

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 3 / 2014

(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 **2014** comprising the period from **1 July 2014** to **30 September 2014**
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: 13 November 2014

KGHM Polska Miedź Spółka Akcyjna

(name of the issuer)

KGHM Polska Miedź S.A.

(name of issuer in brief)

59-301

(postal code)

M. Skłodowskiej – Curie

(street)

(48 76) 74 78 200

(telephone)

ir@kghm.pl

(e-mail)

692-000-00-13

(NIP)

Basic materials

(issuer branch title per the Warsaw Stock Exchange)

LUBIN

(city)

48

(number)

(48 76) 74 78 500

(fax)

www.kghm.pl

(website address)

390021764

(REGON)

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

SELECTED FINANCIAL DATA

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

	in M PLN		in M EUR	
	3 quarters of 2014 period from 1 January 2014 to 30 September 2014	3 quarters of 2013 period from 1 January 2013 to 30 September 2013	3 quarters of 2014 period from 1 January 2014 to 30 September 2014	3 quarters of 2013 period from 1 January 2013 to 30 September 2013
I. Sales	14 716	17 986	3 520	4 259
II. Operating profit	2 713	3 465	649	820
III. Profit before income tax	2 485	3 295	594	780
IV. Profit for the period	1 780	2 337	426	553
V. Profit for the period attributable to shareholders of the Parent Entity	1 778	2 338	426	553
VI. Profit for the period attributable to non-controlling interest	2	(1)	-	-
VII. Other comprehensive income	609	372	146	88
VIII. Total comprehensive income	2 389	2 709	572	641
IX. Total comprehensive income attributable to shareholders of the Parent Entity	2 385	2 712	571	642
X. Total comprehensive income attributable to non-controlling interest	4	(3)	1	(1)
XI. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	8.89	11.71	2.13	2.77
XIII. Net cash generated from operating activities	3 459	3 655	827	866
XIV. Net cash used in investing activities	(3 999)	(3 369)	(957)	(798)
XV. Net cash (used in)/ generated from financing activities	504	(1 505)	121	(356)
XVI. Total net cash flow	(36)	(1 219)	(9)	(288)
	At 30 September 2014	At 31 December 2013	At 30 September 2014	At 31 December 2013
XVII. Non-current assets	31 270	26 581	7 489	6 409
XVIII. Current assets	7 677	7 884	1 839	1 901
XIX. Total assets	38 947	34 465	9 328	8 310
XX. Non-current liabilities	8 418	6 714	2 016	1 619
XXI. Current liabilities	6 065	4 687	1 454	1 130
XXII. Equity	24 464	23 064	5 858	5 561
XXIII. Equity attributable to shareholders of the Parent Entity	24 245	22 841	5 806	5 508
XXIV. Equity attributable to non-controlling interest	219	223	52	53

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

	in M PLN		in M EUR	
	3 quarters of 2014 period from 1 January 2014 to 30 September 2014	3 quarters of 2013 period from 1 January 2013 to 30 September 2013	3 quarters of 2014 period from 1 January 2014 to 30 September 2014	3 quarters of 2013 period from 1 January 2013 to 30 September 2013
I. Sales	11 843	13 674	2 833	3 238
II. Operating profit	2 499	3 121	598	739
III. Profit before income tax	2 403	3 081	575	730
IV. Profit for the period	1 748	2 245	418	532
V. Other comprehensive income	(238)	235	(57)	56
VI. Total comprehensive income	1 510	2 480	361	588
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)	8.74	11.22	2.09	2.66
IX. Net cash generated from operating activities	2 820	2 855	675	676
X. Net cash used in investing activities	(2 703)	(1 865)	(647)	(442)
XI. Net cash (used in)/generated from financing activities	124	(1 406)	30	(333)
XII. Total net cash flow	241	(416)	58	(99)
	At 30 September 2014	At 31 December 2013	At 30 September 2014	At 31 December 2013
XIII. Non-current assets	25 984	23 535	6 223	5 675
XIV. Current assets	5 595	5 503	1 340	1 327
XV. Total assets	31 579	29 038	7 563	7 002
XVI. Non-current liabilities	2 757	1 989	660	480
XVII. Current liabilities	5 014	3 751	1 201	904
XVIII. Equity	23 808	23 298	5 702	5 618

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A. Interim condensed consolidated financial statements

(Consolidated financial statements)

Interim consolidated statement of financial position

	note	At	
		30 September 2014	31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment		16 582	15 128
Intangible assets		2 717	2 175
Investment property		64	65
Investments accounted for using the equity method	A.III.1	4 426	3 720
Deferred tax assets		471	451
Available-for-sale financial assets		990	810
Financial assets for mine closure and restoration of tailing storage facilities		345	323
Derivatives		150	357
Trade and other receivables		5 525	3 552
		31 270	26 581
Current assets			
Inventories		3 889	3 397
Trade and other receivables		2 605	3 119
Current corporate tax receivables		31	54
Available-for-sale financial assets		57	58
Financial assets for mine closure		1	1
Derivatives		300	476
Cash and cash equivalents		786	771
Non-current assets held for sale		8	8
		7 677	7 884
TOTAL ASSETS		38 947	34 465
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Parent Entity			
Share capital		2 000	2 000
Revaluation reserve from measurement of financial instruments		492	522
Exchange differences from the translation of foreign operations statements		583	(267)
Actuarial gains/losses on post-employment benefits		(341)	(132)
Retained earnings		21 511	20 718
		24 245	22 841
Equity attributable to non-controlling interest		219	223
TOTAL EQUITY		24 464	23 064
LIABILITIES			
Non-current liabilities			
Trade and other payables		960	774
Borrowings, debt securities and finance lease liabilities	A.IV.7	2 392	1 714
Derivatives		30	17
Deferred tax liabilities		1 875	1 726
Employee benefits liabilities		1 870	1 563
Provisions for other liabilities and charges		1 291	920
		8 418	6 714
Current liabilities			
Trade and other payables		3 640	3 094
Borrowings, debt securities and finance lease liabilities	A.IV.7	1 949	1 215
Current corporate tax liabilities		129	128
Derivatives		67	7
Employee benefits liabilities		140	131
Provisions for other liabilities and charges		140	112
		6 065	4 687
TOTAL LIABILITIES		14 483	11 401
TOTAL EQUITY AND LIABILITIES		38 947	34 465

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of profit or loss

	Note	Reporting period			
		for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Sales	A.IV.2	5 188	14 716	5 468	17 986
Cost of sales	A.IV.3	(3 926)	(11 223)	(4 383)	(13 370)
Gross profit		1 262	3 493	1 085	4 616
Selling costs	A.IV.3	(96)	(289)	(94)	(321)
Administrative expenses	A.IV.3	(244)	(713)	(241)	(711)
Other operating income	A.IV.4	328	638	160	682
Other operating costs	A.IV.5	(180)	(416)	(116)	(801)
Operating profit		1 070	2 713	794	3 465
Finance costs	A.IV.6	(128)	(227)	(39)	(170)
Share in losses of investments accounted for using the equity method		(1)	(1)	-	-
Profit before income tax		941	2 485	755	3 295
Income tax expense		(262)	(705)	(240)	(958)
Profit for the period		679	1 780	515	2 337
Profit for the period attributable to:					
shareholders of the Parent Entity		678	1 778	518	2 338
non-controlling interest		1	2	(3)	(1)
Earnings per share attributable to the shareholders of the Parent Entity for the reporting period (in PLN per share)					
- basic		3.39	8.89	2.59	11.71
- diluted		3.39	8.89	2.59	11.71

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of comprehensive income

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Profit for the period	679	1 780	515	2 337
Other comprehensive income:				
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met:				
Other comprehensive income from measurement of financial instruments				
Available-for-sale financial assets	27	183	93	170
Income tax related to available-for-sale financial assets	(7)	(35)	(16)	(19)
Cash flow hedging instruments	(77)	(220)	(229)	163
Income tax related to cash flow hedging instruments	15	42	43	(31)
Total other comprehensive income from measurement of financial instruments	(42)	(30)	(109)	283
Exchange differences from the translation of foreign operations statements	745	852	(591)	58
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	703	822	(700)	341
Other comprehensive income, which will not be reclassified to profit or loss:				
Actuarial gains and losses on post-employment benefits	(106)	(263)	143	38
Income tax related to actuarial gains and losses	20	50	(27)	(7)
Total other comprehensive income, which will not be reclassified to profit or loss	(86)	(213)	116	31
Other comprehensive net income for the reporting period	617	609	(584)	372
TOTAL COMPREHENSIVE INCOME	1 296	2 389	(69)	2 709
Total comprehensive income attributable to:				
shareholders of the Parent Entity	1 292	2 385	(68)	2 712
non-controlling interest	4	4	(1)	(3)

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of changes in equity

	Equity attributable to shareholders of the Parent Entity					Total	Equity attributable to non-controlling interest	Total equity
	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			
At 1 January 2014	2 000	522	(267)	(132)	20 718	22 841	223	23 064
Dividends from profit for 2013 paid	-	-	-	-	(500)	(500)	-	(500)
Dividends from profit for 2013 resolved but unpaid	-	-	-	-	(500)	(500)	-	(500)
Offsetting of profit from prior years with actuarial gains and losses	-	-	-	4	(4)	-	-	-
Total comprehensive income	-	(30)	850	(213)	1 778	2 385	4	2 389
Profit for the period	-	-	-	-	1 778	1 778	2	1 780
Other comprehensive income	-	(30)	850	(213)	-	607	2	609
Changes in ownership shares in subsidiaries which do not lead to a loss of control	-	-	-	-	19	19	(8)	11
At 30 September 2014	2 000	492	583	(341)	21 511	24 245	219	24 464
At 1 January 2013	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
Changes in ownership shares in subsidiaries which do not lead to a loss of control	-	-	-	-	25	25	(6)	19
At 30 September 2013	2 000	518	79	(156)	20 018	22 459	223	22 682

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of cash flows

	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Cash flow from operating activities		
Profit for the period	1 780	2 337
Adjustments to profit for the period:	2 314	2 601
Income tax recognised in profit or loss	705	958
Amortisation/Depreciation	1 196	1 143
Losses on sale of property, plant and equipment and intangible assets	9	30
Decrease/(increase) in fair value of investment properties	1	(4)
Proceeds from sale of available-for-sale financial assets	-	(18)
Impairment loss on available-for-sale financial assets, property, plant and equipment, intangible assets and loans	4	237
Reversal of impairment loss	(4)	(15)
Share in losses of investments accounted for using the equity method	1	-
Dividends and interest	(114)	(99)
Foreign exchange (gains)/losses	(7)	29
Change in provisions	79	(2)
Change in assets/liabilities due to derivatives	620	528
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(384)	(300)
Other adjustments	40	22
Changes in working capital:	168	92
Inventories	(445)	(404)
Trade and other receivables	485	380
Trade and other payables	128	116
Income tax paid	(635)	(1 283)
Net cash generated from operating activities	3 459	3 655
Cash flow from investing activities		
Acquisition of shares in the increased share capital of a joint venture	(478)	(11)
Purchase of property, plant and equipment and intangible assets	(2 398)	(2 195)
Advances granted for purchase of property, plant and equipment and intangible assets	(28)	(43)
Proceeds from sale of property, plant and equipment and intangible assets	12	49
Purchase of available-for-sale financial assets	-	(42)
Proceeds from sale of available-for-sale financial assets	1	111
Purchase of financial assets from mine closure fund and tailings storage facilities restoration fund	(28)	(56)
Proceeds from sale of financial assets purchased from mine closure fund	17	200
Termination of deposits	5	36
Loans granted	(1 130)	(1 473)
Dividends received	35	37
Other investment (expenses)/proceeds	(7)	18
Net cash used in investing activities	(3 999)	(3 369)

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of cash flows (continued)

	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Cash flow from financing activities		
Capital contributions from holders of non-controlling interest	13	21
Purchase of non-controlling interest	(15)	(29)
Proceeds from bank and other loans	1 441	420
Repayments of bank and other loans	(294)	(828)
Payments of liabilities due to finance leases	(14)	(11)
Interest paid	(88)	(73)
Dividends paid to shareholders of the Parent Entity	(500)	(980)
Other financial expenses	(39)	(25)
Net cash (used in)/generated from financing activities	504	(1 505)
Total net cash flow	(36)	(1 219)
Exchange gains on cash and cash equivalents	51	31
Movements in cash and cash equivalents	15	(1 188)
Cash and cash equivalents at beginning of the period	771	2 542
Cash and cash equivalents at end of the period	786	1 354
including restricted cash and cash equivalents	18	14

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:

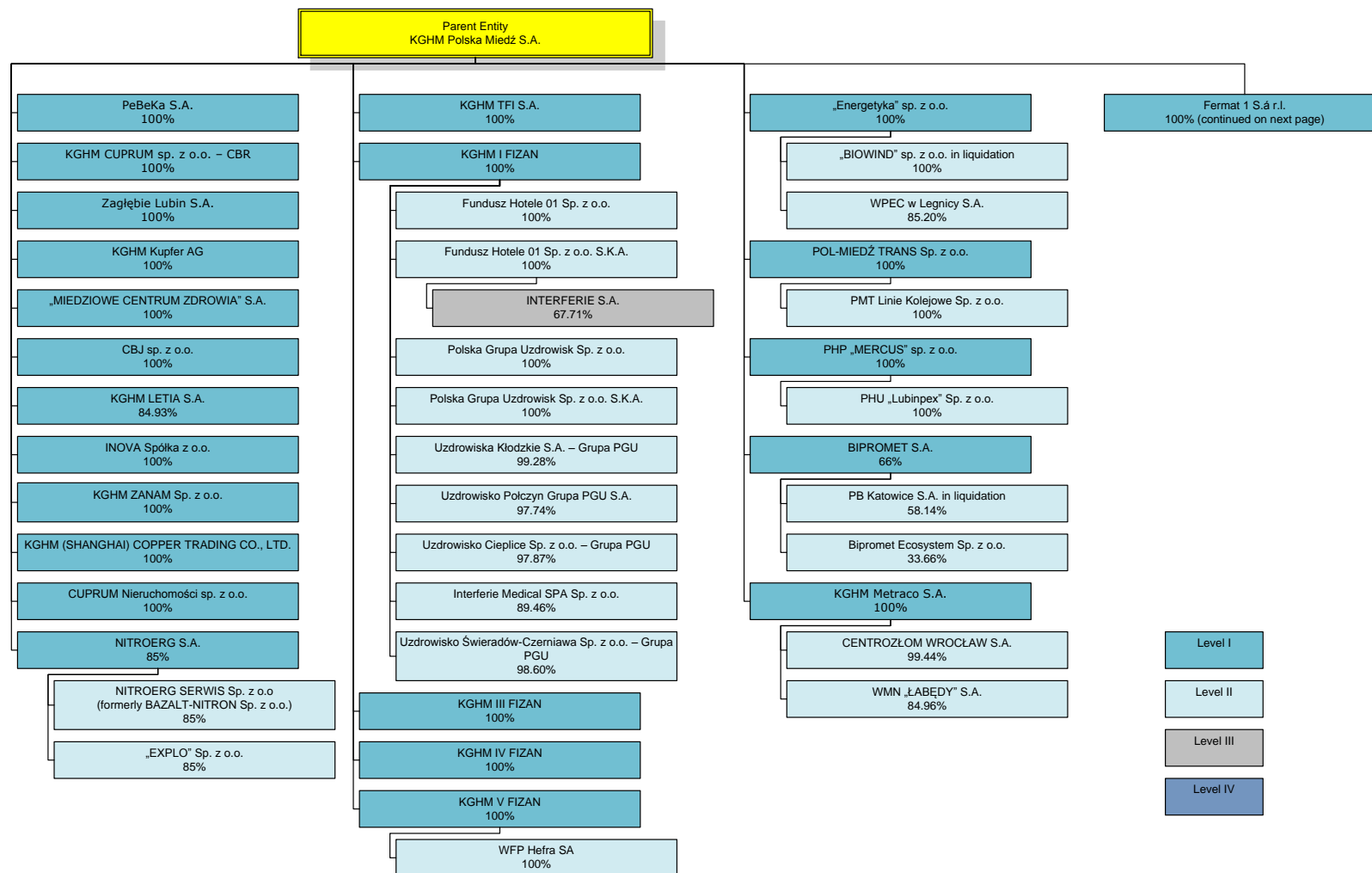
- mining of copper and non-ferrous metals ore,
- excavation of gravel and sand,
- production of copper, precious and non-ferrous metals,
- production of salt,
- casting of light and non-ferrous metals,
- forging, pressing, stamping and roll forming of metal - powder metallurgy,
- waste management,
- 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 services.

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.

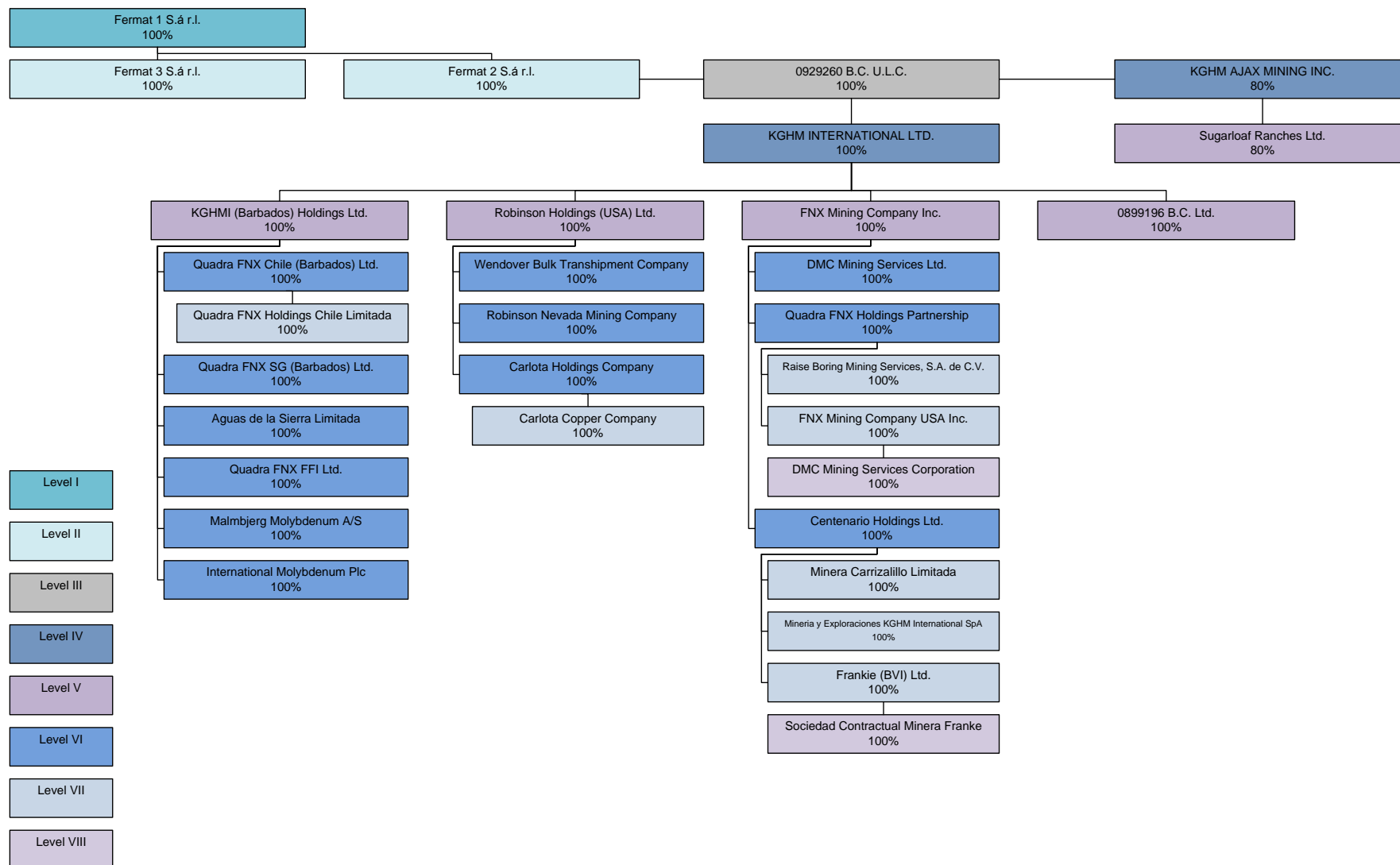
A. Interim condensed consolidated financial statements (continued)

2. Composition of the KGHM Polska Miedź S.A. Group at 30 September 2014



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 75 subsidiary entities (the subsidiaries of the Group are presented in part A.I.2), 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 January to 30 September 2014 and the comparable period from 1 January to 30 September 2013, 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 January to 30 September 2014 and the comparable period from 1 January to 30 September 2013 **(Part C)**.

Neither the interim consolidated financial statements at 30 September 2014 nor the interim separate financial statements at 30 September 2014 were audited by a certified auditor.

3. Exchange rates applied

The following currency rates were applied in the conversion of selected financial data in EUR:

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of **4.1803 PLNEUR***,
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of **4.2231 PLNEUR***,
- for the conversion of assets, equity and liabilities at 30 September 2014, the rate of **4.1755 PLNEUR**,
- for the conversion of assets, equity and liabilities at 31 December 2013, the rate of **4.1472 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 2014 and 2013.*

4. Accounting policies

The condensed consolidated financial report for the period from 1 July 2014 to 30 September 2014 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 2013 and with the separate financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2013.

These financial statements have been prepared using the same principles for the current and comparable periods.

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

- IFRS 10 Consolidated Financial Statements,
- IFRS 11 Joint Arrangements,
- IFRS 12 Disclosure of Interests in Other Entities,
- IAS 27 Separate Financial Statements,
- IAS 28 Investments in Associates and Joint Ventures,
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities,
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance,
- Investment Entities – changes to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements,
- Amendments to IAS 36 Impairment of Assets,
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement titled Novation of Derivatives and Continuation of Hedge Accounting,
- IFRIC 21 Levies.

Application of the above standards, changes to standards and interpretations did not have a material impact on the accounting policy of the Group with respect to assets and liabilities owned by the Group's companies at the end of the reporting period and comparable periods and on transactions realised by the companies of the Group during the reporting period and comparable periods or on these financial statements.

A. Interim condensed consolidated financial statements (continued)

II. Information on significant changes in estimates

1. Provisions for future liabilities

The effects of revaluation 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 an increase in the provision of PLN 139 million which was settled as a decrease in other comprehensive income of PLN 106 million and a decrease in financial result of PLN 33 million, (after reflecting the deferred tax effects, a decrease in other comprehensive income of PLN 86 million, a decrease in the financial result of PLN 27 million),

(since the beginning of the financial year, an increase in the provisions of PLN 316 million, which was settled as:

- a decrease in other comprehensive income of PLN 263 million
(after reflecting the deferred tax effects, a decrease of PLN 213 million),*
- a decrease in profit before income tax of PLN 53 million
(after reflecting the deferred tax effects, a decrease of PLN 43 million),*

- 1.2 provisions for future costs of decommissioning (restoration) of the Group's mines, comprising the estimated costs of dismantling and removing technological facilities (waste storage facilities, tailings storage facility), 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 an increase in the provision of PLN 180 million, which was settled as an increase in the financial result of PLN 7 million, an increase in property, plant and equipment of PLN 150 million and as a decrease in other comprehensive income of PLN 37 million due to exchange differences from the translation of provisions recognised in foreign subsidiaries with a functional currency other than PLN, applying the exchange rate at the end of the reporting period,

(since the beginning of the financial year an increase in provisions of PLN 389 million, settled as a decrease in profit of PLN 17 million, as an increase in property, plant and equipment of PLN 330 million and as a decrease in other comprehensive income of PLN 42 million due to exchange differences from the translation of provisions recognised in foreign subsidiaries with a functional currency other than PLN, applying the exchange rate at the end of the reporting period. The increase in the provisions caused an increase in deferred tax assets of PLN 59 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 2014 amounted to PLN 505 million/.

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

2. Deferred tax

As a result of a difference between the carrying amount and the tax base of statement of financial position items there was a change in the estimated value of the deferred tax assets and the deferred tax liabilities.

Deferred tax assets increased in the current quarter by PLN 41 million. The increase in deferred tax assets was settled as:

- an increase in profit of PLN 1 million,*
- an increase in other comprehensive income due to actuarial gains of PLN 20 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 of PLN 20 million,*

(an increase in deferred tax assets since the beginning of the financial year of PLN 90 million, which was settled as:

- an increase in profit* *PLN 17 million,*
- an increase in other comprehensive income due to actuarial gains and losses* *PLN 50 million,*
- an increase in other comprehensive income due to exchange differences from measurement of the deferred tax assets of subsidiaries with a functional currency other than PLN.* *PLN 23 million)*

A. Interim condensed consolidated financial statements (continued)

The deferred tax liabilities increased in the current quarter by PLN 174 million. The increase in deferred tax liabilities was settled as:

- a decrease in profit of PLN 37 million,
- an increase in other comprehensive income due to measurement of hedging financial instruments and available for sale financial assets of PLN 8 million,
- a decrease in other comprehensive income due to exchange differences from the measurement of the deferred tax liabilities of subsidiaries with a functional currency other than PLN of PLN 145 million.

(an increase in deferred tax liabilities since the beginning of the financial year of PLN 219 million. The increase in deferred tax liabilities was settled as:

- a decrease in profit PLN 61 million,
- an increase in other comprehensive income
due to measurement of hedging financial
instruments and available-for-sale financial assets PLN 7 million,
- a decrease in other comprehensive income
due to exchange differences from measurement
of the deferred tax liabilities of subsidiaries
with a functional currency other than PLN PLN 165 million).

After offsetting the deferred tax assets and deferred tax liabilities, in the statements of financial position at the level of subsidiaries as at 30 September 2014, the deferred tax assets were set at PLN 471 million, while the deferred tax liabilities at PLN 1 875 million.

III. Financial assets

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

- a) in investment in the Sierra Gorda S.C.M. joint venture accounted for using the equity method**
- an increase in the value of the investment of PLN 804 million, of which PLN 478 million relates to the acquisition of shares in the increased share capital, and PLN 326 million is a result of translation of the investment's value from the functional currency of the subsidiary (USD) to the presentation currency of the Group (PLN) applying a USD/PLN exchange rate at 30 September 2014 which was higher than the exchange rate at 30 June 2014 (a change from 3.0473 USDPLN to 3.2973 USDPLN),
 - a decrease in the value of investments due to the elimination of unrealised gains, proportionally to the Group's share, due to transactions between Group entities and Sierra Gorda S.C.M. of PLN 56 million,

/since the beginning of the year:

- an increase in the value of the investment of PLN 848 million, of which PLN 478 million relates to acquisition of shares in the increased share capital and PLN 370 million is a result of translation of the investments from the functional currency of the subsidiary (USD) to the presentation currency of the Group (PLN) applying a USD/PLN exchange rate at 30 September 2014 which was higher than the exchange rate at 31 December 2013 (a change from 3.012 USDPLN to 3.2973 USDPLN),
- a decrease in the value of investments due to the elimination of unrealised gains, proportionally to the Group's share, due to transactions between Group entities and Sierra Gorda S.C.M. of PLN 142 million/,

- b) in available-for-sale financial assets** - an increase in the value of the asset due to gains from measurement of PLN 28 million, recognised in other comprehensive income.

/since the beginning of the year - an increase in the value of the asset due to gains from measurement of PLN 183 million, recognised in other comprehensive income/,

- c) in derivatives (assets and liabilities)** - as a result of changes in macroeconomic factors, new transactions entered into on the currency and copper markets, the fair value of open positions in derivatives as at 30 September 2014 was increased. As a result of the measurement of derivatives as at 30 September 2014, the financial result for the third quarter of 2014 was increased in the amount of PLN 17 million. Simultaneously, in the reporting period, as a result of the settlement of derivative transactions falling in the third quarter of 2014 and the measurement of derivatives as at 30 September 2014, other comprehensive income decreased in the amount of PLN 77 million (excluding the deferred tax effect). As a result of realisation of derivatives, the financial result for the third quarter was increased in the amount of PLN 100 million (including: PLN 120 million was recognised in revenues from sales). For detailed information on derivatives of the Parent Entity see part C.III.5 of this report.

A. Interim condensed consolidated financial statements (continued)

- d) in **trade and other receivables** – an increase in the balance of receivables due to a loan granted to the Sierra Gorda S.C.M. in the amount of USD 105 million (PLN 345 million at the USD/PLN exchange rate of 3.2973 announced by the NBP as at 30 September 2014),

/since the beginning of the year an increase in the balance of receivables, mainly due to a loan granted to the Sierra Gorda S.C.M. in the amount of USD 467 million (PLN 1 541 million at the USD/PLN exchange rate of 3.2973 announced by the NBP at 30 September 2014) and PLN 320 million as a result of translation of receivables from the functional currency of the subsidiary (USD) to the presentation currency of the Group (PLN) applying a USD/PLN exchange rate at 30 September 2014 which was higher than the exchange rate at 31 December 2013 (a change from 3.012 USD/PLN to 3.2973 USD/PLN)/.

