessment of personnel situation, assets, finances and the financial result and any changes thereto, and information which is significant for assessing the ability to perform obligations**

In the third quarter of 2013 there were no other significant events, apart from those mentioned in the commentary to the report, which could have a significant impact on the assessment of assets and financial position, the financial result of the Group and any changes thereto, or any events significant for assessing the personnel situation and the ability to meet obligations.

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

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

As a result, through the Parent Entity, the most significant factors impacting the results of the Group, particularly in the following quarter, will be:

- copper and silver prices on the metals markets,
- the USD/PLN exchange rate,
- electrolytic copper production costs, including particularly due to the minerals extraction tax and the value of purchased copper-bearing materials used,
- the effects of the hedging policy being realised.

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

- copper, nickel and gold prices on the metals markets,
- the CLP/USD, CAD/USD and USD/PLN exchange rates, and
- mined copper production costs.

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

# C. Quarterly financial information of KGHM Polska Miedź S.A.

| **Interim statement of financial position** | **Note** | **At** **30 September 2013** | **31 December 2012 restated*** | **1 January 2012 restated*** |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | | 9 151 | 8 445 | 7 277 |
| Intangible assets | | 232 | 175 | 151 |
| Shares and investment certificates in subsidiaries | | 11 742 | 11 641 | 2 012 |
| Interest in joint ventures | | 33 | 33 | - |
| Deferred tax assets | | 196 | 266 | 169 |
| Available-for-sale financial assets | | 887 | 882 | 992 |
| Mine closure financial assets | | 179 | 141 | 112 |
| Derivatives | | 455 | 742 | 899 |
| Trade and other receivables | | 292 | 85 | 84 |
| | | **23 167** | **22 410** | **11 696** |
| **Current assets** | | | | |
| Inventories | | 3 279 | 2 992 | 2 356 |
| Trade and other receivables | | 1 600 | 1 687 | 1 503 |
| Mine closure financial assets | | 1 | - | 2 |
| Derivatives | | 453 | 381 | 859 |
| Cash and cash equivalents | | 290 | 707 | 12 836 |
| | | **5 623** | **5 767** | **17 556** |
| **Total assets** | | **28 790** | **28 177** | **29 252** |
| **Equity and liabilities** | | | | |
| **Equity** | | | | |
| Share capital | | 2 000 | 2 000 | 2 000 |
| Revaluation reserves from measurement of financial instruments | | 493 | 286 | 535 |
| Actuarial gains/losses on post-employment benefits | | ( 135) | ( 519) | ( 356) |
| Retained earnings | | 20 085 | 20 156 | 20 956 |
| **Total equity** | | **22 443** | **21 923** | **23 135** |
| **Liabilities** | | | | |
| **Non-current liabilities** | | | | |
| Trade and other payables | | 19 | 36 | 12 |
| Derivatives | | 54 | 230 | 538 |
| Employee benefits liabilities | | 1 447 | 1 471 | 1 216 |
| Provisions for other liabilities and charges | C. II. 2 | 643 | 718 | 484 |
| | | **2 163** | **2 455** | **2 250** |
| **Current liabilities** | | | | |
| Trade and other payables | | 3 369 | 2 227 | 1 828 |
| Borrowings and finance lease liabilities | | 597 | 1 013 | - |
| Current corporate tax liabilities | | 9 | 390 | 1 588 |
| Derivatives | | 60 | 23 | 330 |
| Employee benefits liabilities | | 115 | 110 | 107 |
| Provisions for other liabilities and charges | C. II. 2 | 34 | 36 | 14 |
| | | **4 184** | **3 799** | **3 867** |
| **Total liabilities** | | **6 347** | **6 254** | **6 117** |
| **Total equity and liabilities** | | **28 790** | **28 177** | **29 252** |

* explanation in part C.I.

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### Interim statement of profit or loss

| | Note | Financial period | | | |
|---|---|---|---|---|---|
| | | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012 restated*** | **for the 9 months ended 30 September 2012 restated*** |
| Sales | C. II. 3 | 4 171 | 13 674 | 5 055 | 15 559 |
| Cost of sales | C. II. 4 | (3 180) | (9 741) | (3 322) | (9 215) |
| **Gross profit** | | **991** | **3 933** | **1 733** | **6 344** |
| Selling costs | C. II. 4 | ( 25) | ( 87) | ( 28) | ( 83) |
| Administrative expenses | C. II. 4 | ( 163) | ( 465) | ( 169) | ( 510) |
| Other operating income | C. II. 5 | 9 | 391 | 281 | 1 176 |
| Other operating costs | C. II. 6 | ( 82) | ( 651) | ( 289) | (1 618) |
| **Operating profit** | | **730** | **3 121** | **1 528** | **5 309** |
| Finance costs | C. II. 7 | 5 | ( 40) | ( 9) | ( 26) |
| **Profit before income tax** | | **735** | **3 081** | **1 519** | **5 283** |
| Income tax expense | | ( 215) | ( 836) | ( 375) | (1 170) |
| **Profit for the period** | | **520** | **2 245** | **1 144** | **4 113** |
| **Earnings per share during the period** (in PLN per share) | | | | | |
| - basic | | 2.60 | 11.22 | 5.72 | 20.56 |
| - diluted | | 2.60 | 11.22 | 5.72 | 20.56 |

* explanation in part C.I.

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### Interim statement of comprehensive income

| | Financial period | | | |
|---|---|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012 restated*** | **for the 9 months ended 30 September 2012 restated*** |
| **Profit for the period** | **520** | **2 245** | **1 144** | **4 113** |
| **Other comprehensive income:** | | | | |
| **Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met** | **( 115)** | **207** | **( 267)** | **( 510)** |
| Available-for-sale financial assets | 88 | 93 | 59 | ( 82) |
| Income tax | ( 17) | ( 18) | ( 11) | 16 |
| | 71 | 75 | 48 | ( 66) |
| Cash flow hedging instruments | ( 229) | 163 | ( 389) | ( 548) |
| Income tax | 43 | ( 31) | 74 | 104 |
| | ( 186) | 132 | ( 315) | ( 444) |
| **Other comprehensive income, which will not be reclassified to profit or loss** | **113** | **28** | **( 23)** | **( 46)** |
| Actuarial gains/(losses)* | 139 | 34 | ( 28) | ( 56) |
| Income tax | ( 26) | ( 6) | 5 | 10 |
| **Other comprehensive net income for the financial period** | **( 2)** | **235** | **( 290)** | **( 556)** |
| **TOTAL COMPREHENSIVE INCOME** | **518** | **2 480** | **854** | **3 557** |

* explanation in part C.I.

