

**POLISH FINANCIAL SUPERVISION AUTHORITY**

**Annual report R 2012**

(In accordance with § 82, section 1, point 3 of the Decree of the Minister of Finance dated 19 February 2009 – Journal of Laws No. 33, point 259, with subsequent amendments)

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

for the financial year **2012** comprising the period from **1 January 2012** to **31 December 2012** containing the financial statements according to International Financial Reporting Standards in PLN.

publication date: 29 March 2013

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

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

SELECTED FINANCIAL DATA	in '000 PLN		in '000 EUR	
	year 2012 period from 1 January 2012 to 31 December 2012	year 2011 restated data period from 1 January 2011 to 31 December 2011	year 2012 period from 1 January 2012 to 31 December 2012	year 2011 restated data period from 1 January 2011 to 31 December 2011
I. Sales	20 736 845	20 097 392	4 968 575	4 854 325
II. Operating profit	6 425 997	13 760 435	1 539 677	3 323 696
III. Profit before income tax	6 417 086	13 726 392	1 537 542	3 315 474
IV. Profit for the period	4 868 249	11 393 484	1 166 439	2 751 983
V. Other comprehensive income	( 412 289)	265 550	( 98 785)	64 141
VI. Total comprehensive income	4 455 960	11 659 034	1 067 654	2 816 124
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)	24.34	56.97	5.83	13.76
IX. Net cash generated from operating activities	4 702 716	8 768 122	1 126 777	2 117 853
X. Net cash (used in)/generated from investing activities	(11 334 782)	3 589 742	(2 715 829)	867 066
XI. Net cash used in financing activities	(4 618 914)	(2 993 020)	(1 106 698)	( 722 934)
XII. Total net cash flow	(11 250 980)	9 364 844	(2 695 750)	2 261 985
	<b>At</b>	<b>At</b>	<b>At</b>	<b>At</b>
	<b>31 December 2012</b>	<b>31 December 2011</b>	<b>31 December 2012</b>	<b>31 December 2011</b>
XIII. Non-current assets	22 410 582	11 696 705	5 481 772	2 648 231
XIV. Current assets	5 766 730	17 556 484	1 410 579	3 974 933
XV. Total assets	28 177 312	29 253 189	6 892 351	6 623 164
XVI. Non-current liabilities	2 454 910	2 249 946	600 487	509 406
XVII. Current liabilities	3 798 931	3 867 732	929 243	875 686
XVIII. Equity	21 923 471	23 135 511	5 362 621	5 238 072

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

	<u>31 December 2012</u>	<u>31 December 2011</u>
Average exchange rate for the period*	4.1736	4.1401
Exchange rate at the end of the period	4.0882	4.4168

\*Exchange rates are the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2012 and 2011

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

# **KGHM POLSKA MIEDŹ S.A.**

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## **ANNUAL REPORT R 2012 COMPRISES:**

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

**Lubin, March 2013**

**KGHM POLSKA MIEDŹ S.A.**

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**AUDITOR'S OPINION AND REPORT  
ON ITS AUDIT OF THE FINANCIAL  
STATEMENTS FOR 2012**

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Lubin, March 2013



## **Independent Registered Auditor's Opinion to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna**

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

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

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

We conducted our audit in accordance with the following:

- a. the provisions of Chapter 7 of the Act;
- b. national standards of auditing issued by the National Chamber of Registered Auditors.

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

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Telephone +48 22 523 4000, Facsimile +48 22 508 4040, [www.pwc.pl](http://www.pwc.pl)*



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

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

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

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

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

Marcin Sawicki

Key Registered Auditor  
No. 11393

Wrocław, 27 March 2013

*Translation note:*

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**Report on the financial statements  
for the financial year ended 31 December 2012  
to the Shareholders' Meeting and Supervisory Board of  
KGHM Polska Miedź Spółka Akcyjna**

**This report contains 11 consecutively numbered pages and consists of:**

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II. Information about the audit.....	4
III. The Company's results, financial position and significant items of financial statements ..	5
IV. The independent registered auditor's statement .....	9
V. Final information and comments.....	11

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**KGHM Polska Miedź S.A.**  
**Report on the financial statements**  
**as at and for the year ended 31 December 2012**

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**I. General information about the Company**

- a. KGHM Polska Miedź Spółka Akcyjna („The Company”) was founded as a result of transformation of a state-owned enterprise, Kombinat Górniczo-Hutniczy Miedzi on the basis of art. 5 of the Act dated 13 July 1990 concerning the privatisation of state-owned enterprises (*Journal of Laws* No. 51, item 298, with subsequent amendments). The Notarial Deed was drawn up on 9 September 1991 at the Notary public’s Office No. 18 in Warsaw and registered with Rep. no. 8648/91. On 29 June 2001 the District Court Register decided to enter the Company in the Commercial Register with the reference number KRS 23302.
- b. The Company has its seat in Lubin, ul. Marii Skłodowskiej-Curie 48.
- c. In the audited year, the Company operated on the basis of concessions granted by the Minister of the Environmental Protection, Natural Resources and Forestry.
- d. On 14 June 1993 the Company was assigned the tax identification number (NIP) 692-000-00-13 for the purpose of making tax settlements and on 13 August 2003 the Company was assigned the REGON number 390021764 for statistical purposes.
- e. As at 31 December 2012 the Company’s registered share capital amounted to PLN 2.000 million and consisted of 200.000.000 shares, with a nominal value of PLN 10 per share. As at 31 December 2012 the Company’s equity was positive and amounted to PLN 21.923 million.
- f. As at 31 December 2012 and as at 27 March 2013 the shareholders of the Company were as follows:

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

- g. In the audited period the Company’s core business was:
  - metal ore mining,
  - production of non-ferrous metals, precious metals, and salts,
  - casting of light metals and non-ferrous metals,
  - waste management,
  - wholesale trading on the basis of direct payment or contract,
  - geological and exploratory activities, research and technical analyses,
  - professional rescue services.

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**KGHM Polska Miedź S.A.**  
**Report on the financial statements**  
**as at and for the year ended 31 December 2012**

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

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

- Herbert Wirth                      President,
- Maciej Tybura                      I Vice President (Finance)  
(till 28 June 2012),
- Włodzimierz Kiciński              Member of the Board (from 28 June 2012);  
as at 31 December 2012 hold the position  
of I Vice President (Finance),
- Wojciech Kędzia                      Member of the Board;  
as at 31 December 2012 hold the position  
of Vice President (Production),
- Dorota Włoch                      Member of the Board (from 28 June 2012);  
as at 31 December 2012 hold the position  
of Vice President (Development),
- Adam Sawicki                      Member of the Board (from 1 September 2012);  
as at 31 December 2012 hold the position  
of Vice President (Corporate).

i. The Company has the following related entities:

- the Polish State Treasury (the Company's parent entity in accordance with IAS 27) and its subsidiaries,
- entities incorporated into the capital group, in which the Company is the parent entity together with their associates,
- members of the key management personnel of the Company.

Transactions with related parties were described in note no. 33 to the financial statements.

j. The Company is the issuer of securities admitted for trading on the Warsaw Stock Exchange. In accordance with the choice of selecting accounting policies permitted by the Accounting Act, since 2007, the Company has decided to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.

The decision to prepare the Company's financial statements in accordance with these standards was made by the Shareholders' Meeting in their Resolution No. 26/2006 passed on 14 June 2006.

k. As the parent company of the KGHM Polska Miedź S.A. Group, the Company has also prepared consolidated financial statements according to IFRS as adopted by the European Union as at 27 March 2013. To better understand the Company's financial position and its results of operations as the parent company, the financial statements should be read in conjunction with the consolidated financial statements.

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**KGHM Polska Miedź S.A.**  
**Report on the financial statements**  
**as at and for the year ended 31 December 2012**

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**II. Information about the audit**

- a. The audit of the financial statements as at and for the year ended 31 December 2012 was conducted by PricewaterhouseCoopers Sp. z o.o. having its seat in Warsaw, al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Marcin Sawicki (no. 11393).
- b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Company by Resolution No. 31/VII/10 of the Supervisory Board dated 16 April 2010 in accordance with paragraph 20, point 2 of the Company's Articles of Association.
- c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clauses 2-4 of the Act on registered auditors and their council, entities entitled to provide an audit of the financial statements and public supervision of 7 May 2009 (Journal of Laws of 2009, No. 77, item 649, with further amendments).
- d. The audit was performed on the basis of an agreement dated 25 May 2010 and conducted in the following periods:
  - interim audit from 5 to 9 November 2012;
  - final audit from 24 January to 27 March 2013.

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**KGHM Polska Miedź S.A.**  
**Report on the financial statements**  
**as at and for the year ended 31 December 2012**

**III. The Company's results, financial position and significant items of financial statements**

**STATEMENT OF FINANCIAL POSITION**  
**as at 31 December 2012 (selected lines)**

	31.12.2012 PLN million	31.12.2011* PLN million	Change		Structure	
			PLN million	(%)	31.12.2012 (%)	31.12.2011 (%)
<b>ASSETS</b>						
Non-current assets	22.410	11.696	10.714	91,6	79,5	40,0
Current assets	5.767	17.556	(11.789)	(67,2)	20,5	60,0
<b>Total assets</b>	<b>28.177</b>	<b>29.252</b>	<b>(1.075)</b>	<b>(3,7)</b>	<b>100,0</b>	<b>100,0</b>
<b>EQUITY AND LIABILITIES</b>						
Equity	21.923	23.135	(1.212)	(5,2)	77,8	79,1
Long-term liabilities	2.455	2.250	205	9,1	8,7	7,7
Short-term liabilities	3.799	3.867	(68)	(1,8)	13,5	13,2
<b>Total liabilities and equity</b>	<b>28.177</b>	<b>29.252</b>	<b>(1.075)</b>	<b>(3,7)</b>	<b>100,0</b>	<b>100,0</b>

\*) restated data

**STATEMENT OF PROFIT OR LOSS**  
**for the year ended 31 December 2012 (selected lines)**

	2012 PLN million	2011* PLN million	Change		(% of revenue)	
			PLN million	(%)	2012 (%)	2011 (%)
Revenues	20.737	20.097	640	3,2	100,0	100,0
Cost of sales	(12.786)	(9.853)	(2.933)	29,8	(61,7)	(49,0)
<b>Gross profit</b>	<b>7.951</b>	<b>10.244</b>	<b>(2.293)</b>	<b>(22,4)</b>	<b>38,3</b>	<b>51,0</b>
<b>Net profit for the year</b>	<b>4.868</b>	<b>11.394</b>	<b>(6.526)</b>	<b>(57,3)</b>	<b>23,5</b>	<b>56,7</b>

\*) restated data

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**KGHM Polska Miedź S.A.**  
**Report on the financial statements**  
**as at and for the year ended 31 December 2012**

**III. The Company's results, financial position and significant items of financial statements (cont.)**

**STATEMENT OF COMPREHENSIVE INCOME**  
**for the year ended 31 December 2012 (selected lines)**

	2012 PLN million	2011* PLN million	Change		(% of revenue	
			PLN million	(%)	2012 (%)	2011 (%)
Net profit for the year	4.868	11.394	(6.526)	(57,3)	23,5	56,7
Other comprehensive income	(412)	265	(677)	<(100,0)	(2,0)	1,3
<b>Total comprehensive income</b>	<b>4.456</b>	<b>11.659</b>	<b>(7.203)</b>	<b>(61,8)</b>	<b>21,5</b>	<b>58,0</b>

\*) restated data

**Selected ratios characterising the Company's financial position and results**

The following ratios characterize the Company's activities, results of operations during the audited year and its financial position as at the end of the reporting period compared with previous year:

	2012	2011*
Asset ratios		
- receivables turnover	18 days	24 days
- inventory turnover	106 days	122 days
Profitability ratios		
- net profit margin	23 %	57 %
- gross margin	34 %	47 %
- return on capital employed	22 %	61 %
Liability ratios		
- gearing	22 %	21 %
- payables turnover	32 days	41 days
	<b>31.12.2012</b>	<b>31.12.2011*</b>
Liquidity ratios		
- current ratio	1,5	4,5
- quick ratio	0,7	3,9
Other ratios		
- effective tax rate	24,1 %	17,0 %

\*) for the restated data

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

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

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**KGHM Polska Miedź S.A.**  
**Report on the financial statements**  
**as at and for the year ended 31 December 2012**

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**III. The Company's results, financial position and significant items of financial statements (cont.)**

The financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 2,4% in the audited year (4,6% in 2011).

The comparability of the financial statements for 2011 and 2012, and thus the information content of the financial ratios for these years, may be limited due to the impact of the changes in the accounting policy resulted from the early adoption by the Company, according to the transitional provisions, the changes in IAS 19 "Employee benefits". The changes implemented by the Company affect recognizing of actuarial gains and losses in other comprehensive income (except for actuarial gains and losses on jubilee awards), instead of profit or loss. The changes in the accounting policy have been described in point 2.1.2 of The accounting policies and other explanatory information to the financial statements.

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

- As at the end of the financial year the Company's total assets amounted to PLN 28.177 million. During the year total assets decreased by PLN 1.075 million, i.e. by 3,7%. The main reason for the drop was a decrease in cash and cash equivalents by PLN 12.129 million, that was partially compensated by an increase of the value of shares and investment certificates in subsidiaries by PLN 9.629 million and property, plant and equipment by PLN 1.167 million. During the financial year the Company has generated a net profit in the amount of PLN 4.868 million and paid a dividend of PLN 5.668 million to its shareholders.
- In the audited year the value of shares and investment certificates in subsidiaries increase by PLN 9.629 million compared to the previous year. This increase results mainly from the acquisition of shares in Fermat 1 S.à r.l. in the amount of PLN 9.624 million which was connected with the purchase of the company Quadra FNX Mining Inc. (currently KGHM INTERNATIONAL LTD.) and exercise the option of acquiring the additional 29% of shares in the share capital of KGHM Ajax Mining Inc. The detailed information about those transaction has been described in the point 7 of The accounting policies and other explanatory information to the financial statements.
- Cash and cash equivalents contained deposits amounted to PLN 689 million and cash in bank amounted to PLN 18 million. The drop by PLN 12.129 million (i.e. 94,5%) compared to the previous year was mainly due to the acquisition of the shares in the company Quadra FNX Mining Inc. (currently KGHM INTERNATIONAL LTD.) and payment of dividend for shareholders in the amount of PLN 5.668 million.
- The Company's structure of debt has changed. The payables turnover amounted to 32 days (41 days in the previous year). The Company's debt ratio amounted to 22% at the end of audited year (21% at the end of the previous year).

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**III. The Company's results, financial position and significant items of financial statements (cont.)**

- Total revenues amounted to PLN 20.737 million and increased by PLN 640 million (i.e. 3,2%) when compared to the previous year. The Company's core activities in the current financial year consisted of production and sale of copper, precious metals and smelter by-products. This growth was mainly due to favourable conditions on international and domestic industrial goods markets during 2012, which were reflected in an increase in sales volume of copper and copper products. The additional factor for the growth was the increase of the average exchange rate of US Dollar compared with the prior year by 10%. In the same period the average price of copper and silver decreased by 10% and 11% respectively when compared to 2011. The revenues include also profit on hedge transactions amounted to PLN 333 million.
- The operating expenses (the total of cost of sales, selling and administrative expenses) increased by PLN 2.942 million (i.e. 27,6%) when compared to 2011. The change was mainly due to the growth of cost of taxes and charges by PLN 1.599 million as a result of implementation in 2012 the mineral extraction tax and the growth in material and energy costs by PLN 910 million.
- The amount of deferred and current income tax for the audited period equalled to PLN 1.549 million and decreased by PLN 784 million comparing to 2011 due to lower taxable profit obtained by the Company in 2012. As a result, as at the end of the reporting period the balance of current income tax liabilities amounted to PLN 390 million and decreased by PLN 1.198 million when compared with the previous accounting period. The increase in effective tax rate was mainly due to implementation in 2012 the mineral extraction tax that is not deductible for corporate income tax purposes.
- Profitability measured with net profit amounted to 23% and was 34 percentage points lower than in the previous year. The change in the Company's profitability was primarily due to the sale of shares of Polkomtel S.A. in 2011 and the implementation in 2012 the mineral extraction tax.
- The Company's liquidity has changed. The current ratio amounted to 1,5 (4,5 in 2011), whereas the quick ratio amounted to 0,7 (3,9 in 2011).

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**KGHM Polska Miedź S.A.**  
**Report on the financial statements**  
**as at and for the year ended 31 December 2012**

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**IV. The independent registered auditor's statement**

- a. The Management Board of the Company provided all the information, explanations, and representations required by us in the course of the audit and provided us with the representation letter confirming the completeness of the information included in the accounting records and the disclosure of all contingent liabilities and subsequent events which occurred up to the date on which that letter was signed.
- b. The scope of the audit was not limited.
- c. The Company has up-to-date documentation of its accounting policies, approved by the Management Board. The Company's accounting policies were tailored to its needs and ensured the recognition of all events with a material effect on the assessment of its financial position and results, taking into consideration the prudence principle. Changes to accounting policies were properly disclosed in additional notes and explanations to the financial statements.
- d. The closing balances as at the end of the previous year were correctly brought forward as the opening balances of the current financial year in all material respects.
- e. The stocktaking of assets and liabilities were carried out and reconciled in accordance with the Act, and the results were included in the accounting records for the audited year.
- f. The financial statements of the Company for the period from 1 January to 31 December 2011 were approved by Resolution No. 4/2012 passed by the Shareholders' Meeting of 28 June 2012, filed with the National Court Register in Wrocław on 5 July 2012 and published in Monitor Polski B No. 3179 on 3 December 2012.
- g. In accordance with the Resolution No. 5/2012 of the Shareholders' Meeting of 28 June 2012, the net profit for the prior year of PLN 11.335 million was distributed in the following manner:
  - the amount of PLN 5.668 million for dividend for Company's Shareholders,
  - the amount of PLN 5.667 million for reserve capital of the Company (retained earnings).
- h. The financial statements for the previous financial year were audited by PricewaterhouseCoopers Sp. z o.o. The registered auditor issued an unqualified opinion.
- i. We have assessed the operation of the accounting system. Our assessment covered in particular:
  - the accuracy of the documentation relating to business transactions;
  - the fairness, accuracy and verifiability of the books of account, including computerized books of account;
  - the methods used for controlling access to data and the computerized data processing system;
  - the safeguarding of the accounting documentation, books of account, and financial statements.

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**KGHM Polska Miedź S.A.**  
**Report on the financial statements**  
**as at and for the year ended 31 December 2012**

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

This assessment, together with our verification of individual items of the financial statements, provides the basis for expressing a general and comprehensive opinion on these financial statements. The audit was not intended to provide a comprehensive opinion on the operations of the said system.

- j. The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.
- k. The information in the Directors' Report for the year ended 31 December 2012 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws of 2009, No. 33, item 259, as amended) and are consistent with that presented in the financial statements.

*Translation note:*

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

**KGHM Polska Miedź S.A.**  
**Report on the financial statements**  
**as at and for the year ended 31 December 2012**

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**V. Final information and comments**

This report has been prepared in connection with our audit of the financial statements of KGHM Polska Miedź Spółka Akcyjna, ulica Marii Skłodowskiej-Curie 48, Lubin. The financial statements were signed by the Company's Management Board and the person entrusted with maintaining the books of account on 27 March 2013.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna dated 27 March 2013, concerning the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

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

Marcin Sawicki

Key Registered Auditor  
No. 11393

Wrocław, 27 March 2013

*Translation note:*

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



# **KGHM POLSKA MIEDŹ S.A.**

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

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Lubin, March 2013

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

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

<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Herbert Wirth	President of the Management Board	
27 March 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
27 March 2013	Wojciech Kędzia	Vice President of the Management Board	
27 March 2013	Adam Sawicki	Vice President of the Management Board	
27 March 2013	Dorota Włoch	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

**KGHM POLSKA MIEDŹ S.A.**

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

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Lubin, March 2013

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

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

<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Herbert Wirth	President of the Management Board	
27 March 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
27 March 2013	Wojciech Kędzia	Vice President of the Management Board	
27 March 2013	Adam Sawicki	Vice President of the Management Board	
27 March 2013	Dorota Włoch	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

**KGHM POLSKA MIEDŹ S.A.**

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**PRESIDENT'S LETTER**

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Lubin, March 2013

Dear Shareholders and Stakeholders,

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

The basic materials produced by the Company are the basis for modern and safe technology, critical for modern society and an indicator of future global development. The key word marking the past year in the history of the company is Development.

The acquisition of the Canadian mining company Quadra FNX Mining Ltd. was one of the largest and most important transactions for the Polish economy. No other Polish company has accomplished what KGHM Polska Miedź S.A. has done. New perspectives have opened for our company. We have become a global player on the non-ferrous metals market. The Company owns mines in Canada, the USA and Chile. We are also co-owner of the world-class Sierra Gorda project in Chile. Sierra Gorda contains 1.3 billion tonnes of ore rich in copper, gold and molybdenum. Copper production will commence next year, with target output exceeding 200 thousand tonnes annually, or nearly half of today's copper production in Poland. By acquiring this Canadian company we have assured ourselves of an appropriate resources structure and have gained the real possibility of reducing the costs of producing copper. This builds value for shareholders. The key to success is peace and good relations with the environment. As a global participant in the copper and silver production market, we remain committed, in a predictable and responsible manner, to building not only our future - our acquisition also represents an opportunity for other Polish companies. Each large Polish investment abroad creates new opportunities for other enterprises. This is also an opportunity for academic institutions.

In 2012 we maintained, according to plan, a high level of electrolytic copper and silver production. I am happy to declare that we earned a solid profit despite the introduction last year of the minerals extraction tax. In this way we confirm the effective realisation of the planned goals.

At the initiative of KGHM Polska Miedź S.A. the Think Tank forum was launched, promoting the expansion of Polish companies abroad. „Poland, Go Global!” is a project being realised in cooperation with the ICAN Institute, the sole representative of Harvard Business Publishing Corporation in Poland. Its goal is to assist in informational exchanges and to promote theoretical and practical knowledge. We are also creating new standards in relations between the business and academic/scientific communities. To build competitive advantage on global markets it is important to create one's own innovative technology. This is why, together with the National Center for Research and Development (Narodowe Centrum Badań i Rozwoju) we have entered into a pioneering agreement on cooperation in R&D for the Polish non-ferrous metals sector. Each year numerous R&D-type projects are realised in the company. These are large projects, such as the introduction of mechanical mining methods, as well as smaller ones enabling the realisation of challenges related to the needs of individual elements of the core production business. Our R&D activities enable the realisation of our strategic goals.

Openness, transparency, respect for the principles of balanced development and corporate social responsibility are crucial aspects of the Company's business activities. We accept particular responsibility for our operations. In terms of our CSR-related activities we give equal weight to our impact on the environment. It is important for us to build trust in our Company and to minimise all types of risk, including social and environmental risks. We support development of the region and of local communities.

During the past year I had innumerable opportunities to be convinced of the fact that the success of KGHM depends predominantly on its people – their ability to deal with difficult circumstances, to react flexibly and make appropriate decisions, and above all to understand our long term strategy. The most valuable capital in the company is human capital. Proof of this is the variety of awards received by KGHM in 2012.

In presenting you with this report, I wish to thank our shareholders for the trust they expressed in us during the past year. On behalf of the entire Management Board, I wish to thank the Supervisory Board for their substantive supervision of the activities of KGHM. Special thanks goes to all of our employees for their professionalism, hard work and – consequently – the successes achieved in recent years by KGHM Polska Miedź S.A.