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 to fair value have not changed in comparison to the manner and techniques for measurement as at 31 December 2013.

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 and intangible assets

	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Purchase of property, plant and equipment	1 925	1 999
Purchase of intangible assets	405	164
Sale of property, plant and equipment, net	5	14

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

	At	
	30 September 2014	31 December 2013
Payables due to purchase of property, plant and equipment and intangible assets	362	423

Capital commitments not recognised in the consolidated statement of financial position

	At	
	30 September 2014	31 December 2013
Purchase of property, plant and equipment	2 963	2 711
Purchase of intangible assets	34	38
Total capital commitments:	2 997	2 749

A. Interim condensed consolidated financial statements (continued)

2. Sales

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Copper, nickel, precious metals, smelter by-products	4 610	12 980	4 568	15 375
Services	226	646	269	960
Energy	9	56	10	69
Merchandise – smelter products	92	237	149	437
Other merchandise	39	129	227	359
Scrap and materials	54	169	22	63
Other finished goods	158	499	223	723
Total sales	5 188	14 716	5 468	17 986

3. Expenses by nature

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Depreciation of property, plant and equipment and amortisation of intangible assets	403	1 196	449	1 143
Employee benefit expenses	1 166	3 463	1 143	3 427
Materials and energy	1 995	5 739	2 140	6 330
External services	453	1 337	574	1 801
Taxes and charges	506	1 491	557	1 833
including the minerals extraction tax*	383	1 131	442	1 463
Other costs	65	168	9	205
Total expenses by nature	4 588	13 394	4 872	14 739
Cost of merchandise and materials sold (+)	130	383	391	811
Change in inventories of finished goods and work in progress (+/-)	(59)	(493)	(232)	(335)
Cost of manufacturing products for internal use (-)	(393)	(1 059)	(313)	(813)
Total cost of sales, selling costs and administrative expenses	4 266	12 225	4 718	14 402

* The minerals extraction tax in the Parent Entity is calculated on the basis of the amount of copper and silver contained in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax is accounted for under basic product manufacturing costs and is not deductible for corporate income tax purposes.

A. Interim condensed consolidated financial statements (continued)

4. Other operating income

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Income and gains on financial instruments, classified under other operating activities, resulting from:	275	504	108	544
Measurement and realisation of derivatives	147	206	30	285
Interest	79	213	78	202
Foreign exchange gains/(losses)	49	49	(18)	1
Dividends received	-	35	-	37
Other	-	1	18	19
Management fee for Sierra Gorda S.C.M.	13	36	20	60
Release of unused provisions	21	24	13	17
Penalties and compensation	1	6	5	11
Government grants and other donations received	2	6	2	8
Other operating income/gains	16	62	12	42
Total other operating income	328	638	160	682

5. Other operating costs

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Costs and losses on financial instruments, classified under other operating activities, resulting from:	148	319	79	703
Measurement and realisation of derivatives	151	314	56	493
Interest	-	1	-	-
Foreign exchange (gains)/losses	(6)	-	25	25
Impairment losses on financial assets	2	3	(1)	182
Other	1	1	(1)	3
Losses on the sale of property, plant and equipment	(1)	9	19	33
Donations granted	1	18	-	17
Provisions for liabilities	26	37	7	17
Other operating costs/losses	6	33	11	31
Total other operating costs	180	416	116	801

A. Interim condensed consolidated financial statements (continued)

6. Finance costs

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Interest expense:	40	117	35	104
On bonds	29	88	31	93
On bank and other loans and finance leases	11	29	4	11
Foreign exchange losses/(gains) on borrowings	70	62	(16)	13
Changes in provisions and liabilities arising from the approach of the maturity date of liabilities (unwinding of discount effect)	7	31	5	31
Other finance costs	11	17	15	22
Total finance costs	128	227	39	170

7. Borrowings, debt securities and finance lease liabilities

	At	
	30 September 2014	31 December 2013
Non-current	2 392	1 714
Bank loans *	697	162
Loans	4	5
Debt securities**	1 661	1 513
Finance lease liabilities	30	34
Current	1 949	1 215
Bank loans*	1 893	1 186
Loans	3	3
Debt securities - interest	38	9
Finance lease liabilities	15	17
Total	4 341	2 929

* The increase in the carrying amount of bank loans is in particular due to an increase in bank loans drawn by KGHM Polska Miedź S.A. as described in part C.III.6 of this report, and to an increase in bank loans drawn by KGHM INTERNATIONAL LTD., which is related to its use of an open line of credit and as at 30 September 2013 it amounted to PLN 554 million (USD 168 million) in credit drawn.

** The change in the carrying amount of the senior notes issued by KGHM INTERNATIONAL LTD. is a result of translation of the senior notes from the functional currency of KGHM INTERNATIONAL LTD. (USD) into the presentation currency of the Group (PLN), applying a USD/PLN exchange rate at 30 September 2014 which was higher than the exchange rate at 31 December 2013 (a change from 3.012 USDPLN to 3.2973 USDPLN).

8. Related party transactions

Operating income from related entities

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
From associates and joint ventures, due to:	88	237	91	230
- Interest income on a loan granted to Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD.	75	201	70	168
- Agreement to render services to support the process of management of Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD.	13	36	20	60
From other related entities	1	11	-	14
Total operating income from related entities	89	248	91	244

A. Interim condensed consolidated financial statements (continued)

Purchases from related entities	Reporting period			
	for the 3 months ended 30	for the 9 months ended 30	for the 3 months ended 30	for the 9 months ended 30
	September 2014	September 2014	September 2013	September 2013
From joint ventures	1	1	-	-
From other related entities	2	18	5	28
Total purchases from related entities	3	19	5	28

Trade and other receivables from related entities	At	
	30 September 2014	31 December 2013
From jointly-controlled entity Sierra Gorda S.C.M. – due to loan granted	5 239	3 378
From associates	-	1
From other related entities	5	2
Total receivables from related entities	5 244	3 381

Trade and other payables towards related entities	At	
	30 September 2014	31 December 2013
Towards other related entities	4	6
Total payables towards related entities	4	6

Contingent liabilities	At	
	30 September 2014	31 December 2013
Guarantees granted to secure a contract for the supply of electricity, and to secure lease liabilities of the Sierra Gorda S.C.M. project	828	414
Security granted by KGHM INTERNATIONAL LTD. for the payment of future environmental liabilities of the Robinson mine	256	184
Total contingent liabilities	1 084	598

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 2014 to 30 September 2014 amounted to PLN 588 million (for the period from 1 January to 30 September 2013 – PLN 796 million), and the unsettled balance of liabilities from these transactions as at 30 September 2014 amounted to PLN 209 million (as at 31 December 2013 - PLN 36 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN '000)	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	1 150	761
Total	1 150	761

A. Interim condensed consolidated financial statements (continued)

Remuneration of the Management Board of the Parent Entity (in PLN '000)	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Salaries and other current employee benefits	8 306	7 001
Benefits due to termination of employment	721	-
Total	9 027	7 001

Remuneration of other key management personnel (in PLN '000)	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Salaries and other short-term employee benefits	4 295	4 201
Total	4 295	4 201

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

The value of contingent assets and liabilities and liabilities not recognised in the statement of financial position were determined based on estimates.

	At 30 September 2014	Increase/(decrease) since the end of the last financial year
Contingent assets	514	(15)
Guarantees received	244	(4)
Disputed State budget issues	22	-
Promissory notes receivables	109	(17)
Inventions, implementation of projects	47	3
Real estate tax on mining facilities	87	-
Other	5	3
Contingent liabilities	1 703	811
Guarantees and collateral, of which:	1 418	798
Guarantees granted to secure a contract for the supply of electricity, and to secure lease liabilities of the Sierra Gorda S.C.M. project	828	414
Security on the liabilities of the Parent Entity to cover the costs of decommissioning of the Żelazny Most tailings pond	320	320
security granted by KGHM INTERNATIONAL LTD. for the payment of future environmental liabilities of the Robinson mine	256	72
Promissory note liabilities	2	(13)
Disputed issues, pending court proceedings	51	(23)
Liabilities due to implementation of projects and inventions	151	28
Real estate tax on mining facilities	63	21
Other	18	-
Liabilities not recognised in the statement of financial position	352	44
Liabilities towards local government entities due to expansion of the tailings pond	228	41
liabilities due to operating leases	124	3

A. Interim condensed consolidated financial statements (continued)

V. Realisation of the Strategy

KGHM Polska Miedź S.A. is consistently executing its approved development strategy. Parent Entity's key development initiatives are focused on three strategic areas:

1. improving the efficiency of the core copper production business,
2. securing access to the resource base,
3. projects in the energy sector, mainly in the power generation segment.

Taking into account the achievements to date regarding execution of the adopted Strategy of KGHM Polska Miedź S.A. and mobilisation of internal resource potential, as well as the macroeconomic challenges faced by the global mining sector, KGHM Polska miedź S.A. continued work related to a comprehensive strategic analysis of the perspectives for further growth and enhancing the value of the KGHM Polska Miedź S.A. Group. The conclusions derived from this analysis will form the basis for defining the foundations of the Parent Entity's new vision and for the preparation of an updated version of the KGHM Polska Miedź S.A. Group's strategy.

1. Improving productivity

Following is a description of initiatives which are important for the development of KGHM Polska Miedź S.A. These initiatives are aimed at reducing production costs mainly through the implementation of innovative and efficient technological solutions in mining and metallurgy.

Mining development projects currently underway regarding the mechanical mining of ore:

- „Development and implementation of mechanical mining in the conditions prevalent in the mines of KGHM Polska Miedź S.A.” During the reporting period work begun in 2013 was continued involving operational trials using the ACT mining complex in a prepared pilot section of the Polkowice-Sieroszowice mine. There were negotiations with Caterpillar, the project's business partner, aimed at implementing technical improvements and eliminating operational problems involving the ACT complex as well as associated elements. Once the required modifications to the ACT complex are implemented, operational testing will be continued in 2015.
- „Drilling of the drifts using combines”. During the reporting period in the Polkowice-Sieroszowice mine, as part of the work to access the „Głógów Głęboki Przemysłowy” (Deep Głógów) deposit, mine drift preparatory work begun in 2013 was continued using a team of three combines. Simultaneously, experience was gained and technical and economic assessments of the applied technology were being realised. Also, work related to optimising the technical and organisational structure of the combine section was performed. The results obtained to date confirm achievement of the goals set for the project, related to the development of technology for the mechanical mining of ore in conditions prevalent in the mines of KGHM Polska Miedź S.A.
- „Mechanised complex for the mining of copper ore by KGHM”. On 1 October 2014, KGHM Polska Miedź S.A. signed a contract with KOPEX Machinery SA, a Polish producer and supplier of mining machinery and equipment, regarding cooperation in the development and implementation of a prototype of a mechanised copper ore mining complex. This contract will be executed in three stages: designing of the prototype complex, construction of the prototype mining complex and testing. The value of the signed contract is PLN 47.8 million. Completion of the work on the project is expected by the end of 2019. This is a project of world-class innovation for the mining industry. At the same time, this project represents an alternative to the ongoing project being pursued by KGHM Polska Miedź S.A. in cooperation with Caterpillar.

Development projects currently underway regarding the smelter infrastructure modernisation:

- „Pyrometallurgy Modernisation Program at the Głógów Smelter”. With respect to construction of the flash furnace at Głógów I, contracts were signed for the main equipment of the production line. Construction is in progress on the main elements of the Flash Furnace production line, including construction of the Flash Furnace Hall complex, supports for the Recovery Boiler, renovation of the Converter Hall, the Power Switching Station for the main facilities and installations as well as the Electrical Furnace slag pouring unit. Work continues on assembling the Flash Furnace and Electrical Furnace. At the same time work on installation design is continuing as well as the contracting for construction-assembly services for the individual elements of the production line.

The updated budget for the Pyrometallurgy Modernisation Program project is PLN 2.1 billion. The completion of all deliveries and construction and assembly work necessary to commission the Flash Furnace (including sending copper concentrate through the modernised Flash Furnace installation) is planned by 1 October 2016. The above do not affect the continuity of metallurgical production by KGHM Polska Miedź S.A. during realisation of the investment.

A. Interim condensed consolidated financial statements (continued)

The changes in execution of the project are related to prolongation of the design process, which is impacted by a change in geological-mining conditions in the Polish mines of KGHM Polska Miedź S.A. and the resulting calorific value of the copper concentrates produced by the concentrating plants, resulting in the need to adapt and optimise the technology and processes adopted for the modernised metallurgical infrastructure.

Due to the need to reduce the calorific value of the concentrates processed by eliminating excess organic elements in the concentrates produced, the Management Board of KGHM Polska Miedź S.A. has resolved to build a concentrates roasting installation at the Głogów I plant with associated infrastructure. This roasting installation will enable all of the concentrates produced by KGHM in Poland to be smelted in the installations of Głogów I, Głogów II and Legnica, as well as the possibility to substantially increase the processing of imported concentrates. The estimated CAPEX for this investment is around PLN 250.6 million.

As part of Stage II of intensifying concentrate processing at the Głogów II plant, construction and assembly work continued on the modernised production units. The scrubber was installed, and final work is in progress on the Sulphuric Acid Warehouse and 110/6kV GSTII Power Station. Completion of this work is planned in the fourth quarter of 2014.

Research and innovations aimed at improving the productivity of the core production line

- „CuBR Sector Program” is performed on the basis of an agreement signed in 2012 and an executory contract signed in 2013 between the National Centre for Research and Development and KGHM Polska Miedź S.A., involving the support of scientific research and development work for the non-ferrous metals industry. While this venture encompasses the full scope of the mining industry, its goal is to increase the competitiveness of the Polish economy, and to support the development potential of Polish science and industry. Pursuing projects involving the challenges related to the production line of KGHM Polska Miedź S.A. through scientific-industrial consortiums enables the selection of promising watershed ideas for KGHM Polska Miedź S.A. in terms of technology or innovative equipment to improve the production line, and also enables the development of new, profitable materials and products which can be utilised by the Parent Entity. The agreement is in force for a period of 10 years, with a program budget of PLN 200 million, with each of the parties having a 50% interest.