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### Interim statement of changes in equity

| | Share capital | Revaluation reserve from measurement of financial instruments | Actuarial gains/losses on post-employment benefits | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **At 1 January 2013 restated*** | **2 000** | **286** | **( 519)** | **20 156** | **21 923** |
| Dividends from profit for 2012 resolved and paid | - | - | - | ( 980) | **( 980)** |
| Dividends from profit for 2012 resolved but unpaid | - | - | - | ( 980) | **( 980)** |
| Offsetting of profit from prior years with actuarial gains and losses | - | - | 356 | ( 356) | **-** |
| Total comprehensive income | - | 207 | 28 | 2 245 | **2 480** |
| Profit for the period | - | - | - | 2 245 | **2 245** |
| Other comprehensive income | - | 207 | 28 | - | **235** |
| **At 30 September 2013** | **2 000** | **493** | **( 135)** | **20 085** | **22 443** |
| | | | | | - |
| **At 1 January 2012** | **2 000** | **535** | **-** | **20 600** | **23 135** |
| Change in presentation principles* | - | - | ( 356) | 356 | **-** |
| **At 1 January 2012 restated*** | **2 000** | **535** | **( 356)** | **20 956** | **23 135** |
| Dividends from profit for 2011 resolved and paid | - | - | - | (3 400) | **(3 400)** |
| Dividends from profit for 2011 resolved but unpaid | - | - | - | (2 268) | **(2 268)** |
| Total comprehensive income | - | ( 510) | ( 46) | 4 113 | **3 557** |
| Profit for the period | - | - | - | 4 113 | **4 113** |
| Other comprehensive income | - | ( 510) | ( 46) | - | **( 556)** |
| **At 30 September 2012 restated*** | **2 000** | **25** | **( 402)** | **19 401** | **21 024** |

* explanation in part C.I.

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### Interim statement of cash flows

| | Financial period | |
|---|---|---|
| | **for the 9 months ended 30 September 2013** | **for the 9 months ended 30 September 2012 restated*** |
| **Cash flow from operating activities** | | |
| Profit for the period | 2 245 | 4 113 |
| Total adjustments to profit for the period: | 1 812 | 1 607 |
| Income tax recognised in profit or loss | 836 | 1 170 |
| Amortisation/Depreciation | 621 | 585 |
| Losses on sale of property, plant and equipment and intangible assets | 26 | 1 |
| Interest and shares in profits (dividends) | ( 39) | ( 62) |
| Foreign exchange losses | 28 | 881 |
| Change in provisions | - | 35 |
| Change in assets/liabilities due to derivatives | 539 | ( 112) |
| Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives | ( 300) | ( 248) |
| Impairment loss on available-for-sale financial assets | 89 | |
| Other adjustment | - | 2 |
| Changes in working capital: | 12 | ( 645) |
| Inventories | ( 287) | ( 560) |
| Trade and other receivables | 69 | ( 403) |
| Trade and other payables | 230 | 318 |
| Income tax paid | (1 202) | (2 431) |
| **Net cash generated from operating activities** | **2 855** | **3 289** |
| **Cash flow from investing activities** | | |
| Purchase of shares and investment certificates in subsidiaries | ( 99) | (9 599) |
| Purchase of interest in joint ventures | - | ( 33) |
| Purchase of property, plant and equipment and intangible assets | (1 544) | (1 185) |
| Advances granted for purchase of property, plant and equipment and intangible assets | ( 33) | ( 29) |
| Proceeds from sale of property, plant and equipment and intangible assets | 29 | 7 |
| Purchase of mine closure financial assets | ( 38) | ( 25) |
| Loans granted | ( 207) | ( 7) |
| Repayments of loans granted | 4 | 4 |
| Interest received | 1 | 2 |
| Dividends received | 36 | 57 |
| Other investment expenses | ( 13) | ( 3) |
| **Net cash used in investing activities** | **(1 864)** | **(10 811)** |
| **Cash flow from financing activities** | | |
| Proceeds from bank loans | 905 | - |
| Dividends paid | ( 980) | (3 400) |
| Repayments of bank loans | (1 331) | - |
| Interest paid | ( 2) | - |
| Other financial proceeds | 2 | 11 |
| **Net cash used in financing activities** | **(1 406)** | **(3 389)** |
| **Total net cash flow** | **( 415)** | **(10 911)** |
| Exchange losses on cash and cash equivalents | ( 1) | ( 879) |
| **Movements in cash and cash equivalents** | **( 416)** | **(11 790)** |
| **Cash and cash equivalents at beginning of the period** | **706** | **12 836** |
| **Cash and cash equivalents at end of the period** | **290** | **1 046** |
| including restricted cash and cash equivalents | - | 1 |

* explanation in part C.I.

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

**C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)**

# Selected explanatory data

## I. Accounting principles

These financial statements have been prepared using the same principles for the current and comparable periods, applying changes in accounting principles and presentation used in the current period to the comparable period. The effect of changes is presented in the following points:

1) 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 with respect to the presentation of items of equity. Taking into consideration the nature of individual items of equity and the transparency of the financial data presented, the following actions were performed:
   (a) the equity item „Actuarial gains/losses on post-employment benefits" was separated from „Retained earnings",
   (b) the combination in the statement of financial position of homogenous items of equity, i.e. "Revaluation reserve from the measurement of available-for-sale financial assets" and "Revaluation reserve from the measurement of cash flow hedging instruments", into a single item - "Revaluation reserve from the measurement of financial instruments".

2) Changes in accounting principles which affected amounts presented in prior periods involved the adoption by the Company from 1 January 2012 of changes to IAS 19 *Employee Benefits,* in accordance with rules regarding transition. The changes introduced by the Company involved the recognition of actuarial gains and losses on specified post-employment benefits in other comprehensive income and not as previously in profit or loss. As a result of the application of this standard in the financial statements as at 30 September 2012, other comprehensive income for the period from 1 January 2012 to 30 September 2012 decreased by PLN 46 million (gross amount of PLN 56 million less deferred tax of PLN 10 million), and simultaneously the profit for the period increased by the same amount.

## II. Additional notes

### 1. Information on property, plant and equipment and intangible assets

**Purchase of property, plant and equipment**

| | Financial period | | |
|---|---|---|---|
| | **for the 9 months ended 30 September 2013** | **for the 12 months ended 31 December 2012** | **for the 9 months ended 30 September 2012** |
| Purchase of property, plant and equipment | 1 402 | 1 682 | 1 053 |
| Net sale of property, plant and equipment | - | 6 | - |

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

| | At | |
|---|---|---|
| | **30 September 2013** | **31 December 2012** |
| Payables due to purchase of property, plant and equipment and intangible assets | 345 | 448 |

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### Capital commitments not recognised in the interim statement of financial position

| | At | |
|---|---|---|
| | **30 September 2013** | **31 December 2012** |
| Purchase of property, plant and equipment | 4 852 | 3 931 |
| Purchase of intangible assets | 52 | 46 |
| **Total capital commitments** | **4 904** | **3 977** |