President of the Management Board

Herbert Wirth

Lubin, 27 March 2013

**KGHM POLSKA MIEDŹ S.A.**

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**FINANCIAL STATEMENTS  
FOR 2012**

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**Lubin, March 2013**



KGHM Polska Miedź S.A.  
Annual financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2012 to 31 December 2012  
(amounts in tables in PLN million, unless otherwise stated)

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**Statement of financial position**

**At**

	<b>Note</b>	<b>31 December 2012</b>	<b>31 December 2011 restated*</b>	<b>1 January 2011 restated*</b>
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	8 445	7 277	6 551
Intangible assets	6	175	151	87
Shares and investment certificates in subsidiaries	7	11 641	2 012	2 643
Investments in associates and interest in joint ventures	7	33	-	1 160
Deferred tax assets	18	266	169	360
Available-for-sale financial assets	8	882	992	750
Mine closure financial assets	9	141	112	84
Derivatives	10	742	899	404
Trade and other receivables	11	85	84	86
		<b>22 410</b>	<b>11 696</b>	<b>12 125</b>
<b>Current assets</b>				
Inventories	12	2 992	2 356	2 012
Trade and other receivables	11	1 687	1 503	2 394
Available-for-sale financial assets		-	-	405
Mine closure financial assets	9	-	2	4
Derivatives	10	381	859	294
Cash and cash equivalents	13	707	12 836	2 595
		<b>5 767</b>	<b>17 556</b>	<b>7 704</b>
<b>TOTAL ASSETS</b>		<b>28 177</b>	<b>29 252</b>	<b>19 829</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	14	2 000	2 000	2 000
Revaluation reserve from measurement of available-for-sale financial assets	15	-	(39)	121
Revaluation reserve from measurement of cash flow hedging instruments	15	286	574	90
Retained earnings	15	19 637	20 600	12 245
<b>TOTAL EQUITY</b>		<b>21 923</b>	<b>23 135</b>	<b>14 456</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Trade and other payables	16	36	12	14
Borrowings and finance lease liabilities		-	-	8
Derivatives	10	230	538	712
Employee benefits liabilities	19	1 471	1 216	1 128
Provisions for other liabilities and charges	20	718	484	518
		<b>2 455</b>	<b>2 250</b>	<b>2 380</b>
<b>Current liabilities</b>				
Trade and other payables	16	2 227	1 828	1 728
Borrowings and finance lease liabilities	17	1 013	-	3
Current corporate tax liabilities		390	1 588	669
Derivatives	10	23	330	482
Employee benefits liabilities	19	110	107	93
Provisions for other liabilities and charges	20	36	14	18
		<b>3 799</b>	<b>3 867</b>	<b>2 993</b>
<b>TOTAL LIABILITIES</b>		<b>6 254</b>	<b>6 117</b>	<b>5 373</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>28 177</b>	<b>29 252</b>	<b>19 829</b>

\* explanation in note 2.1.2

The accounting policies and other explanatory information presented on pages 8 to 107 represent an integral part of these financial statements

KGHM Polska Miedź S.A.  
Annual financial statements prepared in accordance with IFRS  
as adopted by the European Union  
for the period from 1 January 2012 to 31 December 2012  
(amounts in tables in PLN million, unless otherwise stated)

**Statement of profit or loss**

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
Sales	21	20 737	20 097
Cost of sales	22	(12 786)	(9 853)
<b>Gross profit</b>		<b>7 951</b>	<b>10 244</b>
Selling costs	22	( 113)	(111)
Administrative expenses	22	(703)	(696)
Other operating income	24	1 400	5 093
Other operating costs	25	(2 109)	(769)
<b>Operating profit</b>		<b>6 426</b>	<b>13 761</b>
Net finance costs	26	(9)	(34)
<b>Profit before income tax</b>		<b>6 417</b>	<b>13 727</b>
Income tax expense	29	(1 549)	(2 333)
<b>Profit for the period</b>		<b>4 868</b>	<b>11 394</b>
<b>Earnings per share for the annual period (in PLN per share)</b>			
	30		
- basic		24.34	56.97
- diluted		24.34	56.97

\* explanation in note 2.1.2

The accounting policies and other explanatory information presented on pages 8 to 107 represent an integral part of these financial statements

KGHM Polska Miedź S.A.  
Annual financial statements prepared in accordance with IFRS  
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for the period from 1 January 2012 to 31 December 2012  
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**Statement of comprehensive income**

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
<b><u>Profit for the period</u></b>		<b>4 868</b>	<b>11 394</b>
<b><u>Other comprehensive income:</u></b>			
<b>Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met</b>		<b>(249)</b>	<b>324</b>
Available-for-sale financial assets		48	(198)
Income tax		(9)	38
		39	(160)
Cash flow hedging instruments		(355)	598
Income tax		67	(114)
		(288)	484
<b>Other comprehensive income, which will not be reclassified to profit or loss</b>		<b>(163)</b>	<b>(59)</b>
Actuarial losses*		(201)	(73)
Income tax		38	14
<b><u>Other comprehensive net income for the financial period</u></b>	15	<b>(412)</b>	<b>265</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>4 456</b>	<b>11 659</b>

\* explanation in note 2.1.2

The accounting policies and other explanatory information presented on pages 8 to 107 represent an integral part of these financial statements

KGHM Polska Miedź S.A.  
Annual financial statements prepared in accordance with IFRS  
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**Statement of changes in equity**

	Note	Share capital	Revaluation reserve from measurement of available-for- sale financial assets	Revaluation reserve from measurement of cash flow hedging instruments	Retained earnings	Total equity
<b>At 1 January 2012 restated*</b>		<b>2 000</b>	<b>(39)</b>	<b>574</b>	<b>20 600</b>	<b>23 135</b>
Dividends from profit for 2011 - paid	31	-	-	-	(5 668)	<b>(5 668)</b>
Total comprehensive income		-	39	(288)	4 705	<b>4 456</b>
Profit for the period	15	-	-	-	4 868	<b>4 868</b>
Other comprehensive income	15	-	39	(288)	(163)	<b>(412)</b>
<b>At 31 December 2012</b>		<b>2 000</b>	<b>-</b>	<b>286</b>	<b>19 637</b>	<b>21 923</b>
<b>At 1 January 2011 restated*</b>		<b>2 000</b>	<b>121</b>	<b>90</b>	<b>12 245</b>	<b>14 456</b>
Dividends from profit for 2010 - paid		-	-	-	(2 980)	<b>(2 980)</b>
Total comprehensive income		-	(160)	484	11 335	<b>11 659</b>
Profit for the period	15	-	-	-	11 394	<b>11 394</b>
Other comprehensive income	15	-	(160)	484	(59)	<b>265</b>
<b>At 31 December 2011 restated*</b>		<b>2 000</b>	<b>(39)</b>	<b>574</b>	<b>20 600</b>	<b>23 135</b>

\* explanation in note 2.1.2

The accounting policies and other explanatory information presented on pages 8 to 107 represent an integral part of these financial statements

KGHM Polska Miedź S.A.  
Annual financial statements prepared in accordance with IFRS  
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for the period from 1 January 2012 to 31 December 2012  
(amounts in tables in PLN million, unless otherwise stated)

**Statement of cash flows**

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated*
<b>Cash flow from operating activities</b>			
Profit for the period	15	4 868	11 394
<b>Total adjustments to profit for the period:</b>		2 583	(1 341)
Income tax recognised in profit or loss		1 549	2 333
Amortisation/Depreciation		772	672
Gains on sale of a subsidiary and an associate		-	(2 662)
Impairment loss on loan, property, plant and equipment, and available-for-sale financial assets		185	-
Interest and share in profits (dividends)		(58)	(288)
Foreign exchange (gains)/losses		856	(871)
Change in provisions	32	70	34
Change in assets/liabilities due to derivatives		(2)	(546)
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives		(333)	(241)
Other adjustments		4	(7)
Changes in working capital:		(460)	235
Inventories		(636)	(344)
Trade and other receivables	32	(180)	544
Trade and other payables	32	356	35
Income tax paid		(2 748)	(1 285)
<b>Net cash generated from operating activities</b>		<b>4 703</b>	<b>8 768</b>
<b>Cash flow from investing activities</b>			
Purchase of shares and investment certificates in subsidiaries		(9 604)	(201)
Proceeds from sale and liquidation of shares in subsidiaries		-	982
Purchase of interest in joint ventures		(33)	-
Proceeds from sale of shares in an associate		-	3 672
Purchase of property, plant and equipment and intangible assets		(1 647)	(1 406)
Advances granted for purchase of property, plant and equipment and intangible assets		(93)	(59)
Proceeds from sale of property, plant and equipment and intangible assets	32	16	6
Purchase of available-for-sale financial assets		-	(1 566)
Proceeds from sale of available-for-sale financial assets		-	1 548
Purchase of mine closure financial assets		(27)	(26)
Establishment of deposits		-	(450)
Termination of deposits		-	800
Loans granted		(8)	-
Repayments of loans granted		5	5
Interest received		3	12
Dividends received		57	277
Other investment expenses		(4)	(4)
<b>Net cash (used in)/generated from investing activities</b>		<b>(11 335)</b>	<b>3 590</b>
<b>Cash flow from financing activities</b>			
Proceeds from borrowings		1 039	-
Payments of finance leases liabilities		-	(13)
Dividends paid	15	(5 668)	(2 980)
Other financial proceeds/(expenses)		10	-
<b>Net cash used in financing activities</b>		<b>(4 619)</b>	<b>(2 993)</b>
<b>Total net cash flow</b>		<b>(11 251)</b>	<b>9 365</b>
Exchange gains on cash and cash equivalents		(878)	876
<b>Movements in cash and cash equivalents</b>		<b>(12 129)</b>	<b>10 241</b>
<b>Cash and cash equivalents at beginning of the period</b>	13	<b>12 836</b>	<b>2 595</b>
<b>Cash and cash equivalents at end of the period</b>	13	<b>707</b>	<b>12 836</b>
including restricted cash and cash equivalents		1	3

\* explanation in note 2.1.2

The accounting policies and other explanatory information presented on pages 8 to 107 represent an integral part of these financial statements

## Accounting policies and other explanatory information

### 1. General information

#### Company name, registered office, business activities

KGHM Polska Miedź S.A. (the "Company") with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, operating on the territory of the Republic of Poland. The Company was assigned the tax identification number (NIP) 692-000-00-13 and a statistical REGON number 390021764. KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter Division, Legnica Smelter Division, the Cedynia Wire Rod Division), the Concentrator Division, the Tailings Division, the Mine-Smelter Emergency Rescue Division and the Data Center Division.

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

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

The principal activities of the Company 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 or contractual payments,
- warehousing and storage of merchandise,
- holding management activities,
- geological and exploratory activities,
- general construction activities with respect to mining and production facilities,
- generation and distribution of electricity, steam and hot water, production of gas and distribution of gaseous fuels through a supply network,
- scheduled and non-scheduled air transport, and
- telecommunication and IT activities.

#### Going concern assumption

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

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

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

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

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

## **1. General information (continued)**

### Status at the date of signing the financial statements

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

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

### Planned actions following the date of signing of the financial statements

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

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

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

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

Based on art. 106 § 5 of the Administrative Proceedings Code (APC) the taking of a position by a body (the relevant municipality), including refusal to agree the applications and concession decisions, will occur in the form of a decision.

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

Another legal tool available to the parties is to appeal the decisions of the Government Appeals Collegium to the Regional Administrative Court (RAC). An appeal, based on art. 53 §1 of the Law on Proceedings before Administrative Courts must be submitted within 30 days of delivery/handing over to the appealing party. Parties are allowed to appeal the judgement of the RAC, under art. 173 of the Law on Proceedings before Administrative Courts, in the form of a cassation appeal to the Supreme Administrative Court (SAC) in Warsaw, submitted within 30 days of delivery/handing over to the party an official copy of the judgement with justification. A judgement issued as a result of a cassation appeal by the SAC is legally binding.

Due to the awareness of the importance attached to the continuation of the operations of KGHM Polska Miedź S.A. in the region as the main employer and taxpayer to the municipalities, the Management Board of the Company does not foresee the possibility of a failure to agree the concession decisions. This is confirmed by the previous stage of agreement by the RDEP with the municipalities of environmental decisions, when none of the municipalities raised any concerns. As a result of the close and open cooperation of the Company with the municipalities and the good atmosphere between the parties, no concerns whatsoever have been raised during the process of obtaining environmental decisions. In the Company's opinion, this is a clear signal confirming the declarations of acceptance for the actions of KGHM Polska Miedź S.A. which were submitted many times by the municipal bodies, and justifies minimisation of the assessed actual threat of not obtaining these mining concessions. We assume that any eventual concerns which are raised will be of a substantive nature and will not threaten the successful realisation of the project CONCESSIONS 2013.

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



## 1. General information (continued)

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

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

### Period of operation

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

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

### Management Board

The 7th-term Management Board of KGHM Polska Miedź S.A. as at 1 January 2012 consisted of:

- Herbert Wirth President of the Management Board,
- Maciej Tybura I Vice President of the Management Board (Finance) (to 28 June 2012),
- Wojciech Kędzia Vice President of the Management Board (Production).

On 27 June 2012, due to expiration of the term of office of the Management Board, the Supervisory Board of KGHM Polska Miedź S.A. appointed Herbert Wirth as President of the 8th-term Management Board, as well as the following Members of the Management Board:

- Włodzimierz Kiciński (from 28 June 2012),
- Wojciech Kędzia,
- Dorota Włoch (from 28 June 2012),
- Adam Sawicki (from 1 September 2012).

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

The composition and scope of duties of the Management Board at 31 December 2012 was as follows:

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

### Supervisory Board

The 8th-term Supervisory Board of KGHM Polska Miedź S.A. as at 1 January 2012 consisted of:

- Jacek Kuciński Chairman
- Marcin Dyl Deputy Chairman
- Marek Panfil Secretary
- Franciszek Adamczyk
- Arkadiusz Kawecki
- Marzenna Weresa
- Jan Rymarczyk

as well as the following employee-elected members:

- Lech Jaroń
- Maciej Łaganowski
- Paweł Markowski.

During the period from 1 January 2012 to the date of authorisation of this report for issue, the bodies of the Company undertook the following decisions, which affected the composition of the Supervisory Board:

- 1) On 19 January 2012, the Extraordinary General Meeting resolved to:
  - dismiss from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa,
  - appoint to the Supervisory Board: Aleksandra Magaczewska, Krzysztof Kaczmarczyk, Mariusz Kolwas, Robert Oliwa and Jacek Poświata.

## 1. General information (continued)

- 2) On 13 February 2012, the Supervisory Board selected to serve in the function of:
  - Deputy Chairman - Marek Panfil,
  - Secretary - Mariusz Kolwas.
- 3) On 17 April 2012, Marek Panfil resigned from the function of Deputy Chairman and on the same day the Supervisory Board selected Aleksandra Magaczewska to serve in this function.
- 4) On 24 April 2012, Mariusz Kolwas resigned as a Member of the Supervisory Board.
- 5) On 25 April 2012, the Extraordinary General Meeting resolved to:
  - dismiss from the Supervisory Board: Jacek Kuciński and Marek Panfil,
  - appoint to the Supervisory Board: Paweł Białek, Dariusz Krawczyk and Ireneusz Piecuch.
- 6) On 21 May 2012, the Supervisory Board selected to serve in the function of:
  - Chairwoman - Aleksandra Magaczewska,
  - Deputy Chairman - Krzysztof Kaczmarczyk,
  - Secretary - Dariusz Krawczyk.
- 7) On 28 June 2012, the Ordinary General Meeting, after reviewing the requests of employees regarding the dismissal of members of the Supervisory Board elected by the Company's employees, dismissed the following persons from the Supervisory Board: Lech Jaroń, Maciej Łaganowski and Paweł Markowski.
- 8) On 3 July 2012, Robert Oliwa submitted his resignation as a Member of the Supervisory Board effective as of the date of the General Meeting of KGHM Polska Miedź S.A., the subject of which will be changes in the composition of the Supervisory Board.
- 9) On 3 September 2012, the Extraordinary General Meeting appointed Krzysztof Opawski to the composition of the Supervisory Board.
- 10) On 21 November 2012, the Extraordinary General Meeting appointed Bogusław Szarek, member of the Supervisory Board elected by the employees of KGHM Polska Miedź S.A., to the composition of the Supervisory Board.

At 31 December 2012 the composition of the Supervisory Board was as follows:

- |                          |                 |
|--------------------------|-----------------|
| - Aleksandra Magaczewska | Chairwoman      |
| - Krzysztof Kaczmarczyk  | Deputy Chairman |
| - Dariusz Krawczyk       | Secretary       |
| - Paweł Białek           |                 |
| - Krzysztof Opawski      |                 |
| - Ireneusz Piecuch       |                 |
| - Jacek Poświęta         |                 |
| - Bogusław Szarek.       |                 |

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

These financial statements were authorised for issue and signed by the Management Board of the Company on 27 March 2013.

### Seasonal or cyclical activities

The Company is not affected by seasonal or cyclical activities.

## 2. Main accounting policies

### 2.1 Basis of preparing financial statements

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

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

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

## 2. Main accounting policies (continued)

### 2.1.1 New standards

**From 1 January 2012 the following new and changed standards and interpretations are binding for the Company:**

- **Amendments to IFRS 7 Disclosures** – Transfers of Financial Assets;

**In addition, the Company decided on the early application from 1 January 2012 of non-obligatory standards and interpretations approved for use by the European Union:**

- **Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards** - Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters;
- **Amendments to IAS 12 Income Taxes** - Deferred Tax: Recovery of Underlying Assets
- **Amendments to IAS 1 Presentation of Financial Statements** – Presentation of items of Other Comprehensive Income.
- **Amended IAS 19 Employee benefits.**

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

#### **Amendments to IAS 1 Presentation of Financial Statements – *Presentation of items of Other Comprehensive Income.***

On 16 June 2011, the International Accounting Standards Board published amendments to IAS 1 *Presentation of Financial Statements* titled *Presentation of Other Comprehensive Income*.

Changes were introduced in the title of one of the basic financial statements, from „Statement of comprehensive income” to „Statement of profit or loss and other comprehensive income”, leaving the possibility to present the statement of profit or loss separately. Entities may apply titles for these statements other than those set forth in IAS 1.

Also introduced were rules providing for a more transparent identification of the impact of other comprehensive income items on the future financial results of companies, thanks to the separate grouping of these items which may be reclassified to profit or loss and to the separate presentation of those other comprehensive income items which will never be transferred to profit or loss, in accordance with individual IFRS.

In principle amendments to IAS 1 will be effective for annual periods beginning on or after 1 July 2012, however the Company decided on their early adoption for the annual period beginning on 1 January 2012, with the appropriate restatement of data presented for the comparable period. A description of these changes is presented in point 2.1.2.

#### **Amended IAS 19 Employee Benefits**

On 16 June 2011, the International Accounting Standards Board published an amended IAS 19 *Employee Benefits*. Work on the standard was carried out in conjunction with the American Financial Accounting Standards Board to unify certain regulations concerning employee benefit programs between IFRS and US GAAP.

The amendments to the standard introduce significant changes with respect to accounting for specified employee benefit programs. Among the items eliminated was the so-called 'corridor' approach enabling deferral in the recognition of actuarial gains and losses. This results in the necessity to recognise actuarial gains and losses when they arise. Elimination of this recognition option introduces consistency and clarity to the presented data. The requirement for early recognition (usually in the period in which they initially arise), was also introduced for costs of past employment.

Changes in the standard also involve the means of presentation of changes in the value of assets and liabilities of specified benefit programs. Among others the principle of ongoing recognition of changes arising as a result of the measurement of assets and liabilities of a program in other comprehensive income was introduced, with respect to benefits paid following the period of employment, while changes arising as a result of remeasurement of a program's assets and liabilities with respect to benefits paid during the period of employment, as well as costs of employment and interest, will continue to be recognised under profit or loss.

The amendment significantly expands the scope of disclosures for specified benefit programs, mainly with respect to the nature of these programs and the risk to which an entity is exposed due to participation in a program as well as sensitivity analysis for specified benefit programs.

The amended IAS 19 will be effective for annual periods beginning on and after 1 January 2013.

## 2. Main accounting policies (continued)

The Company decided on the early application of the changes to IAS 19 for the annual period beginning on 1 January 2012. As a result of amendments to the standard, the Company has changed its presentation of actuarial gains/losses, recognising them in other comprehensive income instead of profit or loss, with the exception of actuarial gains/losses due to measurement of non-current employee benefits paid during the employment period (jubilee bonuses), which are recognised in profit or loss. The Company also made a one-off recognition in profit or loss of past employment costs, until now recognised using the straight-line method. A description of these changes may be found in point 2.1.2.

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

#### **IFRS 10 Consolidated Financial Statements**

On 12 May 2011, the International Accounting Standards Board published IFRS 10 *Consolidated Financial Statements*. The new standard supersedes SIC 12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* with regard to consolidated financial statements.

The purpose of introducing the new standard was primarily to unify definitions of control, which due to inconsistencies between IAS 27 and SIC 12 led to various interpretations by economic entities.

IFRS 10 establishes a revised concept of control as being the deciding factor in whether to include an entity in consolidated financial statements, comprising three elements:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014. The Company will apply the scope of disclosure in the financial statements to the requirements of the standard.

#### **IFRS 11 Joint Arrangements**

On 12 May 2011, the International Accounting Standards Board published IFRS 11 *Joint Arrangements*. The new standard supersedes IAS 31 *Interests In Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*.

The new standard should be applied by entities which are parties to joint arrangements, i.e. those initiatives in which two or more parties exercise joint control over an investment, based on the unanimous consent of the parties with respect to the taking of decisions on important activities affecting return on their investment, resulting from contractual agreements.

IFRS 11 describes two types of joint arrangements: joint operations and joint ventures.

The type of joint arrangement is determined based on analysis of the rights and obligations of the parties resulting primarily from the structure and legal form of the joint arrangement. If the contractual terms grant the parties the right to the assets of the joint arrangement as well as obligations for the liabilities relating to the arrangement, then we identify the joint arrangement as a joint operation, and the parties to this arrangement recognise respectively the assets, liabilities, income and costs of the joint operation in their financial statements according to their respective interests in the joint operation.

If however the terms of the arrangement grant the parties the right to the net assets of the joint arrangement, then we identify the joint arrangement as a joint venture, in which the parties account for their respective investment using the equity method.

In addition, IFRS 11 stipulates that a joint venture may only be accounted for using the equity method, eliminating the previous option of proportional consolidation.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014. The Company will apply the scope of disclosure in the financial statements to the requirements of the standard.

#### **IFRS 12 Disclosure of Interests in Other Entities**

On 12 May 2011, the International Accounting Standards Board published IFRS 12 *Disclosure of Interests in Other Entities*. This standard will be applicable to the financial statements of entities having interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities.

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

The new standard combines the disclosure requirements regarding interests in other entities which are currently described in IAS 27, IAS 28 and IAS 31, introducing coherence and completeness in disclosures, and also expanding their scope. The purpose of introducing the changes was to ensure that users of financial statements have a better opportunity to evaluate the nature of, and risks associated with, the interests of a given entity in other entities, and to understand the effects of those interests on the investor's financial position, profit or loss and cash flows. The standard sets forth the minimum scope of disclosures which the investor can expand, if it is felt that additional disclosures are required to meet the purposes of the standard.

IFRS 12 will be effective in the European Union for annual periods beginning on or after 1 January 2014. The Company will apply the scope of disclosure in its financial statements required by the standard.

### **IFRS 13 Fair Value Measurement**

On 12 May 2011, the International Accounting Standards Board published IFRS 13 *Fair Value Measurement*. This standard is the result of the process carried out by the IASB, introducing unified accounting rules in terms of international and American standards.

IFRS 13 introduces a new definition of fair value, unified conceptual assumptions and amended disclosure requirements with respect to fair value measurements, without expanding the scope of fair value measurements. The new requirements are to be applied to those standards (with certain exceptions), which at present require or allow for the measurement of assets and liabilities to fair value, in respect of which the current guidelines regarding fair value measurements and disclosures are incoherent.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price). Consequently, the standard provides guidelines as to the method of measurement to fair value, both at the moment of initial recognition as well as on subsequent reporting period end days.

In the current standards, a broad range of disclosures concerning measurement to fair value are mainly in respect of financial instruments. The application of IFRS 13 will encompass those disclosures as well as other assets and liabilities which are subject to fair value measurement.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2013.

The Company estimates that although IFRS 13 will affect the presentation of disclosures involving fair value measurement in the financial statements, this will depend on those assets and liabilities held which are measured to fair value.

### **IAS 27 Separate Financial Statements**

On 12 May 2011, the International Accounting Standards Board published the amended IAS 27 *Separate Financial Statements*, which supersedes the existing IAS 27 *Consolidated and Separate Financial Statements* in that part involving separate financial statements. The change in the standard is a result of the Board's „Consolidation” project, as a result of which the existing scope of IAS 27 was divided between IFRS 10 *Consolidated Financial Statements* and IAS 27, which will only deal with separate financial statements. Likewise, the requirements regarding separate financial statements set forth in IAS 28 and IAS 31 were transferred to the amended IAS 27.

The definitions and terminology of the amended standard were unified with IFRS 10, IFRS 11 and IFRS 12. This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014 will not affect the financial statements of the Company.

### **IAS 28 Investments in Associates and Joint Ventures**

On 12 May 2011, the International Accounting Standards Board published the amended IAS 28 *Investments in Associates and Joint Ventures*, which superseded the existing IAS 28 *Investments in Associates*. The change in the standard was due to the Board project „Joint Ventures”.

In this project, the IASB decided to include accounting for joint ventures within the scope of the amended IAS 28, as the new standard IFRS 11 *Joint Arrangements* will only allow for the measurement of interests in joint ventures using the equity method. As a result, an entity should apply IFRS 11 solely for the purpose of determining the type of joint arrangements in which it participates, and upon determining that the interests are in a joint venture, the investment is recognised and is measured using the equity method, in accordance with the amended IAS 28. Although the amended standard introduces no changes in the methodology of measurement using the equity method, it no longer contains requirements concerning disclosures, as these were included in IFRS 12.

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

## 2. Main accounting policies (continued)

### **IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine**

On 19 October 2011, the International Accounting Standards Board published Interpretation IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. The Interpretation is applied to the recognition of costs of accessing ore through the removal of overburden born during the production phase of a surface mining operation. The Interpretation regulates among others the manner of recognition of these costs as an element of assets, their initial measurement and subsequent measurements of these assets. The Interpretation will be effective for annual periods beginning on or after 1 January 2013, and will not affect the Company's financial statements.

### **Amendments to MSSF 7 Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities**

On 22 December 2011, the International Accounting Standards Board published the document *Disclosures - Offsetting Financial Assets and Financial Liabilities* as an amendment to IFRS 7. The amendments introduce additional information disclosure requirements, which enable users of financial statements to better evaluate the impact, or potential impact, of offsetting agreements, with the actual or potential impact from realisation of a legally enforceable right to set off financial assets and liabilities recognised by an entity in its statement of financial position. Additional detailed disclosures will deal with all those amounts which an entity may potentially offset in its statement of financial position, regardless of whether or not an entity made use of this right. The amendments will be effective for annual periods beginning on or after 1 January 2013, and will affect the Company's financial statements through the change in the scope of disclosure required by the standard.

### **Amendments to IFRS 1 First-time Adoption of IFRS: Government loans**

In March 2012, the International Accounting Standards Board published the document *Government Loans* (Amendments to IFRS 1). These amendments introduce a further exception from the retrospective application of the standards at the time of transition to IFRS. This exception provides the option of retrospectively restating the value of government loans which the entity received not at arm's length. This only applies to the application of IAS 20 and IFRS 9 (IAS 39 for those entities which are not yet able to apply IFRS 9) and means that an entity applying IFRS for the first time has the option of not recognising government loans at the time of transition to IFRS which have a below-market rate of interest. If a first-time adopter of IFRS applies this exception, then the carrying amount of the loan set at the time of transition to IFRS, in accordance with the accounting policies previously applied by the entity, will represent the opening carrying amount of this loan in the statement of financial position. The entity is also obligated to measure such a loan in accordance with IFRS 9 (IAS 39) following the date of transition to IFRS.

This amendment will be effective for annual periods beginning on or after 1 January 2013 and will not affect the Company's financial statements.

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

#### **IFRS 9 Financial instruments**

On 12 November 2009, the International Accounting Standards Board published IFRS 9 *Financial instruments*. This standard is the result of the initial stage of work by the Board aimed at withdrawal of IAS 39 *Financial Instruments: Recognition and Measurement* and replacement by a new one, IFRS 9. This standard essentially simplifies the principles for classifying financial assets, introducing only two categories: assets measured at fair value, and assets measured at amortised cost. This classification, at the initial recognition, should result from the business model adopted by the entity for managing the assets and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets, their reclassification and the recognition of profits and losses arising from these assets. This standard becomes effective for annual periods beginning on or after 1 January 2015 and will affect the financial statements of the Company, in particular with respect to presentation. Potential changes in value which could impact the financial statements of the Company could arise due to changes in the measurement of equity instruments, which due to the lack of an active market are measured at cost less any impairment. It is however expected that the changes will not have a significant impact on the financial statements of the Company.

## 2. Main accounting policies (continued)

On 28 October 2010, the International Accounting Standards Board reissued IFRS 9 *Financial Instruments*. This reissue is the result of the conclusion of a further phase of the Board's work aimed at replacing IAS 39 *Financial Instruments: Recognition and Measurement*. To IFRS 9 the Board added requirements regarding the classification and measurement of financial liabilities, the majority of which were transferred to the new standard directly from IAS 39.

Under IFRS 9, liabilities representing derivatives which are related to and settled through the delivery of an unquoted equity instrument are measured at fair value, as in the case of investments in unquoted equity instruments and derivative financial assets related to these investments.

In addition, the standard introduces the requirement to recognise changes in the fair value of financial liabilities measured at fair value through profit or loss resulting from changes in credit risk related to these liabilities, in other comprehensive income. The remaining amount of change in the fair value of liabilities is presented in profit or loss, unless recognition of the effects of these changes in the credit risk of these liabilities would create or enlarge an accounting mismatch; in such a case the entity would recognise the full amount of the change in the fair value in profit or loss.

### Mandatory Effective Date and Transition Disclosures - Amendments to IFRS 9 and IFRS 7

On 16 December 2011, the International Accounting Standards Board published the document *Mandatory Effective Date and Transition Disclosures* as an amendment to IFRS 9 and IFRS 7. This document amends the effective date of IFRS 9 from on or after 1 January 2013 to on or after 1 January 2015, and allows for early application. The Board also amended IFRS 7, requiring additional disclosures in terms of the transition from IAS 39 to IFRS 9 depending on the initial date of adoption by an entity of IFRS 9 (i.e. prior to 2012, after 2012 or after 2013). Deferment of the Mandatory Effective Date to apply IFRS 9 is a result of the Board's deferral of the work on the remaining parts of the project aimed at replacing IAS 39 by IFRS 9 to later periods. The change introduced will cause a deferment in application by the Company of the standard in respect of the initial deadline, due to the high probability that IFRS 9 will be adopted by the European Union only in its complete form.

### Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities.