Based on the first edition of the competition commenced in January 2014, with a budget of PLN 40 million, four research projects aimed at developing innovative, groundbreaking technologies were accepted for implementation. Work continues related to entering into agreements for the execution and financing of execution of the projects which are a part of the CuBR program. In July 2014, the second edition of the competition was inaugurated with a budget of PLN 65 million. This competition will be concluded by the end of 2014. The next competition is planned to be announced and concluded in 2015.

A. Interim condensed consolidated financial statements (continued)

2. Development of the resource base

With respect to actions to secure the resource base, KGHM Polska Miedź S.A. carried out projects aimed at exploring the resource base in the region, i.e. south-west Poland and in the area of Lusatia (Saxony in Germany), and developing the Company's mining assets.

In the case of the KGHM INTERNATIONAL LTD. Group, a key achievement was the commencement of production by the Sierra Gorda mine in Chile. In addition, work continued on advancing the Victoria and Afton-Ajax projects, as well as exploration in areas directly adjacent to mining assets.

The main resource projects being pursued in the region are:

– Gaworzyce – Radwanice

Work continued on documenting the deposit, aimed at calculating resources of copper ore along with associated elements. All of the documentation work will be collected as part of the geological documentation of the Gaworzyce-Radwanice deposit in the fourth quarter of 2014. Demonstrating the possibilities of mining the copper ore deposit in this region may enable prolongation of the life of the Polkowice-Sieroszowice mine

– Synklina Grodziecka

As part of the exploration work being performed in the Synklina Grodziecka concession, located within the so-called Old Copper Belt near Bolesławiec, work continued under stage II of the project. By the end of September 2014, 17 of the planned 18 drillholes had been executed. Completion of all planned drillholes is scheduled in the fourth quarter of 2014.

– Stojanów

Documentation work commenced, based on reinterpretation of the archival geological and geophysical data on the Stojanów deposit, under the concession for exploration of the copper-silver ore deposit in this area, which was received in May 2014. The Stojanów area is an extension into Poland of the geological structures located within the Weisswasser area.

– Retków Ścinawa and Głogów

With respect to work on exploration projects in the areas of Retków Ścinawa and Głogów, for which KGHM Polska Miedź S.A. received a concession in 2013, preparatory and organisational work was performed prior to the planned commencement of geological work.

– Bytom Odrzański and Kulów-Luboszyce

On 29 July 2014, as a result of the appeal proceedings, on the basis of requests submitted by KGHM Polska Miedź S.A. to re-hear the matter, the Minister of the Environment issued decisions reversing in entirety the decisions issued on 28 January 2014 which:

- declined to grant a concession for the exploration and assessment of the Bytom Odrzański copper ore deposit,
- granted concession no. 5/2014/p for the exploration of the Kulów-Luboszyce copper ore deposit, in that part covered by the request of KGHM Polska Miedź S.A.

A competing company submitted a claim against the aforementioned decisions of the Minister of the Environment dated 29 July 2014 to the Regional Administrative Court.

– Weisswasser

With respect to work on the Weisswasser Project (Saxony in Germany) performed by KGHM Kupfer AG, a 100% subsidiary of KGHM Polska Miedź S.A. - in the third quarter of 2014 the first phase of stage II of the project was completed. The data from seismic measurements enabled planning for subsequent steps in the Weisswasser project. A single drillhole and geophysical measurements in the area of the Weisswasser II concession are planned for the next phase of this stage. In September 2014, KGHM Polska Miedź S.A. decided to acquire shares in the increased share capital of KGHM Kupfer AG in the amount of EUR 2 million. This capital will be used to finance planned exploration.

– Zatoka Pucka

On 1 October 2014, the Minister of the Environment granted concession no. 28/2014/p to KGHM Polska Miedź S.A. for the exploration for and assessment of deposits of potassium-magnesium salt in the vicinity of Puck together with associated minerals: copper and silver ore and rock salt. This concession is not yet legally binding.

A. Interim condensed consolidated financial statements (continued)

With respect to the development of mining assets outside Poland, KGHM Polska Miedź S.A. continued key mining projects realised through KGHM INTERNATIONAL LTD:

– the Sierra Gorda Project in Chile (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%)

On 30 July 2014 the Sierra Gorda mine in Chile started production. Full production capacity planned for the first phase of the project, allowing for the production of 120 thousand tonnes of copper (processing of 110 thousand tonnes of ore daily) is scheduled to be achieved in 2015.

On 4 August 2014, the Supreme Court of Chile issued a final and favorable judgment in a case concerning compliance with environmental laws to transport copper concentrate from Sierra Gorda to the Port of Antofagasta. The judgment recognized that the Sierra Gorda project has been permitted in compliance with Chilean environmental laws.

On 25 October 2014, the first shipment to the Toyo Smelter and Refinery (with approx. 6 thousand tonnes of copper concentrate from the Sierra Gorda mine) left the Port of Antofagasta.

The CAPEX at completion, reflecting savings achieved, including from the mining equipment leasing program, amounted to USD 4.2 billion, compared with the March 2013 estimate of USD 3.9 billion. The majority of the cost increase was due to external market factors, such as price inflation in the raw materials used for construction as well as increased labor costs and higher civil engineering standards required for mine infrastructure. Internal factors include a higher amount of materials used, a higher number of work hours at the site and Management actions taken to achieve the highest level of safety on the construction site and at targeted operations.

Within the project's framework technical optimizations were implemented in the current period, which allowed an increase in Sierra Gorda project reserves from 1.275 billion tonnes @ 0.39% Cu, 0.024% Mo and 0.065 g/t Au to 1.463 billion tonnes @ 0.40% Cu, 0.020% Mo and 0.065 g/t Au. As a result, the Sierra Gorda mine's life was extended by 3 years and the mine is projected to operate for a 23 year period.

As for the preparation of the second phase of the project, aimed at achieving the planned production capacity of the processing plant, engineering work related to the development of the processing plant infrastructure was performed.

To determine the potential for increasing the value of the Sierra Gorda project, promising areas of mineralisation which are adjacent to Sierra Gorda have been identified. Exploratory and assessment work will be conducted in these areas. A value creation plan has also been implemented, in which initiatives aimed at enhancing efficiency and reducing mining operating costs have been defined. Due to the excellent solar conditions in northern Chile, the possibility of generating energy from photovoltaic farms is currently being analysed, which would enable the partial coverage of the power needs of the Sierra Gorda mine under favourable pricing terms.

In addition, work continued on the Sierra Gorda Oxide project, which foresees the processing of the oxide ore set aside during construction and development of the Sierra Gorda mine in an installation for recovering metal using SX/EW technology. In the first quarter of 2014, testing began on the leaching of material stored in heaps on a semi-industrial scale, comprising 18 thousand tonnes of high-grade copper ore and 8 thousand tonnes each of medium and low grade copper ore. Stacking tests are also being conducted.

– Victoria Project in the Sudbury Basin of Canada (KGHM INTERNATIONAL LTD.100%)

Work was continued on the adit for the first mine shaft. In addition, work continued on an Integrated Development Study (equivalent to a Feasibility Study) for the Victoria project, one of whose elements is a detailed project schedule and operational plan. The Project foresees the construction of an underground mine enabling the extraction of a polymetallic ore rich in copper, nickel and precious metals (mainly platinum and gold).

– Afton-Ajax Project in Canada (KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%)

At present engineering work is in progress, reflecting changes in the siting of selected mine facilities, in accordance with the new mine plan published in May 2014. Exploration is also being conducted in the vicinity of the planned pit, aimed at identifying additional geological potential, which would enable prolongation of mine life and increase the project's economic value. Work continued on preparing environmental permit applications, which are expected to be submitted in the first half of 2015.

A. Interim condensed consolidated financial statements (continued)

3. Projects in the energy sector

With respect to increasing energy production for its own needs, KGHM Polska Miedź S.A. continued projects whose execution will secure the Parent Entity's energy needs, and will diversify the generation portfolio and substantially reduce the Parent Entity's exposure to risks associated with climate policy and changes in fuel and electricity prices.

"Construction of a research installation for the underground gasification of brown coal in the Legnica-Głogów Copper Belt (LGOM)".

Comprehensive analysis and interpretation of the results of geological work and specialty and laboratory research was performed. Deposit selection criteria were developed as well as algorithms for assessing the deposit in terms of the technical possibilities of advancing the UCG (Underground Coal Gasification) project, taking into account the susceptibility of the brown coal to gasification and the existing geological conditions. Work was performed related to setting the schedule for further geological work (Stages III and IV) which foresees the conducting of hydrogeological research and the modeling of conditions related to the coal gasification process. The work performed in the third quarter was focused on the hydrogeological research.

With respect to cooperation with partners from the energy sector, KGHM Polska Miedź S.A. continued to participate in the realization of the most important energy projects on a national scale. It is expected that participation in these projects will lead to secure energy supplies for the Parent Entity at an optimum price.

– One of the most important energy projects is the "preparation for the construction and operation of the first Polish nuclear power plant".

On 3 September 2014, a Shareholders Agreement was signed between KGHM Polska Miedź S.A., Polska Grupa Energetyczna S.A. ("PGE"), TAURON Polska Energia S.A. and ENEA S.A., according to which KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A., as Business Partners, will acquire from PGE a total of 30% of the shares, on the basis of a separate agreement (each Business Partner will acquire 10% of the shares) in the special purpose company – PGE EJ 1 sp. z o.o. This company is responsible for the preparation and execution of the investment to build and operate the first Polish nuclear power plant with a capacity of approx. 3 000 MWe. According to the assumptions, the PGE Group will be the Project Leader and the company PGE EJ 1 sp. z o.o. will be the power plant's operator.

According to the Shareholders Agreement, the parties are obliged, proportionally to their interest, to fund activities of the initial phase of the Project. The Initial Phase's objective is to determine such elements as potential partners, including the strategic partner, technology suppliers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel suppliers and acquiring funds for the Project, as well as preparing PGE EJ 1 sp. z o.o. organisationally and in terms of the skills required for its role as the nuclear power plant's future operator, responsible for its safe and efficient operation.

On 8 October 2014, KGHM Polska Miedź S.A. was informed of the decision of the President of the Office of Competition and Consumer Protection (Prezes Urzędu Ochrony Konkurencji i Konsumentów) regarding an application for concentration. Following the antimonopoly proceedings which were initiated at the request of KGHM Polska Miedź S.A., PGE, TAURON Polska Energia S.A. and ENEA S.A., the President of the Office of Competition and Consumer Protection granted unconditional approval to carry out this concentration, based on establishment of the joint undertaking PGE EJ 1 Sp. z o.o. by the Applicants. Entering into the purchase agreement for the shares of PGE EJ 1 sp. z o.o. by the Parties was contingent on receiving approval for the concentration, as set forth in the Shareholders Agreement.

The Parties to the Shareholders Agreement expect that subsequent decisions concerning the Project, including a decision on the further participation of each Party (including KGHM Polska Miedź S.A.) in the next stage of the Project, will be made after the end of the Initial Phase, directly before the conclusion of the Integrated Proceedings.

A. Interim condensed consolidated financial statements (continued)

VI. KGHM INTERNATIONAL LTD. – results

Production results by individual mines of KGHM INTERNATIONAL LTD. in the third quarter of 2014 and the third quarter of 2013.

	Reporting period	
	for the 3 months ended 30 September 2014	for the 3 months ended 30 September 2013
Copper production [kt], of which:	22.1	21.3
Robinson ⁽¹⁾	9.9	8.4
Morrison ⁽³⁾	3.9	4.7
Franke ⁽²⁾	5.3	5.8
Carlota ⁽²⁾	2.6	2.0
Podolsky ⁽³⁾	0.0	0.2
McCreedy West ⁽³⁾	0.3	0.1
Nickel production [kt], of which:	0.7	1.0
Morrison ⁽³⁾	0.7	0.7
McCreedy West ⁽³⁾	0.0	0.3
Precious metals production (gold, platinum, palladium) [koz], of which:	17.1	21.5
Robinson ⁽¹⁾	5.4	7.5
Morrison ⁽³⁾	10.6	12.9
Podolsky ⁽³⁾	0.0	0.5
McCreedy West ⁽³⁾	1.1	0.6
C1 [USD/lb]*	2.25	2.41

(1) payable metal produced in concentrate

(2) 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 2014, copper production in KGHM INTERNATIONAL LTD. amounted to 22.1 thousand tonnes, meaning a four percent increase versus the comparable period of 2013. Achievement of a higher level of production was due to the continued optimisation of processing at the Robinson mine, based on the appropriate selection of ore mix for processing. This procedure led to improved production parameters, compared not only to the third quarter of last year but also, above all, to the first quarter of 2014, during which the mine had to deal with problems of a geological and technological nature (as announced by the Parent Entity in its reports for the first quarter and first half of 2014).

In the third quarter of 2014, the C1 unit cash cost of copper production for all of the operations of the KGHM INTERNATIONAL LTD. Group amounted to 2.25 USD/lb, meaning a seven percent lower cost versus the amount recorded a year earlier. The main reason for this improved cost position is the increase in copper production and the improvement in processing parameters at the Robinson mine. The improvement in this regard was so pronounced that the C1 cost was reduced despite the negative impact of byproducts (lower prices and a lower volume of precious metals sales).

A. Interim condensed consolidated financial statements (continued)

Financial results of the KGHM INTERNATIONAL LTD. Group in the third quarter of 2014 versus the third quarter of 2013 (excluding the adjustment due to purchase price allocation).

	Reporting period			
	for the 3 months ended 30 September 2014		for the 3 months ended 30 September 2013	
	PLN million	USD million	PLN million	USD million
Net revenues from sales*	657	207	709	224
Operating costs	671	211	722	227
Operating profit	88	28	107	34
Profit (loss) for the period	37	12	44	14
Amortisation/Depreciation	128	40	155	49
Expenditures on property, plant and equipment and intangible assets	228	72	141	44
EBITDA (operating profit plus depreciation/amortisation)	216	68	262	83

* Revenues from sales less TC/RC charges

In the third quarter of 2014, the KGHM INTERNATIONAL LTD. Group recorded a decrease in revenues from sales of PLN 52 million, or by 7% versus the comparable period of 2013 (USD 17 million, or by 8%). The decrease in revenues in the third quarter of 2014 expressed in USD was mainly due to:

- the decline in copper prices – in yearly terms there was a decrease in the average realised copper price from 7 253 USD/t in the third quarter of 2013 to 6 856 USD/t in the third quarter of 2014.
- the decrease in mining services – due to the situation on the mining services market and to the completion of some important contracts in 2013, the revenues earned by DMC Mining Services, a subsidiary of KGHM INTERNATIONAL LTD., were significantly lower than those recorded a year earlier (a decrease by USD 18 million),
- the decrease in precious metals production – the decrease in volume by 20%, or by 4.4 thousand ounces, resulted in a lower value of sales.