### 2. Changes in provisions for other liabilities and charges

| | **TOTAL** | **Decommissioning costs of mines and other facilities, and costs of scrapping property, plant and equipment** | **Disputed issues and court proceedings and other provisions** |
|---|---|---|---|
| **Provisions at 1 January 2013** | **754** | **734** | **20** |
| Recognition and updating of estimates | **117** | 109 | 8 |
| Utilisation | **( 8)** | ( 7) | ( 1) |
| Transfer to Mine Closure Fund | **( 28)** | ( 28) | - |
| Release and updating of estimates | **( 158)** | ( 156) | ( 2) |
| **Provisions at 30 September 2013** | **677** | **652** | **25** |
| of which: | | | |
| Non-current provisions | **643** | 639 | 4 |
| Current provisions | **34** | 13 | 21 |

| | **TOTAL** | **Decommissioning costs of mines and other facilities, and costs of scrapping property, plant and equipment** | **Disputed issues and court proceedings and other provisions** |
|---|---|---|---|
| **Provisions at 1 January 2012** | **498** | **481** | **17** |
| Recognition and updating of estimates | **323** | 307 | 16 |
| Utilisation | **( 8)** | ( 5) | ( 3) |
| Transfer to Mine Closure Fund | **( 27)** | ( 27) | - |
| Release and updating of estimates | **( 32)** | ( 22) | ( 10) |
| **Provisions at 31 December 2012** | **754** | **734** | **20** |
| of which: | | | |
| Non-current provisions | **718** | 714 | 4 |
| Current provisions | **36** | 20 | 16 |

| | **TOTAL** | **Decommissioning costs of mines and other facilities, and costs of scrapping property, plant and equipment** | **Disputed issues and court proceedings and other provisions** |
|---|---|---|---|
| **Provisions at 1 January 2012** | **498** | **481** | **17** |
| Recognition and updating of estimates | **91** | 89 | 2 |
| Utilisation | **( 4)** | ( 3) | ( 1) |
| Transfer to Mine Closure Fund | **( 19)** | ( 19) | - |
| Release and updating of estimates | **( 16)** | ( 6) | ( 10) |
| **Provisions at 30 September 2012** | **550** | **542** | **8** |
| of which: | | | |
| Non-current provisions | **539** | 534 | 5 |
| Current provisions | **11** | 8 | 3 |

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### 3. Sales

| | Financial period | | | |
|---|---|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012** | **for the 9 months ended 30 September 2012** |
| Copper, precious metals, smelter by-products | 3 963 | 13 314 | 4 994 | 15 273 |
| Salt | 21 | 63 | 11 | 37 |
| Services | 20 | 57 | 17 | 50 |
| Other finished goods | 2 | 8 | 3 | 9 |
| Merchandise | 148 | 183 | 15 | 142 |
| Scrap and production materials | 17 | 49 | 15 | 48 |
| **Total** | **4 171** | **13 674** | **5 055** | **15 559** |

### 4. Expenses by nature

| | Financial period | | | |
|---|---|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012 restated*** | **for the 9 months ended 30 September 2012 restated*** |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 203 | 621 | 194 | 585 |
| Employee benefit expenses | 742 | 2 190 | 742 | 2 218 |
| Materials and energy | 1 590 | 4 716 | 1 671 | 4 970 |
| External services | 361 | 1 107 | 332 | 966 |
| Taxes and charges** | 526 | 1 720 | 662 | 1 267 |
| Other costs | 16 | 64 | 20 | 68 |
| **Total expenses by nature** | **3 438** | **10 418** | **3 621** | **10 074** |
| Cost of merchandise and materials sold (+) | 165 | 226 | 28 | 179 |
| Change in inventories of finished goods and work in progress (+/-) | ( 193) | ( 225) | ( 86) | ( 311) |
| Cost of manufacturing products for internal use (-) | ( 42) | ( 126) | ( 44) | ( 134) |
| **Total cost of sales, selling costs and administrative expenses** | **3 368** | **10 293** | **3 519** | **9 808** |

* explanation in part C.I.

** The minerals extraction tax is a significant item in operating costs.
This tax was introduced with the Act on the extraction of certain minerals dated 2 March 2012, which came into force on 18 April 2012. The amount of this tax, recognised in operating costs in the period from 1 January to 30 September 2013, amounted to PLN 1 463 million (for the period from 18 April to 30 September 2012 – PLN 1 025 million).

The basis for calculating this tax is the amount of copper and silver in produced concentrate, the market prices of these metals and the USD/PLN exchange rate. The tax is accounted for under manufacturing costs and is not deductible for corporate income tax purposes.

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### 5. Other operating income

| | Financial period | | | |
|---|---|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012** | **for the 9 months ended 30 September 2012** |
| Income and gains on financial instruments, classified under other operating activities, resulting from: | ( 11) | 312 | 277 | 1 091 |
| Measurement and realisation of derivatives | 32 | 265 | 242 | 954 |
| Gains on disposal | - | - | 1 | 2 |
| Interest | 3 | 22 | 34 | 135 |
| Foreign exchange gains | ( 46) | 24 | - | - |
| Reversal of allowance for impairment of other receivables | - | 1 | - | - |
| Dividends received | - | 36 | - | 57 |
| Release of unused provisions | 12 | 14 | 1 | 11 |
| Decommissioning of mines | 12 | 13 | - | 2 |
| Disputed issues and court proceedings | - | 1 | - | 1 |
| Donations agreement signed with municipalities (Gminas) | - | - | 1 | 8 |
| Penalties and compensation | 4 | 8 | 1 | 4 |
| Other operating income/gains | 4 | 21 | 2 | 13 |
| **Total other operating income** | **9** | **391** | **281** | **1 176** |

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### 6. Other operating costs

| | Financial period | | | |
|---|---|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012** | **for the 9 months ended 30 September 2012** |
| Costs and losses on financial instruments, classified under other operating activities, resulting from: | 58 | 583 | 281 | 1 506 |
| Measurement and realisation of derivatives | 58 | 492 | 217 | 969 |
| Interests | - | 1 | - | - |
| Foreign exchange losses | - | - | 64 | 537 |
| Losses on measurement of non-current liabilities | - | 1 | - | - |
| Impairment losses on available-for-sale financial assets and allowances for impairment of other receivables | - | 89 | - | - |
| Losses on the sale of property, plant and equipment and intangible assets | 15 | 26 | - | - |
| Donations granted | - | 16 | - | 86 |
| Provisions recognised for: | 4 | 8 | 1 | 3 |
| Decommissioning of mines | 1 | 2 | - | 1 |
| Other | 3 | 6 | 1 | 2 |
| Other operating costs/losses | 5 | 18 | 7 | 23 |
| **Total other operating costs** | **82** | **651** | **289** | **1 618** |

### 7. Finance costs

| | Financial period | | | |
|---|---|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012** | **for the 9 months ended 30 September 2012** |
| Net foreign exchange losses/(gains) on borrowings | ( 14) | 11 | - | - |
| Changes in provisions arising from the approach of the maturity date of liabilities (unwinding of discount effect) | 8 | 26 | 8 | 25 |
| Interest expense | 1 | 2 | - | - |
| Other finance costs | - | 1 | 1 | 1 |
| **Total finance costs** | **( 5)** | **40** | **9** | **26** |

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### 8. Related entities transactions

| | Financial period | | | |
|---|---|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012** | **for the 9 months ended 30 September 2012** |
| Revenues from sales to related entities | 69 | 229 | 150 | 477 |
| Purchases from related entities | 1 493 | 4 222 | 1 412 | 4 256 |

| | At | |
|---|---|---|
| | **30 September 2013** | **31 December 2012** |
| Trade receivables from related entities | 401 | 224 |
| Trade payables towards related entities | 507 | 460 |

During the current quarter, no individual transactions were identified between KGHM Polska Miedź S.A. and the government and entities controlled or jointly controlled by the government, or over which the government has significant influence, which would be considered as significant in terms of unusual scope and amount.