On 16 December 2011, the International Accounting Standards Board published the document *Offsetting Financial Assets and Financial Liabilities* as an amendment to IAS 32. The Board supplemented the Application Guidance accompanying the standard with respect to the conditions for offsetting and presenting financial assets and liabilities in a net amount in the statement of financial position. Under paragraph 42 of IAS 32, an entity may offset financial assets and liabilities, if (a) it currently has a legally enforceable right to set off the recognised amounts, and (b) it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Due to practical doubts in interpretation, in terms of the legally enforceable right to set off and in terms of recognising a given settlement as a net settlement (even for gross cash flows) with the participation of settlement institutions, the Board introduced additional explanations, enabling uniform implementation of the requirements of para. 42 of IAS 32 by financial institutions. The amendments will be effective for annual periods beginning on or after 1 January 2014. It is estimated that the impact of these changes on the financial statements of the Company will be immaterial.

### Annual Improvements 2009-2011 cycle

In May 2012, the International Accounting Standards Board published *Annual Improvements 2009-2011 cycle*. This document is a collection of amendments to IFRS as well as related justifications to requests and implementation guidelines, developed during the reviews of standards conducted regularly by the Board. Some of the changes introduced are the result of changes in other IFRSs. The date on which each of these changes comes into force is set forth in the relevant Standard. During the 2009-2011 cycle, changes were introduced to the following standards: IFRS 1 in which the repeated application of IFRS 1 was permitted, and to borrowing costs; IAS 1 in which the requirements for comparative information were clarified; IAS 16 involving the scope of classification of servicing equipment; IAS 32 with respect to the tax effect of a distribution to holders of equity instruments; and IAS 34 with respect to interim reporting and segment information for total assets and liabilities.

## 2. Main accounting policies (continued)

The Company believes that the aforementioned amendments will not have a material impact on its financial statements. The amendments will be effective for annual periods beginning on or after 1 January 2013, with the retrospective application of changes.

### **Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance.**

In June 2012, the International Accounting Standards Board published the document „Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance“, as amendments to IFRS 10, IFRS 11 and IFRS 12, aimed at easing principles for the full retrospective application of new IFRSs.

The amendments to IFRS 10 limit the obligation for the retrospective application of changes. The Board decided that the scope of restated comparable information will depend on determination of the date on which control was obtained as at the date of initial application of the standard, defined as the beginning of the annual reporting period in which IFRS 10 is applied for the first time. Retrospective recognition of changes will be necessary only if the determination of control is different under IFRS 10 than under IAS 27 as at the date of initial application of IFRS 10. Any eventual correction will only affect the immediately preceding comparable annual period in which IFRS 10 was applied for the first time.

Under the amendments to IFRS 11, if, as a result of applying this standard, there is a change from the proportionate consolidation method to the equity method for a given investment, then the initial measurement of the investment should be set as the aggregate carrying amount of the assets and liabilities measured previously by the entity using the proportionate consolidation method, together with any goodwill from acquisition, as at the beginning of the immediately preceding comparable annual period in which IFRS 11 was applied for the first time. The opening value of an investment set in the manner described above will represent the so-called deemed cost of an investment at initial recognition. Similarly, if, as a result of initial application of IFRS 11, an entity ceases to measure an investment using the equity method and recognises respectively the assets and liabilities of a joint operation, then restatement is performed based on the amount at the beginning of the immediately preceding comparable annual period in which IFRS 11 was applied for the first time.

In accordance with the amendments introduced to IFRS 12, entities restate data on interests in other entities only in the immediately preceding comparable annual period in which IFRS 12 was applied for the first time. Simultaneously, there is no need to disclose comparable data for interests in unconsolidated entities structured in any comparable period preceding the period in which IFRS 12 was applied for the first time.

These changes will be effective for annual periods beginning on or after 1 January 2013.  
The Company will adjust the scope of disclosure in the financial statements to the requirements of the standard.

### **2.1.2 Changes in accounting policies**

These financial statements have been prepared using the same accounting principles for the current and comparable periods, applying changes in accounting policies and presentation to the comparable period.

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

- a change in the nominal value of the presentation currency, from thousand PLN to million PLN. This change enabled the aggregation and classification of immaterial financial data in accordance with their nature and function, and also limited the scope of published financial information to key categories of the financial statements, making them more understandable and legible,
- a change in the name of the statement of financial position item in which financial assets acquired using the Mine Closure Fund are presented. Considering the substantial amount of these assets and a better reflection of their nature and designation, the name of the item in assets was changed from „Held-to-maturity investments“ to „Mine closure financial assets“,
- a change in the presentation of the statement of comprehensive income. Taking into consideration the clarity and transparency of the presented financial data, the Company decided to present the income and expenses of the reporting period in two financial statements: the statement presenting profit or loss (the statement of profit or loss) and in the statement which begins with profit or loss and presents other comprehensive income (the statement of comprehensive income),
- a change in the presentation of other comprehensive income. The Company decided on the early adoption of changes to IAS 1 *Presentation of Financial Statements - Presentation of Other Comprehensive Income Items*.



## 2. Main accounting policies (continued)

The presentation of other comprehensive income items is done in two groups, which pursuant to other IFRS principles:

- will be reclassified to profit or loss when specified conditions are met, and
- will not be reclassified to profit or loss,
- o changes in the presentation of individual items of equity. To improve the transparency and clarity of the financial data, the Company decided to present other comprehensive income in the statement of financial position under the individual categories of this income. As a result of these changes, in the statement of financial position the item „Accumulated other comprehensive income” was replaced by the following equity items:
  - „Revaluation reserve from the measurement of available-for-sale financial assets”
  - „Revaluation reserve from the measurement of cash flow hedging instruments”.

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

- (a) early adoption by the Company of changes to IAS 19 *Employee Benefits*, in accordance with rules regarding transition. The changes introduced by the Company involved the recognition of actuarial gains and losses from the measurement of specified benefits programs following the period of employment in other comprehensive income and not as previously in profit or loss. As a result of the application of this standard in the financial statements as at 31 December 2011, other comprehensive income for the period from 1 January 2011 to 31 December 2011 decreased by PLN 59 million (net), PLN 73 million (gross), taxation: PLN 14 million, with a simultaneous increase in profit for the period by the same amount. Past employment costs not recognised in the statement of financial position as at 31 December 2011 were recognised in profit or loss for 2012 because of their insignificant impact. This adjustment had no impact on the statement of financial position.

The following table presents the impact of changes on the quarterly results published in 2012:

	Statement of profit or loss			Other comprehensive income
	Profit before tax	Tax	Profit for the period	
<b>Financial data before changes in policies</b>				
for the 1 <sup>st</sup> quarter of 2012	1 749	(344)	1 405	(402)
for 2 quarters of 2012	3 739	(790)	2 949	(243)
for 3 quarters of 2012	5 230	(1 160)	4 070	(510)
for 2012	6 216	(1 511)	4 705	(249)
<b>Impact of changes on financial data</b>				
for the 1 <sup>st</sup> quarter of 2012	47	(9)	38	(38)
for 2 quarters of 2012	29	(6)	23	(23)
for 3 quarters of 2012	57	(11)	46	(46)
for 2012	201	(38)	163	(163)
<b>Financial data after changes in policies</b>				
for the 1 <sup>st</sup> quarter of 2012	1 796	(353)	1 443	(440)
for 2 quarters of 2012	3 768	(796)	2 972	(266)
for 3 quarters of 2012	5 287	(1 171)	4 116	(556)
for 2012	6 417	(1 549)	4 868	(412)

As a result of these changes there was an increase in basic and diluted earnings per share for the period from 1 January 2011 to 31 December 2011 from PLN 56.67 per share to PLN 56.97 per share.

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

## 2. Main accounting policies (continued)

### 2.2 Accounting policies

#### 2.2.1 Property, plant and equipment

The following are considered to be items of property, plant and equipment:

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

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

Borrowing costs incurred for the purchase or construction of a qualifying item of property, plant and equipment are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.22.

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

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

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

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

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

As at the end of the reporting period, items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. (Described in detail in note 2.2.4)

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

Items of property, plant and equipment (excluding land) **are depreciated using** the straight-line method over their anticipated useful life. The residual value and useful life of an asset and the method of depreciation applied to items of property, plant and equipment are reviewed at least at the end of each financial year.

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

For individual groups of assets, the following useful lives have been adopted:

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

Depreciation begins when an item of property, plant and equipment is available for use. Depreciation ceases at the earlier of the date that the asset is classified as held for sale (or included as part of a disposal group which

## 2. Main accounting policies (continued)

is classified as held for sale) in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* or when it is derecognised upon disposal or retirement.

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

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

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

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

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

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

### 2.2.2 Intangible assets

Intangible assets include:

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

On initial recognition, intangible assets are measured at cost.

Any borrowing costs incurred for the purchase or construction of a qualifying item of intangible assets are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.22 of these policies.

If payment for an intangible asset is deferred for a period which is longer than standard for ordinary buyer's credit (in practice a period of over 1 year is assumed), its purchase price should reflect the amount which would be paid in cash. The difference between this amount and the total payment is recognised in profit or loss as interest cost (a discount of liabilities) in financial costs in the period of repayment (settlement) of liabilities. Exchange differences which arise from liabilities in a foreign currency which are related to the acquisition or construction of an item of intangible assets are recognised in profit or loss in the period in which they are incurred.

At the end of the reporting period intangible assets are measured at cost less accumulated amortisation and impairment losses (described in detail in note 2.2.4).

Intangible assets (excluding, exploration and evaluation assets and intangible assets not yet available for use) are amortised using the straight-line method over their anticipated useful lives, which for individual groups of intangible assets are as follows:

- development costs – 5 – 15 years,
- software – 2 – 8 years,
- concessions, patents and licenses – 2 - 5 years,
- other intangible assets, including rights to geological information – 50 years.

KGHM Polska Miedź S.A. does not report intangible assets with indefinite useful lives, however it has reported intangible assets not yet available for use (under construction). The Company does not amortise such items of intangible assets, however they are tested for impairment annually. Any potential impairment loss is recognised in profit or loss.

## 2. Main accounting policies (continued)

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

### Development costs

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

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

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

The cost of internally-generated development work recognised as an item of intangible assets is the sum of expenditure incurred from the date when the intangible asset arising from development first meets the criteria for recognition.

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

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

Research expenditure is recognised as an expense as incurred.

### 2.2.3 Exploration and evaluation assets

Intangible assets and property, plant and equipment used in the exploration for and evaluation of mineral resources are recognised as exploration and evaluation assets, but they do not include expenditures on development work related to mineral resources or expenditures incurred:

- a) prior to the commencement of exploration for and evaluation of mineral resources, i.e. expenditures incurred prior to the obtaining of legal rights to carry out exploratory activities within a specified area, and
- b) after the technical feasibility and commercial viability of extracting a mineral resource is demonstrable.

Recognition of intangible assets includes among others acquired exploration rights, expenditures on drilling, exploration work, sampling, the topographical, geological, geochemical and geophysical analysis of deposits, wages and related costs and other employee benefits for employees, teams or designated units or those delegated to the supervision or operation of individual projects, and other direct costs related to the acquisition or creation of intangible assets pursuant to IFRS 6.

If an exploration right could not be exercised without the acquisition of the land right in which it is situated, the acquired land rights together with the respective concession are classified as intangible assets at the stage of exploration for and evaluation of mineral resources.

Exploration and evaluation assets are recognised and presented as a separate group of intangible assets not available for use.

The following expenditures are classified as exploration and evaluation assets:

- work on geological projects,
- obtaining environmental decisions,
- obtaining concessions and mining usufruct for geological exploration,
- work related to drilling (drilling; geophysical and hydrogeological research; geological, analytical and geotechnical services; etc.),
- the purchase of government geological information,
- the execution of geological documentation and its confirmation,
- the execution of economic and technical assessments of resources for the purpose of obtaining decisions on the application for mine operating concessions,

## 2. Main accounting policies (continued)

- equipment usage costs (property, plant and equipment) used in exploratory work.

Exploration and evaluation assets are measured at the moment of initial recognition at cost. For purposes of subsequent measurement the Company applies a measurement model based on cost less any accumulated impairment.

The Company is required to test a separate entity (project) for impairment when:

- the technical feasibility and commercial viability of extracting a mineral resource is demonstrable, i.e. prior to reclassification of these assets to another asset group (including to fixed assets under construction or intangible assets not yet available for use other than those used in the exploration for and evaluation of mineral resources), and
- the facts and circumstances indicate that the carrying amount of the exploration and evaluation assets may exceed their recoverable amount.

Any potential impairment losses are recognised prior to reclassification.

### 2.2.4 Impairment of non-financial assets

Exploration and evaluation assets and intangible assets not yet available for use, are not amortised, but are tested annually for impairment.

A depreciable non-financial asset is tested for impairment whenever an event or change in circumstances indicates that its carrying amount may not be recoverable. Amongst the fundamental and most important external indications of possible impairment are the continuation over the long term of a situation in which the carrying amount of Company net assets exceeds their market value, as well as unfavourable technical, market and economic changes to the environment in which the Company operates, including on the destination markets for the Company's products. Another possible indication of impairment may be an increase in market interest rates and premiums for risk reflected in calculations of the discount rates used to calculate the value in use of Company assets.

Internal factors taken into account in determining whether Company assets have been impaired primarily include the substantial decrease in actual net cash flow in relation to the net cash flow from operating activities assumed in the Budget, and, with respect to individual assets, any physical damage, loss of utility and the generation of lower economic benefits than expenditures incurred on their acquisition or construction, if a given asset independently generates cash flow.

An impairment loss is recognised as the amount of the carrying value of the given asset which exceeds its recoverable amount. The recoverable amount is the higher of two amounts: fair value less costs to sell, and value in use.

For the purpose of impairment assessment, assets are grouped at the lowest level at which they generate cash inflows that are largely independent of those from other assets (cash generating units).

Cash-generating units are determined separately each time an impairment test is to be performed.

If an impairment test indicates that the recoverable amount (i.e. the higher of the asset's fair value less costs to sell and its value in use) of a given asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised as the difference between the recoverable amount and the carrying amount of a given asset or cash-generating unit. Any impairment loss is allocated to assets within the cash-generating units proportionally to their share of the carrying amount of the entire unit. If such allocation is made, the carrying amount of the asset may not be lower than the highest of the following amounts: fair value less costs to sell, value in use and zero.

Non-financial non-current assets, other than goodwill, for which an impairment loss was recognised in prior periods, are tested at the end of each reporting period to determine whether there is any indication of the possibility that an impairment loss may be reversed.

Impairment losses are recognised in the statement of profit or loss.

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

### **2.2.5 Investments in subsidiaries and joint ventures**

#### **Subsidiaries**

In the financial statements, investments in subsidiaries which are not classified as held for sale in accordance with IFRS 5 are recognised at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*, less any impairment losses, in accordance with IAS 36, *Impairment of Assets*, where impairment losses are measured by comparing their carrying amount with the higher of the following amounts:

- fair value, less costs to sell, and
- value in use.

#### **Joint Ventures**

The Company owns interests in a joint venture, being a jointly controlled entity, based on the contractually defined division of control over the economic activities of this entity, in respect of which strategic financial and operating decisions require the unanimous consent of the controlling parties (the joint venture partners).

In the Company's financial statements, the interests in the joint venture, which are not classified as available for sale under IFRS 5, are measured at cost under IAS 27 *Consolidated and Separate Financial Statements* less any impairment under IAS 36 *Impairment of Assets*, where impairment losses are measured by comparing their carrying amount with the higher of the following amounts:

- fair value, less costs to sell, and
- value in use.

### **2.2.6 Financial Instruments**

#### **2.2.6.1 Classification of financial instruments**

Financial instruments are classified into one of the following categories:

- financial assets measured at fair value through profit or loss,
- loans and receivables,
- available-for-sale financial assets,
- financial liabilities measured at fair value through profit or loss,
- other financial liabilities,
- derivative hedging instruments.

Financial instruments are classified based on their characteristics and the purpose for which they were acquired. Classification is made upon initial recognition of the financial asset or liability. Classification of derivatives depends on their purpose and on whether they qualify for hedge accounting according to the requirements of IAS 39. Derivatives are classified as derivative hedging instruments, trade instruments, instruments initially designated as hedging instruments excluded from hedge accounting and as financial instruments measured at fair value through profit or loss.

The carrying amount of cash flows due to financial instruments with a maturity more than 12 months from the end of the reporting period is classified as a non-current asset or non-current liability. The carrying amount of cash flows due to financial instruments with a maturity period of less than 12 months from the end of the reporting period is classified as current assets or current liabilities.

The Company has adopted the following principles for the classification of financial instruments to the above specified categories of financial assets and liabilities:

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

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

- a) such classification eliminates or significantly reduces a measurement or recognition inconsistency (also defined as "an accounting mismatch"), that would otherwise arise from measuring these financial instruments or recognising gains or losses using a different basis; or

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

- b) a group of financial instruments is managed properly and the performance of the group is evaluated on the fair value basis, in accordance with a documented risk management or investment strategy.

Available-for-sale financial assets and liabilities include derivatives, unless they have been designated as hedging instruments.

Assets in this category are classified as current if they are available for sale and if the carrying amount is realised within a period of up to 12 months from the end of the reporting period.

### **Loans and receivables (L&R)**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Loans and receivables are classified as current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables with maturities greater than 12 months after the end of the reporting period are classified as non-current assets.

Loans and receivables in the statement of financial position are included in the item: trade and other receivables.

Cash and cash equivalents and mine closure financial assets are also classified as loans and receivables. In the statement of financial position both cash and cash equivalents, and mine closure financial assets are separate items.

### **Available-for-sale financial assets (Afs)**

Available-for-sale financial assets are non-derivative financial assets that are either designated as "available-for-sale" or not classified to any of the other categories. This category primarily includes financial assets which do not have a fixed maturity date and which do not meet the criteria for being included in other categories.

Available-for-sale financial assets are included in non-current assets unless the Company intends to dispose of the investment within 12 months from the end of the reporting period.

### **Other financial liabilities**

Financial liabilities included in this category are those that were not classified at their initial recognition as measured at fair value through profit or loss.

### **Hedging instruments (HI)**

Derivatives designated and qualifying for hedge accounting are classified into a separate category called: Hedging instruments. The Company presents as hedging instruments the entire fair value of instruments designated to this category and qualifying for hedge accounting, even if the Company excludes the time value of a derivative from effectiveness measurement.

### **Instruments initially designated as hedging instruments excluded from hedge accounting**

Derivatives initially designated as qualifying for hedge accounting, and then excluded from hedge accounting, are presented as Instruments initially designated as hedging instruments excluded from hedge accounting.

Instruments initially designated as hedging instruments excluded from hedge accounting are measured at fair value through profit or loss.

#### **2.2.6.2. Initial measurement and derecognition of financial instruments**

Transactions respecting the purchase and sale of investments, including regular way purchases or sales, are recognised at the trade date, initially at fair value plus transaction costs, with the exception of financial assets and liabilities measured at fair value through profit or loss, which are initially recognised at fair value. Investments are derecognised when the rights to the cash flows from the investments have expired or have been transferred and the Company has transferred substantially all of the risks and rewards of their ownership. Where substantially all of the risks and rewards of ownership have not been transferred, investments are derecognised when the Company loses control over a given asset.

## 2. Main accounting policies (continued)

### 2.2.6.3. Measurement of financial instruments at the end of the reporting period

#### **Financial assets and financial liabilities measured at fair value through profit or loss, available-for-sale financial assets and derivative hedging instruments**

Financial assets and financial liabilities measured at fair value through profit or loss, available-for-sale financial assets and derivative hedging instruments are subsequently measured at fair value. Available-for-sale financial assets, which do not have a fixed maturity date, and the fair value of which cannot be determined in a reliable manner, are carried at cost less any impairment losses.

Gains and losses on financial assets which are classified as financial assets measured at fair value through profit or loss are recognised in profit or loss in the period in which they arise.

Gains and losses on financial assets which are classified as available-for-sale are recognised in other comprehensive income, except for impairment losses and exchange gains or losses on monetary assets and gains or losses on interest which would be recognised at the measurement of these items using amortised cost and applying the effective interest rate, and which are recognised in profit or loss. When available-for-sale financial assets are derecognised, the total cumulative gains and losses which had been recognised in other comprehensive income are reclassified to profit or loss as an adjustment from reclassification.

The disposal of investments of the same type but with a different cost basis is accounted for using the FIFO method, i.e. the assets disposed of are valued successively at the prices of those assets which were acquired earlier.

#### **Loans and receivables, held-to-maturity investments**

Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest rate method.

#### **Other financial liabilities**

After initial recognition, the entity measures all financial liabilities, apart from those classified as at fair value through profit or loss, at amortised cost using the effective interest rate method except for:

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition.  
If the transfer of financial assets does not qualify them for derecognition because the entity retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the entity continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received.  
In subsequent periods, the entity recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability;
- financial guarantee agreements, measured at the higher of:
  - the amount determined in accordance with note 2.2.14 Provisions, or
  - the amount initially recognised less cumulative amortisation recognised according to IAS 18 *Revenue*.

### 2.2.6.4. Fair value

Fair value is considered to be the purchase price of a financial instrument or, in case of financial liabilities, the sales price of an instrument, unless there are any indicators that a financial instrument was not purchased at fair value.

At the end of the reporting period, the fair value of financial instruments, for which an active market exists, is established based on the current bid/ask prices. If the market for a financial asset or liability is not active (and in relation to non-quoted securities), the Company establishes fair value using appropriate valuation techniques. Valuation techniques used include comparison with recent arm's length market transactions, reference to the current fair value of another instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques/models which are commonly used by market participants, adjusted to the characteristics and parameters of the fair valued financial instrument and the situation of the issuer.



## 2. Main accounting policies (continued)

Estimated fair value reflects the amount recoverable or payable to close out an outstanding position at the end of the reporting period. Where possible, transactions are fair valued based on market prices. In the case of purchase or sale of commodity forwards, fair value was estimated based on forwards prices for the maturity dates of specific transactions. In the case of copper, the official London Metal Exchange closing prices and volatility estimates as at the end of the reporting period are obtained from the Reuters news service. For silver and gold, the London Bullion Market Association fixing price at the end of the reporting period is used. In the case of volatility and forward prices, quotations of Banks/Brokers are used. Currency interest rates and currency volatility ratios obtained from Reuters are used. Forwards and swaps on the copper market are priced based on a forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets, whereas the standard Garman-Kohlhagen model is used for European options pricing on currency markets.

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

The fair value of participation units of open-end cash investment funds is determined based on the valuations made by those funds. The fair value of share in close-end investment funds classified as available-for-sale financial assets is determined based on the data included in the financial statements of the funds. The fair values of other financial instruments held by the Company are determined based on market prices or on valuation techniques which use as input data only observable market variables from active markets.

### 2.2.6.5. Impairment of financial assets

At the end of each reporting period an assessment is made of whether there is objective evidence that a financial asset or a group of financial assets is impaired. The following are considered significant objective indicators (evidence of impairment): significant financial difficulty of the debtor, legal action being taken against the debtor, the disappearance of an active market for a given financial instrument, the occurrence of significant unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the continuing substantial decrease or prolonged decrease of the fair value of an equity instrument below its cost.

If any such evidence exists in the case of available-for-sale financial assets, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and reclassified to profit or loss as an adjustment from reclassification.

Impairment losses on equity instruments recognised in profit or loss shall be reversed through other comprehensive income. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

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

Receivables and loans, as well as held-to-maturity investments which are measured at amortised cost, are individually tested for impairment at the end of each reporting period. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets' portfolio). Due to the nature of the sales of KGHM Polska Miedź S.A. and a restrictive policy towards credit risk, the Company analyses receivables primarily on an individual basis (regardless of their significance) in terms of the existence and recognition of impairment allowances.

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

An impairment loss is reversed, if in subsequent periods the impairment is reduced, and this reduction may be attributed to events occurring after recognition of the impairment loss. The reversal of an impairment loss is recognised in profit or loss.

### **2.2.6.6. Embedded derivatives**

#### **Initial recognition of derivatives**

Embedded derivatives are separated from host contracts and accounted for separately as at the date of transaction, if all of the following conditions are met:

- the hybrid (combined) instrument is not measured at fair value, with changes in fair value recognised in profit or loss,
- the characteristics and risk of the embedded derivative are not closely related to the characteristics and risk of the host contract, and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Re-assessment of contracts for possible separation of embedded derivative is made whenever there is a significant change to the contract that significantly modifies cash flows arising from the contract.

These criteria in particular are deemed as being met especially for contracts involving metals sales or the purchase of copper-bearing materials, in which prices are set after the date of sale or purchase.

In such cases the Company accounts for the embedded derivative separately from the host sale/purchase contract. From the moment of separation, the embedded derivative instrument is measured at fair value at the end of each reporting period. From the date of separation, the embedded derivative is classified as a financial asset or liability measured at fair value through profit or loss. Any change in the balance of the embedded derivative is accounted for as an adjustment respectively of revenues from sales or costs of sales.

### **2.2.6.7 Hedge accounting**

Hedging, for accounting purposes, involves proportional offsetting of the effects of changes in the fair value or changes in cash flows arising from a hedging instrument and a linked hedged item. Hedges include fair value hedges, cash flow hedges and hedges of net investment in foreign operations. Financial assets which are not derivatives, or financial liabilities which are not derivatives, may be designated as hedging instruments only for the currency risk hedging relationships.

The Company does not recognise either fair value hedges or hedges of net investment in foreign operations. Hedging instruments are designated as cash flow hedges.

#### **Derivatives used in cash flow hedges**

The Company hedges cash flows. In a cash flow hedge, a derivative used as a hedging instrument is an instrument which:

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

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

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

## 2. Main accounting policies (continued)

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

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

When entering into hedging transactions, the Company documents the relationship between hedging instruments and the hedged items, as well as the objective of entering into a particular transaction. The Company also documents its assessment, both at the date of inception of the hedge as well as on an ongoing basis, of whether the hedging instruments are and will be highly effective in offsetting changes in the cash flows of the hedged items.

### **Discontinuation of hedge accounting**

The Company ceases to account for derivatives as hedging instruments when they expire, are sold, terminated or settled, or when the Company revokes its designation of a given instrument as a hedging instrument. The Company may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in other comprehensive income until the hedged item affects profit or loss.

If the hedge of a firm commitment or forecast future transaction ceases to exist, because the hedged item no longer meets the definition of a firm commitment, or because it is probable that the forecast transaction will not occur, then the net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment.

### **2.2.7 Inventories**

Inventories consist of the following items:

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

**Inventory additions** are measured in accordance with the following principles:

- materials and merchandise – at cost,
- finished goods, half-finished products – at actual manufacturing cost,
- work in progress – based on valuation of the work-in-progress inventories.

**Inventory disposals** are measured in accordance with the following principles:

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

**Inventories** are measured in accordance with the following principles:

- materials and merchandise – at average cost as set for inventory disposal,
- finished goods, half-finished products and work in progress – based on weighted average manufacturing costs and giving due regard to the balance at the beginning of the reporting period.

At the end of the reporting period inventories are measured, using the above-mentioned policies, but not higher than the net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

## 2. Main accounting policies (continued)

### 2.2.8 Trade and other receivables

Trade receivables are recognised initially at fair value. After initial recognition, trade receivables are measured at amortised cost using the effective interest rate, less allowance for impairment, while trade receivables with the maturity period of up to 12 months from the receivable origination date are not discounted.

Impairment allowances on trade receivables are recognised when there is objective evidence that an entity will not be able to collect all amounts due. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The amount of the impairment allowance is recognised in profit or loss.

Receivables not representing financial assets are recognised initially at their nominal value and measured at the end of the reporting period at the amount due.

Receivables with a maturity period of over 12 months from the end of the reporting period are classified as non-current assets. Current assets include receivables with a maturity period of up to 12 months from the end of the reporting period.