Revenues were positively impacted by an increase in the production and sales volume of copper.

Basic operating costs were lower by PLN 51 million (USD 16 million) mainly due to the lower scope of mining services provided by DMC Mining Services, lower ore extraction due to the halting of nickel production (McCreedy West) and a favourable exchange rate impact (Franke, Morrison).

Profit from other operating activities amounted to PLN 103 million (USD 32 million), which was at a level similar to that achieved in the third quarter of 2013. The above amount, in USD terms, is mainly interest on loans granted to finance the Sierra Gorda project in Chile in the amount of USD 23 million (USD 22 million in the third quarter of 2013). The aforementioned factors were the main cause of the decrease in EBITDA by PLN 46 million, or by 18% (USD 15 million, or by 17%) versus the corresponding period in 2013.

EBITDA, as in the case of most economic and financial ratios, is not defined under International Financial Reporting Standards. EBITDA presented in the above table for the third quarter of 2014 (USD 68 million) is significantly different from the adjusted EBITDA published by KGHM INTERNATIONAL LTD. (USD 39 million). Under the methodology applied by KGHM Polska Miedź S.A., this ratio is calculated as operating profit plus amortisation/depreciation, while the basis for calculating EBITDA in KGHM INTERNATIONAL LTD. is profit from mining operations adjusted by amortization/depreciation, general and administrative costs and other events of an unusual nature. The main difference concerns the accrued interest on the loans granted to Sierra Gorda S.C.M.

In the third quarter of 2014, the KGHM INTERNATIONAL LTD. Group continued to advance its mining projects, including the Sierra Gorda project in Chile and the exploration project Victoria in the Sudbury Basin in Canada. Information regarding the projects being advanced by KGHM INTERNATIONAL LTD. may be found in part A.V.2 of this report.

A. Interim condensed consolidated financial statements (continued)

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. 5/2014 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 23 June 2014, the amount of PLN 1 billion, representing PLN 5.00 per share, was allocated from 2013 profit as a dividend.

The right to dividend date was set at 8 July 2014 with payment of the dividend in two instalments: on 18 August 2014 in the amount of PLN 2.50 per share, and on 18 November 2014 in the amount of PLN 2.50 per share.

All shares of the Parent Entity are ordinary shares.

X. Operating segments

The Parent Entity and the KGHM INTERNATIONAL LTD. Group (a subgroup) comprise the bulk of the Group's assets and are also the main sources of revenues in the KGHM Group. The main focus of KGHM Polska Miedź S.A. is on the mining industry in Poland, while that of the KGHM INTERNATIONAL LTD. Group is on the mining industry in the countries of North and South America. The profile of activities of the majority of remaining subsidiaries of the KGHM Polska Miedź S.A. Group differs from the main profile of activities of the Parent Entity.

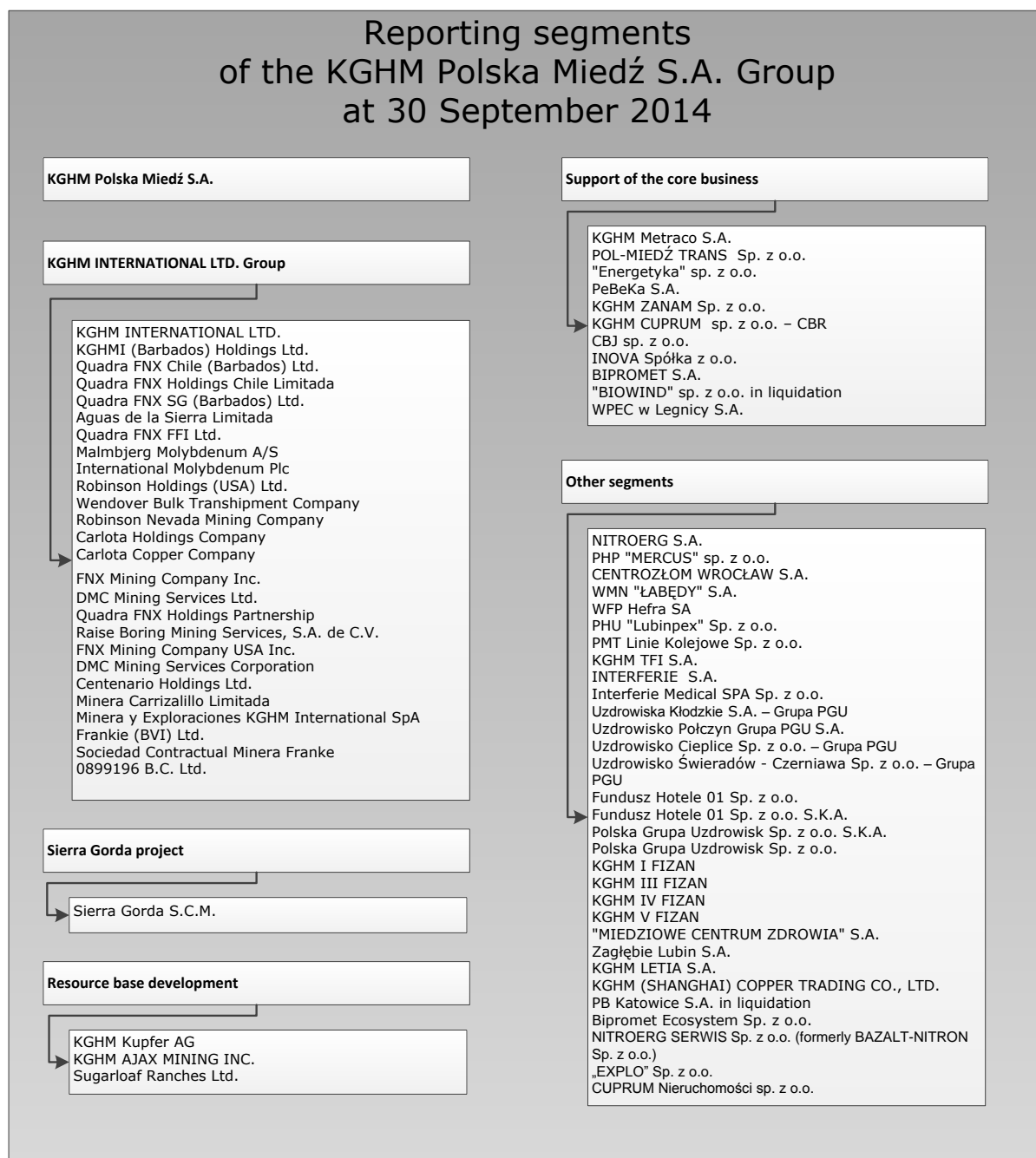
In the adopted model for managing the Group's structure, and also taking into account the principles of IFRS 8, as well as the usefulness of the information to users of the financial statements, five main operating segments were identified which are analysed in detail by management bodies. The identified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

- KGHM Polska Miedź S.A. - this segment comprises KGHM Polska Miedź S.A.,
- KGHM INTERNATIONAL LTD. Group, - this segment comprises companies of the KGHM INTERNATIONAL LTD. Group,
- Sierra Gorda project - this segment comprises the joint venture Sierra Gorda S.C.M.,
- resource base development - this segment comprises companies involved in the exploration for and evaluation of minerals resources, companies intended to carry out mining,
- support of the core business - this segment comprises companies directly related to the core business of the Parent Entity*.
- other business segments included companies of the Group not related to the mining industry.

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

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

A. Interim condensed consolidated financial statements (continued)



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.

KGHM Polska Miedź S.A.
Consolidated quarterly report with quarterly financial information prepared in accordance with IAS 34
for the period from 1 July 2014 to 30 September 2014
(amounts in tables in PLN million, unless otherwise stated)

A. Interim condensed consolidated financial statements (continued)

	Reporting period for the 9 months ended 30 September 2014								
	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	11 843	1 653	-	-	3 430	1 827	-	(4 037)	14 716
Inter-segment sales	201	-	-	-	3 138	737	-	(4 076)	-
External sales	11 642	1 653	-	-	292	1 090	-	39	14 716
Operating costs	(9 341)	(1 726)	-	(3)	(3 367)	(1 804)	(66)	4 082	(12 225)
Depreciation/Amortisation	(629)	(330)	-	(1)	(122)	(52)	(67)	5	(1 196)
Operating profit/(loss)	2 499*	182*	-	(1)	81*	192*	(66)	(174)	2 713
Profit/(loss) before income tax	2 403	47	-	(1)	73	187	(64)	(160)	2 485
Income tax expense	(655)	(5)	-	(1)	(19)	(9)	12	(28)	(705)
Profit/(loss) for the period	1 748*	42*	-	(2)	54*	178*	(52)	(188)	1 780
	At 30 September 2014								
Segment assets, including:	31 579	13 837	10 708	574	2 872	2 186	(7 832)	(14 977)	38 947
Investments accounted for using the equity method	33	1 987**	-	-	-	2	2 404	-	4 426
Liabilities	7 771	4 760	8 501	48	1 044	582	(7 399)	(824)	14 483
	Reporting period for the 9 months ended 30 September 2014								
Other information									
Expenditures on property, plant and equipment and intangible assets	1 573	558	2 745	110	97	55	(2 745)	(8)	2 385
EBITDA (operating profit plus depreciation/amortisation)	3 128	512			203				
% of sales to KGHM Polska Miedź S.A.					86%				
Production and cost data									
Payable copper (kt)	429.1	63.6							
- including from purchased copper-bearing materials (kt)	117.0	-							
Nickel (kt)	-	2.4							
Molybdenum (kt)	-	0.3							
Silver (t)	930.1	1.4							
Gold (k troz)	52.5	22.5							
Platinum (k troz)	-	8.2							
Palladium (k troz)	-	20.2							
C1 cash cost of copper in concentrate production (USD/lb)****	1.82	2.31							

„Adjustment restating to measurement/principles under IFRS” – respecting adjustment to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 30 September 2014 for the items in the consolidated statement of financial position and from 1 January to 30 September 2014 for the items in the consolidated statement of profit or loss.

* result analysed in a given segment

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

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

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

KGHM Polska Miedź S.A.
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for the period from 1 July 2014 to 30 September 2014
(amounts in tables in PLN million, unless otherwise stated)

A. Interim condensed consolidated financial statements (continued)

Information on segments for the comparable period

Reporting 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 31 December 2013									
Segment assets, including:	29 038	11 270	7 381	484	2 647	2 365	(4 726)	(13 994)	34 465
Investments accounted for using the equity method	32	1 488**	-	-	-	2	2 198	-	3 720
Liabilities	5 740	3 652	5 828	33	1 234	573	(4 727)	(932)	11 401

Other information

Reporting period for the 9 months ended 30 September 2013

Expenditures on property, plant and equipment and intangible assets	1 489	332	2 564	70	185	68	(2 546)	(35)	2 127
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EBITDA

(operating profit plus depreciation/amortisation)

3 742

692

169

% of sales to KGHM Polska Miedź S.A.

81%

Production and cost data

Payable copper (kt)	417.5	76.4
- including from purchased copper-bearing materials (kt)	113.1	-
Nickel (kt)	-	3.3
Molybdenum (kt)	-	0.4
Silver (t)	864.2	2.0
Gold (k troz)	22.5	43.7
Platinum (k troz)	-	9.3
Palladium (k 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 to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 31 December 2013 for the items in the consolidated statement of financial position and from 1 January to 30 September 2013 for the items in the consolidated statement of profit or loss.

* result analysed in a given segment

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

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

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

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.

	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Poland	3 574	3 649
Germany	2 691	3 430
China	1 680	1 958
The United Kingdom	1 158	1 943
The Czech Republic	1 105	1 287
Canada	568	905
Italy	526	546
France	522	561
Hungary	477	578
Turkey	380	376
Switzerland	302	329
The USA	286	939
Austria	182	210
Japan	147	160
Belgium	139	150
Slovakia	85	82
Bulgaria	49	37
Netherlands	42	17
Finland	33	8
Slovenia	23	29
Bosnia and Herzegovina	17	26
Ukraine	16	23
South Korea	9	89
Denmark	1	86
Other countries (dispersed sale)	704	568
Total	14 716	17 986

Main customers

During the period from 1 January 2014 to 30 September 2014, and in the comparable period, the revenues from no single customer exceeded 10% of the revenues of the Group.

70.84% of the Group's non-current assets (property, plant and equipment and intangible assets) are located in Poland. The remaining 29.16% of the non-current assets are located in the following countries: Canada – 16.90%; the USA – 6.21%; Chile – 2.49%; other countries – 3.56%.

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.

Changes during the period from 1 July 2014 to 30 September 2014

Changes in the Group structure in the third quarter of 2014, i.e.:

- accounting for the liquidation of KGHM Kuferhandelsges m.b.H.i.L.,
- acquisition of EXPLO Sp. z o.o.,
- establishment of CUPRUM Nieruchomości sp. z o.o.,

did not have a significant impact on these consolidated financial statements.

A. Interim condensed consolidated financial statements (continued)

Changes during the period from 1 January 2014 to 30 June 2014

Combination of jointly controlled companies

On 21 January 2014 the General Meeting of KGHM Metraco S.A. and the General Meeting of KGHM Ecoren S.A. decided to combine the companies through the acquisition of KGHM Ecoren S.A. by KGHM Metraco S.A. KGHM Polska Miedź S.A. owned 100% of the shares in both companies at the moment the decision to combine the companies was made. On 31 January 2014 an entry about the combination was made in the National Court Register. After the combination, KGHM Polska Miedź S.A. remains the owner of 100% of the shares of KGHM Metraco S.A., as it acquired all of the newly-issued shares in the increased share capital of KGHM Metraco S.A., covering them with the assets of KGHM Ecoren S.A. As at the date of combination KGHM Metraco S.A. continued the activities previously carried out by KGHM Ecoren S.A. Due to the finalised transaction's character (the combination of entities under common control) it did not have a significant impact on the Group's consolidated financial statements as at 30 June 2014.