The remaining transactions, which were collectively significant, between the Company and the government and with entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, and were carried out at arm's length. These transactions involved the purchase by the Company of materials and services to meet the needs of its current operating activities (fuel, energy, transport services). Turnover from these transactions in the current reporting period amounted to PLN 519 million (for the period from 1 January to 30 September 2012 – PLN 571 million), the unsettled balance of liabilities from these transactions as at 30 September 2013 amounted to PLN 31 million (as at 31 December 2012: PLN 41 million), and the unsettled balance of receivables as at 30 September 2013 amounted to PLN 7 million (as at 31 December 2012: PLN 4 million). Revenues from sales from State Treasury companies amounted to PLN 46 million (as at 30 September 2012, PLN 42 million).

| | Financial period | |
|---|---|---|
| **Remuneration of the Supervisory Board (in PLN '000)** | **for the 9 months ended 30 September 2013** | **for the 9 months ended 30 September 2012** |
| Remuneration due to service in the Supervisory Board, salaries and other current employee benefits | 761 | 1 031 |
| **Total** | **761** | **1 031** |

| | Financial period | |
|---|---|---|
| **Remuneration of the Management Board (in PLN '000)** | **for the 9 months ended 30 September 2013** | **for the 9 months ended 30 September 2012** |
| Salaries and other current employee benefits | 7 001 | 4 078 |
| Benefits due to termination of employment | - | 42 |
| **Total** | **7 001** | **4 120** |

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### 9. Contingent assets and liabilities and other liabilities not recognised in the statement of financial position

| | At 30 September 2013 | Increase/(decrease) since the end of the last financial year |
|---|---|---|
| **Contingent assets** | **481** | **67** |
| Guarantees received | 228 | 46 |
| Disputed State budget issues | - | ( 7) |
| Promissory notes receivables | 122 | 24 |
| Inventions, implementation of projects | 44 | 4 |
| Real estate tax on underground workings | 87 | - |
| **Contingent liabilities** | **180** | **2** |
| Guarantees and collateral | 10 | 5 |
| Disputed issues, pending court proceedings | 14 | ( 1) |
| Liabilities due to implementation of projects and inventions | 121 | ( 5) |
| Real estate tax on underground workings | 35 | 17 |
| Other | - | ( 14) |
| **Liabilities not recognised in the statement of financial position** | | |
| liabilities towards local government entities due to expansion of the tailings pond | 186 | ( 7) |
| liabilities due to operating leases | 19 | 8 |

The value of the above items was determined based on estimates.

## III. Items affecting assets, liabilities, equity, profit or loss or cash flows, which are unusual as respects their type, amount or degree of influence

### 1. Significant achievements or failures during the reporting period, together with the most important related events

**Process of obtaining new concessions for mining of copper ores**

Activities of KGHM Polska Miedź S.A. involving the exploitation of copper ores are carried out based on concessions held by the Company, 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 Company commenced the project CONCESSIONS 2013. As part of the work related to this project, the Company in the years 2010-2012 carried out work related to completing the concession applications together with the requisite appendices.

The mining concession applications were submitted to the Concessioning Body (the Ministry of the Environment) on 4 December 2012. By 18 June 2013 the mining municipalities had positively agreed the draft concessions for the 5 relevant deposits.

On 14 August 2013 three concession decisions were signed by the Minister of the Environment for the extraction of copper ore from the deposits „Polkowice", „Radwanice-Wschód" and „Rudna" for 50 years. On the same day three agreements were also signed regarding the granting of mining usufruct rights to the concessions in question.

Two other concessions – for the deposits „Lubin-Małomice" and „Sieroszowice" also for 50 years – were signed by the Minister of the Environment on 12 September 2013. Also signed were two agreements regarding the granting of mining usufruct rights to these deposits.

**C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)**

On 3 October 2013, KGHM Polska Miedź S.A. was informed of the delivery to the Concessioning Body of a request by the proxy representing Cuprum Arena MGC INVEST Sp. z o.o. S.K.A. on reconsideration of the matter regarding the application by KGHM Polska Miedź S.A. to be granted a concession for the extraction of copper ore from the deposit „Lubin-Małomice". Taking the above into consideration, until the issuance by the Minister of the Environment of a decision regarding the submitted request for the reconsideration of this issue, Concession No. 10/2013 will not be acknowledged as final. In September 2013, the Concessioning Body, in granting its decision on the concession, refused to recognise Cuprum Arena as a party to the concessioning proceedings, justifying this by the fact that the Cuprum Arena is not situated within the mining zone, but only on its border, and for this reason the said company cannot be considered as being a party to the concessioning proceedings for the extraction of copper ore from the deposit „Lubin – Małomice". In addition the Ministry of the Environment indicated that the arguments of the company Cuprum Arena MGC INVEST Sp. z o.o. S.K.A. are dictated by the on-going dispute with KGHM Polska Miedź S.A. on the return of costs of protecting the Cuprum Arena shopping mall.

In light of the above, on 9 October 2013 KGHM Polska Miedź S.A. as a precautionary measure made a request of the Concessioning Body to grant immediate enforceability to the concession for the „Lubin-Małomice" deposit. Simultaneously KGHM Polska Miedź S.A. again addressed the substantive charges of the company Cuprum Arena MGC INVEST, again arguing the unambiguous position that this entity should not be considered to be a party to the proceedings. Explanatory proceedings are continuing regarding dismissal of the request of Cuprum Arena MGC INVEST to be declared a party to the proceedings.

The final task in the process of the coming into force from 1 January 2014 of the new concessions is approval by the District Mining Office of mine operating plans for the 3 mines. Pursuant to the Law on Geology and Mining, the request to approve the mine operating plans must be submitted at least 30 days prior to the intended start of operations. The Company submitted the aforementioned plans to the District Mining Office on 31 October 2013.

The Management Board believes that the probability that the District Mining Office will 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.

**Maintenance work at the Głogów smelter**

On 15 July 2013, the planned maintenance of the flash furnace and electric furnace of the Głogów II smelter began. This maintenance work was completed respectively on 4 October and 22 October 2013. The maintenance shutdowns did not impact the level of realisation of production volume assumptions for 2013.

In addition on 19 October 2013 the planned maintenance shutdown of the Contirod line at the Cedynia wire rod plant began.

**Other significant events covered by current reports**

**Company bodies**

On 2 September 2013, Vice President of the Management Board Dorota Włoch submitted her resignation from fulfilling the functions of Member of the Management Board of KGHM Polska Miedź S.A.

In addition, the Supervisory Board of the Company on 2 September 2013 dismissed Włodzimierz Kiciński from the function of 1st Vice President of the Management Board of KGHM Polska Miedź S.A. as well as Adam Sawicki from the function of Vice President of the Management Board of KGHM Polska Miedź S.A.