#### The category trade and other receivables includes:

- **trade receivables** – these are receivables which arise from the principal operating activities of the Company,
- **receivables due to fixed assets under construction and intangible assets**, and
- **other receivables**, including:
  - loans granted,
  - other financial receivables, i.e. receivables meeting the definition of financial assets,
  - other non-financial receivables, including among others advances for deliveries and for fixed assets, for fixed assets under construction and intangible assets and for shares in subsidiaries, co-subsidiaries and associates; receivables from employees, if they are settled other than by cash payment; and also budget receivables, and
  - prepayments.

### 2.2.9 Cash and cash equivalents

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

### 2.2.10 Equity

Equity in the financial statements of the Company consists of:

1. Share capital at nominal value,
2. Revaluation reserve from measurement of the cash flow hedging instruments in the portion reflecting an effective hedge,
3. Revaluation reserve from the fair value measurement of available-for-sale financial assets, and
4. Retained earnings, composed of:
  - undistributed profit or unabsorbed losses from previous years,
  - reserve capital created in accordance with the Commercial Partnerships and Companies Code,
  - reserve capital created and used in accordance with the Statutes of the Company,
  - actuarial gains/losses from the measurement of specified benefits programs following the period of employment,
  - profit or loss for the period.

### 2.2.11 Liabilities

Liabilities are present obligations of the Company arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.

Liabilities comprise:

- liabilities arising from bank loans, other loans (borrowings) and finance lease liabilities,
- trade payables,
- other financial liabilities, and
- other non-financial liabilities.

Liabilities are measured at amortised cost in accordance with IAS 39.

Current trade payables are recognised in the statement of financial position at their nominal value. The carrying amount of these liabilities reflects the approximate amount representing the level of amortised cost, calculated using the effective interest rate.

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

## 2. Main accounting policies (continued)

### 2.2.12 Accrued expenses

Accrued expenses are due and payable liabilities arising from goods received or services performed, for which the payment has not yet been made, an invoice has not been received or a formal agreement has not been reached with the supplier, including amounts due to employees.

Accruals include among others:

- salary and the related surcharges paid on a one-off basis, relating to annual periods,
- accrued taxes and local fees,
- short-term accruals for unused annual leave, and
- provisions for costs resulting from the requirement to amortise property rights resulting from certificates of origin of energy from renewable resources and cogeneration.

### 2.2.13 Deferred income

Deferred income includes mainly monetary resources received to finance the acquisition or manufacture of fixed assets under construction or development work, which are recognised as income over the periods necessary to match it with the depreciation of the assets financed by these resources.

### 2.2.14 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, such that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are recognised, in particular, in respect of the following:

- future costs of mine decommissioning, after the conclusion of mining activities,
- future costs of decommissioning of technological facilities (in the copper smelters) and other facilities in cases where the law provides for the obligation to dismantle and remove such assets after the conclusion of mining activities and to restore the sites to their original condition,
- the effects of court proceedings and of disputed issues,
- guarantees granted.

Provisions are recognised in an amount representing the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. If the effect of changes in the time value of money is material, the amount of the provision shall be the present value of the expenditure expected to be required to settle the obligation.

The provision for future decommissioning costs of mines and other facilities is recognised based on the estimated expected costs of decommissioning of such facilities and of restoring the sites to their original condition. Estimation of this provision is based on specially-prepared studies using ore exploitation forecasts (for mining facilities), and technical-economic expertise prepared either by specialist firms or within the Company. Provisions are reviewed at the end of the reporting period.

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

Revaluations of the estimated provision for the costs of future decommissioning of mines and other technological facilities reflect:

- decreases due to its utilisation,
- increases due to the passage of time (unwinding of the discount) – recognition in financial costs,
- increases/decreases due to changes in the discount rate – recognition in the initial value of property, plant and equipment\*,
- increases/decreases due to changes in assumptions, including changes in construction-assembly prices – recognition in the initial value of property, plant and equipment \*,
- increases due to the acquisition of new assets under the future decommissioning program,
- decreases due to early, unplanned liquidation of assets under the future decommissioning program.

\*Changes in the discount rate or in the estimated decommissioning cost adjust the value of the relevant item of property, plant and equipment, unless the amount of this change exceeds the carrying amount of property, plant and equipment. Any surplus above this amount is immediately recognised in profit or loss of the current period in other operating income.

The discount rate calculation methodology used to measure provisions is described in Note 3(g).

In accordance with IAS 1 *Presentation of Financial Statements* provisions are presented in the statement of financial position as either current or non-current.

## 2. Main accounting policies (continued)

### 2.2.15 Employee benefits

The Company pays benefits due to one-off retirement-disability rights, post-mortem benefits, coal equivalent payments and jubilee bonuses according to the Collective Labour Agreement.

The amount of the liability due to these benefits is equal to the present value of the defined benefit obligation at the end of the reporting period, and reflects actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the end of the reporting period by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of future benefit payment, with maturities similar to those of the liabilities due to be paid. According to IAS 19 *Employee Benefits*, the discount rate should be based on the market yields of highly liquid commercial bonds with low risk. Should there be no developed market for such bonds, and such a situation does exist in Poland, the market yields on government bonds at the end of the reporting period should be applied. Details on the methods of estimating discount rates are discussed in note 3(f).

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

### 2.2.16 Income taxes (including deferred tax)

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

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

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

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

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

Deferred tax assets and deferred tax liabilities are recognised irrespective of the period in which their realisation is to occur.

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

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

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

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

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

## 2. Main accounting policies (continued)

### 2.2.17 Contingent liabilities

Contingent liability is:

- a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
- b) a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
  - the amount of the obligation (liability) cannot be measured with sufficient reliability.

The contingent liabilities include, among others:

- guarantees and promissory notes issued for the benefit of third-parties in connection with contracts,
- liabilities due to compensation for damages arising in the course of business activities, resulting from matters which remain unresolved,
- conditionally-suspended penalties for economic use of the natural environment, and
- other contingent liabilities arising from contracts.

### 2.2.18 Presentation of income and costs in the reporting period

The Company presents information on income and costs and gains and losses in the reporting period in the statement of profit or loss and in the statement of comprehensive income.

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

**The statement of comprehensive income** presents the profit or loss for the period in a single amount as well as items of other comprehensive income. Under other comprehensive income the Company recognises gains and losses which, under individual standards, should be recognised apart from the statement of profit or loss. In addition the Company presents items of other comprehensive income in two groups, separating those items which, under other IFRSs, will be reclassified to profit or loss when specified conditions are met from those items which will not be reclassified to profit or loss.

Consequently, in the group of items which, under other IFRSs, will be reclassified to profit or loss when specified conditions are met, the following are recognised:

- gains and losses of the period regarding the fair value measurement of available-for-sale financial assets,
- gains and losses from the fair value measurement of the effective portion of future cash flow hedging instruments, and

including the related tax effect.

Actuarial gains or losses, including the related tax effect, are recognised for those items which will not be reclassified to profit or loss.

The result of the period in the statement of comprehensive income is the total comprehensive income for the period, being the sum of profit or loss for the period and other comprehensive income.

### 2.2.19 Revenues

Revenues from sales are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. In the case of sales for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale. Revenues from sales which are recognised at such an amount are adjusted at the end of each reporting period by any change in the fair value of embedded derivatives, which are separated from the host sales contract in accordance with point 2.2.6.6.

Sales revenues are adjusted for the gain or loss from the settlement of derivatives hedging future cash flows, in accordance with the principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same item of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

## 2. Main accounting policies (continued)

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

In addition, revenue for the given reporting period which affects the profit or loss of the period includes:

**other operating income**, which is indirectly related to the activities carried out, in particular:

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

**finance income**, representing primarily income related to financing of the activities of the Company, including:

- net foreign exchange gains arising exclusively on liabilities from sources of financing of the Company's activities (loans, bank loans, bonds, finance leases etc.),
- income from realisation and fair value measurement of derivative hedging instruments used to hedge liabilities financing the Company's activities.

### Moment of recognition of revenues

Revenues from the sale of products, merchandise and materials are recognised when:

- the Company has transferred to the buyer the significant risks and rewards of ownership of the merchandise, finished goods and materials,
- the Company has ceased to have a continued involvement in the management of merchandise, finished goods and materials sold to the extent associated with management function for inventories to which it has ownership rights, and no longer exercises effective control over those items,
- the amount of revenue can be measured in a reliable manner,
- it is probable that the economic benefits associated with the transaction will flow to the Company, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from the sale of services are recognised when:

- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Company,
- the stage of completion of the transaction at the end of the reporting period can be measured reliably, and
- the costs connected with the transaction and the costs to complete the transaction can be measured reliably.

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

Interest income is recognised on an accrual basis, using the effective interest method.

Income from dividends is recognised when the shareholder's right is set.

### 2.2.20 Costs

The Company recognises as costs any probable decrease, in the reporting period, of economic benefits of a reliably-determined amount, in the form of a decrease in the value of assets, or an increase of provisions and liabilities, which lead to a decrease in equity or an increase in negative equity in a manner other than the withdrawal of funds by its owners.

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals.

In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the end of each reporting period is adjusted by any change in the fair value of embedded derivatives, which are separated from the host purchase contract in accordance with point 2.2.6.6.

Costs are accounted for both by nature and by the cost centres, and are reported in profit or loss using the costs by function (cost of sales) format as the primary cost reporting format.

The total cost of products, merchandise and materials sold comprises:

- the manufacturing cost of products sold,



## 2. Main accounting policies (continued)

- the cost of merchandise and materials sold,
- selling costs, and
- administrative expenses.

In addition, costs for the given reporting period which affect profit or loss for the period include:

**other operating costs**, indirectly connected with performed operating activities, including in particular:

- costs and losses on financial investments,
- losses from the measurement and realisation of traded derivatives and the ineffective portion of losses arising from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,
- impairment losses on held-to-maturity investments, available-for-sale financial assets, loans and on shares in subsidiaries and associates,
- provisions recognised for disputed issues, penalties, compensation and other costs indirectly related to operating activities,
- donations granted,
- losses on disposal of property, plant and equipment and intangible assets, and

**finance costs** related to financing of the activities of the Company, including in particular:

- overdraft interest,
- interest on short- and long-term loans, bank loans and other sources of finance, including unwinding of the discount from non-current liabilities,
- net foreign exchange losses arising on liabilities which are sources of financing of the Company's activities,
- changes in provisions arising from the approach of the maturity date of a liability (the so-called unwinding of the discount effect).

### 2.2.21 Foreign currency transactions and the measurement of items denominated in foreign currencies

#### Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Company operates, i.e. in the functional currency. The financial statements are presented in the Polish zloty (PLN), which is the functional and presentation currency of the Company.

#### Transactions and balances

At the moment of initial recognition, foreign currency transactions are translated into the functional currency:

- at the actual exchange rate applied, i.e. at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities,
- at the average exchange rate set for a given currency by the NBP (National Bank of Poland) prevailing on the date of the transaction. The exchange rate prevailing on the date of the transaction is the average NBP rate announced in the case of other transactions on the last working day preceding the transaction day.

At the end of each reporting period:

- foreign currency monetary items are translated at the closing rate prevailing on that date, i.e. the average exchange rate set for a given currency by the NBP,
- non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate (i.e. average exchange rate set for a given currency by the NBP) prevailing on the transaction date, and
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rate (i.e. average exchange rate set for a given currency by the NBP) at the date when the fair value was determined.

Foreign exchange gains or losses arising on the settlement of a foreign currency transaction, or on the measurement and translation of foreign currency monetary assets and liabilities (other than derivatives), are recognised in profit or loss. Foreign exchange gains or losses arising on the measurement of foreign currency derivatives, are recognised in profit or loss as a fair value measurement provided they do not represent the change in the fair value of the effective cash flow hedge. In such a case they are recognised in other comprehensive income, in accordance with hedge accounting principles.

Foreign exchange gains or losses arising on non-monetary items, such as equity instruments, are recognised as an element of changes in fair value, if such instruments are measured at fair value through profit or loss, or in other comprehensive income at fair value, if such equity instruments are classified as available-for-sale financial assets.

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

### **2.2.22 Borrowing costs**

Borrowing costs, which are directly attributable to the acquisition, construction or production of a qualifying asset, affect its initial value as an element of its cost. Such costs are capitalised when it is probable that they will result in future economic benefits to the entity, and the costs can be measured reliably.

Other borrowing costs are accounted for as costs in profit or loss in the period in which they are incurred.

Borrowing costs consist of interest and other borrowing-related costs incurred, and include in particular:

- interest costs calculated using the effective interest method in accordance with IAS 39,
- financial charges due to financial leasing contracts recognised in accordance with IAS 17,
- exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

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

Borrowing costs for loans which were drawn without a specified purpose, but which were allocated to finance the acquisition or production of a qualifying asset, affect the initial value of the qualifying asset by the amount of the capitalisation rate applied to the expenditures on that asset. The capitalisation rate is the weighted average of all borrowing costs of an entity that are outstanding during a given period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Exchange differences on borrowings drawn in a foreign currency (both specific and general) affect the initial value of the qualifying asset to the extent in which it represents an adjustment of interest costs. The amount of the exchange differences adjusting the interest cost is the difference between the cost of interest on similar financing which the Company would have drawn in its functional currency and the financing cost incurred in the foreign currency.

Other borrowing costs are accounted for as costs in profit or loss in the period in which they are incurred.

### **2.2.23 Leases**

A lease is classified as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership of assets. The leased asset is capitalised at the inception of the lease at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

A depreciable asset acquired in a finance lease is depreciated over the shorter of its useful life and the lease term. Minimum leasing payments are divided between finance costs and the decrease in finance lease liabilities. Finance costs are settled in the specific periods covered by a given lease, to receive a fixed period interest rate in respect of the unpaid balance of the liability. Contingent leasing payments are recognised as a cost in the period in which they are incurred.

Where the substantial part of the risks and rewards incidental to ownership of an asset is retained by the lessor, a lease contract is classified as an operating lease. Payments under operating leases are settled using the straight line method over the life of the contract. The Company's liabilities due to operating leases not recognised in the statement of financial position, in particular with regard to payments to the State Treasury and to territorial self-government entities due to perpetual usufruct of land, as well as liabilities due to other operating lease agreements, are presented in note 35.

### **2.2.24 Government grants**

Government grants are not recognised until there is a reasonable assurance that the entity will comply with the conditions attaching to them, and that the grants will be received.

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

A grant that becomes due as compensation for expenses or losses already incurred or was received by the company for the purpose of giving immediate financial support with no future related costs is recognised as income of the period in which it becomes due.

## 2. Main accounting policies (continued)

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

Non-monetary grants are accounted for at fair value.

### 2.2.25 Segment reporting

Segment reporting involves the grouping of segments at the level of entity components:

- that engage in business activities from which it may earn revenues and incur expenses,
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated and assess segment results, and
- for which discrete financial information is available.

The activities of KGHM Polska Miedź S.A. represent both a single business segment and the reporting segment „The production of copper, precious metals and other smelter products“. The Management Board of the Company is the main decision-making body as to the allocation of resources and assessing segment results (the chief operating decision maker, or CDM). Management information provided to the CDM is prepared at each Company level. The mining and production activities of KGHM Polska Miedź S.A. are organised as a combined line of production whose final stage is the sale of the final product to the external customer through the Head Office.

### 2.2.26 Capital management

The management of capital in KGHM Polska Miedź S.A. is aimed at maintaining the capacity to continue operations, including the realisation of planned investments, in a manner allowing the Company to generate returns for its shareholders and bring benefits to other stakeholders.

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

1. The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets,
2. The ratio showing the relationship of borrowings and finance lease liabilities less cash and cash equivalents to EBITDA. EBITDA is operating profit plus depreciation/amortisation, and
3. The average weighted cost of capital ratio, calculated as the average weighted cost of equity and borrowed capital. The planned level of this ratio is used to evaluate the effectiveness of planned investment projects.

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

### 2.2.27 Earnings per share

Earnings per share for each period are calculated by dividing the profit for the given period by the average weighted number of shares outstanding in that reporting period.

### 2.2.28 Statement of cash flows

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

### 2.2.29 Payments to subsidiaries

Returnable payments to reserve capital of subsidiaries by the Company are accounted for as either non-current or current financial receivables. Non-returnable payments, including those used to cover losses in the financial statements, are accounted for as an increase in the value of investments.

The entity which receives a non-returnable payment accounts for it in retained earnings as an additional payment to reserve capital.

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

### **2.2.30 Acquisition of newly-issued shares in the increased share capital**

Acquisition of newly-issued shares is accounted for at the date of signing of the agreement (for stock companies) or of signing of the notarial act (for limited liability companies). If the limited liability company deed allows for an increase in its share capital to a specified amount without any change to the company deed, then the acquisition of newly-issued shares is accounted for at the date of adoption of the relevant resolution by the General Shareholders Meeting.

### **2.2.31 Property rights resulting from certificates of origin of energy from renewable resources and cogeneration.**

Based on the Energy Act and on executive decrees of the Minister of the Economy, power generation companies involved in the trade in and sale of electricity to end users are required to purchase and present for redemption property rights resulting from certificates of origin of energy or the making of substitute fees.

This obligation is considered as met if, for a given financial year, the share of total volume of electricity resulting from certificates of origin of energy in the total annual sale of electricity to end users conforms to the limits set forth in decrees of the Minister of the Economy.

Property rights are recognised in the statement of financial position as merchandise through receivables, and at acquisition are measured at cost, equivalent to the value of a given certificate of origin based on current market price, or the amount of the renegotiated contractual price if such rights are purchased in off-session market transactions. At the end of the reporting period property rights are measured at cost less any impairment losses, though in no case higher than their net sale price.

Penalties for failure to purchase the obligatory amount of property rights resulting from certificates of origin of energy from renewable resources or cogeneration, or to make substitute fees, is recognised in other operating costs.

In order to ensure compliance with the requirement to present for redemption property rights or to make substitute fees, at the end of the reporting periods the Company recognises provisions for the costs of acquiring property rights. The provisions on the amount of energy sold increase the value (cost) of merchandise sold. The provisions on the amount of energy consumed internally increase the costs of sales. The amount of these provisions is the lesser of two amounts: the market value of a given certificate of origin and the amount of the substitute fees representing the amount of energy sold. Settlement of these provisions and the redemption of property rights is made at the date of redemption of these rights by the President of the Energy Regulation Office or at the date of incurring substitute fees.

### **3. Important estimates and assumptions**

In preparing the financial statements, the Management Board of the Company makes use of estimates based on assumptions and judgement which affect the applied accounting principles and presented assets, liabilities, income and costs. The assumptions and estimates on which they are based result from historical experience and the analysis of various factors which are considered as prudent, while their results represent the basis for professional judgement as to the value of the item which they concern. In certain vital questions the Management Board relies on the opinions of independent experts.

Estimates and assumptions of importance for the financial statements of the Company are presented below.

#### **(a) Useful life of property, plant and equipment**

The Management Board of the Company annually reviews the residual value, depreciation methods and useful lives of depreciable property, plant and equipment. At 31 December 2012, the Management Board determines that the useful lives of assets applied by the Company for purposes of depreciation reflect the expected period of future economic benefits from these assets.

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

In the current period the Company classified the following project as a joint venture under IAS 31: the agreement „Elektrownia Blachownia Nowa” entered into between KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. aimed at building a gas-fired source of power generation on the grounds of the existing Blachownia Power Plant.

In the financial statements the shares in the jointly controlled entity were measured at cost (at 31 December 2012 PLN 33 million). At the end of subsequent reporting periods they will be adjusted by any eventual impairment, through profit or loss.

#### **(c) Embedded derivatives**

At the end of each reporting period the Company analyses the materiality of the impact of separated embedded derivatives on the financial statements. Following this analysis, the Company determined that separation of these instruments at 31 December 2012 would not have a significant effect on the financial statements.

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

As at 31 December 2012, the Company identified evidence of an impairment of the shares classified to the category of available-for-sale assets in accordance with the accounting policy binding in the Company. A substantial or lasting decrease in the fair value of these shares versus the cost of their acquisition resulted in the impairment of the assets held in Tauron Polska Energia S.A., whose shares are listed on the Warsaw Stock Exchange, and of the shares of ABACUS MINING & EXPLORATION CORPORATION listed on the TSX Venture Exchange and the need to recognise an impairment allowance of PLN 151 million with respect to the shares of Tauron Polska Energia S.A. and PLN 7 million with respect to the shares of ABACUS MINING & EXPLORATION CORPORATION. As a result of this impairment loss, the existing losses as an adjustment due to reclassification were removed from the revaluation reserve from measurement of available-for-sale financial assets, and the entire impairment loss was recognised in profit or loss.

As at 31 December 2012 the carrying amount of available-for-sale financial assets was PLN 882 million (as at 31 December 2011, PLN 992 million).

#### **(e) Impairment of shares in subsidiaries**

In order to determine the value in use of shares, the Management Board prepares an estimate of projected cash flows which are anticipated due to the continuance of investments, and of rates used to discount these cash flows to present value. In determining present value, assumptions are applied in respect of projected company financial results over the next several years, based on future events and circumstances which could differ from amounts actually achieved, and which in future reporting periods could lead to adjustments in the values of shares in subsidiaries. In the current period, there was no indication of the existence of any impairment of shares.

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

#### (f) Future employee benefits

The item future employee benefits, i.e. retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments, is equal to the present value of a defined benefit obligation. The amount of the obligation depends on many factors, which are used as assumptions in the actuarial method. Every change in these assumptions impacts the carrying amount of the liabilities.

One of the basic assumptions for setting the amount of these liabilities is the interest rate. At the end of the reporting period, the Management Board of the Company, based on the opinion of an independent actuary, applies an appropriate discount rate used for setting the present value of estimated future cash outflow due to these benefits. In setting the discount rate for the reporting period, the actuary extrapolates current interest rates of government bonds along the profitability curve expressed in the currency of the future benefits payments, to obtain a discount rate enabling the discounting of payments using maturities which are longer than the maturities of the bonds.

Remaining macroeconomic assumptions used to measure liabilities due to future employee benefits, such as inflation or the minimum wage, are based in part on current market conditions. The assumptions applied by the Company used to measure liabilities in the current and comparable periods may be found in note 19.

#### Impact of changes in the indicators on the balance of liabilities

	At	
	31 December 2012	31 December 2011
an increase in the discount rate by 1%	( 178)	( 122)
a decrease in the discount rate by 1%	230	168
an increase in the coal price and salary increase rates by 1%	227	177
a decrease in the coal price and salary increase rates by 1%	( 181)	( 132)

#### (g) Provisions for decommissioning costs of mines and other facilities

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

- a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
- b) the real discount rate calculated based on the yield of treasury bonds with maturities nearest to the planned financial outflow (nominal discount rate) and the forecast rate of inflation.

Discount rates (nominal and inflation) are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year.

At 31 December 2012, these provisions were remeasured, applying a discount rate as in the model for provisions for future employee benefits (note 20).

A 1% increase in the nominal discount rate (assumed in the reporting period at the level of 4.20%) used to estimate the amount of the provision for decommissioning costs of mines and other facilities would cause a decrease in the carrying amount of the provision by PLN 171 million. However, a 1% decrease in the nominal discount rate, which is the most impacting factor on the estimated provision, would cause an increase in the carrying amount of the provision by PLN 223 million.

The programme and schedule for decommissioning technological facilities and the estimation of decommissioning costs has been developed since 2001 in cooperation with a subsidiary – KGHM CUPRUM sp. z o.o. - CBR. Revaluations of base costs, calculated in the 2001 document, is performed periodically, generally based on the index of changes in prices for the construction-assembly sector published by GUS and on changes in the assets under this programme.

Subsequent updates are made should there occur economic events affecting the amount of the provision, while also utilising experience gained during the decommissioning of individual facilities. The most recent update was performed in 2011. The lack of an update in the schedule of technological facility decommissioning costs in KGHM Polska Miedź S.A. in 2012 was due to the lack of existence of significant economic events affecting the value of the technological facilities covered by the provisions, and therefore, as a result of work performed, the present closure programme reflects the schedule of technological facility decommissioning from 2009 and the current update in forecast decommissioning costs. According to this update, the total decommissioning costs increased by 2%, i.e. by PLN 31 million. The update assumed that mine production in KGHM Polska Miedź S.A. in the current concession areas will end in 2042.

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

#### **(h) Contingent and other liabilities not recognised in the statement of financial position**

1. Liabilities towards municipalities (gminas) due to signed agreements related to development of the Żelazny Most tailings pond which are not recognised in the statement of financial position are presented at their current amount.
2. Contingent liabilities due to inventions and rationalisation projects are estimated at the maximum possible payable amounts based on the calculated, anticipated effects of implementation.
3. The value of remaining contingent liabilities are set at their maximum possible payable amount based on the possible risk of the need to realise the liabilities.

#### **(i) Deferred tax assets/liabilities**

The deferred tax assets/liabilities are measured using the tax rates which are expected to apply at the moment when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted at the end of the reporting period.

The probability of realising the deferred tax asset with future tax income is based on the Company Budget approved by the Supervisory Board. The projected financial results indicate that the Company will achieve taxable income, based on which the probability of settling a deferred tax asset is determined as high and is recognised in its full amount.

### **4. Business segments**

Based on the analysis of the Company's organisational structure, the system of internal reporting and the management model, it was determined that the Company represents a single operating and reporting segment, which may be defined as „Production of copper, precious metals and other smelter products“.

The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to concentrators where it is enriched. As a result of this process, copper concentrate is produced, which is then supplied to the smelters. At the smelters, concentrate is smelted and fire refined into copper anodes, which is then subjected to electrolytic refining into copper cathodes. From these cathodes wire rod and round billets are produced. Anode slimes, which arise from the process of copper electrorefining, is a raw material used to produce precious metals. Lead-bearing dust which is generated from the smelting processes is used to produce lead.

Nickel sulphate and copper sulphate are recovered from the processing of used electrolyte. Gases generated from the smelting furnaces are used to produce sulphuric acid. Economic use is also made of smelter slags, which are sold as road-building materials.

Settlements between further stages of the production process are based on valuation at cost, and as a result the internal organisational units (mines, concentrators, smelters) in the production cycle do not show a profit from sales. The financial data which are prepared for management accounting purposes are based on the same accounting policies which are used to prepare the financial statements. The body which performs regular reviews of the internal reports for purposes of making major operational decisions is the Management Board of the Company, as the body responsible for allocating resources and for the financial results of the Company. The internal reports of the Company on its results are prepared on a monthly basis, and do not contain profits/losses on the separate stages of the production process, concentrating on an analysis of costs of their realisation.