On 22 January 2014 there was a combination of subsidiaries of the KGHM INTERNATIONAL LTD. Group: Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd., and subsequently their acquisition by Centenario Holdings Ltd. These actions were undertaken in order to simplify the KGHM INTERNATIONAL LTD. Group structure by dissolving subsidiaries whose activities are not related to the core business operations of KGHM INTERNATIONAL LTD. As at 30 June 2014, this transaction did not have a significant impact on the consolidated financial statements of the Group.

Acquisition of employee shares

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

- Uzdrowiska Kłodzkie S.A. – Grupa PGU, representing 6.60% of the company's share capital,
- Uzdrowisko Połczyn Grupa PGU S.A., representing 6.36% of the company's share capital,
- Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, representing 4.71% of the company's share capital,
- Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU, representing 8.37% of the company's share capital,
- CENTROZŁOM WROCLAW S.A., representing 0.64% of the company's share capital,

The total value of shares purchased amounted to PLN 14 million and decreased put option liabilities for employee shares in the consolidated financial statements.

The equity attributable to non-controlling interest was decreased by PLN 19 million, by a settlement of capital from valuation of the put option for employee shares in the amount of PLN 19 million (capital from initial recognition of put option liabilities, which is presented in retained earnings).

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

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

XII. Subsequent events

Extension of validity of the guarantee towards the Lower Silesia Voivodeship

On 10 October 2014, at the request of KGHM Polska Miedź S.A., the bank cooperating with the Parent Entity extended the validity of a guarantee in the amount of PLN 320 million by a further three months. The new term of validity of the guarantee expires on 2 February 2015. This guarantee secures the liabilities of the Company towards the Lower Silesia Voivodeship.

The guarantee was issued in connection with art. 32 sec. 1 of the Act dated 10 July 2008 on mining tailings, aimed at ensuring proper execution, by an owner of tailings which operates a mining tailings treatment pond, of obligations respecting the closure of the mining tailings treatment pond and restoration of the terrain.

Utilisation of the loan from the European Investment Bank

On 30 October 2014, the Company utilised the first instalment of the loan granted by the European Investment Bank. The loan for USD 300 million was drawn for the period of 12 years and is based on a fixed interest rate. The funds acquired in this way will be used to finance the Company's investment projects related to the modernisation of metallurgy and development of the Żelazny Most tailings pond.

Sierra Gorda: first shipment of copper concentrate and CAPEX at completion

Detailed information concerning the aforementioned event is presented in part A.V.2 – Development of the resource base.

Approval of the President of the Office of Competition and Consumer Protection for concentration

Detailed information concerning the aforementioned event is presented in part A.V.3 – Projects in the energy sector.

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 2014, in light of the results presented in this consolidated quarterly report relative to forecasted results

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2014.

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, changes in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. in the period since publication of the consolidated report for the first half of 2014

At the date of publication of the consolidated report for the first half of 2014, i.e. at 13 August 2014, based on the knowledge of the Company's Management Board, 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 first half of 2014, 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. Changes in ownership during the period following publication of the consolidated report for the first half of 2014

Members of the Management Board of KGHM Polska Miedź S.A.

Based on the information held by KGHM Polska Miedź S.A., the number of shares of KGHM Polska Miedź S.A. owned by the Members of the Management Board at the date of signing of this report was as follows:

Function	Name	number of shares at the date of signing of the consolidated report for the third quarter of 2014
President of the Management Board	Herbert Wirth	1900
Deputy Vice President of the Management Board	Jarosław Romanowski	1900
Vice President of the Management Board	Marcin Chmielewski	1993
Vice President of the Management Board	Jacek Kardela	1900
Vice President of the Management Board	Wojciech Kędzia	1900

Based on the information held by KGHM Polska Miedź S.A., this state did not change since the date of publication of the consolidated report for the first half of 2014.

Members of the Supervisory Board of the Company

Based on the information held by KGHM Polska Miedź S.A., the number of shares of KGHM Polska Miedź S.A. owned by the members of the Supervisory Board at the date of signing of this report was as follows:

Function	Name	number of shares at the date of signing of the consolidated report for the third quarter of 2014
Member of the Supervisory Board	Józef Czyczerski	10
Member of the Supervisory Board	Leszek Hajdacki	1

Based on the information held by KGHM Polska Miedź S.A., this state did not change since the date of publication of the consolidated report for the first half of 2014.

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

As at 30 September 2014, 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.

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

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 2014 to 30 September 2014, 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 2014 to 30 September 2014, 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 its employment situation, assets, finances and the financial result and any changes thereto, and information which is significant for assessing the ability to pay its liabilities

In the third quarter of 2014 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, financial position and the financial result of the Group and any changes thereto, or any events significant for the assessment of the employment situation and the ability to pay its liabilities.

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, in particular due to the minerals extraction tax and the value of purchased copper-bearing materials used, and
- 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:

- metal prices,
- the CLP/USD, CAD/USD and USD/PLN exchange rates, and
- mined copper production costs.

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

	At		
	Note	30 September 2014	31 December 2013
Interim statement of financial position			
Assets			
Non-current assets			
Property, plant and equipment		10 795	9 744
Intangible assets		465	273
Shares and investment certificates in subsidiaries		11 755	11 744
Interest in joint ventures		33	33
Deferred tax assets		121	98
Available-for-sale financial assets		990	809
Financial assets for mine closure and restoration of tailing storage facilities		206	178
Derivatives		130	342
Trade and other receivables		1 489	314
		25 984	23 535
Current assets			
Inventories		2 955	2 432
Trade and other receivables		1 966	2 475
Financial assets for mine closure		1	1
Derivatives		293	472
Cash and cash equivalents		380	123
		5 595	5 503
Total assets		31 579	29 038
Equity and liabilities			
Equity			
Share capital		2 000	2 000
Revaluation reserve from measurement of financial instruments		481	512
Actuarial gains/losses on post-employment benefits		(319)	(112)
Retained earnings		21 646	20 898
Total equity		23 808	23 298
Liabilities			
Non-current liabilities			
Trade and other payables		168	26
Derivatives		29	17
Employee benefits liabilities		1 719	1 423
Provisions for other liabilities and charges	C. II. 2	841	523
		2 757	1 989
Current liabilities			
Trade and other payables		2 879	2 431
Borrowings		1 861	1 123
Current corporate tax liabilities		43	50
Derivatives		67	6
Employee benefits liabilities		119	110
Provisions for other liabilities and charges	C. II. 2	45	31
		5 014	3 751
Total liabilities		7 771	5 740
Total equity and liabilities		31 579	29 038

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

Interim statement of profit or loss

	Note	Reporting period			
		for the 3 months ended 30	for the 9 months ended 30	for the 3 months ended 30	for the 9 months ended 30
		<u>September 2014</u>	<u>September 2014</u>	<u>September 2013</u>	<u>September 2013</u>
Sales	C. II. 3	4 116	11 843	4 171	13 674
Cost of sales	C. II. 4	(3 014)	(8 741)	(3 180)	(9 741)
Gross profit		1 102	3 102	991	3 933
Selling costs	C. II. 4	(27)	(89)	(25)	(87)
Administrative expenses	C. II. 4	(173)	(511)	(163)	(465)
Other operating income	C. II. 5	223	374	9	391
Other operating costs	C. II. 6	(172)	(377)	(82)	(651)
Operating profit		953	2 499	730	3 121
Finance costs	C. II. 7	(81)	(96)	5	(40)
Profit before income tax		872	2 403	735	3 081
Income tax expense		(243)	(655)	(215)	(836)
<u>Profit for the period</u>		629	1 748	520	2 245

Earnings per share during the period

(in PLN per share)

- basic	3.15	8.74	2.60	11.22
- diluted	3.15	8.74	2.60	11.22

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

Interim statement of comprehensive income

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Profit for the period	629	1 748	520	2 245
Other comprehensive income:				
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met:				
Other comprehensive income from measurement of financial instruments:				
Available-for-sale financial assets	36	182	88	93
Income tax related to available-for-sale financial assets	(7)	(35)	(17)	(18)
Cash flow hedging instruments	(77)	(220)	(229)	163
Income tax related to cash flow hedging instruments	15	42	43	(31)
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	(33)	(31)	(115)	207
Other comprehensive income, which will not be reclassified to profit or loss:				
Actuarial gains and losses on post-employment benefits	(104)	(256)	139	34
Income tax related to actuarial gains/losses	20	49	(26)	(6)
Total other comprehensive income, which will not be reclassified to profit or loss	(84)	(207)	113	28
Other comprehensive net income for the reporting period	(117)	(238)	(2)	235
TOTAL COMPREHENSIVE INCOME	512	1 510	518	2 480

KGHM Polska Miedź S.A.
 Consolidated quarterly report with quarterly financial information prepared in accordance with IAS 34
 for the period from 1 July 2014 to 30 September 2014
 (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 2014	2 000	512	(112)	20 898	23 298
Dividends from profit for 2013 resolved and paid	-	-	-	(500)	(500)
Dividends from profit for 2013 resolved but unpaid	-	-	-	(500)	(500)
Total comprehensive income	-	(31)	(207)	1 748	1 510
Profit for the period	-	-	-	1 748	1 748
Other comprehensive income	-	(31)	(207)	-	(238)
At 30 September 2014	2 000	481	(319)	21 646	23 808
At 1 January 2013	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

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

Interim statement of cash flows	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Cash flow from operating activities		
Profit for the period	1 748	2 245
Total adjustments to profit for the period:	1 702	1 812
Income tax recognised in profit or loss	655	836
Amortisation/Depreciation	629	621
Losses on sale of property, plant and equipment and intangible assets	5	26
Dividends and interest	(60)	(39)
Foreign exchange (gains)/losses	(9)	28
Change in provisions	74	-
Change in assets/liabilities due to derivatives	629	539
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(384)	(300)
Impairment loss on available-for-sale financial assets	1	89
Changes in working capital:	162	12
Inventories	(523)	(287)
Trade and other receivables	477	69
Trade and other payables	208	230
Income tax paid	(630)	(1 202)
Net cash generated from operating activities	2 820	2 855
Cash flow from investing activities		
Purchase of shares and investment certificates in subsidiaries	(7)	(99)
Proceeds from sale of shares in a subsidiary	1	-
Purchase of property, plant and equipment and intangible assets	(1 643)	(1 544)
Advances granted for purchase of property, plant and equipment and intangible assets	(28)	(36)
Proceeds from sale of property, plant and equipment and intangible assets	9	29
Purchase of financial assets from mine closure fund and tailing storage facilities restoration fund	(28)	(38)
Loans granted	(1 053)	(207)
Repayments of loans granted	4	4
Interest received	2	1
Dividends received	45	36
Other investment (expenses)/proceeds	(5)	(11)
Net cash (used in) investing activities	(2 703)	(1 865)
Cash flow from financing activities		
Proceeds from bank loans	909	375
Dividends paid	(500)	(980)
Repayments of bank loans	(232)	(801)
Interest paid	(7)	(2)
Other financial (expenses)/proceeds	(46)	2
Net cash (used in)/generated from financing activities	124	(1 406)
Total net cash flow	241	(416)
Exchange gains/(losses) on cash and cash equivalents	16	(1)
Movements in cash and cash equivalents	257	(417)
Cash and cash equivalents at beginning of the period	123	707
Cash and cash equivalents at end of the period	380	290

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

Selected explanatory data

I. Accounting policies

These financial statements have been prepared using the same principles for the current and comparable periods.

II. Additional notes

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

Purchase of property, plant and equipment and intangible assets

	For the period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Purchase of property, plant and equipment	1 345	1 402
Purchase of intangible assets	194	57

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

	At	
	30 September 2014	31 December 2013
Payables due to purchase of property, plant and equipment and intangible assets	447	591

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 2014	31 December 2013
Purchase of property, plant and equipment	5 063	4 989
Purchase of intangible assets	23	78
Total capital commitments	5 086	5 067

2. Changes in provisions for other liabilities and charges

	Decommissioning costs of mines and other technological facilities, and costs of scrapping property, plant and equipment		Disputed issues and court proceedings, and other provisions
	TOTAL		
Provisions at 1 January 2014	554	529	25
Recognition and updating of estimates	364	345	19
Utilisation	(4)	(2)	(2)
Adjustment of contribution to Special Purpose Funds	(19)	(19)	-
Release and updating of estimates	(9)	(7)	(2)
Provisions at 30 September 2014	886	846	40
of which:			
non-current provisions	841	839	2
current provisions	45	7	38

	Decommissioning costs of mines and other technological facilities, and costs of scrapping property, plant and equipment		Disputed issues and court proceedings, and other provisions
	TOTAL		
Provisions at 1 January 2013	754	734	20
Recognition and updating of estimates	174	166	8
Utilisation	(12)	(10)	(2)
Adjustment of contribution to Special Purpose Funds	(33)	(33)	-
Release and updating of estimates	(329)	(328)	(1)
Provisions at 31 December 2013	554	529	25
of which:			
non-current provisions	523	520	3
current provisions	31	9	22

	Decommissioning costs of mines and other technological facilities, and costs of scrapping property, plant and equipment		Disputed issues and court proceedings, and other provisions
	TOTAL		
Provisions at 1 January 2013	754	734	20
Recognition and updating of estimates	117	109	8
Utilisation	(8)	(7)	(1)
Adjustment of contribution to Special Purpose Funds	(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

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

3. Sales

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Copper, precious metals, smelter by-products	4 053	11 629	3 963	13 314
Salt	12	33	21	63
Merchandise	15	63	148	183
Services	20	63	20	57
Scrap and production materials	15	47	17	49
Other finished goods	1	8	2	8
Total	4 116	11 843	4 171	13 674

4. Expenses by nature

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Depreciation of property, plant and equipment and amortisation of intangible assets, of which:	210	629	203	621
Employee benefit expenses	752	2 239	742	2 190
Materials and energy	1 543	4 452	1 590	4 716
including purchased copper-bearing materials	998	2 824	1 020	3 008
External services	333	1 021	361	1 107
Taxes and charges	476	1 411	526	1 720
including the minerals extraction tax*	383	1 131	442	1 463
Other costs	14	62	16	64
Total expenses by nature	3 328	9 814	3 438	10 418
Cost of merchandise and materials sold (+)	28	107	165	226
Change in inventories of finished goods and work in progress (+/-)	(106)	(470)	(193)	(225)
Cost of manufacturing products for internal use (-)	(36)	(110)	(42)	(126)
Total cost of sales, selling costs and administrative expenses	3 214	9 341	3 368	10 293

*The minerals extraction tax is calculated on the basis of the amount of copper and silver contained in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax is accounted for under manufacturing costs and is not deductible for corporate income tax purposes.