On the same day the Supervisory Board appointed the following persons as Members of the Management Board of KGHM Polska Miedź S.A.:
- Jarosław Romanowski, granting him the function of 1st Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A.;
- Marcin Chmielewski, granting him the function of Vice President of the Management Board (Corporate Affairs) of KGHM Polska Miedź S.A.; and
- Jacek Kardela, granting him the function of Vice President of the Management Board (Development) of KGHM Polska Miedź S.A.

**Filing of suits requesting that resolutions of the General Meeting be repealed and declared as invalid**

On 5 August 2013, the Company received, from the Regional Court in Legnica, Section VI Economic, suits filed by shareholders of the Company, submitted to the court on 22 July 2013:
- Ryszard Zbrzyzny, "on the repeal of Resolution No. 35/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013 regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Leszek Hajdacki and Józef Czyczerski elected by the employees of KGHM Polska Miedź S.A.",
- Waldemar Brus, "on the repeal of Resolution No. 35/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013 regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Leszek Hajdacki and Józef Czyczerski elected by the employees of KGHM Polska Miedź S.A.".

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

On 10 September 2013, the Company received, from the Regional Court in Legnica, Section VI Economic, a suit filed by Leszek Hajdacki, submitted to the court on 22 July 2013, „requesting that Resolution No. 35 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013, regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Leszek Hajdacki elected by the employees of KGHM PM S.A., be declared invalid".

**Significant agreement**

On 1 August 2013, an agreement was entered into between subsidiaries of KGHM Polska Miedź S.A. (KGHM International Ltd. and FNX Mining Company Inc.) and Vale Canada Limited (a subsidiary of Vale S.A.), which provides the framework for KGHM International Ltd. to develop the Victoria copper-nickel-PGM project in Sudbury, Canada. Detailed information on the agreement may be found in part A.VI of this report.

**Letter of intent regarding cooperation on the development of deposits of chemical raw materials**

On 30 August 2013, KGHM Polska Miedź S.A. and the company Gdańskie Zakłady Nawozów Fosforowych „Fosfory" signed a letter of intent on cooperation in exploration projects, involving exploring for and evaluating deposits of chemical raw materials, including potassium salts, mining projects related to the development of existing deposits of chemical raw materials, both domestically and abroad, as well as the utilisation of secondary materials (wastes) in order to recover critical metals (including rare earth metals). The letter of intent will cover the period to 31 December 2015.

**Agreement on conditions for the purchase of shares of the company PGE EJ1 sp. z o.o.**

On 23 September 2013, KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A.(„PGE"), TAURON Polska Energia S.A. and ENEA S.A., as a result of work related to the creation of a draft agreement regarding the purchase of shares of a special purpose company founded in order to build and operate a nuclear power plant (understanding of 25 June 2013), initialled the Shareholders Agreement („Shareholders Agreement"). Detailed information on the agreement may be found in part A.V.2 of this report.

### 2. Measurement of financial and tangible assets

**Financial assets – derivatives**

In the current quarter due to the measurement and settlement of future cash flow hedging transactions other comprehensive income was decreased by PLN 186 million, of which:

- PLN 134 million represents a reclassification adjustment made at the time of impact of the hedged position on profit or loss,
- PLN 95 million represents a loss resulting from changes in fair value of the effective portion of hedging instruments,
- PLN 43 million represents tax from the above-mentioned items.

*(since the beginning of the financial year an increase in other comprehensive income of PLN 132 million, of which:*

- *PLN 300 million represents a reclassification adjustment made at the time of impact of the hedged position on profit or loss,*
- *PLN 463 million represents a profit resulting from changes in fair value of the effective portion of hedging instruments,*
- *PLN 31 million represents tax from the above-mentioned items.)*

Due to the realisation and fair value re-measurement of derivatives, there was an increase in the financial result for the current quarter of PLN 108 million (of which: as an increase in revenues from sales, PLN 134 million and as a decrease in the result on other operating activities, PLN 26 million).

*(a decrease in the financial result of PLN 73 million since the beginning of the financial year (of which: as an increase in revenues from sales, PLN 300 million and as a decrease in the profit on other operating activities, PLN 227 million).*

Detailed information on derivatives is presented in part C.III.5 Commodity and currency risk management.

**C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)**

**Available-for-sale financial assets**

In the current quarter, due to an increase in the fair value of available-for-sale financial assets above their carrying amount, a partial reversal was made of the impairment loss recognised in prior reporting periods, which increased other comprehensive income by PLN 88 million.

*(since the beginning of the financial year:*

*- a profit decreased by PLN 89 million due to recognition of an impairment loss,*

*- other comprehensive income increased by PLN 93 million due to reversal of an impairment loss)*

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

**Property, plant and equipment and receivables**

Due to the depreciation of property, plant and equipment and amortisation of intangible assets, operating costs were increased in the current quarter by PLN 203 million.

*(an increase in costs by PLN 621 million since the beginning of the financial year)*

The measurement of other assets did not significantly impact the current period profit.

## 3. Type and amounts of changes in estimates

**Provisions**

The effects of revision or recognition of estimates of future liabilities (provisions) were settled in the current quarter, in particular:

3.1 provisions for future employee benefits due to one-off retirement or disability payments, jubilee awards, post-mortem benefits and the coal equivalent also paid after the period of employment. The result of this change in estimates, mainly as a result of changes in macroeconomic assumptions, is a decrease in the provision of PLN 126 million which was settled as:

- an increase in other comprehensive income of PLN 139 million
  (after reflecting the deferred tax effects, an increase in other comprehensive income of PLN 113 million),
- a decrease in the financial result of PLN 13 million
  (after reflecting the deferred tax effects, a decrease in the financial result of PLN 11 million),

*(an increase in the provision by PLN 18 million since the beginning of the financial year, which was settled as:*

- *an increase in other comprehensive income of PLN 34 million*
  *(after reflecting the deferred tax effects, a decrease in other comprehensive income of PLN 28 million),*
- *a decrease in the financial result of PLN 16 million*
  *(after reflecting the deferred tax effects, a decrease in the financial result of PLN 13 million),*

3.2 provision for future costs of decommissioning (restoration) of the Company's mines, comprising the estimated costs of dismantling and removing technological facilities, for which the obligation for restoration upon the conclusion of activities is a result of separate law or standard practice. The result of this change in estimates is a decrease in the provision of PLN 118 million, which was settled as an increase in the financial result of PLN 2 million and as a decrease of property, plant and equipment of PLN 116 million. The decrease in the provision caused a decrease in deferred tax assets in the amount of PLN 22 million.

*(a decrease in the provision by PLN 46 million since the beginning of the financial year, which was settled as a decrease in the financial result in the amount of PLN 15 million and as a decrease in property, plant and equipment in the amount of PLN 61 million, deferred tax effect: a decrease in deferred tax assets in the amount of PLN 15 million)*

**C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)**

3.3 provisions for future employee remuneration costs together with charges of PLN 174 million, paid (in accordance with the Collective Labour Agreement) on the occasion of mining or smelting holidays and after approval of the annual financial statements.