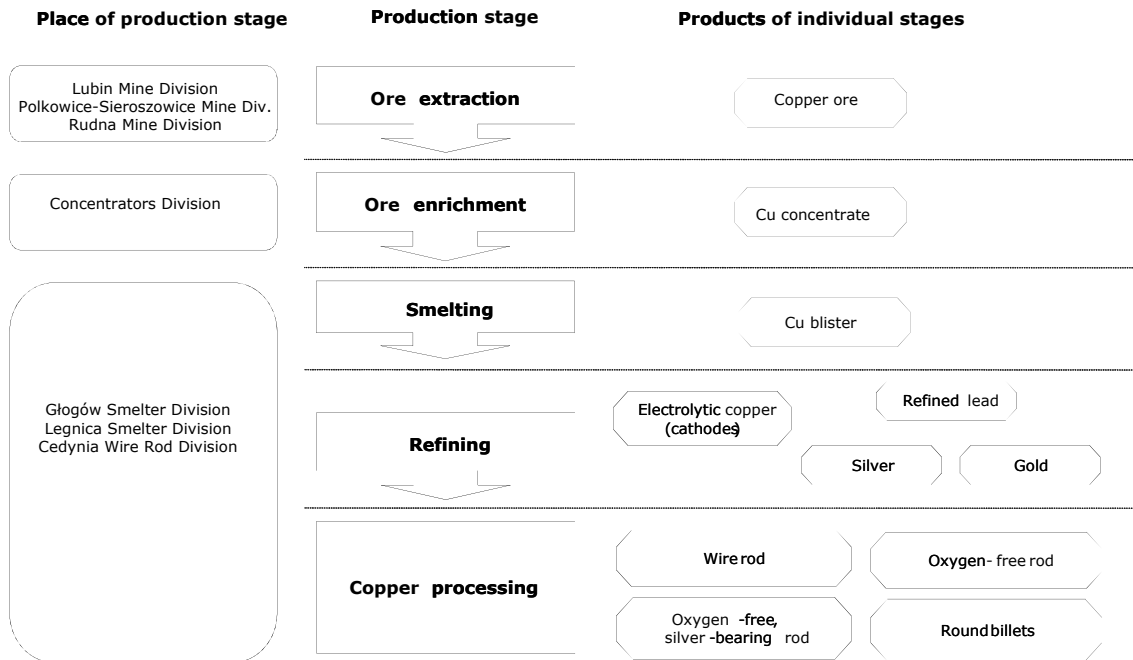
The organisational structure of KGHM Polska Miedź S.A. includes eleven divisions: mines, concentrators, smelters and a Head Office. The Head Office carries out sales of the Company's basic products - copper cathodes, round billets, wire rod and silver, and support functions, particularly including the management of financial assets, centralisation of finance and accounting, marketing, legal and other services.

#### **Production of basic products**

In 2012 the Company produced approx. 566 thousand tonnes of electrolytic copper and 1 274 tonnes of metallic silver (in 2011 571 thousand tonnes of electrolytic copper and 1 260 tonnes of metallic silver respectively). The C1 cost (cash cost of concentrate production plus administrative and smelting and refining (TC/RC) costs, less depreciation/amortisation and by-product premiums) amounted respectively: in 2011, 0.63 USD/lb and in 2012, 1.34 USD/lb.

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

#### 4. Business segments (continued)



#### Segment assets and liabilities

	At	
	31 December 2012	31 December 2011 restated
Assets	28 177	29 252
Liabilities	6 254	6 117

The main item in the segment's assets is investments in subsidiaries measured at cost less any impairment. As at 31 December 2012 the value of shares and investment certificates in subsidiaries amounts to PLN 11 641 million (as at 31 December 2011: PLN 2 012 million).

The second-largest item in the segment's assets is property, plant and equipment, which at 31 December 2012 has a net carrying amount of PLN 8 445 million (as at 31 December 2011: PLN 7 278 million), representing 30% of assets. Accumulated depreciation of property, plant and equipment as at 31 December 2012 amounts to PLN 8 158 million, and impairment losses in the reporting period amount to PLN 27 million (as at 31 December 2011: respectively PLN 7 792 million and PLN 4 million). The property, plant and equipment and intangible assets of the segment are all located in Poland (detailed information may be found in note 5 and 6).



#### 4. Business segments (continued)

##### Capital expenditures of the segment

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Development</b>	<b>1 040</b>	<b>853</b>
in mining	701	538
in metallurgy	164	97
in other divisions	175	218
<b>Replacement</b>	<b>717</b>	<b>661</b>
in mining	591	519
of which mining machinery	227	211
in metallurgy	110	121
in other divisions	16	21
<b>Uncompleted capitalised development</b>	<b>9</b>	<b>5</b>
<b>Total</b>	<b>1 766</b>	<b>1 519</b>

For purposes of making decisions on the allocation of resources, reports are prepared for managing purposes on expenditures on tangible investments, which are presented with a breakdown by expenditures on development and replacements.

##### Segment profit or loss

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Sales</b>	<b>20 737</b>	<b>20 097</b>
Interest income	152	183
Interest cost	(4)	(1)
Amortisation/depreciation	(772)	(672)
Other operating income on measurement and realisation of derivatives	1 156	1 025
Other operating costs on measurement and realisation of derivatives	(1 240)	(704)
Income tax	(1 549)	(2 333)
<b>Profit for the period</b>	<b>4 868</b>	<b>11 394</b>
ROA* - return on assets (%)	17	39
ROE** - return on equity (%)	22	49
<b>EBITDA (operating profit + amortisation/depreciation)</b>	<b>7 198</b>	<b>14 433</b>

$$* \text{ ROA (return on assets) } = \frac{\text{profit/loss for the period}}{\text{total assets}} \times 100$$

$$** \text{ ROE (return on equity) } = \frac{\text{profit/loss for the period}}{\text{equity}} \times 100$$

#### 4. Business segments (continued)

##### Geographical areas

The geographical breakdown of revenues from sales reflects the location of end clients.

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Poland		3 923	4 109
Germany		4 419	4 268
The United Kingdom		3 882	2 668
China		2 148	2 416
The Czech Republic		1 265	1 190
Italy		1 207	1 178
France		871	653
Hungary		744	517
Switzerland		401	287
Belgium		382	352
Austria		336	457
Holland		240	2
Turkey		214	93
Romania		137	173
Denmark		119	91
Slovakia		83	60
South Korea		69	34
Bulgaria		49	59
Bosnia and Herzegovina		34	16
Slovenia		28	20
Ukraine		22	100
Belarus		16	32
Finland		13	38
Spain		11	-
Lichtenstein		6	-
Other countries		118	1 284
<b>Total</b>	<b>21</b>	<b>20 737</b>	<b>20 097</b>

##### Main contractors

In 2012 and 2011 the revenues from no single Company contractor exceeded 10% of the revenues of KGHM Polska Miedź S.A.

#### 5. Property, plant and equipment

	At	
	31 December 2012	31 December 2011
Land	18	18
Buildings	3 074	2 666
Technical equipment and machinery	3 087	2 768
Motor vehicles	78	65
Other fixed assets	18	15
Fixed assets under construction	2 170	1 745
<b>Total</b>	<b>8 445</b>	<b>7 277</b>

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**5. Property, plant and equipment (continued)**

**Change in property, plant and equipment in the period from 1 January 2012 to 31 December 2012**

Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
<b>At 1 January 2012</b>							
Gross carrying amount	18	6 517	6 557	170	63	1 748	<b>15 073</b>
Accumulated depreciation	-	(3 851)	(3 788)	(105)	(48)	-	<b>(7 792)</b>
Impairment losses	-	-	(1)	-	-	(3)	<b>(4)</b>
Net carrying amount	<b>18</b>	<b>2 666</b>	<b>2 768</b>	<b>65</b>	<b>15</b>	<b>1 745</b>	<b>7 277</b>
<b>Changes in 2012 net</b>							
Settlement of fixed assets under construction	-	360	905	25	8	(1 298)	-
Purchases	-	-	-	-	-	1 682	<b>1 682</b>
Self-constructed	-	-	-	-	-	42	<b>42</b>
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer	-	(11)	(2)	-	-	(3)	<b>(16)</b>
Change in amount of provision for costs of decommissioning	-	243	-	-	-	-	<b>243</b>
Depreciation	22	(168)	(577)	(12)	(5)	-	<b>(762)</b>
Impairment losses, reversal or use of impairment losses	-	(16)	(9)	-	-	2	<b>(23)</b>
Other changes	-	-	2	-	-	-	<b>2</b>
<b>At 31 December 2012</b>							
Gross carrying amount	18	7 056	7 127	191	67	2 171	<b>16 630</b>
Accumulated depreciation	-	(3 966)	(4 030)	(113)	(49)	-	<b>(8 158)</b>
Impairment losses	-	(16)	(10)	-	-	(1)	<b>(27)</b>
Net carrying amount	<b>18</b>	<b>3 074</b>	<b>3 087</b>	<b>78</b>	<b>18</b>	<b>2 170</b>	<b>8 445</b>

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**5. Property, plant and equipment (continued)**

**Change in property, plant and equipment in the period from 1 January 2011 to 31 December 2011**

Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
<b>At 1 January 2011</b>							
Gross carrying amount	16	6 355	6 112	155	63	1 240	<b>13 941</b>
Accumulated depreciation	-	(3 710)	(3 525)	(100)	(49)	-	<b>(7 384)</b>
Impairment losses	-	-	(3)	-	-	(3)	<b>(6)</b>
Net carrying amount	<b>16</b>	<b>2 645</b>	<b>2 584</b>	<b>55</b>	<b>14</b>	<b>1 237</b>	<b>6 551</b>
<b>Changes in 2011 net</b>							
Settlement of fixed assets under construction	2	220	686	20	5	(933)	-
Purchases	-	-	-	-	-	1 417	<b>1 417</b>
Self-constructed	-	-	-	-	-	24	<b>24</b>
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer	-	(1)	(9)	-	-	-	<b>(10)</b>
Change in amount of provision for costs of decommissioning	-	(43)	-	-	-	-	<b>(43)</b>
Depreciation	22	(155)	(493)	(10)	(4)	-	<b>(662)</b>
Use of impairment losses	-	-	2	-	-	-	<b>2</b>
Other changes	-	-	(2)	-	-	-	<b>(2)</b>
<b>At 31 December 2011</b>							
Gross carrying amount	18	6 517	6 557	170	63	1 748	<b>15 073</b>
Accumulated depreciation	-	(3 851)	(3 788)	(105)	(48)	-	<b>(7 792)</b>
Impairment losses	-	-	(1)	-	-	(3)	<b>(4)</b>
Net carrying amount	<b>18</b>	<b>2 666</b>	<b>2 768</b>	<b>65</b>	<b>15</b>	<b>1 745</b>	<b>7 277</b>

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

Depreciation of property, plant and equipment used in production or in providing services was recognised as a cost of sales in the amount of PLN 740 million (for the period from 1 January to 31 December 2011, PLN 644 million), administrative expenses in the amount of PLN 14 million (for period from 1 January to 31 December 2011, PLN 13 million), and in the value of production inventories in the amount of PLN 8 million (for the period from 1 January 2011 to 31 December 2011, PLN 5 million).

### KGHM Polska Miedź S.A. as a lessor leased out the following property, plant and equipment based on operating lease agreements

At 31 December 2012				
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
<b>Land</b>	3	-	-	3
<b>Buildings</b>	103	2	59	44
<b>Technical equipment and machinery</b>	5	-	4	1
<b>Total</b>	<b>111</b>	<b>2</b>	<b>63</b>	<b>48</b>

At 31 December 2011				
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
<b>Land</b>	4	-	-	4
<b>Buildings</b>	75	2	42	33
<b>Technical equipment and machinery</b>	6	-	5	1
<b>Total</b>	<b>85</b>	<b>2</b>	<b>47</b>	<b>38</b>

### Amount of compensation from insurance companies, recognised in profit or loss, with respect to property, plant and equipment for which an impairment loss was recognised

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Amount of compensation recognised in profit or loss	1	1

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

### Major investment projects recognised under fixed assets under construction

	At	
	31 December 2012	31 December 2011
Construction of the SW-4 shaft	438	471
Deep Głogów (Głogów Głęboki – Przemysłowy)	419	296
Construction of gas-steam blocks in Głogów and Polkowice Powerplants	345	180
Program of Pyrometallurgy Modernisation	195	78
Investments related to mining region infrastructural development in mines	189	111
Investments in power and communications infrastructure, replacement of technological facilities and other investments in the Concentrators	60	32
Exchange of floatation machinery in the Concentrators	47	69
Power and communications infrastructure	47	37
Conformatory work	45	43
Purchase of mine machinery and technical equipment	36	51
Conveyor belt and pipeline transport investments	34	20
Ventilation and air conditioning equipment in the mines	33	136
Shafts and primary equipment in mines	18	23
Sulphuric Acid Plant in Głogów I Smelter, Głogów II Smelter and Legnica Smelter	1	69
<b>Total</b>	<b>1 907</b>	<b>1 616</b>

### Capital commitments incurred during the reporting period, not recognised in the statement of financial position, due to:

	At	
	31 December 2012	31 December 2011
Purchase of property, plant and equipment	3 931	1 367
Purchase of intangible assets	46	19
<b>Total capital commitments</b>	<b>3 977</b>	<b>1 386</b>

## 6. Intangible assets

	At	
	31 December 2012	31 December 2011
Development costs	2	1
Software	2	2
Acquired concessions, patents, licenses	14	20
Other intangible assets	51	51
Exploration and evaluation assets	73	53
Intangible assets not yet available for use	33	24
<b>Total</b>	<b>175</b>	<b>151</b>

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**6. Intangible assets (continued)**

**Change in intangible assets in the period from 1 January 2012 to 31 December 2012**

	Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Exploration and evaluation assets	Other intangible assets not yet available for use	Total
<b>At 1 January 2012</b>								
Gross carrying amount		9	20	79	57	53	25	<b>243</b>
Accumulated amortisation		(8)	(18)	(59)	(6)	-	-	<b>(91)</b>
Impairment losses		-	-	-	-	-	(1)	<b>(1)</b>
<b>Net carrying amount</b>		<b>1</b>	<b>2</b>	<b>20</b>	<b>51</b>	<b>53</b>	<b>24</b>	<b>151</b>
<b>Changes in 2012 net</b>								
Settlement of intangible assets not yet available for use		1	1	3	-	-	(5)	-
Purchases		-	-	-	-	20	14	<b>34</b>
Amortisation	22	-	(1)	(9)	-	-	-	<b>(10)</b>
Other changes		-	-	-	-	-	(1)	<b>(1)</b>
Impairment losses used		-	-	-	-	-	1	<b>1</b>
<b>At 31 December 2012</b>								
Gross carrying amount		10	21	82	57	73	33	<b>276</b>
Accumulated amortisation		(8)	(19)	(68)	(6)	-	-	<b>(101)</b>
<b>Net carrying amount</b>		<b>2</b>	<b>2</b>	<b>14</b>	<b>51</b>	<b>73</b>	<b>33</b>	<b>175</b>

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**6. Intangible assets (continued)**

**Change in intangible assets in the period from 1 January 2011 to 31 December 2011**

	Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Exploration and evaluation assets	Other intangible assets not yet available for use	Total
<b>At 1 January 2011</b>								
Gross carrying amount		9	19	70	39	16	15	<b>168</b>
Accumulated amortisation		( 8)	( 17)	( 50)	( 5)	-	-	<b>( 80)</b>
Impairment losses		-	-	-	-	-	( 1)	<b>( 1)</b>
<b>Net carrying amount</b>		<b>1</b>	<b>2</b>	<b>20</b>	<b>34</b>	<b>16</b>	<b>14</b>	<b>87</b>
<b>Changes in 2011 net</b>								
Settlement of intangible assets not yet available for use		-	1	8	18	-	( 27)	-
Purchases		-	-	-	-	37	36	<b>73</b>
Amortisation	22	-	(1)	(8)	(1)	-	-	<b>(10)</b>
Other changes		-	1	-	-	-	2	<b>3</b>
<b>At 31 December 2011</b>								
Gross carrying amount		9	20	79	57	53	25	<b>243</b>
Accumulated amortisation		(8)	(18)	(59)	(6)	-	-	<b>(91)</b>
Impairment losses		-	-	-	-	-	(1)	<b>(1)</b>
<b>Net carrying amount</b>		<b>1</b>	<b>2</b>	<b>20</b>	<b>51</b>	<b>53</b>	<b>24</b>	<b>151</b>



## 6. Intangible assets (continued)

The amortisation of intangible assets utilised in the production or in the providing of services was settled as cost of sales in the amount of PLN 10 million (for the period from 1 January to 31 December 2011: PLN 10 million).

### Major items in intangible assets

The most important group in intangible assets is exploration and evaluation assets, which as at 31 December 2012 amounted to PLN 73 million (as at 31 December 2011, PLN 53 million).

Within the exploration and evaluation assets the Company has recognised, in accordance with IFRS 6 (details on accounting policies in this regard may be found in note 2.2.3), the following expenditures on:

- (a) the project „Exploration and economic assessment of copper mineralisation in the Synklina Grodziecka region”, which is aimed at investigating and documenting copper-silver ore resources in the “Wartowice” and “Niecka Grodziecka” area, located within the so-called “Old Copper Belt”.  
In the first stage of exploration and research work 9 drillholes were executed (in 2012 – 2 drillholes) as well as geophysical and hydrogeological research and chemical analysis of the bore samples. In the second stage of work, a further 6 drillholes are planned, as well as geophysical and hydrogeological research.  
Expenditures incurred to 31 December 2011 – PLN 29 million,  
Expenditures incurred in 2012 - PLN 12 million.
- (b) the project „Management and accessing of the Szklary nickel ore deposit”. In 2011 the Company completed the stage of exploration and identification of the ore. During the reporting period work was performed on documenting and developing a plan for accessing the ore as well as work aimed at demonstrating the technical feasibility and commercial justification of extracting these mineral resources. Expenditures incurred in the current period amounted to PLN 2 million. The Company has also submitted to the Ministry of the Environment an application for prolonging the ore exploration concession. A decision in this matter is expected in the first quarter of 2013.  
Expenditures incurred to 31 December 2011 - PLN 3 million,  
Expenditures incurred in 2012 - PLN 2 million.
- (c) the project „Production of synthetic gas through the underground gasification of brown coal in the Copper Belt (LGOM)”. The Company began the project in 2012. It assumes that a concession will be obtained for the exploitation of brown coal through underground gasification. Work on the project involved the execution of 6 drillholes. In subsequent stages chemical analysis of the bore samples is planned to determine the feasibility of exploiting the deposit.  
Expenditures incurred in 2012 - PLN 6 million.
- (d) the project „Assessment of the feasibility of exploiting the Radwanice-Gaworzyce deposit. As part of the project, in the period 2010-2011 the Company executed 5 drillholes and carried out mineralogical-petrographic and hydrogeological research. The geological profile of the deposit, confirmed in the course of this work, led to the necessity of reviewing the scope of further actions and a change in the concession. The Company applied to the Ministry of the Environment for a change in the concession for exploration of the copper ore deposit in the documented region „Gaworzyce” and for exploration of the copper ore deposit in the documented region „Radwanice”.  
Expenditures incurred to 31 December 2011 - PLN 21 million.  
In 2012 no expenditures have been incurred on this project.

As at 31 December 2012 the balance of liabilities relating to investment activities due to exploration for and evaluation of mineral resources amounted to PLN 4 million (as at 31 December 2011, PLN 5 million).

## 6. Intangible assets (continued)

### Perpetual usufruct rights of land

As at 31 December 2012, the Company's Divisions used land based on perpetual usufruct rights comprising a total area of 5 703 hectares (an increase of 3 hectares in comparison with the area as at 31 December 2011).

	<b>At 31 December 2012 (hectares)</b>
Lubin Mine Division	48
Polkowice-Sieroszowice Mine Division	119
Rudna Mine Division	91
Concentrators Division	63
Głogów Smelter Division	2 046
Legnica Smelter Division	206
Cedynia Wire Rod Division	48
Tailings Division	3 072
Mine-smelter Emergency Rescue Division	2
Data Center Division	2
Head Office	6

The Company received these rights free of charge based on laws in force. The land subject to perpetual usufruct is industrial area related to the core business of the Company, which also includes former protective zones in which environmental quality limits have been exceeded due to the activities carried out by the Company.

Due to the nature of the use of the above-mentioned land, the Company has not determined a fair value for these perpetual usufruct rights as at 31 December 2012.

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

### Future payments due to perpetual usufruct of land

	<b>At</b>	
	<b>31 December 2012</b>	<b>31 December 2011</b>
Under one year	8	8
From one to five years	32	31
Over five years	377	376
<b>Total value of future minimum payments due to perpetual usufruct of land</b>	<b>417</b>	<b>415</b>

	<b>For the period</b>	
	<b>from 1 January 2012 to 31 December 2012</b>	<b>from 1 January 2011 to 31 December 2011</b>
<b>Payments due to perpetual usufruct of land recognised in profit or loss</b>	<b>8</b>	<b>8</b>

## 7. Investments in subsidiaries, associates and interest in joint ventures

	Shares and investment certificates in subsidiaries	Investments in associates and interest in joint ventures
<b>At 1 January 2012</b>		
Amount at cost	2 114	-
Impairment losses	(102)	-
<b>Net carrying amount at 1 January 2012</b>	<b>2 012</b>	<b>-</b>
Changes in 2012		
- acquisition of shares	93	-
- acquisition of newly-issued shares	9 511	33
- payments to subsidiaries discount	25	-
<b>At 31 December 2012</b>		
Amount at cost	11 743	33
Impairment losses	(102)	-
<b>Net carrying amount at 31 December 2012</b>	<b>11 641</b>	<b>33</b>
<b>At 1 January 2011</b>		
Amount at cost	3 964	1 160
Impairment losses	(1 321)	-
<b>Net carrying amount at 1 January 2011</b>	<b>2 643</b>	<b>1 160</b>
Changes in 2011		
- acquisition of shares and certificates	123	-
- acquisition of newly-issued shares	78	-
- reclassification of shares of a subsidiary and an associate to non-current assets held for sale and sale of shares	(825)	(1 160)
- liquidation of KGHM Polish Copper Ltd.	(7)	-
<b>At 31 December 2011</b>		
Amount at cost	2 114	-
Impairment losses	(102)	-
<b>Net carrying amount at 31 December 2011</b>	<b>2 012</b>	<b>-</b>

In 2012 KGHM acquired for cash newly-issued shares in the following entities:

- Miedziove Centrum Zdrowia S.A. in the amount of PLN 17 million,
- KGHM Metraco S.A. in the amount of PLN 5 million,
- „Energetyka” sp. z o.o. in the amount of PLN 68 million.

In addition, the Company acquired shares in Fermat 1 S.à r.l. as part of the process of establishing a holding structure in respect of the acquisition of Quadra FNX Mining LTD (currently KGHM INTERNATIONAL LTD.) in the amount of PLN 9 421 million. The payment was transferred to the Depositary, Kingsdale Shareholder Services Inc. The funds were used by Fermat 1 S.à r.l. to purchase a controlling interest in KGHM INTERNATIONAL LTD.

The shares purchased of KGHM INTERNATIONAL LTD. represent 100% of the share capital of the company and 100% of the votes at the General Meeting of this company. 5 March 2012 was assumed as the date of obtaining control. Until the moment of obtaining control by the KGHM Polska Miedź S.A. Group, the Quadra FNX shares were listed on the TSX Venture Exchange in Toronto.

The operations of KGHM INTERNATIONAL LTD. are focused on mine production of metals (including copper, nickel, gold, platinum, palladium) in the following mines: Robinson and Carlota in the USA, Franke in Chile, and McCreedy West, Levack (with the Morrison deposit) and Podolsky in Canada.

Activities also include mining projects at the pre-operational stage at various stages of development, including Sierra Gorda in Chile (the company's major development project, involving one of the largest new copper and molybdenum deposits in the world), and the pursuit of exploration projects.

The purchases of shares of KGHM INTERNATIONAL LTD. is consistent with the strategy of the KGHM Polska Miedź S.A. Group aimed at increasing the resource base as well as copper production.

## **7. Investments in subsidiaries, associates and interest in joint ventures (continued)**

In 2012, the Company exercised a call option for the cash purchase of an additional 29% of the shares of KGHM AJAX MINING INC. in the amount of PLN 93 million, increasing its interest in KGHM AJAX MINING INC. to 80% (the total carrying amount of investment in KGHM AJAX MINING INC. was PLN 203 million).

In 2012, the Company transferred all of its shares held in KGHM AJAX MINING INC. to the indirect subsidiary 0929260 B.C.U.L.C. in Canada in exchange for the newly-issued shares of this company. Subsequently the Company also transferred all of its shares held in 0929260 B.C.U.L.C. to Fermat 1 S.à r.l. in exchange for the newly-issued shares of this company. The value of the transferred shares amounted to PLN 203 million. This transaction did not affect profit or loss; the additional newly-issued shares in Fermat 1 S.à r.l. were recognised in an amount equivalent to the carrying amount of the transferred shares of KGHM AJAX MINING INC. As a result of these transactions the carrying amount of shares in Fermat 1 S.à r.l. amounts to PLN 9 624 million.

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## 7. Investments in subsidiaries, associates and interest in joint ventures (continued)

### Investments in subsidiaries (direct share)

Entity	Head office	Subject of activities	31 December 2012			31 December 2011		
			% of share capital held	% of voting power	Carrying amount of shares/ investment certificates	% of share capital held	% of voting power	Carrying amount of shares/ investment certificates
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	13	100	100	12
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	488	100	100	402
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	R&D activities	100	100	13	100	100	8
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100	387	100	100	387
KGHM Kupfer AG	Berlin	copper and other deposits exploring and mining	100	100	55	100	100	55
KGHM I FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	348	100	100	348
KGHM II FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	7	100	100	7
KGHM III FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	5	100	100	5
KGHM Kupferhandelsges. m.b.H.i.L	Vienna	copper trading	100	100	1	100	100	1
KGHM LETIA S.A	Legnica	promotion of innovation	85.45	85.45	24	85.45	85.45	24
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	33	100	100	28
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	3	100	100	3
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	58	100	100	41
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	84	100	100	84
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	32	100	100	32
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	151	100	100	151
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	98	100	100	98
DFM ZANAM - LEGMET Sp. z o.o.	Polkowice	repair and construction of machinery	100	100	50	100	100	49
INOVA Spółka z o.o.	Lubin	inspection and control of machinery, R&D work	100	100	13	100	100	13
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	trade, intermediation and trade consulting services	100	100	2	100	100	2
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	-	-	-	51	51	110
BIPROMET S.A.	Katowice	design services, general realisation of construction projects, supply completion	66	66	31	66	66	31
NITROERG S.A.	Bieruń	production and sale of explosives, blasting materials, emulsions, nitroacet	85	85	121	85	85	121
Fermat 1 S.a r.l.	Luxembourg	holding activity	100	100	9 624	100	100	-
					<b>11 641</b>			<b>2 012</b>

Translation from the original Polish version

### 8. Available-for-sale financial assets

	Note	At	
		31 December 2012	31 December 2011
Shares in unlisted companies		9	9
Shares in listed companies		873	983
<b>Non-current available-for-sale financial assets</b>	<b>27</b>	<b>882</b>	<b>992</b>
<b>Available-for-sale financial assets, total</b>	<b>27</b>	<b>882</b>	<b>992</b>

Impairment of available-for-sale financial assets is described in note 3 (d).

### 9. Mine closure financial assets

	Note	At	
		31 December 2012	31 December 2011
Cash held in the Mine Closure Fund – non-current		141	112
Cash held in the Mine Closure Fund – current		-	2
<b>Total mine closure financial assets</b>	<b>27</b>	<b>141</b>	<b>114</b>

The Company is required by the Law on Geology and Mining, dated 9 June 2011 (Journal of Laws No. 11.163.981) to accumulate cash in a separate bank account - the Mine Closure Fund (MCF) - to cover future decommissioning costs of mines and other facilities.

As at 31 December 2012, the balance of mine closure financial assets represent MCF bank deposits in the amount of PLN 141 million.