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

5. Other operating income

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Income and gains on financial instruments, classified under other operating activities, resulting from:	216	328	(11)	348
Measurement and realisation of derivatives	143	197	32	265
Interest	14	37	3	22
Foreign exchange gains	58	58	(46)	24
Dividends received from other entities	-	35	-	36
Reversal of allowance for other receivables	1	1	-	1
Dividends received from subsidiaries	-	10	-	-
Release of unused provisions	-	2	12	14
Decommissioning of mines	-	1	12	13
Disputed issues and court proceedings	-	1	-	1
Other operating income/gains	7	34	8	29
Total other operating income	223	374	9	391

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

6. Other operating costs

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Costs and losses on financial instruments, classified under other operating activities, resulting from:	143	308	58	583
Measurement and realisation of derivatives	148	306	58	492
Interest	-	1	-	1
Foreign exchange losses	(5)	-	-	-
Losses on measurement of non-current liabilities	-	-	-	1
Impairment losses on available-for-sale financial assets and allowances for impairment of other receivables	-	1	-	89
Losses on the sale of property, plant and equipment and intangible assets	-	5	15	26
Donations granted	1	18	-	16
Provisions recognised for:	21	26	4	8
Decommissioning of mines	3	7	2	2
Other	18	19	2	6
Other operating costs/losses	7	20	5	18
Total other operating costs	172	377	82	651

7. Finance costs

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Interest due to drawn bank loans	2	5	1	2
Foreign exchange losses/(gains) on borrowings	69	61	(14)	11
Changes in provisions for decommissioning of mines arising from the approach of the maturity date of a liability (unwinding of the discount effect)	9	24	8	26
Changes in liabilities arising from the approach of the maturity date of liabilities (unwinding of the discount effect)	1	5	-	-
Other finance costs	-	1	-	1
Total finance costs	81	96	(5)	40

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

8. Related party transactions

	Reporting period			
	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Revenues from sales to related entities	142	247	69	229
Purchases from related entities	1 709	3 655	1 493	4 222

During the period from 1 July 2014 to 30 September 2014, KGHM Polska Miedź S.A. did not receive dividends from related entities.

(since the beginning of the financial year, other operating income due to dividends from subsidiaries amounted to PLN 10 million)

	At	
	30 September 2014	31 December 2013
Receivables from related entities due to sales of products, services, merchandise, materials and non-current assets	1 682	545
Payables towards related entities due to purchase of products, services, merchandise, materials and non-current assets	436	495

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 of materials and services to meet the needs of its current operating activities (fuel, energy, transport services). Turnover from these transactions in the period from 1 January 2014 to 30 September 2014 amounted to PLN 532 million (for the period from 1 January 2013 to 30 September 2013 it amounted to PLN 519 million), the unsettled balance of liabilities from these transactions as at 30 September 2014 amounted to PLN 205 million (as at 31 December 2013: PLN 30 million), and the unsettled balance of receivables as at 30 September 2014 amounted to PLN 10 million (as at 31 December 2013: PLN 5 million). Revenues from sales from State Treasury companies in the period from 1 January 2014 to 30 September 2014 amounted to PLN 53 million (for the period from 1 January 2013 to 30 September 2013 it amounted to PLN 46 million).

	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Remuneration of the Supervisory Board (in PLN '000)		
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	1 150	761
Total	1 150	761

	Reporting period	
	for the 9 months ended 30 September 2014	for the 9 months ended 30 September 2013
Remuneration of the Management Board (in PLN '000)		
Salaries and other current employee benefits	8 306	7 001
Benefits due to termination of employment relationship	721	-
Total	9 027	7 001

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

The value of contingent assets and liabilities and of liabilities not recognised in the statement of financial position were determined based on estimates.

	At 30 September 2014	Increase/(decrease) since the end of the last financial year
Contingent assets	486	22
Guarantees received	202	(11)
Promissory notes receivables	150	30
Inventions, implementation of projects	47	3
Real estate tax on mining facilities	87	-
Contingent liabilities	1 624	1 433
Guarantees of which:	1 409	1 399
Guarantees granted to secure a contract for the supply of electricity, and to secure lease liabilities of the Sierra Gorda S.C.M.	828	828
Security of the liabilities of the Company to cover the costs of decommissioning of Żelazny Most tailings pond	320	320
Security for the payment of environmental liabilities of the Robinson mine	256	256
Disputed issues, pending court proceedings	15	(1)
Liabilities due to implementation of projects and inventions	137	14
Real estate tax on mining facilities	63	21
Liabilities not recognised in the statement of financial position		
Liabilities towards local government entities due to expansion of the tailings pond	228	41
Liabilities due to operating leases	18	(1)

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

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

Syndicated credit facility agreement

On 11 July 2014, KGHM Polska Miedź S.A. signed an agreement for an unsecured, revolving credit facility in the amount of USD 2.5 billion (PLN 7.6 billion at the average exchange rate for USD/PLN, announced by the National Bank of Poland dated 10 July 2014). The agreement has an initial five-year tenor incorporating two one-year extension options.

The credit facility was granted by a group of banks, amongst which are the largest Polish banks (including PKO BP, Pekao SA, BZ WBK, Bank Handlowy, ING Bank Śląski, BGK and mBank) as well as banks from Europe, Canada, the USA and Japan, which have cooperated thus far with KGHM Polska Miedź S.A.

The credit facility may be drawn in USD in the form of up to 25 renewable tranches. The financial resources acquired from the credit facility will be used in financing general corporate purposes (including capital expenditures) of the KGHM Polska Miedź S.A. Group and for refinancing of the financial debt of KGHM International Limited in the amount of USD 700 million. Interest on the credit facility was calculated based on LIBOR plus a margin, depending on the net debt/EBITDA financial ratio.

Loan agreement with the European Investment Bank

On 1 August 2014, KGHM Polska Miedź S.A. signed an agreement for an unsecured loan in the amount of PLN 2 billion with the European Investment Bank.

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

The funds acquired through this loan will be used to finance the Company's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings pond.

The agreement was concluded for a period of 12 years. The loan is available for a period of 22 months from the date of signing. The loan will be utilised to a maximum of 7 instalments, each of which in the minimum amount of PLN 300 million. For each of these loan instalments the Company has the option of drawing the instalment in PLN, USD or EUR, with either a fixed or variable interest rate.

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 62 million, of which:

- PLN 120 million represents a reclassification adjustment made at the time of impact of the hedged position on profit or loss,
- PLN 43 million represents a gain resulting from changes in fair value of hedging instruments, in the portion reflecting an effective hedge,
- PLN 15 million represents tax from the above-mentioned items.

(since the beginning of the financial year a decrease in other comprehensive income of PLN 178 million, of which:

- PLN 384 million represents a reclassification adjustment made at the time of impact of the hedged position on profit or loss,*
- PLN 164 million represents a gain resulting from changes in fair value of hedging instruments, in the portion reflecting an effective hedge,*
- PLN 42 million represents tax from the above-mentioned items)*

As a result of realisation and fair value re-measurement of derivatives there was an increase in the financial result for the current quarter in the amount of PLN 115 million (of which: an increase in revenues from sales in the amount of PLN 120 million and a decrease in the result on other operating activities in the amount of PLN 5 million).

(an increase in the financial result of PLN 275 million since the beginning of the financial year, of which PLN 384 million as an increase in revenues from sales and PLN 109 million as a decrease in profit on other operating activities)

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

Available-for-sale financial assets

In the current quarter there was an increase in the fair value of available-for-sale financial assets above their carrying amount, which resulted in a reversal of impairment losses in the amount of PLN 36 million (recognised in previous periods) and increased other comprehensive income. This measurement impacted an increase in the deferred tax liabilities in the amount of PLN 7 million, reported in other comprehensive income.

(since the beginning of the financial year an increase in the fair value of available-for-sale financial assets above their carrying amount, which resulted in a reversal of impairment losses in the amount of PLN 182 million (recognised in previous periods) and increased other comprehensive income while simultaneously increasing the deferred tax liabilities by the amount of PLN 35 million)

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 instruments.

Trade and other non-current receivables

In the current quarter there was an increase in trade and other non-current receivables in the amount of PLN 311 million, mainly due to loans granted to foreign entities of the KGHM Polska Miedź S.A. Group in the amount of USD 75 million (PLN 247 million at the USDPLN exchange rate of 3.2973 announced by the NBP as at 30 September 2014)

(since the beginning of the financial year an increase in trade and other non-current receivables of PLN 1 175 million, mainly due to loans granted to foreign entities of the KGHM Polska Miedź S.A. Group in the amount of USD 336 million (PLN 1 107 million at the USDPLN exchange rate of 3.2973 announced by the NBP as at 30 September 2014))

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

Property, plant and equipment

As a result of the depreciation of property, plant and equipment and amortisation of intangible assets, operating costs were increased in the current quarter by PLN 210 million.

(since the beginning of the financial year an increase in costs by PLN 629 million)

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

3. Nature and amount of changes in estimates

Provisions

The effects of revaluation or recognition of estimates of future liabilities (provisions) were accounted for in the current quarter, and in particular due to:

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 an increase in the provisions of PLN 135 million which was settled as:

- a decrease in other comprehensive income of PLN 104 million (after reflecting the deferred tax effects, a decrease in other comprehensive income by PLN 84 million),
- a decrease in the financial result of PLN 31 million, (after reflecting the deferred tax effects, a decrease in the financial result of PLN 25 million),

(an increase in the provision by PLN 305 million since the beginning of the financial year, which was settled as:

- *a decrease in other comprehensive income of PLN 256 million (after reflecting the deferred tax effects, a decrease in other comprehensive income of PLN 207 million)*
- *a decrease in the financial result of PLN 49 million (after reflecting the deferred tax effects, a decrease in the financial result of PLN 40 million)*

3.2 provisions for future costs of decommissioning (restoration) of the 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 an increase in the provisions of PLN 155 million, which was accounted for as a decrease in the financial result of PLN 11 million and as an increase of property, plant and equipment of PLN 144 million. The increase in the provisions caused an increase in deferred tax assets in the amount of PLN 30 million.

(an increase in the provision by PLN 338 million since the beginning of the financial year, which was settled as a decrease in the financial result in the amount of PLN 30 million and as an increase in property, plant and equipment of PLN 308 million, deferred tax effect – an increase in deferred tax assets in the amount of PLN 59 million)

3.3 provisions for future employee remuneration expenses together with charges of PLN 164 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 2014 amounted to PLN 401 million).

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

Deferred tax

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

After offsetting the deferred tax assets and deferred tax liabilities, the deferred tax assets at the end of the reporting period were set at PLN 121 million.

(After offsetting the deferred tax assets and deferred tax liabilities, the deferred tax assets at 31 December 2013 were set at PLN 98 million)

There was an increase in the deferred tax assets in the current quarter of PLN 30 million, which was settled as:

- | | |
|---|----------------|
| - an increase in profit | PLN 10 million |
| - an increase in other comprehensive income due to actuarial losses on post-employment benefits | PLN 20 million |

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

(an increase in the deferred tax assets since the beginning of the financial year in the amount of PLN 96 million, which was settled:

- as an increase in profit PLN 47 million
- as an increase in other comprehensive income
due to actuarial losses on post-employment benefits PLN 49 million)

There was an increase in the deferred tax liabilities in the current quarter of PLN 41 million, of which was settled:

- as a decrease in profit, PLN 49 million
- as an increase in other comprehensive income
due to measurement of hedging derivative instruments
and available-for-sale financial assets PLN 8 million

(an increase in the deferred tax liabilities since the beginning of the financial year in the amount of PLN 73 million, which was settled:

- as a decrease in profit PLN 80 million
- as an increase in other comprehensive income
due to measurement of hedging derivative instruments,
and available-for-sale financial assets PLN 7 million)

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 2014

In the third quarter of 2014, KGHM Polska Miedź S.A. produced 104 thousand tonnes of copper in concentrate (in the first 9 months of 2014: 320 thousand tonnes) and 297 tonnes of silver in concentrate (in the first 9 months of 2014: 896 tonnes). Electrolytic copper production amounted to 146 thousand tonnes (in the first 9 months of 2014: 429 thousand tonnes), including 102 thousand tonnes from own concentrate (in the first 9 months of 2014: 312 thousand tonnes) and 325 tonnes of metallic silver (in the first 9 months of 2014: 930 tonnes).

Revenues from sales in the third quarter of 2014 of PLN 4 116 million were lower by PLN 55 million or by 1% as compared to the corresponding period in 2013, mainly as a result of:

- a decrease in copper prices (from 7 073 USD/t to 6 994 USD/t) and silver prices (from 21.32 USD/troz to 19.76 USD/troz,
- a change in USD/PLN exchange rate (from 3.21 USDPLN to 3.15 USDPLN),
- a decrease in the silver sales volume (from 319 tonnes to 296 tonnes), and an increase in the copper sales volume (from 129 thousand tonnes to 138 thousand tonnes).

In the third quarter of 2014, revenues from the sale of copper and copper products represented 79%, and silver 15% of total revenues from sales (in the comparable period of 2013 respectively: 74% and 18%).

Expenses by nature in the third quarter of 2014 amounted to PLN 3 328 million, and were lower than those in the comparable prior year period by PLN 110 million or by 3%. This was mainly due to a decrease in copper and silver prices, which resulted in the lower value of purchased copper-bearing materials consumed as well as a lower minerals extraction tax.

After excluding purchased copper-bearing materials (PLN 998 million) and the minerals extraction tax (PLN 383 million) expenses by nature amounted to PLN 1 947 million and were slightly below the level of those in the comparable prior year period (lower by PLN 29 million or 1.5%).

Total cost of products sold, taking into account the change in inventories of finished goods and work in progress in the third quarter of the current year, amounted to PLN 3 186 million and did not differ significantly from those achieved in the corresponding period in 2013.

Unit cost of copper production was mainly the result of an increase in production in the third quarter of 2014 versus the comparable period in 2013 due to a three month maintenance shutdown in the Głogów II Copper Smelter in the third quarter of 2013.

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 2014 amounted to 21 820 PLN/t, and decreased versus the third quarter of 2013 by 5%. The cost level was impacted by the 6% lower minerals extraction tax (third quarter of 2013: 2 730 PLN/t; third quarter of 2014: 2 568 PLN/t) alongside an increase in copper production by 11%. Taking into consideration the valuation of precious metals in anode slimes*, the total unit cost of copper production amounted to 16 922 PLN/t (in the comparable period 17 563 PLN/t).