(*provision as at 30 September 2013 amounted to PLN 412 million).*

The revision and recognition of other provisions for liabilities did not significantly impact the current period financial result.

**Deferred tax**

As a result of differences between the carrying amount and the tax base of statement of financial position items, there is a change in the estimated value of the deferred tax asset and the deferred tax liability.

After offsetting the deferred tax asset and deferred tax liability, the deferred tax asset at the end of the reporting period was set at PLN 196 million.

*(after offsetting the deferred tax asset and deferred tax liability, the deferred tax asset at 31 December 2012 was set at PLN 266 million).*

There was a decrease in the deferred tax asset in the current quarter of PLN 106 million, which was settled:

- as a decrease in profit — PLN 80 million,
- as a decrease in other comprehensive income due to actuarial losses on post-employment benefits, — PLN 26 million.

*(a decrease in the deferred tax asset since the beginning of the financial year in the amount of PLN 209 million, which was settled as:*

- *a decrease in profit, — PLN 78 million,*
- *a decrease in other comprehensive income due to actuarial losses on post-employment benefits — PLN 6 million,*
- *a decrease in other comprehensive income due to measurement of hedging derivative instruments, and available–for-sale financial assets — PLN 125 million)*

There was a decrease in the deferred tax liability in the current quarter of PLN 70 million, of which the following was settled as:

- an increase in profit, — PLN 44 million,
- an increase in other comprehensive income due to measurement of hedging derivative instruments — PLN 26 million.

*(a decrease in the deferred tax liability since the beginning of the financial year in the amount of PLN 138 million, of which the following was settled as:*

- *an increase in profit, — PLN 62 million,*
- *an increase in other comprehensive income due to measurement of hedging derivative instruments and available–for-sale financial assets — PLN 76 million.)*

**C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)**

## 4. Factors and events, in particular those of an unusual nature, having an impact on profit achieved by the Company.

### Economic results in the third quarter of 2013

In the third quarter of 2013, KGHM Polska Miedź S.A. produced 108 thousand t of copper in concentrate (in the period of 9 months of 2013: 325 thousand t). Electrolytic copper production amounted to 131 thousand t, including 91 thousand t from own concentrate (in the period of 9 months of 2013: 417 thousand t and 304 thousand t, respectively), and 320 t of metallic silver (864 t).

The most significant factors impacting the value of sales during the period were macroeconomic factors:

- copper prices on the London Metal Exchange (LME) at the average level of 7 073 USD/t,
- an average exchange rate of 3.21 USD/PLN,
- average silver prices on the London Bullion Market (LBMA) of 21.32 USD/troz, and
- the sales volume of copper and copper products (129 thousand t), and of silver (319 t).

The **revenues from sales** achieved of PLN 4 171 million were lower by PLN 884 million, i.e. 17% than those achieved in the comparable prior period, mainly as a result of a decrease in copper prices (from 7 706 USD/t to 7 073 USD/t), silver prices (from 29.80 USD/troz to 21.32 USD/troz) and in USD/PLN exchange rate (a change from 3.31 USDPLN to 3.21 USDPLN), and a decrease in the sales volume of copper and copper products (from 146 thousand t to 129 thousand t), alongside higher sales of merchandise.

In the third quarter of 2013, revenues from the sale of copper and copper products represented 74%, and silver 18% (in the comparable period of 2012 respectively: 77% and 20%) of total revenues from sales.

**Expenses by nature** in the third quarter of 2013 amounted to PLN 3 437 million, and after excluding purchased copper-bearing materials (PLN 1 020 million) and the minerals extraction tax (PLN 442 million) amounted to PLN 1 975 million and were at the level of costs in the comparable prior year period.

**The pre-precious metals credit unit cost of electrolytic copper production** (total cost prior to decrease by the value of precious metals) in the third quarter of 2013 amounted to 23 029 PLN/t, and was at the level of costs in the comparable prior year period. The cost level was affected by the lower mineral extraction tax effects by 23% (3rd quarter of 2012: 3 554 PLN/t; 3rd quarter of 2013: 2 730 PLN/t) alongside the lower production by 10%. Taking into consideration the valuation of precious metals in anode slimes, the total unit cost of production amounted to 19 733 PLN/t.

**The pre-precious metals credit unit cost of electrolytic copper production from own concentrate** amounted to 22 598 PLN/t (in the comparable period – 21 999 PLN/t) alongside a lower by 15% volume of production from own concentrate and a lower mineral extraction tax burden by 870 PLN/t. The total unit cost of electrolytic copper production from own concentrate amounted to 18 420 PLN/t.

**C1 cost** (cash cost of concentrate production including the minerals extraction tax, plus administrative expenses and treatment and refining (TC/RC) charges, less depreciation/amortisation and by-product revenues, calculated for payable copper in concentrate) was as follows: 1.68 USD/lb in the third quarter of 2012 and 1.77 USD/lb in the third quarter of 2013. The increase in the C1 cost was mainly due to a decrease in silver and gold prices (an increase in the cost of 0.20 USD/lb).

**Other operating activities** showed a loss in the third quarter of 2013 of PLN 73 million, meaning worsening of the result versus the third quarter of 2012 by PLN 65 million, mainly due to measurement and realisation of derivatives.

As a result of the above, **operating profit** in the third quarter of 2013 amounted to PLN 730 million and decreased versus the comparable period of 2012 by PLN 798 million.

KGHM Polska Miedź S.A. earned a **profit for the third quarter of 2013** of PLN 520 million, which was lower by PLN 624 million than that achieved in the third quarter of 2012.

**EBITDA** in the third quarter of 2013 amounted to PLN 933 million (including depreciation/amortisation of PLN 203 million) and was lower by PLN 789 million than that in the comparable prior year period.

## 5. Commodity and currency risk management

The management of market risk should be considered through analysis of the hedging position together with the item being hedged (hedged position). By hedging position is meant the position of the Company in derivatives. A hedged position comprises revenues from the physical sale of products.

The nominal of copper price hedging strategies settled in the third quarter of 2013 represented approx. 24% of the total sales of this metal realised by the Company. With respect to silver this figure amounted to approx. 9%. In the case of the currency market, hedged revenues from sales represented approx. 21% of total revenues from sales realised by the Company during the period.

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

In the third quarter of 2013, the positive result on derivatives amounted to PLN 108 million, of which the amount of PLN 134 million was recognised in revenues from sales (the amount transferred from revaluation reserve from measurement of cash flow hedging instruments to profit or loss), the amount of PLN 26 million decreased the result on other operating activities, of which PLN 60 million represented a loss due to the realisation of derivatives, while PLN 34 million represented a gain on the measurement of derivatives. The gain on the measurement of derivative transactions recognised in other operating activities, results mainly from the change in the time value of options which, in accordance with the hedge accounting policy, are recognised in profit or loss.