## 10. Derivatives

	Note	At	
		31 December 2012	31 December 2011
<b><u>Non-current assets</u></b>			
hedging instruments		742	896
trade instruments		-	3
<b>Non-current assets due to derivatives, total</b>		<b>742</b>	<b>899</b>
<b><u>Current assets</u></b>			
hedging instruments		381	850
trade instruments		-	9
<b>Current assets due to derivatives, total</b>		<b>381</b>	<b>859</b>
<b>Total assets due to derivatives</b>	<b>27</b>	<b>1 123</b>	<b>1 758</b>
<b><u>Non-current liabilities</u></b>			
hedging instruments		197	427
trade instruments		33	111
<b>Non-current liabilities due to derivatives, total</b>		<b>230</b>	<b>538</b>
<b><u>Current liabilities</u></b>			
hedging instruments		21	126
trade instruments		2	204
<b>Current liabilities due to derivatives, total</b>		<b>23</b>	<b>330</b>
<b>Total liabilities due to derivatives</b>	<b>27</b>	<b>253</b>	<b>868</b>

The amount of instruments initially designated as hedging instruments excluded from hedge accounting is immaterial, therefore it has not been presented in the above table.

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## 10. Derivatives (continued)

TRADE INSTRUMENTS	Volume/ Notional	Avg. weighted price/ex. rate	At 31 December 2012 [PLN '000]				At 31 December 2011 [PLN '000]				
			Financial assets		Financial liabilities		Financial assets		Financial liabilities		
			Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	
<b>Type of derivative</b>	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]									
<b>Derivatives – Commodity contracts - Metals - Copper</b>											
Options											
Sold call options										(188 331)	(16 474)
Purchased put options							8 713	2 818			
Sold put options	184 500	4 627			(49)	(17 909)				(8 713)	(12 061)
<b>TOTAL</b>			-	-	(49)	(17 909)	8 713	2 818	(197 044)	(28 535)	
<b>Derivatives – Commodity contracts - Metals - Silver</b>											
Options											
Purchased call options							410	207			
Sold put options	3 600	20.00			(315)	(142)				(4 183)	(22 599)
<b>TOTAL</b>			-	-	(315)	(142)	410	207	(4 183)	(22 599)	
<b>Derivatives – Currency contracts</b>											
Options USD											
Sold put options	840 000	2.6429			(2 017)	(15 174)				(2 957)	(59 930)
<b>TOTAL</b>			-	-	(2 017)	(15 174)	-	-	(2 957)	(59 930)	
<b>TOTAL TRADE INSTRUMENTS</b>			-	-	(2 381)	(33 225)	9 123	3 025	(204 184)	(111 064)	

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**10. Derivatives (continued)**

HEDGING INSTRUMENTS	Volume/ Notional	Avg. weighted price/ ex. rate	Maturity/ settlement period		Period of profit/loss impact		At 31 December 2012 [PLN '000]				At 31 December 2011 [PLN '000]				
							Financial assets		Financial liabilities		Financial assets		Financial liabilities		
							Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	
<b>Type of derivative</b>	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	<b>From</b>	<b>Till</b>	<b>From</b>	<b>Till</b>									
<b>Derivatives – Commodity contracts - Metals - Copper</b>															
Options															
Collar	73 500	7 976-10 696	Jan-13	Dec-13	Feb-13	Jan-14	108 590	16 008	(12 596)	(3 587)		253 654		(49 212)	
Collar- seagull											156 744	90 889	(96 075)	(60 413)	
Seagull	184 500	7 696-9 985	Jan-13	June-15	Feb-13	Jan-16	47 040	351 772	(6 255)	(170 461)					
Purchased put options – producer's put											313 489	39 363			
<b>TOTAL</b>							<b>155 630</b>	<b>367 780</b>	<b>(18 851)</b>	<b>(174 048)</b>	<b>470 233</b>	<b>383 906</b>	<b>(96 075)</b>	<b>(109 625)</b>	
<b>Derivatives – Commodity contracts - Metals - Silver</b>															
Options															
Purchased put options											183 366	19 008			
Collar											107 594	10 811	(410)	(207)	
Collar- seagull												172 364		(6 001)	
Seagull	3 600	40.00-65.00	Jan-13	Dec-13	Feb-13	Jan-14	102 955	9 585	(5)	(5)					
<b>TOTAL</b>							<b>102 955</b>	<b>9 585</b>	<b>(5)</b>	<b>(5)</b>	<b>290 960</b>	<b>202 183</b>	<b>(410)</b>	<b>(6 208)</b>	
<b>Derivatives – Currency contracts</b>															
Options USD															
Purchased put options											731				
Collar	1 200 000	3.3200-4.3800	Jan-13	Dec-15	Jan-13	Dec-15	67 936	229 980	(571)	(19 046)	64 778	94 796	(23 787)	(95 064)	
Collar- seagull											23 828	215 490	(5 482)	(216 152)	
Seagull	840 000	3.3000-4.2143	Jan-13	Dec-14	Jan-13	Dec-14	54 503	134 855	(1 479)	(3 877)					
<b>TOTAL</b>							<b>122 439</b>	<b>364 835</b>	<b>(2 050)</b>	<b>(22 923)</b>	<b>89 337</b>	<b>310 286</b>	<b>(29 269)</b>	<b>(311 216)</b>	
<b>TOTAL HEDGING INSTRUMENTS</b>							<b>381 024</b>	<b>742 200</b>	<b>(20 906)</b>	<b>(196 976)</b>	<b>850 530</b>	<b>896 375</b>	<b>(125 754)</b>	<b>(427 049)</b>	

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## 10. Derivatives (continued)

### INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING

Type of derivative	Volume	Avg. weighted price	Maturity/ settlement period		Period of profit/loss impact		At 31 December 2012 [PLN '000]				At 31 December 2011 [PLN '000]				
			Financial assets		Financial liabilities		Financial assets		Financial liabilities						
			Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current					
	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	From	Till	From	Till	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current	
<b>Derivatives – Metals – Silver</b>															
Options															
Sold call options	3 600	62.00	Jan-12	Dec-12	Feb-12	Jan-13	-	-	-	-	-	-	-	(409)	(207)
<b>TOTAL</b>							-	-	-	-	-	-	-	<b>(409)</b>	<b>(207)</b>
<b>TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING</b>							-	-	-	-	-	-	-	<b>(409)</b>	<b>(207)</b>

## 11. Trade and other receivables

	Note	At	
		31 December 2012	31 December 2011
<b>Trade and other non-current receivables</b>			
Payment to subsidiaries		53	48
Other financial receivables		2	1
Loans granted		30	35
<b>Total loans and financial receivables, net</b>	<b>27</b>	<b>85</b>	<b>84</b>
		<hr/>	<hr/>
<b>Trade and other non-current receivables, net</b>		<b>85</b>	<b>84</b>
<b>Trade and other current receivables</b>			
Trade receivables		1 213	1 115
Loans granted		14	7
Payment to subsidiaries		-	16
Other financial receivables		36	39
Receivables due to unsettled derivatives*		22	30
Impairment allowances		(33)	(34)
<b>Total loans and financial receivables, net</b>	<b>27</b>	<b>1 252</b>	<b>1 173</b>
		<hr/>	<hr/>
Non-financial receivables, net		340	259
Advances granted		103	81
Impairment allowances		(8)	(10)
<b>Total non-financial current receivables, net</b>		<b>435</b>	<b>330</b>
		<hr/>	<hr/>
<b>Total trade and other current receivables, net</b>		<b>1 687</b>	<b>1 503</b>
		<hr/>	<hr/>
<b>Total trade and other current and non-current receivables, net</b>		<b>1 772</b>	<b>1 587</b>

\*The amount of receivables due to unsettled derivatives represents the items whose date of settlement falls on 3 January 2013 for the balance as at 31 December 2012 and 4 January 2012 for the balance as at 31 December 2011.

## 12. Inventories

	Note	At	
		31 December 2012	31 December 2011
Materials		409	190
Half-finished products and work in progress		1 876	1 619
Finished goods		702	545
Merchandise		5	2
<b>Total net carrying amount of inventories</b>		<b>2 992</b>	<b>2 356</b>

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Write-down of inventories in the financial period</b>			
Write-down of inventories recognised in cost of sales	22	( 3)	( 3)
Write-down used		3	1

## 13. Cash and cash equivalents

	Note	At	
		31 December 2012	31 December 2011
Cash at bank		18	8
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		689	12 828
<b>Total cash and cash equivalents</b>	<b>27</b>	<b>707</b>	<b>12 836</b>

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

## 14. Share capital

As at 31 December 2012, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares. Each share gives the right to one vote at the general meeting. The Company does not have treasury shares. Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2012 and 31 December 2011 there were no changes in the registered share capital or in the number of shares.

In 2012 and in 2011 there were no changes in significant packets of shares of KGHM Polska Miedź S.A. The only shareholder of the Company, owning in 2012 and 2011 number of shares granting the right to at least 5% of the share capital and total number of votes was the State Treasury.

At 31 December 2012 and at the date of preparation of these financial statements, the shareholder structure of the Company is as follows:

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

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**15. Other equity items**

	Note	Retained earnings restated*					Total retained earnings
		Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging financial instruments	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Statutes	Other retained earnings restated	
<b>At 1 January 2012 restated*</b>		<b>(39)</b>	<b>574</b>	<b>660</b>	<b>8 605</b>	<b>11 335</b>	<b>20 600</b>
Dividends paid		-	-	-	-	(5 668)	<b>(5 668)</b>
Transfer to reserve capital		-	-	-	5 667	(5 667)	-
<b>Total comprehensive income:</b>		<b>39</b>	<b>(288)</b>	<b>-</b>	<b>-</b>	<b>4 705</b>	<b>4 705</b>
<b>Profit for the period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4 868</b>	<b>4 868</b>
<b>Other comprehensive income</b>		<b>39</b>	<b>(288)</b>	<b>-</b>	<b>-</b>	<b>(163)</b>	<b>( 163)</b>
Fair value losses on available-for-sale financial assets		(110)	-	-	-	-	-
Amount transferred to profit or loss due to impairment of available-for-sale financial assets		158	-	-	-	-	-
Impact of effective cash flow hedging transactions entered into		-	(22)	-	-	-	-
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments		-	(333)	-	-	-	-
Actuarial gains/(losses) from the measurement of benefits following the period of employment		-	-	-	-	(201)	<b>( 201)</b>
Deferred income tax	18	(9)	67	-	-	38	<b>38</b>
<b>At 31 December 2012</b>		<b>-</b>	<b>286</b>	<b>660</b>	<b>14 272</b>	<b>4 705</b>	<b>19 637</b>

Total impact of changes in accounting policies applied in the account books as at 1 January 2012:

- an increase in undistributed profit of PLN 356 million (as at 1 January 2011, in the amount of PLN 297 million, for 2011, PLN 59 million,
- a decrease in other comprehensive income of PLN 356 million (as at 1 January 2011, in the amount of PLN 297 million, for 2011, PLN 59 million).

Based on the Commercial Partnerships and Companies Code, the Company is required to create a reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.

As at 31 December 2012 the statutory reserve capital in the Company amounts to PLN 660 million, and is recognised in Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396 of retained earnings.

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**15. Other equity items (continued)**

	Note	Retained earnings restated*					Total retained earnings
		Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging financial instruments	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Statutes	Other retained earnings restated	
<b>At 1 January 2011 before restatement</b>		121	90	660	7 016	4 569	12 245
Change in accounting policies – undistributed profit*		-	-	-	-	297	297
Change in accounting policies – other comprehensive income*		-	-	-	-	( 297)	( 297)
<b>At 1 January 2011 restated*</b>		121	90	660	7 016	4 569	12 245
Dividend paid		-	-	-	-	(2 980)	(2 980)
Transfer to reserve capital		-	-	-	1 589	(1 589)	-
<b>Total comprehensive income:</b>		(160)	484	-	-	11 335	11 335
<b>Profit for the period, approved</b>		-	-	-	-	11 335	11 335
Change in accounting policies recognised in other comprehensive income*		-	-	-	-	59	59
<b>Profit for the period restated*</b>		-	-	-	-	11 394	11 394
<b>Other comprehensive income restated*</b>		( 160)	484	-	-	( 59)	( 59)
Fair value losses on available-for-sale financial assets		( 187)	-	-	-	-	-
Amount transferred to profit or loss - adjustment due to the reclassification of available-for-sale financial assets		( 11)	-	-	-	-	-
Impact of effective cash flow hedging transactions entered into		-	840	-	-	-	-
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments		-	( 242)	-	-	-	-
Actuarial gains/(losses) from the measurement of benefits following the period of employment		-	-	-	-	( 73)	( 73)
Deferred income tax due to change in accounting policies*		-	-	-	-	14	14
Deferred income tax	18	38	( 114)	-	-	-	-
<b>At 31 December 2011 restated*</b>		( 39)	574	660	8 605	11 335	20 600

\* details presented in note 2.1.2

## 16. Trade and other payables

		At	
	Note	31 December 2012	31 December 2011
<b>Trade and other non-current payables</b>			
Other financial liabilities		27	11
<b>Total financial liabilities (scope of IFRS7)</b>	<b>27</b>	<b>27</b>	<b>11</b>
Deferred income		9	1
<b>Total non-financial liabilities</b>		<b>9</b>	<b>1</b>
<b>Total trade and other non-current payables</b>		<b>36</b>	<b>12</b>
<b>Trade and other current payables</b>			
Trade payables		1 044	914
of which payables due to purchase, construction of property, plant and equipment and intangible assets		448	385
Payables due to unsettled derivatives*		16	17
Other financial liabilities		31	11
<b>Total financial liabilities (scope of IFRS7)</b>	<b>27</b>	<b>1 091</b>	<b>942</b>
Employee benefits liabilities		157	148
Liabilities due to taxes and social security		411	214
Other non-financial liabilities		46	42
Special funds		166	137
Deferred income		2	9
Accruals		354	336
<b>Total non-financial liabilities</b>		<b>1 136</b>	<b>886</b>
<b>Total trade and other current payables</b>		<b>2 227</b>	<b>1 828</b>
<b>Total trade and other non-current and current payables</b>		<b>2 263</b>	<b>1 840</b>

\*The amount of payables due to unsettled derivatives represents the derivatives whose date of settlement falls on 3 January 2013 for the balance as at 31 December 2012 and 4 January 2012 for the balance as at 31 December 2011.

These instruments were measured to fair value at the average settlement price for the month of December 2012 and of December 2011 respectively. For details see note 28.1.5.

As at 31 December 2012 the largest item within accruals is a provision for future payment due to the annual bonus in the amount of PLN 287 million (as at 31 December 2011, PLN 275 million). The annual bonus is paid after approval of the financial statements in accordance with the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.

## 17. Borrowings and finance lease liabilities

	Note	At	
		31 December 2012	31 December 2011
<b>Current borrowings and finance lease liabilities</b>			
Bank loans		1 013	-
<b>Borrowings and finance lease liabilities, total</b>	<b>27</b>	<b>1 013</b>	<b>-</b>

In 2012, KGHM Polska Miedź S.A. made use of borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility.

Open lines of credit are available in PLN, USD and EUR. Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

As at 31 December 2012, the Company held liabilities due to bank loans drawn in the amount of PLN 1 013 million.

### BANK LOANS LIABILITIES

Type of bank loan	Bank loan currency	Balance of bank loan drawn in the currency [million]	Balance of bank loan drawn in PLN [million]	Repayment date
Working capital facility	USD	90	279	31.08.2013
Overdraft facility	USD	142	441	14.10.2013
Overdraft facility	USD	33	102	25.09.2013
Overdraft facility	EUR	47	191	21.10.2013
<b>Total</b>			<b>1 013</b>	

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

### CREDIT LINES as at 31 December 2012

Type of bank loan	Bank loan currency	Balance of bank loan in the currency [million]	Balance of bank loan in PLN [million]
Working capital facility and overdraft facility	USD	123	-
Working capital facility and overdraft facility	EUR	50	-
Working capital facility and overdraft facility	PLN	-	1 300

Collateral on the receivables of banks from signed credit agreements is in the form of statements on submitting to the enforcement regime and proxy rights to bank accounts with respect to the agreements entered into on maintaining bank accounts.



## 18. Deferred tax

	Note	At		
		31 December 2012	31 December 2011 restated*	1 January 2011 restated*
<b>Net deferred tax assets at the beginning of the reporting period, of which:</b>		<b>169</b>	<b>360</b>	<b>167</b>
Deferred tax assets at the beginning of the reporting period restated		978	866	601
Deferred tax liabilities at the beginning of the reporting period		809	506	434
<b>Changes during the period</b>				
Credited/(Charged) to profit for the period	29	1	( 129)	214
Increase/(Decrease) in other comprehensive income	15	96	( 62)	( 21)
<b>Net deferred tax assets at the end of the reporting period, of which:</b>		<b>266</b>	<b>169</b>	<b>360</b>
Deferred tax assets at the end of the reporting period		<b>1 189</b>	<b>978</b>	<b>866</b>
Deferred tax liabilities at the end of the reporting period		<b>923</b>	<b>809</b>	<b>506</b>

\*details presented in note 2.1.2

### Realisation periods of deferred tax assets

	At	
	31 December 2012	31 December 2011
in the period of over 12 months from the end of the reporting period	92	36
in the period of 12 months and less from the end of the reporting period	174	133
<b>Total</b>	<b>266</b>	<b>169</b>

## 18. Deferred tax (continued)

### Deferred tax assets prior to offsetting

	At 1 January 2012 restated* based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences	Increase/(Decrease) in other comprehensive income due to change in the balance of temporary differences	At 31 December 2012 based on the rate of 19%
Foreign differences	-	-	-	-
Interest	-	-	-	-
Provision for decommissioning of mines and other facilities	95	48	-	143
Measurement of forward transactions	424	42	-	466
Re-measurement of hedging instruments	79	-	14	93
Amortisation/Depreciation	28	(1)	-	27
Future employee benefits liabilities	251	10	38	299
Measurement of available-for-sale financial assets	14	-	18	32
Other	87	42	-	129
<b>Total</b>	<b>978</b>	<b>141</b>	<b>70</b>	<b>1 189</b>

	At 1 January 2011 restated* based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences	Increase/(Decrease) in other comprehensive income due to change in the balance of temporary differences	At 31 December 2011 restated* based on the rate of 19%
Foreign differences	-	-	-	-
Interest	-	-	-	-
Provision for decommissioning of mines and other facilities	102	(7)	-	95
Measurement of forward transactions	428	(4)	-	424
Re-measurement of hedging instruments	-	-	79	79
Amortisation/Depreciation	21	7	-	28
Future employee benefits liabilities	232	5	14	251
Measurement of available-for-sale financial assets	-	-	14	14
Other	83	4	-	87
<b>Total</b>	<b>866</b>	<b>5</b>	<b>107</b>	<b>978</b>

\*details presented in note 2.1.2

## 18. Deferred tax (continued)

### Deferred tax liabilities prior to offsetting

	At 1 January 2012 based on the rate of 19% restated*	(Credited)/Charged to profit for the period due to a change in the balance of temporary differences	(Increase)/Decrease in other comprehensive income due to change in the balance of temporary differences	At 31 December 2012 based on the rate of 19%
Interest	3	(3)	-	-
Measurement of forward transactions	180	71	-	251
Re-measurement of hedging instruments	214	-	(53)	161
Amortisation/Depreciation	406	72	-	478
Measurement of available-for- sale financial assets	6	-	27	33
Other	-	-	-	-
<b>Total</b>	<b>809</b>	<b>140</b>	<b>(26)</b>	<b>923</b>

	At 1 January 2011 based on the rate of 19% restated*	Charged to profit for the period due to a change in the balance of temporary differences	(Increase)/Decrease in other comprehensive income due to change in the balance of temporary differences	At 31 December 2011 based on the rate of 19% restated*
Interest	1	2	-	3
Measurement of forward transactions	67	113	-	180
Re-measurement of hedging instruments	21	-	193	214
Amortisation/Depreciation	388	18	-	406
Measurement of available-for- sale financial assets	29	-	(24)	5
Other	-	1	-	1
<b>Total</b>	<b>506</b>	<b>134</b>	<b>169</b>	<b>809</b>

\*details presented in note 2.1.2

## 19. Employee benefits

A general description of the Employee Retirement Plan was presented in Note 2.2.15.

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

### Changes in future employee benefits

	<b>TOTAL liabilities</b>	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
<b>As at 1 January 2012 restated*</b>	<b>1 323</b>	<b>236</b>	<b>211</b>	<b>850</b>	<b>26</b>
Total costs recognised in profit or loss	<b>142</b>	51	22	66	3
Interest costs	<b>81</b>	13	12	54	2
Current service cost	<b>38</b>	15	10	12	1
Actuarial losses recognised in profit or loss	<b>23</b>	23	-	-	-
Actuarial losses recognised in other comprehensive income	<b>201</b>	-	1	198	2
Benefits paid	<b>( 85)</b>	( 32)	( 15)	( 37)	( 1)
<b>As at 31 December 2012</b>	<b>1 581</b>	<b>255</b>	<b>219</b>	<b>1 077</b>	<b>30</b>
of which:					
Carrying amount of non-current liabilities	<b>1 471</b>	222	186	1 036	27
Carrying amount of current liabilities	<b>110</b>	33	33	41	3

\*details presented in note 2.1.2

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**19. Employee benefits (continued)**

	<b>TOTAL liabilities</b>	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
<b>As at 1 January 2011 restated*</b>	<b>1 227</b>	<b>237</b>	<b>200</b>	<b>764</b>	<b>26</b>
Total costs recognised in profit or loss	<b>98</b>	28	21	47	2
Interest costs	<b>61</b>	13	11	36	1
Current service cost	<b>37</b>	15	10	11	1
Actuarial losses/(gains) recognised in other comprehensive income	<b>73</b>	-	1	73	( 1)
Benefits paid	<b>( 75)</b>	( 29)	( 11)	( 34)	( 1)
<b>As at 31 December 2011</b>	<b>1 323</b>	<b>236</b>	<b>211</b>	<b>850</b>	<b>26</b>
of which:					
Carrying amount of non-current liabilities	<b>1 216</b>	203	175	814	24
Carrying amount of current liabilities	<b>107</b>	33	36	36	2

\*details presented in note 2.1.2

**19. Employee benefits (continued)**

**Present value of future employee benefits**

31 December 2012	1 581
31 December 2011	1 323
31 December 2010	1 227
31 December 2009	1 199
31 December 2008	1 058

For purposes of re-measuring the provision at the end of the current period, the Company assumed parameters based on available forecasts of inflation, an analysis of increases in coal prices and in the lowest salary, and also based on the anticipated profitability of non-current bonds.

<b>Main actuarial assumptions as at 31 December 2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017 and beyond</b>
- discount rate	4.20%	4.20%	4.20%	4.20%	4.20%
- rate of increase in coal prices	3.30%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.70%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	2.00%	2.50%	2.50%	2.50%	2.50%

<b>Main actuarial assumptions as at 31 December 2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016 and beyond</b>
- discount rate	5.80%	5.80%	5.80%	5.80%	5.80%
- rate of increase in coal prices	8.00%	3.30%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	8.20%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	5.30%	3.80%	3.50%	3.50%	3.50%

Changes in actuarial losses are caused by a change in assumptions relating to the discount rate, rate of increase in coal prices and of increase in the lowest salary.

## 20. Provisions for other liabilities and charges

		<b>TOTAL</b>	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
<b>Provisions at 1 January 2012</b>	<b>Note</b>	<b>498</b>	<b>481</b>	<b>17</b>
Provisions recognised in other operating costs	25	18	4	14
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	24,25	(2)	5	(7)
Changes in provisions arising from updating of estimates recognised in fixed assets		243	243	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	26	33	33	-
Utilisation of provisions		(8)	(5)	(3)
Release of provisions recognised in other operating income	24	(1)	-	(1)
Adjustment due to transfer to Mine Closure Fund		(27)	(27)	-
<b>Provisions at 31 December 2012</b>		<b>754</b>	<b>734</b>	<b>20</b>
of which:				
<b>Non-current provisions</b>		<b>718</b>	<b>714</b>	<b>4</b>
<b>Current provisions</b>		<b>36</b>	<b>20</b>	<b>16</b>
		<b>TOTAL</b>	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
<b>Provisions at 1 January 2011</b>		<b>536</b>	<b>520</b>	<b>16</b>
Provisions recognised in other operating costs	25	2	-	2
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	24,25	(1)	(3)	2
Changes in provisions arising from updating of estimates recognised in fixed assets		(43)	(43)	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	26	32	32	-
Utilisation of provisions		(5)	(3)	(2)
Release of provisions recognised in other operating income	24	(1)	-	(1)
Adjustment due to transfer to Mine Closure Fund		(22)	(22)	-
<b>Provisions at 31 December 2011</b>		<b>498</b>	<b>481</b>	<b>17</b>
of which:				
<b>Non-current provisions</b>		<b>484</b>	<b>471</b>	<b>13</b>
<b>Current provisions</b>		<b>14</b>	<b>10</b>	<b>4</b>

As at 31 December 2012 the largest item of provisions for other liabilities is an estimate for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying value of PLN 728 million (as at 31 December 2011: PLN 476 million), estimated in accordance with the methodology defined in the International Financial Reporting Standards.

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

The increase in the provision of PLN 284 million was mainly due to macroeconomic changes, which was accounted for as a decrease in profit of PLN 41 million and an increase in non-current assets of PLN 243 million, less the provision used during the reporting period to cover mine decommissioning costs in the amount of PLN 5 million and the contribution to the Mine Closure Fund in the amount of PLN 27 million. The increase in the provision caused an increase in the deferred tax asset in the amount of PLN 48 million.

The amount of the provision recognised in the statement of financial position is the equivalent of the estimated costs of future decommissioning of individual facilities discounted to their present value, which were estimated assuming the use of existing mine decommissioning technology, applying current prices. The amount of the provision is revalued by the Company at the end of each quarter by applying in the model the discounting ratios described in note 3(g). At the end of the reporting period the amount of the provision was updated, using the discount rate applied in the model for future employee benefit provisions (Note 19), which is near the rate of return on long-term bonds. Risk related to the provision was reflected in forecasts of cash flow through the index of changes in prices in the construction-assembly sector.

### Provisions by the facilities of the highest importance in the amount of provision for decommissioning of mines and other technological facilities

Division	Facility	At	
		31 December 2012	31 December 2011
Tailings Division	Żelazny Most tailings pond	144	90
Rudna Mine Division	Central part of Rudna Mine (shafts: RI, RII, RV)	67	40
Concentrators Division	Rudna Concentrator	66	39
Concentrators Division	Polkowice Concentrator	59	39
Tailings Division	Other waste storage areas	52	46
Polkowice-Sieroszowice Mine Division	Western part of Polkowice Mine (shafts: P-I, P-II)	51	31
Concentrators Division	Lubin Concentrator	45	30
Rudna Mine Division	Western part of Rudna Mine (shafts: RIII, RIV, RX)	40	24
Lubin Mine Division	Central part of Lubin Mine (shafts: LI, LII)	40	27
Lubin Mine Division	Western part of Lubin Mine (shafts: LIV, LV)	35	24



## 21. Sales

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

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Copper, precious metals, smelter by-products		20 379	19 831
Salt		53	72
Merchandise		159	64
Services		67	60
Scrap and production materials		68	56
Other goods		11	14
<b>Total</b>	<b>4</b>	<b>20 737</b>	<b>20 097</b>

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

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>domestic</b>		<b>3 923</b>	<b>4 109</b>
Copper, precious metals, smelter by-products		3 608	3 843
Salt		53	72
Merchandise		116	64
Services		67	60
Scrap and production materials		68	56
Other goods		11	14
<b>foreign</b>		<b>16 814</b>	<b>15 988</b>
Copper, precious metals, smelter by-products		16 771	15 988
Merchandise		43	-
Services		-	-
<b>Total</b>	<b>4</b>	<b>20 737</b>	<b>20 097</b>

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Average copper price on LME (USD/t)	7 950	8 811
Average exchange rate (USD/PLN) per NBP	3.26	2.96

## 22. Expenses by nature

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated
Depreciation of property, plant and equipment and amortisation of intangible assets	5,6	772	672
Employee benefits expenses	23	2 988	2 782
Materials and energy		6 821	5 911
External services		1 357	1 256
Taxes and charges*		1 917	318
Advertising costs and representation expenses		51	43
Property and personal insurance		26	23
Research and development costs not capitalised in intangible assets		9	6
<b>Other costs, of which:</b>		<b>51</b>	<b>18</b>
Impairment losses on property, plant and equipment, intangible assets		26	-
Write-down of inventories	12	3	3
Reversal of allowance for impairment of receivables	27	-	(1)
Losses from the disposal of financial instruments	27	9	6
Business trip expenses		10	7
Other operating costs		3	3
<b>Total expenses by nature</b>		<b>13 992</b>	<b>11 029</b>
Cost of merchandise and materials sold (+)		211	107
Change in inventories of finished goods and work in progress (+/-)		(417)	(321)
Cost of manufacturing products for internal use (-)		(184)	(155)
<b>Total cost of sales, selling costs and administrative expenses</b>		<b>13 602</b>	<b>10 660</b>

\* A new significant item of operating costs is the minerals extraction tax. This tax was introduced in accordance with the Act on the minerals extraction tax dated 2 March 2012, which came into force on 18 April 2012. The amount of the tax, recognised in operating costs in the current reporting period, amounted to PLN 1 596 million.