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

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate amounted to 20 813 PLN/t (in the comparable period 22 598 PLN/t) alongside a 12% higher volume of production from own concentrate and a lower minerals extraction tax by 267 PLN/t. The total unit cost of electrolytic copper production from own concentrate amounted to 14 670 PLN/t (in the comparable prior year period 15 290 PLN/t).

C1 cost** amounted to 1.88 USD/lb in the third quarter of 2014 versus 1.77 USD/lb in the third quarter of 2013. The increase in the C1 cost (by 0.11 USD/lb) was mainly a result of the lower value of by-products due to a decrease in silver and gold prices. This also corresponded with a lower minerals extraction tax. The increase in the C1 cost was also impacted by the strengthening of the PLN versus the USD by 2%.

Other operating activities showed a profit in the third quarter of 2014 of PLN 51 million, an increase of the result by PLN 124 million versus the third quarter of 2013, which is mainly due to a better result on exchange differences of PLN 109 million.

Operating profit in the third quarter of 2014 was PLN 953 million, and was higher by PLN 223 million or by 31% versus the comparable period of 2013.

Net finance costs in the third quarter of 2014 were PLN 81 million (an increase by PLN 86 million) which is mainly due to foreign exchange differences related to borrowings.

Profit for the third quarter of 2014 was PLN 629 million, which was higher by PLN 109 million as compared to the third quarter of 2013.

EBITDA in the third quarter of 2014 amounted to PLN 1 163 million (including depreciation/amortisation of PLN 210 million) and was higher by PLN 230 million or by 25% as compared to the corresponding period of 2013.

** The value of silver and gold is equivalent to the revenues from the sales of these metals under the controlling presentation method. To the end of 2013, the measurement included a sales profitability factor under the accounting presentation method.*

*** 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 produced concentrate*

5. Commodity and currency risk management in the Company

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 notional amount of copper price hedging strategies settled in the third quarter of 2014 represented approx. 16% of the total sales of this metal realised by the Company. In the case of the currency market, approx. 24% of total revenues from metals sales realised by the Company during the period were hedged.

In the third quarter of 2014, the amount of PLN 120 million was recognised as revenues from sales. This was the amount transferred from the *revaluation reserve from measurement of cash flow hedging instruments to profit or loss*. The result on other operating activities was decreased by PLN 5 million. This amount is comprised of a loss of PLN 19 million due to the realisation of derivatives, and a gain of PLN 14 million due to the measurement of derivatives.

The gain on the measurement of derivative transactions recognised in other operating activities results mainly from the changes 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

	for the 3 months ended 30 September 2014	for the 9 months ended 30 September 2014	for the 3 months ended 30 September 2013	for the 9 months ended 30 September 2013
Impact on sales	120	384	134	300
Impact on other operating activities	(5)	(109)	(26)	(227)
due to realisation of derivatives	(19)	(31)	(60)	(110)
due to measurement of derivatives	14	(78)	34	(117)
Total impact of derivatives on profit or loss for the period:	115	275	108	73

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

Revaluation reserve from measurement of cash flow hedging instruments

	At		
	30 September 2014	30 June 2014	31 December 2013
Commodity price risk hedging transactions (copper)	239	189	161
Currency risk hedging transactions	158	285	456
As at the end of the period (excluding the deferred tax effect):	397	474	617

During the third quarter of 2014 there was a decrease by PLN 77 million in other comprehensive income (excluding the deferred tax effect), which was comprised of:

- PLN 43 million, the result of changes in fair value during the period recognised as an increase in the revaluation reserve from the measurement of cash flow hedging instruments in the portion reflecting an effective hedge, and
- PLN 120 million, the amount of the decrease of the revaluation reserve from the measurement of cash flow hedging instruments. This amount increased revenues from sales and resulted from the settlement of hedging transactions in the portion reflecting an effective hedge.

In July 2014, the Company implemented a copper price hedging strategy with a total volume of 11 thousand tonnes and a time horizon falling from August 2014 to June 2015. The Company made use of put options (Asian options).

In the third quarter of 2014, the Company did not implement any hedging strategies for the silver market.

However, on the currency market in the reporting period, transactions hedging revenues from sales were implemented for the total notional amount of USD 810 million and a time horizon falling from October 2014 to December 2016. The Company made use of put options (European options) and collar option strategies.

As at 30 September 2014, the Company remains hedged for a portion of copper sales planned for the fourth quarter of 2014 (23.25 thousand tonnes) and for 2015 (48 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 for the fourth quarter of 2014 (USD 330 million), for 2015 (USD 960 million) and for 2016 (USD 360 million).

Presented below is condensed information on open hedging transactions, by type of hedged asset and instruments used as at 30 September 2014. The hedged notional/volume in the presented periods is equally balanced on a monthly basis.

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

COPPER MARKET

	Instrument	Volume [tonnes]	Option strike price [USD/t]			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t]	
			Sold call option	Purchased put option	Sold put option ¹			Participation limited to	Hedge limited to
IV quarter of 2014	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
	Seagull	9 750	9 300	7 700	5 000	-281	7 419	9 300	5 000
	Purchased put option	3 000	-	7 200	-	-298	6 902	-	-
	Total	23 250							
	TOTAL Oct-Dec 2014	23 250							
I half of 2015	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Purchased put option	6 000	-	7 200	-	-298	6 902	-	-
	Total	27 000							
II half of 2015	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Total	21 000							
	TOTAL 2015	48 000							

CURRENCY MARKET

	Instrument	Notional [million USD]	Option strike price [USD/PLN]			Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Limitations [USD/PLN]	
			Sold call option	Purchased put option	Sold put option			Participation limited to	Hedge limited to
IV quarter of 2014	Collar	60	4.0000	3.2000	-	-0.0544	3.1456	4.0000	-
	Purchased put option	180	-	2.8500	-	-0.0249	2.8251	-	-
	Purchased put option	90	-	3.2000	-	-0.0248	3.1752	-	-
	Total	330	Closure of the position and un-designation of the hedging transactions in the first quarter of 2014 was reflected in the <i>Revaluation reserve from the measurement of financial instruments</i> in the amount of PLN 64 million, which will increase <i>Revenues from sales</i> for the fourth quarter of 2014						
	TOTAL Oct-Dec 2014								
I half of 2015	Sold call option	180	4.5000	-	-	+0.3125	-	4.5000	-
	Purchased put option	180	-	2.7000	-	-0.0352	2.6648	-	-
	Collar	120	4.0000	3.3000	-	-0.0694	3.2306	4.0000	-
	Purchased put option	180	-	3.2000	-	-0.0556	3.1444	-	-
	Total²	480	Closure of the purchased put option USD/PLN 3.40 and un-designation of the hedging transactions in the first quarter of 2014 was reflected in the <i>Revaluation reserve from the measurement of financial instruments</i> in the amount of PLN 50 million, which will increase <i>Revenues from sales</i> for the first half of 2015						

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”.

² Excluded from the amount is the notional amount of *sold call options* (PLN 180 million for every half-year). From the risk profile point of view, these *sold call options*, together with *purchased put options* in the same notional amount, represent a *collar strategy*. The strategy is not shown directly as a collar, as it arose as a result of a restructuring of the position and could not, from a formal point of view, be designated as such according to risk management principles.

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

II half of 2015	Sold call option	180	4.5000	-	-	+0.3125	-	4.5000	-
	Purchased put option	180	-	2.7000	-	-0.0352	2.6648	-	-
	Collar	120	4.0000	3.3000	-	-0.0694	3.2306	4.0000	-
	Collar	180	4.0000	3.3000	-	-0.0499	3.1501	4.0000	-
	Total²	480	Closure of the purchased put option USDPLN 3.40 and un-designation of the hedging transactions in the first quarter of 2014 was reflected in the <i>Revaluation reserve from the measurement of financial instruments</i> in the amount of PLN 43 million, which will increase <i>Revenues from sales</i> for the second half of 2015						
TOTAL 2015		960							
I half of 2016	Collar	180	4.0000	3.2000	-	-0.0525	3.1475	4.0000	-
	Total	180							
II half of 2016	Collar	180	4.0000	3.2000	-	-0.0553	3.1447	4.0000	-
	Total	180							
TOTAL 2016		360							

With respect to currency risk management whose source is borrowing, the Company uses natural hedging by borrowing in currencies in which it has revenues.

As at 30 September 2014, the net fair value of open positions in derivatives amounted to PLN 327 million, of which PLN 327 million related to the positive fair value of the hedging instruments and PLN 81 million related to the negative fair value of trade instruments, while PLN 81 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 measurement described above.

The fair values of open derivatives of the Company and receivables and payables due to unsettled derivatives are presented in the following table.

	At 30 September 2014		At 31 December 2013	
	Derivatives	Receivables due to unsettled derivatives ³	Derivatives	Receivables and (liabilities) due to unsettled derivatives ⁴
Financial assets	423	20	814	41
Financial liabilities	(96)	-	(23)	(19)
Fair value	327	20	791	22

Detailed information on positions in derivatives as at 30 September 2014 is presented below in the tables "Trade instruments" and "Hedging instruments" and "Instruments initially designated as hedging instruments excluded from hedge accounting".

³ Settlement date falls on 2 October 2014

⁴ Settlement date falls on 3 January 2014

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

TRADE INSTRUMENTS		At 30 September 2014 [PLN '000]					
		Volume/ Notional Cu [t] Currency ['000 USD]	Avg. weighted price/ex. rate Cu [USD/t] Currency [USD/PLN]	Financial assets		Financial liabilities	
				Current	Non-current	Current	Non-current
Derivatives - Metals - Copper:							
Options							
Sold put options	62 250	4 578	-	-	(50)	(253)	
TOTAL:			-	-	(50)	(253)	
Derivatives - Currency contracts:							
Options USD							
Purchased call options	180 000	4.5000	-	-	-	-	
Purchased put options	90 000	2.7000	-	-	-	-	
Sold put options	630 000	3.3143	-	-	(65 485)	(15 604)	
TOTAL:			-	-	(65 485)	(15 604)	
TOTAL TRADE INSTRUMENTS			-	-	(65 535)	(15 857)	

HEDGING INSTRUMENTS		At 30 September 2014 [PLN '000]									
		Volume/ Notional Cu [t] Currency ['000 USD]	Avg. weighted price/ ex. rate Cu [USD/t] Currency [USD/PLN]	Maturity/ settlement period		Period of impact on profit or loss		Financial assets		Financial liabilities	
				From	To	From	To	Current	Non-current	Current	Non-current
Derivatives - Metals- Copper											
Options											
Purchased put options	9 000	7 200	Oct 14-Jun 15	Nov 14-Jul 15			18 289	-	-	-	
Seagull	62 250	7 760 - 10 119	Oct 14-Dec 15	Nov 14-Jan 16			177 709	58 271	(27)	(175)	
TOTAL:							195 998	58 271	(27)	(175)	
Derivatives - Currency contracts											
Options USD											
Purchased put options	810 000	2.9000	Oct 14-Dec 15	Oct 14-Dec 15			8 459	332	-	-	
Collar	840 000	3.2286-4.0000	Oct 14-Dec 16	Oct 14-Dec 16			22 528	56 018	(800)	(13 235)	
TOTAL:							30 987	56 350	(800)	(13 235)	
TOTAL HEDGING INSTRUMENTS							226 985	114 621	(827)	(13 410)	

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING		At 30 September 2014 [PLN '000]									
		Volume/ Notional Currency ['000 USD]	Avg. weighted price/ ex. rate Currency [USD/PLN]	Maturity/ settlement period		Period of impact on profit or loss		Financial assets		Financial liabilities	
				From	To	From	To	Current	Non-current	Current	Non-current
Derivatives - Currency contracts											
Options USD											
Collar	450 000	3.4000-4.5000	Oct 14-Dec 15	Oct 14-Dec 15			47 928	15 604	(14)	(62)	
Seagull	90 000	3.5000-4.5000	Oct 14-Dec 14	Oct 14-Dec 14			17 558	-	-	-	
TOTAL:							65 486	15 604	(14)	(62)	
INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING- TOTAL							65 486	15 604	(14)	(62)	

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

All entities with which derivative transactions are entered into by the Company operate in the financial sector. The following table presents rating structure of financial institutions, with which the Company had derivative transactions that constitute an exposure to credit risk⁵.

Rating levels	At	
	30 September 2014	31 December 2013
Highest ⁶	3%	16%
Medium-high ⁷	95%	79%
Medium ⁸	2%	5%

Taking into consideration the fair value of open derivative transactions entered into by the Company and unsettled derivatives, as at 30 September 2014, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 37% (as at 31 December 2013: 22%).

Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as to cooperation with highly-rated and medium-high-rated financial institutions, the 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.

6. Liquidity risk and capital management in the Company

Capital management is aimed at maintaining continuous financial liquidity. The Company actively manages the liquidity risk to which it is exposed. This risk is understood as a loss of the ability to settle liabilities on time and to obtain financing for our operating activities.

In order to support the financial liquidity, in the third quarter of 2014 the Company made use of external financing in the form of bank loans.

As at 30 September 2014 the liabilities resulting from bank loans drawn by the Company amounted to PLN 1 861 million (or EUR 45 million and USD 507 million). The interest is based on variable EURIBOR, LIBOR rates plus a margin.

In the third quarter of 2014 the Company entered into two financing agreements:

- an unsecured, revolving syndicated credit facility agreement in the amount of USD 2.5 billion with a 5 year tenor and the option for two one-year extensions,
- a loan agreement with the European Investment Bank in the amount of PLN 2 billion, 12 year investment financing.

Interest on the aforementioned agreements is based on a fixed interest rate or variable WIBOR, LIBOR or EURIBOR rates plus a margin.

These agreements put both non-financial and financial constraints (covenants) on the Company, which are standard terms used in these types of transactions.

As at 30 September 2014 there were no instances of violation of the covenants stipulated in the aforementioned agreements.

⁵ Weighted by positive fair value of open and unsettled derivatives.

⁶ By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moody's.

⁷ By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moody's.

⁸ By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moody's.

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

Due to signed bank loan agreements and an investment financing loan agreement, the Company held the following open financing lines at the end of the reporting period:

Type of credit/loan	Credit/loan currency	Balance of available credit/loan in original currency [million]
Working capital facilities and overdraft facilities	USD	285
Overdraft facility	EUR	50
Working capital facilities and overdraft facilities	PLN	2 400
Syndicated credit	USD	2 500
Investment loan	PLN	2 000

The open credit lines and the investment loan are available in PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR rates plus a margin. In case of the investment loan, the Company may choose a fixed interest rate.

Lubin, 13 November 2014