**Impact of derivatives on the profit or loss of the current and comparable periods**

| | Financial period | | | |
|---|---|---|---|---|
| | **for the 3 months ended 30 September 2013** | **for the 9 months ended 30 September 2013** | **for the 3 months ended 30 September 2012** | **for the 9 months ended 30 September 2012** |
| **Impact on sales** | **134** | **300** | **107** | **124** |
| **Impact on other operating activities** | **(26)** | **(227)** | **25** | **705** |
| (Losses)/Gains on realisation of derivatives | (60) | (110) | (93) | 57 |
| Gains/(Losses) on measurement of derivatives | 34 | (117) | 118 | 648 |
| **Total impact of derivatives on (loss)/profit for the period:** | **108** | **73** | **132** | **829** |

**Revaluation reserve from measurement of cash flow hedging instruments**

| | At | | |
|---|---|---|---|
| | **30 September 2013** | **30 June 2013** | **31 December 2012** |
| Commodity price risk hedging transactions (copper and silver) – derivatives | 259 | 705 | 163 |
| Currency risk hedging transactions – derivatives | 258 | 41 | 191 |
| **Total (excluding the deferred tax effect):** | **517** | **746** | **354** |

During the third quarter of 2013 there was a decrease in other comprehensive income by PLN 229 million (excluding the deferred tax effect), comprised of:

- changes in fair value during the period recognised as a decrease in revaluation reserve from measurement of effective portion cash flow hedging instruments, of PLN 95 million,
- the amount of PLN 134 million, decreasing revaluation reserve from measurement of cash flow hedging instruments, transferred to increase revenues from sales, due to the settlement of the effective portion of hedging transactions.

In the third quarter of 2013, the Company did not implement any hedging strategies on the copper, silver and currency markets.

As at 30 September 2013, the Company remains hedged for a portion of copper sales planned in the fourth quarter of 2013 (30.75 thousand tonnes), in 2014 (81 thousand tonnes) and in 2015 (42 thousand tonnes). The Company does not hold any open hedging transactions on the silver market. With respect to revenues from sales (currency market) the Company holds a hedging position in the fourth quarter of 2013 (USD 240 million), in 2014 (USD 960 million) and in 2015 (USD 600 million).

Following is presented condensed information on open hedging positions, by type of hedged asset and instruments used as at 30 September 2013. The hedged nominal/volume in the presented periods is equally balanced in the months.

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

**COPPER MARKET**

| | Instrument | Volume [tonnes] | Option execution price [USD/t] | | | Average weighted premium [USD/t] | Effective hedge price [USD/t] | Limitations [USD/t] | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Sold call option | Purchased put option | Sold put option [1] | | | Participation limited to | Hedge limited to |
| IV quarter of 2013 | Collar | 5 250 | 12 000 | 8 500 | - | (460) | 8 040 | 12 000 | - |
| | Collar | 5 250 | 11 500 | 8 200 | - | (333) | 7 867 | 11 500 | - |
| | Seagull | 3 000 | 10 200 | 7 700 | 4 500 | (332) | 7 368 | 10 200 | 4 500 |
| | Seagull | 7 500 | 10 300 | 7 800 | 4 500 | (368) | 7 432 | 10 300 | 4 500 |
| | Collar | 9 750 | 9 300 | 7 600 | - | (290) | 7 310 | 9 300 | - |
| | **Total** | **30 750** | | | | | | | |
| **TOTAL IV quarter of 2013** | | **30 750** | | | | | | | |
| 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** | | | | | | | |

**CURRENCY MARKET**

| | Instrument | Notional [million USD] | Option execution price [USDPLN] | | | Average weighted premium [PLN for USD 1] | Effective hedge price [USDPLN] | Limitations [USDPLN] | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Sold call option | Purchased put option | Sold put option[1] | | | Participation limited to | Hedge limited to |
| IV quarter of 2013 | Seagull | 120 | 4.0000 | 3.1500 | 2.6000 | -0.0204 | 3.1296 | 4.0000 | 2.6000 |
| | Collar | 120 | 4.2000 | 3.2000 | - | -0.0650 | 3.1350 | 4.2000 | - |
| | **Total** | **240** | | | | | | | |
| **TOTAL IV quarter of 2013** | | **240** | | | | | | | |
| I half of 2014 | Collar | 180 | 4.5000 | 3.5000 | - | (0.0641) | 3.4359 | 4.5000 | - |
| | Collar | 180 | 4.5000 | 3.4000 | - | (0.0093) | 3.3907 | 4.5000 | - |
| | Collar | 120 | 4.0000 | 3.2000 | - | (0.0574) | 3.1426 | 4.0000 | - |
| | **Total** | **480** | | | | | | | |
| II half of 2014 | Seagull | 180 | 4.5000 | 3.5000 | 2.7000 | (0.0345) | 3.4655 | 4.5000 | 2.7000 |
| | Collar | 180 | 4.5000 | 3.4000 | - | (0.0093) | 3.3907 | 4.5000 | - |
| | Collar | 120 | 4.0000 | 3.2000 | - | (0.0554) | 3.1446 | 4.0000 | - |
| | **Total** | **480** | | | | | | | |
| **TOTAL 2014** | | **960** | | | | | | | |
| I half of 2015 | Collar | 180 | 4.5000 | 3.4000 | - | (0.0080) | 3.3920 | 4.5000 | - |
| | Collar | 120 | 4.0000 | 3.3000 | - | (0.0694) | 3.2306 | 4.0000 | - |
| | **Total** | **300** | | | | | | | |
| II half of 2015 | Collar | 180 | 4.5000 | 3.4000 | - | (0.0080) | 3.3920 | 4.5000 | - |
| | Collar | 120 | 4.0000 | 3.3000 | - | (0.0694) | 3.2306 | 4.0000 | - |
| | **Total** | **300** | | | | | | | |
| **TOTAL 2015** | | **600** | | | | | | | |

[1] 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", while *sold put options* of seagull structure are shown in the table "Trade instruments".

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

**SILVER MARKET**

| | **Instrument** | **Volume** [million troz] | **Option execution price** [USD/troz] | | | **Average weighted premium** [USD/troz] | **Effective hedge price** [USD/troz] | **Limitations** [USD/troz] | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Sold call option | Purchased put option | Sold put option | | | Participation limited to | Hedge limited to |
| IV quarter of 2013 | Position closed | - | - | - | - | Closure of the position and un-designation of the transaction as a hedge was reflected in the *Revaluation reserve from measurement of financial instruments* in the amount of PLN 48 million, which will increase revenues from sales in the fourth quarter of 2013. | | | |
| | **Total** | - | | | | | | | |
| **TOTAL IV quarter of 2013** | | **-** | | | | | | | |

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

The following table presents the structure of ratings of the financial institutions with whom the Company engaged in derivatives transactions, representing an exposure to credit risk[2]

| | **At** | |
|---|---|---|
| **Rating levels** | **30 September 2013** | **31 December 2012** |
| Highest[3] | 13% | 12% |
| Medium-high[4] | 82% | 82% |
| Medium[5] | 5% | 6% |

Taking into consideration the fair value of open derivative transactions entered into by the Company and unsettled derivatives, as at 30 September 2013, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 24% (as at 31 December 2012: 17%).

Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as to cooperation with highly-rated and medium-high-rated financial institutions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

In order to reduce cash flows as well as credit risk, the Company 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.

As at 30 September 2013, the net fair value of open positions in derivatives amounted to PLN 794 million, of which PLN 803 million related to the positive fair value of hedging instruments, PLN 60 million related to the negative fair value of trade instruments, and PLN 51 million related to the positive fair value of instruments initially designated as hedging instruments excluded from hedge accounting. The fair value of open positions in derivatives varies, depending on changes in market conditions, and the final result on these transactions may vary significantly from the measurements described above.

The fair values of open derivatives of the Company and receivables/liabilities due to unsettled derivatives are presented in the following table:

| | **At 30 September 2013** | | **At 31 December 2012** | |
|---|---|---|---|---|
| | **Derivatives** | **Receivables and (liabilities) due to unsettled derivatives[6]** | **Derivatives** | **Receivables and (liabilities) due to unsettled derivatives[7]** |
| Financial assets | 908 | 40 | 1 123 | 22 |
| Financial liabilities | (114) | (16) | (253) | (16) |
| **Fair value** | **794** | **24** | **870** | **6** |

[2] weighed by positive fair value of open and unsettled derivatives
[3] 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.
[4] 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.
[5] 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.
[6] Settlement date falls on 2 October 2013.
[7] Settlement date falls on 3 January 2013.

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

Detailed information on positions in derivatives as at 30 September 2013 is presented below in the tables "Trade instruments", "Hedging instruments" and "Instruments initially designated as hedging instruments excluded from hedge accounting".

**TRADE INSTRUMENTS** — At 30 September 2013 [PLN '000]

| Type of derivative | Volume/ Notional Cu [t] Ag ['000 troz] Currency ['000 USD] | Avg. weighted price/ex. rate Cu [USD/t] Ag [USD/troz] Currency [USDPLN] | Financial assets Current | Financial assets Non-current | Financial liabilities Current | Financial liabilities Non-current |
|---|---|---|---|---|---|---|
| **Derivatives - Metals – Copper:** | | | | | | |
| Options | | | | | | |
| Sold put options | 133 500 | 4 646 | | | (222) | (4 054) |
| **TOTAL:** | | | - | - | **(222)** | **(4 054)** |
| **Derivatives - Metals – Silver:** | | | | | | |
| Options | | | | | | |
| Purchased call options | 900 | 65.00 | | | | |
| Purchased put options | 900 | 20.00 | 813 | | | |
| Sold put options | 1 800 | 30.00 | | | (52 225) | |
| **TOTAL:** | | | **813** | - | **(52 225)** | - |
| **Derivatives – Currency contracts** | | | | | | |
| Options USD | | | | | | |
| Purchased put options | 180 000 | 2.7000 | 1 308 | | | |
| Sold put options | 480 000 | 2.6750 | | | (3 217) | (2 766) |
| **TOTAL:** | | | **1 308** | - | **(3 217)** | **(2 766)** |
| **TOTAL TRADE INSTRUMENTS** | | | **2 121** | - | **(55 664)** | **(6 820)** |

**HEDGING INSTRUMENTS** — At 30 September 2013 [PLN '000]

| Type of derivative | Volume/ Notional Cu [t] Ag ['000 troz] Currency ['000 USD] | Avg. weighted price/ ex. rate Cu [USD/t] Ag [USD/troz] Currency [USDPLN] | Maturity/ settlement period From | Maturity/ settlement period To | Period of profit/loss impact From | Period of profit/loss impact To | Financial assets Current | Financial assets Non-current | Financial liabilities Current | Financial liabilities Non-current |
|---|---|---|---|---|---|---|---|---|---|---|
| **Derivatives – Metals- Copper** | | | | | | | | | | |
| Options | | | | | | | | | | |
| Collar | 20 250 | 7 989-10 570 | Oct-13 | Dec-13 | Nov-13 | Jan-14 | 45 832 | | (2) | |
| Seagull | 133 500 | 7 752-10 008 | Oct-13 | Dec-15 | Nov-13 | Jan-16 | 129 082 | 205 935 | (3 112) | (24 648) |
| **TOTAL:** | | | | | | | **174 914** | **205 935** | **(3 114)** | **(24 648)** |
| **Derivatives – Metals - Silver** | | | | | | | | | | |
| Options | - | - | | | | | | | | |
| **TOTAL:** | | | | | | | - | - | - | - |
| **Derivatives – Currency contracts** | | | | | | | | | | |
| Options USD | | | | | | | | | | |
| Collar | 1 320 000 | 3.3273-4.2909 | Oct-13 | Dec-15 | Oct-13 | Dec-15 | 117 268 | 215 568 | (849) | (21 946) |
| Collar-seagull | 180 000 | 3.5000-4.5000 | Jan-14 | June-14 | Jan-14 | June-14 | 65 230 | - | (11) | - |
| Seagull | 300 000 | 3.3600-4.3000 | Oct-13<br>July-14 | Dec-13<br>Dec-14 | Oct-13<br>July-14 | Dec-13<br>Dec-14 | 41 757 | 33 677 | (87) | (297) |
| **TOTAL:** | | | | | | | **224 255** | **249 245** | **(947)** | **(22 243)** |
| **TOTAL HEDGING INSTRUMENTS** | | | | | | | **399 169** | **455 180** | **(4 061)** | **(46 891)** |

**INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING** — At 30 September 2013 [PLN '000]

| Type of derivative | Volume Ag ['000 troz] | Avg. weighted price Ag [USD/troz] | Maturity/ settlement period From | Maturity/ settlement period To | Period of profit/loss impact From | Period of profit/loss impact To | Financial assets Current | Financial assets Non-current | Financial liabilities Current | Financial liabilities Non-current |
|---|---|---|---|---|---|---|---|---|---|---|
| **Derivatives – Metals – Silver:** | | | | | | | | | | |
| Options | | | | | | | | | | |
| Seagull | 900 | 40.00-65.00 | Oct-13 | Dec-13 | Nov-13 | Jan-14 | **51 412** | | | |
| **TOTAL** | | | | | | | **51 412** | - | - | - |
| **TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING** | | | | | | | **51 412** | - | - | - |

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

## C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)

### 6. Liquidity risk and capital management

Capital management is aimed at maintaining continuous financial liquidity in every period. The Company actively manages the risk of loss of liquidity to which it is exposed.

In order to minimise this risk in the third quarter of 2013 the Company 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. Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

As at 30 September 2013, the Company held a liability due to bank loans drawn in the amount of USD 191 million (i.e. PLN 597 million).

At the end of the reporting period, the Company owned open lines of credit, whose balances were as follows:

**CREDIT LINES as at 30 September 2013**

| Type of bank loan | Bank loan currency | Available balance of bank loan in the currency [million] | Available balance of bank loan in PLN [million] |
|---|---|---|---|
| Working capital facility and overdraft facility | USD | 88 | - |
| Overdraft facility | EUR | 50 | - |
| Working capital facility and overdraft facility | PLN | - | 2 300 |

Lubin, 13 November 2013