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

## 23. Employee benefits expenses

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated
Remuneration		2 108	2 019
Costs of social security		823	740
Costs of future benefits (liabilities) due to employee benefits paid during employment period		57	23
<b>Employee benefits expenses</b>	<b>22</b>	<b>2 988</b>	<b>2 782</b>

#### 24. Other operating income

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Income and gains from financial instruments classified under other operating activities, resulting from:	27	1 310	2 117
Measurement and realisation of derivatives		1 156	1 025
Interest		152	180
Foreign exchange gains		-	895
Gains from sale		2	17
Profit on sale of an associate Polkomtel S.A.		-	2 512
Profit on sale of subsidiaries		-	150
Non-financial interest		-	3
Reversal of allowance for impairment of non-financial receivables	11	2	3
Dividends received		57	277
Release of unused provisions for:		11	6
Decommissioning of mines		2	5
Disputed issues and court proceedings		1	1
Liabilities towards municipal authorities		8	-
Penalties and compensation received		7	16
Other operating income/gains		13	9
<b>Total other operating income</b>		<b>1 400</b>	<b>5 093</b>

#### 25. Other operating costs

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Costs and losses on financial instruments classified under other operating activities, resulting from:	27	1 963	711
Measurement and realisation of derivatives		1 240	704
Foreign exchange losses		565	-
Losses on measurement of non-current liabilities		-	2
Impairment losses of available-for-sale financial assets and allowances for impairment of other receivables		158	5
Losses on the sale of property, plant and equipment and intangible assets		1	10
Impairment losses on intangible assets not yet available to use		2	-
Donations granted		92	15
Interest on overdue non-financial liabilities		2	-
Provisions for:		25	8
Decommissioning of mines		10	2
Real estate tax		12	-
Other		3	6
Penalties and compensation paid		1	1
Contributions to a voluntary organisation		10	11
Non-culpable shortages in tangible current assets, cash and losses from force majeure		-	1
Other operating costs/losses		13	12
<b>Total other operating costs</b>		<b>2 109</b>	<b>769</b>

**26. Finance costs**

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Interest due to:	27	2	1
Bank loans		2	-
Finance leases		-	1
Foreign exchange losses/(gains) on borrowings	27	(27)	1
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	20	33	32
Measurement of provisions for decommissioning of mines		33	32
Losses due to measurement of non-current liabilities	27	1	-
<b>Total finance costs</b>		<b>9</b>	<b>34</b>

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**27. Financial instruments**

**27.1 Carrying amount**

**At 31 December 2012**

**Categories of financial instruments**

Classes of financial instruments	Note	Categories of financial instruments					Hedging instruments	Total
		Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and financial receivables	Other liabilities			
					Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost		
Listed shares	8	873	-	-	-	-	-	<b>873</b>
Unlisted shares	8	9	-	-	-	-	-	<b>9</b>
Trade receivables (net)	11	-	-	1 190	-	-	-	<b>1 190</b>
Cash and cash equivalents and deposits		-	-	848	-	-	-	<b>848</b>
Mine closure financial assets	9	-	-	141	-	-	-	<b>141</b>
Cash and cash equivalents	13	-	-	707	-	-	-	<b>707</b>
Other financial assets (net)	11	-	-	147	-	-	-	<b>147</b>
Derivatives – Currency (net)	10	-	-	-	( 17)	-	462	<b>445</b>
Derivatives - Commodity contracts – Metals (net)	10	-	-	-	( 18)	-	443	<b>425</b>
Trade payables	16	-	-	-	-	(1 044)	-	<b>(1 044)</b>
Borrowings	17	-	-	-	-	(1 013)	-	<b>(1 013)</b>
Other financial liabilities	16	-	-	-	-	( 74)	-	<b>(74)</b>
<b>Total</b>		<b>882</b>	<b>-</b>	<b>2 185</b>	<b>( 35)</b>	<b>(2 131)</b>	<b>905</b>	<b>1 806</b>

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**27. Financial instruments (continued)**

**At 31 December 2011**

**Categories of financial instruments**

Classes of financial instruments	Note	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and financial receivables	Other liabilities		Hedging instruments	Total
					Financial liabilities at fair value through profit or loss*	Financial liabilities measured at amortised cost		
Listed shares	8	983	-	-	-	-	-	<b>983</b>
Unlisted shares	8	9	-	-	-	-	-	<b>9</b>
Trade receivables (net)	11	-	-	1 090	-	-	-	<b>1 090</b>
Cash and cash equivalents and deposits		-	-	12 950	-	-	-	<b>12 950</b>
Mine closure financial assets	9	-	-	114	-	-	-	<b>114</b>
Cash and cash equivalents	13	-	-	12 836	-	-	-	<b>12 836</b>
Other financial assets (net)	11	-	-	167	-	-	-	<b>167</b>
Derivatives – Currency (net)	10	-	-	-	( 62)	-	59	<b>(3)</b>
Derivatives - Commodity contracts – Metals (net)	10	-	12	-	( 253)	-	1 134	<b>893</b>
Trade payables	16	-	-	-	-	( 914)	-	<b>(914)</b>
Other financial liabilities	16	-	-	-	-	( 39)	-	<b>(39)</b>
<b>Total</b>		<b>992</b>	<b>12</b>	<b>14 207</b>	<b>( 315)</b>	<b>( 953)</b>	<b>1 193</b>	<b>15 136</b>

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

## 27. Financial instruments (continued)

### 27.2 Fair value

Classes of financial instruments	Note	At 31 December 2012		At 31 December 2011	
		Carrying amount	Fair Value	Carrying amount	Fair Value
		27.1		27.1	
Listed shares	8	873	873	983	983
Unlisted shares	8	9	-	9	-
Trade receivables (net)	11	1 190	1 190	1 090	1 090
Cash and cash equivalents and deposits	9, 13	848	848	12 950	12 950
Other financial assets (net)	11	147	147	167	167
Derivatives – Currency, of which:	10	445	445	(3)	(3)
Assets		487	487	400	400
Liabilities		(42)	(42)	(403)	(403)
Derivatives - Commodity contracts - Metals, of which:	10	425	425	893	893
Assets		636	636	1 358	1 358
Liabilities		(211)	(211)	(465)	(465)
Trade payables	16	(1 044)	(1 044)	(914)	(914)
Borrowings	17	(1 013)	(1 013)	-	-
Other financial liabilities	16	(74)	(74)	(39)	(39)

The methods and assumptions used by the Company for measuring the fair value of specific financial instruments are presented in note 2.2.6.4 Fair value.

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**27. Financial instruments (continued)**

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

<b>For the period from 1 January 2012 to 31 December 2012</b>	<b>Note</b>	Financial assets/ liabilities measured at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Financial liabilities measured at amortised cost	Hedging instruments	<b>Total</b>
Interest income/(costs) recognised in:		-	-	<b>152</b>	<b>(2)</b>	-	<b>150</b>
Other operating income	24	-	-	152	-	-	152
Finance costs	26	-	-	-	(2)	-	(2)
Foreign exchange gains/(losses) recognised in:		-	-	<b>(373)</b>	<b>(219)</b>	-	<b>(592)</b>
Other operating costs	25	-	-	(373)	(192)	-	(565)
Finance costs	26	-	-	-	(27)	-	(27)
Gains/(Losses) on measurement of non-current liabilities recognised in:		-	-	-	<b>(1)</b>	-	<b>(1)</b>
Finance costs	26	-	-	-	(1)	-	(1)
Impairment allowances recognised in:		-	<b>(158)</b>	<b>(1)</b>	-	-	<b>(159)</b>
Other operating costs	25	-	(158)	(1)	-	-	(159)
Adjustment to sales due to hedging transactions	15	-	-	-	-	333	<b>333</b>
Gains/(losses) from disposal of financial instruments recognised in:		-	-	<b>(7)</b>	-	-	<b>(7)</b>
Expenses by nature	22	-	-	(9)	-	-	(9)
Other operating income	24	-	-	2	-	-	2
Gains on measurement and realisation of derivatives	24	1 156	-	-	-	-	<b>1 156</b>
Losses on measurement and realisation of derivatives	25	(1 240)	-	-	-	-	<b>(1 240)</b>
<b>Total net gain/(loss)</b>		<b>(84)</b>	<b>(158)</b>	<b>(229)</b>	<b>(222)</b>	<b>333</b>	<b>(360)</b>



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**27. Financial instruments (continued)**

	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Other financial liabilities		Hedging instruments	Total
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Interest income/(costs) recognised in:		-	-	180	-	(1)	-	179
Other operating income	24	-	-	180	-	-	-	180
Finance costs	26	-	-	-	-	(1)	-	(1)
Foreign exchange gains/(losses) recognised in:		-	-	1 006	(111)	(1)	-	894
Other operating income	24	-	-	1 006	(111)	-	-	895
Finance costs	26	-	-	-	-	(1)	-	(1)
Gains/(Losses) on measurement of non-current liabilities recognised in:		-	-	-	(2)	-	-	(2)
Other operating costs	25	-	-	-	(2)	-	-	(2)
Impairment allowances recognised in:		-	-	(5)	-	-	-	(5)
Other operating costs	25	-	-	(5)	-	-	-	(5)
Reversal of impairment allowances recognised in:		-	-	1	-	-	-	1
Expenses by nature	22	-	-	1	-	-	-	1
Adjustment to sales due to hedging transactions	15	-	-	-	-	-	242	242
Gains/(losses) from disposal of financial instruments recognised in:		-	17	(6)	-	-	-	11
Expenses by nature	22	-	-	(6)	-	-	-	(6)
Other operating income	24	-	17	-	-	-	-	17
Gains on measurement and realisation of derivatives	24	1 025	-	-	-	-	-	1 025
Losses on measurement and realisation of derivatives	25	(704)	-	-	-	-	-	(704)
<b>Total net gain/(loss)</b>		<b>321</b>	<b>17</b>	<b>1 176</b>	<b>(113)</b>	<b>(2)</b>	<b>242</b>	<b>1 641</b>

## 27. Financial instruments (continued)

### 27.4 Financial instruments recognised at fair value in the statement of financial position

#### 27.4.1 Fair value hierarchy

There was no transfer of instruments by the Company between levels 1 and 2 in either the reporting or the comparative periods.

There was no transfer by the Company to level 3 of instruments classified to levels 1 and 2 in either the reporting period or the comparative periods.

Classes of financial instruments	At			
	31 December 2012		31 December 2011	
	Level 1	Level 2	Level 1	Level 2
Listed shares	873	-	983	-
Other financial receivables	-	22	-	30
Derivatives - currency, of which:	-	445	-	(3)
Assets	-	487	-	400
Liabilities	-	(42)	-	(403)
Derivatives – metals, of which:	-	425	-	893
Assets	-	636	-	1 358
Liabilities	-	(211)	-	(465)
Other financial liabilities	-	(16)	-	(17)

#### Methods and – when a valuation technique is used - assumptions applied in determining fair values of each class of financial assets or financial liabilities.

##### Level 3

No financial instruments were measured at fair value which were classified to level 3 in either 2012 or the comparative period in the Company.

##### Level 2

###### Other financial receivables

Receivables due to unsettled derivatives at the end of the reporting period. Their date of settlement falls after the last day of the reporting period. These instruments were measured to fair value, based on the reference price for the settlement of these transactions.

###### Other financial liabilities

Liabilities due to unsettled derivatives at the end of the reporting period. Their date of settlement falls after the last day of the reporting period. These instruments were measured to fair value, based on the reference price for the settlement of these transactions.

###### Derivatives - currency

In the case of forward currency purchase or sell transactions, forward prices from the maturity dates of individual transactions are used to determine their fair value. Calculation of the forward price for currency exchange rates is based on fixing and appropriate interest rates. Interest rates for currencies and the volatility ratios for exchange rates are from Reuters. The standard German-Kohlhagen model is used to measure European options on currency markets.

###### Derivatives – metals

In the case of forward commodity purchase or sell transactions, forward prices from the maturity dates of individual transactions are used to determine their fair value. In the case of copper, official closing prices from the London Metal Exchange as well as volatility ratios at the end of the reporting period are from Reuters. With respect to silver and gold the fixing price set by the London Bullion Market Association is used, also at the end of the reporting period. In the case of volatility and forward prices, quotations given by Banks/Brokers are used. Forwards and swaps on the copper market are priced based on the forward market curve, and in the case of silver forward prices are calculated based on fixing and the respective interest rates. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets.

##### Level 1

###### Listed shares

The shares listed on the Warsaw Stock Exchange were measured based on the closing price from 31 December 2012 – the last working day in the reporting period. The shares listed on the TSX Venture Exchange were measured applying a share price and the average National Bank of Poland fixing for the Canadian dollar at the valuation date.

## 28. Financial risk management

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

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

Based on the Market Risk Management Principles, the Financial Liquidity Management Policy and the Credit Risk Management Policy applied in the Company, the Management Board, in a conscious and responsible manner, manages the identified types of financial risk. Understanding the threats deriving from the Company's exposure to risk and maintaining an appropriate organisational structure and procedures enable a better accomplishment of tasks. The Company continually identifies and measures financial risk, and also takes actions aimed at minimising their impact on the financial situation.

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

### 28.1 Market risk

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

#### 28.1.1. Principles and techniques of market risk management

The Company actively manages the market risk to which it is exposed. In accordance with applied policy, the objectives of the market risk process are:

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

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

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

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

The Company continuously monitors metal and currency markets, which are the basis for decisions on implementing hedging strategies.

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

## 28. Financial risk management (continued)

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

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

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

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments). Primarily applied are cash flow hedging instruments meeting the requirements for effectiveness as understood by hedge accounting. The effectiveness of the financial hedging instruments applied by the Company in the reporting period is continually monitored and assessed (details in Note 2.2.6.7 Accounting policies – Hedge accounting).

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

One of the measures used as an auxiliary tool in making decisions in the market risk management process is EaR - Earnings at Risk (profit for the period exposed to risk). This measure indicates the lowest possible level of profit for the period for a selected level of confidence (for example, with 95% confidence the profit for the period for a given year will be not lower than...). The EaR methodology enables the calculation of pre-tax profit incorporating the impact of changes in market prices of copper, silver and foreign exchange rates in the context of budgeted results.

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

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

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

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

### 28.1.2 Commodity risk

The Company is exposed to the risk of changes in market prices of copper, silver and gold. The price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and from the London Bullion Market for silver and gold. The Company's commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month. As a result the Company is exposed to the risk of decline in metals prices from the moment of entering into a sale contract until the moment of setting the contractual average metal price from the month of dispatch.

The analysis of the Company's exposure to the market risk should be performed on a net basis, i.e. by deducting the volume of metals contained in purchased copper-bearing materials, from the volume of sales.

Exposure of the Company to commodity risk is presented below:

	For the period			
	from 1 January 2012 to 31 December 2012		from 1 January 2011 to 31 December 2011	
	Sales	Purchases	Sales	Purchases
Copper [tonnes]	580 330	162 708	566 898	142 640
Silver [tonnes]	1 267	46	1 179	52

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

Sensitivity of the Company's financial instruments to commodity risk at the end of the reporting period is presented in Note 28.1.6 Sensitivity analysis of the Company to commodity and currency risk.

### **28.1.3 Currency risk**

The Company is exposed to the risk of changes in currency rates, as it is generally accepted on commodities markets that physical contracts are either concluded or denominated in USD, however, the base (functional) currency for the Company is the Polish zloty (PLN).

As a result, the Company receives the equivalent in PLN or exchanges the USD it receives for PLN. This leads to the risk associated with fluctuations in the USD/PLN exchange rate during the period from the moment of entering into the trade contract to the moment of determining the exchange rate. In a situation wherein foreign clients pay in local currency for the copper or precious metals which they have imported, the Company is also exposed to fluctuations in the exchange rates of other currencies, e.g.: EUR/PLN, GBP/PLN.

In 2012, the Company made use of borrowing in the form of bank loans denominated in USD and EUR. The Company earns revenues from the sale of its products mainly in USD and EUR, and therefore the Company is not exposed to currency risk, from the moment such loans are drawn to the moment they are repaid.

Sensitivity of the Company's financial instruments to currency risk at the end of the reporting period is presented in Note 28.1.6 Sensitivity analysis of the Company to commodity and currency risk.

### **28.1.4 Commodity and currency risk management**

The nominal of copper price hedging strategies settled in 2012 represented approx. 35% (in 2011 35%) of the total<sup>1</sup> sales of this metal realised by the Company. With respect to silver sales this figure amounted to approx. 27% (in 2011 9%). In the case of the currency market, hedged revenues from sales represented approx. 16% (in 2011 19%) of total revenues from sales realised by the Company.

In 2012 the Company implemented copper price hedging strategies with a total volume of 196.5 thousand tonnes and a time horizon falling in years 2013-2015, using options (Asian options), including: option strategies: seagull and collar.

During the reporting period no silver price hedging strategies were implemented by the Company.

In the case of the forward currency market, in 2012 the Company implemented transactions hedging revenues from sales with a total nominal amount of USD 720 million and a time horizon falling in years 2014-2015. The Company made use of option strategies: collars (European options).

### **Condensed table of open transactions in derivatives**

(by type of hedged asset and instruments used as at 31 December 2012; the hedged nominal/volume included in the presented periods is equally balanced in the months)

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<sup>1</sup> Relates to the sales of products from own concentrates and from purchased copper-bearing materials.

## 28. Financial risk management (continued)

### COPPER MARKET

	Instrument	Volume [tonnes]	Option execution price [USD/t]			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t]	
			Sold call option	Purchased put option	Sold put option <sup>2</sup>			Participation limited to	Hedge limited to
I half of 2013	Seagull	19 500	9 500	7 200	4 700	(383)	6 817	9 500	4 700
	Collar	10 500	12 000	8 500	-	(460)	8 040	12 000	-
	Collar	10 500	11 500	8 200	-	(333)	7 867	11 500	-
	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Collar	3 000	9 200	7 200	-	(320)	6 880	9 200	-
	Collar	9 000	9 300	7 300	-	(340)	6 960	9 300	-
	<b>Total</b>	<b>73 500</b>							
II half of 2013	Collar	10 500	12 000	8 500	-	(460)	8 040	12 000	-
	Collar	10 500	11 500	8 200	-	(333)	7 867	11 500	-
	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Collar	19 500	9 300	7 600	-	(290)	7 310	9 300	-
	<b>Total</b>	<b>61 500</b>							
	<b>TOTAL 2013</b>	<b>135 000</b>							
I half of 2014	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	(281)	7 419	9 300	5 000
		<b>Total</b>	<b>40 500</b>						
II half of 2014	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	(281)	7 419	9 300	5 000
		<b>Total</b>	<b>40 500</b>						
	<b>TOTAL 2014</b>	<b>81 000</b>							
I half of 2015	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
		<b>Total</b>	<b>21 000</b>						
II half of 2015	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
		<b>Total</b>	<b>21 000</b>						
	<b>TOTAL 2015</b>	<b>42 000</b>							

### SILVER MARKET

	Instrument	Volume [million troz]	Option execution price [USD/troz]			Average weighted premium [USD/troz]	Effective hedge price [USD/troz]	Limitations [USD/troz]	
			Sold call option	Purchased put option	Sold put option <sup>2</sup>			Participation limited to	Hedge limited to
I half of 2013	Seagull	1.80	65.00	40.00	20.00	(1.98)	38.02	65.00	20.00
		<b>Total</b>	<b>1.80</b>						
II half of 2013	Seagull	1.80	65.00	40.00	20.00	(1.98)	38.02	65.00	20.00
	<b>Total</b>	<b>1.80</b>							
	<b>TOTAL 2013</b>	<b>3.60</b>							

<sup>2</sup> Due to current hedge accounting laws, transactions included in the seagull structure – *purchased put options* and *sold call options* – are shown in the table containing a detailed list of derivative positions – “Hedging instruments” (Note 10), while *sold put options* of seagull structure are shown in the table “Trade instruments” (Note 10).

## 28. Financial risk management (continued)

### CURRENCY MARKET

	Instrument	Notional [million USD]	Option execution 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 <sup>2</sup>			Participation limited to	Hedge limited to
I half of 2013	Seagull	240	4.0000	3.1500	2.6000	(0.0332)	3.1168	4.0000	2.6000
	Collar	240	4.2000	3.2000	-	(0.0650)	3.1350	4.2000	-
	<b>Total</b>	<b>480</b>							
II half of 2013	Seagull	240	4.0000	3.1500	2.6000	(0.0230)	3.1270	4.0000	2.6000
	Collar	240	4.2000	3.2000	-	(0.0650)	3.1350	4.2000	-
	<b>Total</b>	<b>480</b>							
	<b>TOTAL 2013</b>	<b>960</b>							
I half of 2014	Seagull	180	4.5000	3.5000	2.7000	(0.0506)	3.4494	4.5000	2.7000
	Collar	180	4.5000	3.4000	-	(0.0093)	3.3907	4.5000	-
	<b>Total</b>	<b>360</b>							
II half of 2014	Seagull	180	4.5000	3.5000	2.7000	(0.0345)	3.4655	4.5000	2.7000
	Collar	180	4.5000	3.4000	-	(0.0093)	3.3907	4.5000	-
	<b>Total</b>	<b>360</b>							
	<b>TOTAL 2014</b>	<b>720</b>							
I half of 2015	Collar	180	4.5000	3.4000	-	(0.0080)	3.3920	4.5000	-
	<b>Total</b>	<b>180</b>							
II half of 2015	Collar	180	4.5000	3.4000	-	(0.0080)	3.3920	4.5000	-
	<b>Total</b>	<b>180</b>							
	<b>TOTAL 2015</b>	<b>360</b>							

### 28.1.5. Impact of derivatives on the Company's financial statement

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

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Impact on sales</b>	<b>333</b>	<b>242</b>
<b>Impact on other operating activities</b>	<b>(84)</b>	<b>321</b>
(Losses)/gains from realisation of derivatives	(287)	63
Gains from measurement of derivatives	203	258
<b>Total impact of derivatives on profit or loss:</b>	<b>249</b>	<b>563</b>

The impact of derivatives on revaluation reserve from measurement of cash flow hedging instruments

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>As at the beginning of the period (excluding the deferred tax effects)</b>	<b>709</b>	<b>111</b>
Amount recognised in the reporting period due to cash flow hedging transactions	(22)	840
Amount transferred to revenues from sale – reclassification adjustment	(333)	(242)
<b>As at the end of the period (excluding the deferred tax effects)</b>	<b>354</b>	<b>709</b>
Of which: - commodity price risk hedging transactions (copper and silver) – derivatives	163	709
- currency risk hedging transactions – derivatives	191	-

## 28. Financial risk management (continued)

The fair value of derivatives and receivables/liabilities due to unsettled derivatives, as at 31 December 2012:

	Derivatives	Receivables /(liabilities) due to unsettled derivatives <sup>3</sup>
Financial assets	1 123	22
Financial liabilities	(253)	(16)
<b>As at 31 December 2012</b>	<b>870</b>	<b>6</b>

The remaining information on derivatives was presented in Note 10: Derivatives and in Note 27: Financial instruments.

### 28.1.6. Sensitivity analysis of the Company to commodity and currency risk

Sensitivity analysis for significant types of market risk to which the Company is exposed presents the estimated impact of potential changes in individual risk factors (at the end of the reporting period) on profit or loss and on other comprehensive income. Possible changes in prices and exchange rates have been presented in percentage terms to the prices and exchange rates used to measure financial instruments to fair value at the end of the reporting period:<sup>4</sup>

#### Potential price/exchange rates changes

	As at 31 December 2012					As at 31 December 2011				
	Copper [USD/t]	Silver [USD/troz]	USD/PLN	EUR/PLN	GBP/PLN	Copper [USD/t]	Silver [USD/troz]	USD/PLN	EUR/PLN	GBP/PLN
SPOT / FIX	7 907	29.95	3.0996	4.0882	5.0119	7 590	28.18	3.4174	4.4168	5.2691
DOWN 95%	5 570	18.72	2.5687	3.6603	4.4796	5 196	17.06	2.8094	3.8497	4.5139
	-30%	-37%	-17%	-10%	-11%	-32%	-39%	-18%	-13%	-14%
UP 95%	10 435	43.44	3.7349	4.6345	5.6764	10 254	41.89	4.1824	5.1795	6.2085
	32%	45%	20%	13%	13%	35%	49%	22%	17%	18%

#### Currency structure of financial instruments exposed to market risk

Financial instruments	VALUE AT RISK as at 31 December 2012				VALUE AT RISK as at 31 December 2011			
	Total [PLN million]	[USD million]	[EUR million]	[GBP million]	Total [PLN million]	[USD million]	[EUR million]	[GBP million]
Trade receivables (net)	<b>986</b>	182	93	8	<b>855</b>	146	80	1
Cash and cash equivalents and deposits	<b>410</b>	83	36	1	<b>8 008</b>	1 796	387	31
Other financial assets (net)	<b>37</b>	8	2	-	<b>54</b>	9	2	2
Derivatives – Currency	<b>445</b>	-	-	-	<b>(3)</b>	-	-	-
Derivatives – Metals	<b>425</b>	137	-	-	<b>893</b>	262	-	-
Trade payables	<b>(138)</b>	(26)	(14)	-	<b>(42)</b>	(4)	(6)	-
Borrowings	<b>(1 013)</b>	(265)	(47)	-	<b>-</b>	-	-	-
Other financial liabilities	<b>(27)</b>	(8)	(1)	-	<b>(27)</b>	(7)	(1)	-

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

<sup>4</sup> For setting the potential scope of price/exchange rates changes for sensitivity analysis of commodity risk factors (copper and silver) the mean reverting Schwartz model (the geometrical Ornstein-Uhlenbeck process) is used, while the Black-Scholes model (the geometrical Brownian motion) is used for the USD/PLN, EUR/PLN and GBP/PLN exchange rates



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

**SENSITIVITY ANALYSIS as at 31 December 2012**

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2012 CARRYING AMOUNT	CURRENCY RISK						COMMODITY RISK					
			USD/PLN		EUR/PLN		GBP/PLN		COPPER PRICES [USD/t]		SILVER PRICES [USD/troz]			
			3.73		2.57		4.63		5.68		10 435		43.44	
			+20%		-17%		+13%		-10%		+32%		-30%	
	[PLN million]	[PLN million]	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income		
Trade receivables (net)	986	1 190	94	(78)	41	(32)	4	(4)						
Cash and cash equivalents and deposits	410	848	42	(35)	16	(13)	1	(1)						
Other financial assets (net)	37	146	4	(3)	1	(1)	-	-						
Derivatives – Currency contracts	445	445	(330)	(191)	(318)	1 064								
Derivatives – Commodity contracts - Metals	425	425	54	33	(45)	(28)			(677)	(461)	(314)	1 654		
Trade payables	(138)	(1 044)	(13)	11	(6)	5	-	-						
Borrowings	(1 013)	(1 013)	(136)	114	(21)	16								
Other financial liabilities	(27)	(74)	(4)	3	-	-								
<b>IMPACT ON PROFIT OR (LOSS)</b>			<b>(289)</b>	<b>(351)</b>	<b>31</b>	<b>(25)</b>	<b>5</b>	<b>(5)</b>	<b>(677)</b>	<b>(314)</b>	<b>12</b>	<b>(11)</b>		
<b>IMPACT ON OTHER COMPREHENSIVE INCOME</b>				<b>(158)</b>		<b>1 036</b>				<b>(461)</b>		<b>1 654</b>		

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

**SENSITIVITY ANALYSIS as at 31 December 2011**

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	31.12.2011 CARRYING AMOUNT	CURRENCY RISK						COMMODITY RISK							
			USD/PLN		EUR/PLN		GBP/PLN		COPPER PRICES [USD/t]		SILVER PRICES [USD/troz]					
			4.18	2.81	5.18	3.85	6.21	4.51	10 254	5 196	41.89	17.06				
			+ 22%	- 18%	+ 17%	- 13%	+ 18%	- 14%	+ 35%	- 32%	+ 49%	- 39%				
[PLN million]	[PLN million]	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income	profit or (loss)	other compreh. income					
Trade receivables (net)	855	1 090	90	(72)	49	(37)	1	(1)								
Cash and cash equivalents and deposits	8 008	12 950	1 113	(884)	239	(178)	24	(19)								
Other financial assets (net)	54	167	6	(5)	1	(1)	2	(1)								
Derivatives – Currency contracts	(3)	(3)	(540)	(334)	110	562										
Derivatives – Commodity contracts - Metals	893	893	39	161	(31)	(128)			(625)	(758)	(216)	1 884	70	(413)	(152)	545
Trade payables	(42)	914	(3)	2	(4)	3										
Other financial liabilities	(27)	39	(4)	3	(1)	-										
<b>IMPACT ON PROFIT OR (LOSS)</b>			<b>701</b>	<b>(877)</b>	<b>284</b>	<b>(213)</b>	<b>27</b>	<b>(21)</b>	<b>(625)</b>	<b>(216)</b>	<b>70</b>	<b>(152)</b>				
<b>IMPACT ON OTHER COMPREHENSIVE INCOME</b>				<b>(173)</b>		<b>434</b>				<b>(758)</b>		<b>1 884</b>		<b>(413)</b>		<b>545</b>

## 28. Financial risk management (continued)

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

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

As at 31 December 2012, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 873 million.

#### Sensitivity analysis of listed companies shares to price changes as at 31 December 2012

	31 December 2012	Percentage change of share price		31 December 2011	Percentage change of share price	
	CARRYING AMOUNT	+49%	-20%	CARRYING AMOUNT	+50%	-14%
	[PLN million]	OTHER COMPREH. INCOME	PROFIT OR (LOSS)	[PLN million]	OTHER COMPREHENSIVE INCOME	
<b>Listed shares</b>	<b>873</b>	410	(183)	<b>983</b>	491	(138)

### 28.1.8 Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the Company's results. The Company is exposed to this risk due to loans granted, deposits, zero-balance cash-pool services and borrowing.

The balance of loans granted as at 31 December 2012 amounted to PLN 43 million.

The balance of cash and cash equivalents as at 31 December 2012 amounted to PLN 707 million.

The decrease in market interest rates results in a decrease in the expected interest income on loans granted and on periodically unallocated cash and cash equivalents.

In 2012, the Company made use of borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility. Open lines of credit are available in PLN, USD and EUR. Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

At 31 December 2012, the Company held liabilities due to bank loans drawn in the amount of PLN 1 013 million.

#### BANK LOANS LIABILITIES

Type of bank loan	Bank loan currency	Balance of bank loan drawn in the currency	Balance of bank loan drawn in PLN	Repayment date
Working capital facility	USD	90	279	31.08.2013
Overdraft facility	USD	142	441	14.10.2013
Overdraft facility	USD	33	102	25.09.2013
Overdraft facility	EUR	47	191	21.10.2013
<b>Total</b>			<b>1 013</b>	

An increase in market interest rates will increase the interest costs on these liabilities.

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

The impact of changes in interest rates on the Company's results is considered to be immaterial, due to the scale of the Company's operations.

### 28.2 Credit risk

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

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

## 28. Financial risk management (continued)

- the creditworthiness of companies in which equity investments are made.

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

- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- loans granted,
- debt securities and participation units of investment funds,
- guaranties granted.

### 28.2.1 Credit risk related to cash and cash equivalents and bank deposits

The Company deposits periodically unallocated cash and cash equivalents in accordance with the requirements to maintain financial liquidity and limit risk set forth in the Liquidity Management Policy and in order to protect capital and maximise interest income.

All entities with which deposit transactions are entered into by the Company, both in terms of the Company's monetary resources as well as resources accumulated in the Mine Closure Fund and the Social Fund, operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest<sup>5</sup>, medium-high<sup>6</sup> and medium<sup>7</sup> credit ratings, an appropriate level of equity and a strong, stable market position. Credit risk in this regard is continuously monitored through the on-going review of the financial condition and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the level of concentration of periodically unallocated cash and cash equivalents, showing the assessed creditworthiness of the financial institutions<sup>8</sup>

Rating levels	At	
	31 December 2012	31 December 2011
Highest	15%	20%
Medium-high	37%	52%
Medium	48%	28%

As at 31 December 2012 the maximum exposure of the Company to a single bank in respect of deposited cash and cash equivalents amounted to 20% (as at 31 December 2011 – 25%).

### 28.2.2 Credit risk related to derivative transactions

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

The following table presents the structure of ratings<sup>9</sup> of the financial institutions with whom the Company engaged in derivatives transactions, representing an exposure to credit risk<sup>10</sup>

Rating levels	At	
	31 December 2012	31 December 2011
Highest	12%	12%
Medium-high	82%	84%
Medium	6%	4%

<sup>5</sup> By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moody's.

<sup>6</sup> By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moody's.

<sup>7</sup> By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moody's.

<sup>8</sup> weighed by amount of deposits

<sup>9</sup> As at 31 December 2012 there was a change in the methodology for calculating the structure of ratings, in order to reflect the measurement of open and unsettled positions in derivatives in individual financial institutions at the end of the reporting period. The structure as at 31 December 2011 presented in the above table was calculated in accordance with the new methodology.

<sup>10</sup> weighed by positive fair value of open and unsettled derivatives

## 28. Financial risk management (continued)

Taking into consideration the fair value of open derivative transactions entered into by the Company and unsettled derivatives, as at 31 December 2012, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 17% (as at 31 December 2011: 24%).

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

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

### 28.2.3 Credit risk related to trade and other financial receivables

The Company has been cooperating for many years with a large number of customers, which affects the geographical diversification of trade and other receivables. The vast majority of sales go to EU countries.

#### Geographical concentration of credit risk for trade receivables arising from sales of copper and silver in the Company (representing the majority of total receivables):

	At			At		
	31 December 2012			31 December 2011		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	22%	61%	17%	23%	50%	27%

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

Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments. The Company has secured the majority of its receivables by promissory notes<sup>11</sup>, frozen funds on bank accounts, registered pledges<sup>12</sup>, bank guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain<sup>13</sup>.

To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2012 the Company had secured 82% of its trade receivables.

The total value of the Company's net trade receivables as at 31 December 2012, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 1 190 million (as at 31 December 2011: PLN 1 090 million).

The concentration of credit risk in the Company results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, as at 31 December 2012 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 66% of the trade receivables balance (as at 31 December 2011: 51%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

<sup>11</sup> In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.

<sup>12</sup> At the end of the reporting period, the Company held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer's trade accounts.

<sup>13</sup> A confirmed notarial clause which is applied in trade contracts means that rights to ownership of merchandise are transferred to the buyer only after payment is received despite physical delivery. Application of this clause is aimed solely at hedging credit risk and simplifying any eventual legal claims with regard to deliveries. The Company transfers the substantial risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

## 28. Financial risk management (continued)

### 28.2.4 Credit risk related to loans granted

As at 31 December 2012 the carrying amount of loans granted by KGHM Polska Miedź S.A. amounted to PLN 43 million, of which PLN 30 million represented the long-term loans, and PLN 13 million – short-term loans. To reduce the risk due to loans granted, the Company continuously monitors the assets and financial results of the borrower.

The Company considers the credit risk due to loans granted as immaterial.

### 28.2.5 Other information related to credit risk

#### Aging analysis of financial assets overdue as at the end of the reporting period, for which no impairment loss has been recognised

	At 31 December 2012			At 31 December 2011		
	Total value	Up to 1 month	Over 1 year	Total value	Up to 1 month	Over 1 year
Trade receivables	115 <sup>14</sup>	115	-	47	45	2
Other financial receivables	1	1	-	-	-	-

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

Allowances for impairment of financial assets in category loans and receivables were insignificant either in the reporting period or in the comparable period.

### 28.3 Liquidity risk and capital management

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

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

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	1 044	-	-	-	-	1 044	1 044
Borrowings	1	1 016	-	-	-	1 017	1 013
Derivatives – Currency contracts	-	-	-	-	-	-	42
Derivatives – Commodity contracts - metals	-	-	-	-	-	-	211
Other financial liabilities	95	21	18	4	-	138	75
<b>Total financial liabilities by maturity</b>	<b>1 140</b>	<b>1 037</b>	<b>18</b>	<b>4</b>	<b>-</b>	<b>2 199</b>	

#### Contractual maturities for financial liabilities as at 31 December 2011

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	914	-	-	-	-	914	914
Derivatives – Currency contracts	-	-	-	-	-	-	403
Derivatives – Commodity contracts - metals	10	46	5	-	-	61	465
Other financial liabilities	27	2	5	5	2	41	39
<b>Total financial liabilities by maturity</b>	<b>951</b>	<b>48</b>	<b>10</b>	<b>5</b>	<b>2</b>	<b>1 016</b>	

<sup>14</sup> During the period from the end of the reporting period to the publication date of these financial statements, payment was made on overdue receivables in the amount of PLN 114 million.

## 28. Financial risk management (continued)

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

In 2012, the Company held a customs guarantee with a maturity to 3 March 2014. This guarantee represents a contingent liability, which does not materially affect the liquidity risk of the Company.

The management of financial liquidity is performed in accordance with the „Financial Liquidity Management Policy” adopted by the Management Board. This document describes in a comprehensive way the process of managing the Company's financial liquidity, guided by best practice in terms of procedures and instruments. The basic principles resulting from this document are:

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

In order to minimise risk associated with loss of liquidity, in 2012 the Company made use of borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility. Open lines of credit are available in PLN, USD and EUR.

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

### CREDIT LINES as at 31 December 2012

Type of bank loan	Bank loan currency	Balance of bank loan in the currency	Balance of bank loan in PLN
Working capital facility and overdraft facility	USD	123	-
Working capital facility and overdraft facility	EUR	50	-
Working capital facility and overdraft facility	PLN	-	1 300

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

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

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

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

As a result of servicing this debt, as at 31 December 2012 the Company's a debt/EBITDA ratio amounted to 0.04.

The equity ratio was above the assumed minimum level and amounted to 0.77 as at 31 December 2012.

In 2012 and 2011 there were no external equity requirements imposed on the Company, including in the credit agreements entered into by the Company.

In the first half of 2012, the Company implemented a cash management service in the KGHM Polska Miedź S.A. Group. Interest on the zero-balance cash pool is based on the variable WIBOR rate with a credit limit on the account of PLN 229 million, at 31 December 2012.

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

## 28. Financial risk management (continued)

The coordinator of this service is KGHM Polska Miedź S.A. This function is based on establishing the conditions for functioning of the system, particularly including the interest rate risk and representation of the entire Group in relations with the bank with respect to services. KGHM Polska Miedź S.A. also acts as a participant of the cash pool system, in which it deposits its financial surpluses and, in case of need, takes advantage of financing.

Liquidity risk associated with the implementation of this monetary resources management service in the Group is immaterial due to the net amount committed by the Company at the end of the reporting period, at the level of PLN 4 million.

As at 31 December 2012, the following companies were participants of the cash pool system in the Group:

- KGHM Metraco S.A.,
- ZANAM-LEGMET Sp. z o.o.,
- INTERFERIE S.A.,
- KGHM Ecoren S.A.,
- PeBeKa S.A.,
- POL-MIEDŹ TRANS Sp. z o.o.,
- CBJ sp. z o.o.,
- WPEC w Legnicy S.A.,
- PHP „MERCUS” sp. z o.o.,
- Interferie Medical SPA Sp. z o.o.,
- „Energetyka” sp. z o.o.,
- INOVA Spółka z o.o.,
- PMT Linie Kolejowe Sp. z o.o.,
- Zagłębie Lubin S.A.

## 29. Income tax

Income tax	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated
Current income tax		1 558	2 212
Deferred income tax	18	(1)	129
Adjustments to income tax from prior periods		(8)	(8)
<b>Total</b>		<b>1 549</b>	<b>2 333</b>

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011 restated
Profit before income tax	6 417	13 727
Tax calculated at tax rates in force	1 219	2 608
Tax effect of non-taxable income	( 72)	( 58)
Tax effect of expenses not deductible for tax purposes *	410	11
Tax-deductible expenses due to reversal of an impairment loss in connection with the sale of a subsidiary	-	( 220)
Adjustments to income tax from prior periods	( 8)	( 8)
<b>Income tax expense</b>	<b>1 549</b>	<b>2 333</b>

\* tax effect of expenses not deductible for tax purposes in 2012 mainly related to the minerals extraction tax. Details in note 22.



## 29. Income tax (continued)

The rate applied to the taxation of income in accordance with tax law in force in corporate income tax amounted to 19% (in 2011: 19%). The effective tax rate was 24.14% (in 2011: 16.99%). The increase in the effective tax rate in 2012 versus 2011 was mainly due to the following:

- introduction of the minerals extraction tax, which for tax purposes is not deductible,
- a one-off recognition for tax purposes in 2011 of a negative result on the sale of the shares of Telefonía Dialog S.A.; and
- a lower amount than in 2011 of non-taxable corporate income due to dividends received.

## 30. Earnings per share

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Profit for the period	4 868	11 394
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	24.34	56.97

There are no dilutive ordinary shares.

## 31. Dividend paid

In accordance with Resolution No. 5/2012 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 28 June 2012 regarding the appropriation of Company profit for financial year 2011, the amount of PLN 5 668 million, representing PLN 28.34 per share, was allocated as a shareholders dividend. The right to dividend date was set at 16 July 2012, and dividend payment date at 20 August 2012 – 1<sup>st</sup> instalment and 16 November 2012 – 2<sup>nd</sup> instalment. All shares of the Company are ordinary shares.

## 32. Explanations to the statement of cash flows

### Change in provisions

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Change in provisions for other liabilities and employee benefits from the statement of financial position</b>		<b>514</b>	<b>64</b>
<b>Adjustment:</b>			
Provisions for decommissioning costs of mines recognised in property, plant and equipment	5	(243)	43
Employee benefits liabilities recognised in other comprehensive income	19	(201)	(73)
<b>Change in provisions recognised in the statement of cash flows</b>		<b>70</b>	<b>34</b>

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

#### Change in receivables

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Change in trade and other receivables from the statement of financial position</b>	<b>11</b>	<b>(185)</b>	<b>893</b>
<b>Adjustment:</b>			
Long-term loans granted		(5)	(5)
Short-term loans granted		7	-
Other current and non-current financial receivables excluding payments to subsidiaries and derivatives		-	(351)
Advances granted due to purchase of property, plant and equipment and intangible assets		27	7
Other		(24)	-
<b>Change in receivables recognised in the statement of cash flows</b>		<b>(180)</b>	<b>544</b>

#### Change in payables

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Change in trade and other payables from the statement of financial position</b>	<b>16</b>	<b>423</b>	<b>98</b>
<b>Adjustment:</b>			
Payables due to purchase of property, plant and equipment and intangible assets		(56)	(63)
Cash subsidies to be used for the purchase of property, plant and equipment and intangible assets		(11)	-
<b>Change in payables recognised in the statement of cash flows</b>		<b>356</b>	<b>35</b>

#### Change in cash and cash equivalents

	Note	For the period	
		from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Change in cash and cash equivalents from the statement of financial position</b>	<b>13</b>	<b>(12 129)</b>	<b>10 241</b>
<b>Adjustment:</b>			
Exchange differences from the measurement		878	(876)
<b>Change in cash and cash equivalents recognised in the statement of cash flows</b>		<b>(11 251)</b>	<b>9 365</b>

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

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	17	17
Losses on sales of property, plant and equipment and intangible assets	(1)	(11)
<b>Proceeds from sales of property, plant and equipment and intangible assets</b>	<b>16</b>	<b>6</b>

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

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

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Purchase recognised in profit or loss	(3)	(24)
(Negative)/Positive change in liabilities recognised in operating activities due to exploration for and evaluation of mineral resources	(4)	4
<b>Total</b>	<b>(7)</b>	<b>(20)</b>

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

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
Purchase	( 19)	( 37)
Positive change in liabilities due to exploration for and evaluation of mineral resources	( 1)	4
<b>Total</b>	<b>( 20)</b>	<b>( 33)</b>

### 33. Related party transactions

	For the period from 1 January 2012 to 31 December 2012		
	Sales of products	Sales of merchandise and materials	Other transactions
Sales			
- to subsidiaries	554	72	17
<b>Total sales to related entities</b>	<b>554</b>	<b>72</b>	<b>17</b>

	For the period from 1 January 2011 to 31 December 2011		
	Sales of products	Sales of merchandise and materials	Other transactions
Sales			
- to subsidiaries	679	68	4
<b>Total sales to related entities</b>	<b>679</b>	<b>68</b>	<b>4</b>

During the period from 1 January 2012 to 31 December 2012, KGHM Polska Miedź S.A. received dividends from a subsidiary in the amount of PLN 1 million. In the comparable period dividend from an associate amounted to PLN 250 million.

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

### 33. Related party transactions (continued)

Purchases from related entities	For the period from 1 January 2012 to 31 December 2012		
	Purchase of services, merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
- from subsidiaries	5 070	818	6
<b>Total purchases from related entities</b>	<b>5 070</b>	<b>818</b>	<b>6</b>

Purchases from related entities	For the period from 1 January 2011 to 31 December 2011		
	Purchase of services, merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
- from subsidiaries	3 988	633	5
- from an associate held for sale	-	-	2
<b>Total purchases from related entities</b>	<b>3 988</b>	<b>633</b>	<b>7</b>

Trade and other receivables from related entities	At	
	31 December 2012	31 December 2011
- from subsidiaries	224	270
- from other related entities	-	-
<b>Total receivables from related entities</b>	<b>224</b>	<b>270</b>

Trade and other payables towards related entities	At	
	31 December 2012	31 December 2011
- towards subsidiaries	460	432
- towards other related entities	-	-
<b>Total payables towards related entities</b>	<b>460</b>	<b>432</b>

During the current reporting period, two 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.

In the comparable period the following transactions with State Treasury companies were entered into:

- On 2 February 2011, KGHM Polska Miedź S.A. signed an agreement with the Minister of the State Treasury for the acquisition of 5 260 820 shares of the company NITROERG S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 million. The controlling interest acquired represents 85% of the share capital of NITROERG S.A. in Bieruń.
- KGHM Polska Miedź S.A. participated in the selling process by the Ministry of the State Treasury of the shares of TAURON Polska Energia S.A., submitting a purchase order for the shares of TAURON Polska Energia S.A. As a result of this transaction, on 23 March 2011 KGHM Polska Miedź S.A. purchased 71 000 000 shares of TAURON Polska Energia S.A. at PLN 6.15 per share. The transaction was realised as part of an accelerated book building process. Following this transaction, KGHM Polska Miedź S.A. owns a total of 182 110 566 shares of TAURON Polska Energia S.A., representing 10.39% of the share capital.

### 33. Related party transactions (continued)

The remaining transactions, which were collectively significant, between the Company and the government and entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions involved the purchase by the Company 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 2012 to 31 December 2012 amounted to PLN 765 million (for the period from 1 January 2011 to 31 December 2011: PLN 769 million), the unsettled balance of liabilities from these transactions as at 31 December 2012 amounted to PLN 41 million (as at 31 December 2011: PLN 46 million), and the unsettled balance of receivables as at 31 December 2012 amounted to PLN 4 million (as at 31 December 2011: PLN 1 million). Revenues from sales from State Treasury companies during the period from 1 January 2012 to 31 December 2012 amounted to PLN 55 million (for the period from 1 January 2011 to 31 December 2011: PLN 55 million).

#### Remuneration of members of key management personnel:

##### (a) remuneration of the Management Board in PLN '000

	Period when function served in 2012	Salaries	Earnings from subsidiaries	Benefits due to termination of employment relationship	Other benefits and earnings	Total earnings in 2012
<i>Members of the Management Board serving function as at 31 December 2012</i>						
Herbert Wirth	01.01-31.12.2012	1 546	48	-	169	<b>1 763</b>
Włodzimierz Kiciński	28.06-31.12.2012	696	-	-	54	<b>750</b>
Wojciech Kędzia	01.01-31.12.2012	1 237	83	-	67	<b>1 387</b>
Adam Sawicki	01.09-31.12.2012	384	-	-	54	<b>438</b>
Dorota Włoch	28.06-31.12.2012	618	81	-	60	<b>759</b>
<i>Other Members of the Management Board</i>						
Maciej Tybura	01.01-28.06.2012	660	31	42	116	<b>849</b>
		<b>5 141</b>	<b>243</b>	<b>42</b>	<b>520</b>	<b>5 946</b>

	Period when function served in 2011	Salaries	Earnings from subsidiaries	Benefits due to termination of employment relationship	Other benefits and earnings	Total earnings in 2011
<i>Members of the Management Board serving function as at 31 December 2011</i>						
Herbert Wirth	01.01-31.12.2011	1 406	306	-	158	<b>1 870</b>
Maciej Tybura	01.01-31.12.2011	1 227	119	-	187	<b>1 533</b>
Wojciech Kędzia	01.01-31.12.2011	985	102	-	71	<b>1 158</b>
<i>Other Members of the Management Board*</i>						
Ryszard Janeczek	-	96	-	-	-	<b>96</b>
		<b>3 714</b>	<b>527</b>	<b>-</b>	<b>416</b>	<b>4 657</b>

\* the item „Salaries” includes salaries during the termination period

### 33. Related party transactions (continued)

#### (b) Remuneration of the Supervisory Board in PLN '000

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

	Period when function served in 2011	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts	Other benefits	Total earnings in 2011
Marcin Dyl	01.01-31.12.2011	96	-	17	113
Arkadiusz Kawecki	01.01-31.12.2011	88	-	22	110
Jacek Kuciński	01.01-31.12.2011	110	-	24	134
Marek Panfil	01.01-31.12.2011	88	-	20	108
Marzenna Weresa	01.01-31.12.2011	88	-	9	97
Jan Rymarczyk	01.01-31.12.2011	88	-	21	109
Franciszek Adamczyk	15.06-31.12.2011	47	-	10	57
Lech Jaroń	20.10-31.12.2011	17	51	3	71
Maciej Łaganowski	20.10-31.12.2011	17	28	-	45
Paweł Markowski	20.10-31.12.2011	18	70	-	88
Józef Czyczerski	01.01-15.06.2011	41	72	-	113
Leszek Hajdacki	01.01-15.06.2011	41	90	4	135
Ryszard Kurek	01.01-15.06.2011	41	125	5	171
		<b>780</b>	<b>436</b>	<b>135</b>	<b>1 351</b>

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

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>PricewaterhouseCoopers Sp. z o.o.</b>	<b>2 536</b>	<b>963</b>
From contract for the review and audit of financial statements	1 704	834
- audit of annual financial statements of the Company and of annual consolidated financial statements of the Group	1 402	532
- review of interim financial statements of the Company and of interim consolidated financial statements of the Group	302	302
From other contracts	832	129
<b>Other companies of the PricewaterhouseCoopers Group in Poland</b>	<b>872</b>	<b>41</b>
From other contracts	872	41

**35. Contingent assets and liabilities, and liabilities not recognised in the statement of financial position**

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

	At	
	31 December 2012	31 December 2011
<b>Contingent assets</b>	<b>414</b>	<b>373</b>
- disputed State Budget issues	7	7
- guarantees received	182	167
- promissory notes receivables	98	77
- real estate tax on mining facilities	87	85
- inventions, implementation of projects	40	37
<b>Contingent liabilities</b>	<b>178</b>	<b>151</b>
- guarantees	5	5
- disputed issues, pending court proceedings	15	14
- preventive safety measures in respect of mine-related damages	-	8
- liabilities due to implementation of projects and inventions	126	114
- real estate tax on mining facilities	18	-
- other	14	10
<b>Liabilities not recognised in the statement of financial position</b>		
- liabilities towards local government entities due to expansion of the tailings pond	193	-
- liabilities due to finance leases	11	32

KGHM Polska Miedź S.A., in compensation for the negative impact of the Company's activities on some surrounding municipalities, signed agreements in which it committed to the payment of funds to these municipalities for the purposes and under the conditions stipulated in the agreements.

Based on the specific stipulations of these agreements, at 31 December 2012, the Company recognised in the statement of financial position liabilities in the amount of PLN 48 million, provisions in the amount of PLN 6 million, as well as contractual liabilities which were not recognised in the statement of financial position in the amount of PLN 193 million.

Liabilities recognised in the statement of financial position (in the non-current part in the amount of PLN 27 million, in the current part in the amount of PLN 21 million) represent commitments of the Company to the payment of funds to municipalities by 2014 in amounts and by dates strictly defined in agreements. The non-current part of these liabilities is recognised in a discounted amount.

### 35. Contingent assets and liabilities, and liabilities not recognised in the statement of financial position (continued)

The provision recognised by the Company (in the non-current part in the amount of PLN 4 million, in the current part in the amount of PLN 2 million) represents commitments of KGHM Polska Miedź S.A. made by the Company to the payment of funds to these municipalities equivalent to 4% of the amount of investment expenditures realised in a given year for development and formation of the „Żelazny Most” tailings pond to the capacity of 700 million m<sup>3</sup> and a dam crown height of 180 m a.s.l., though not less than EUR 375 thousand. The amount of the non-current part of the provision is recognised at its discounted rate.

Liabilities not recognised in the statement of financial position in the amount of PLN 193 million represent commitments of KGHM Polska Miedź S.A. stipulated in agreements with municipalities to the payment of funds to these municipalities in a specified amount. In respect of this, the dates for making the initial payments are tied to the date on which the waste stored in the tailings pond exceeds the dam's crown height as defined in the agreement. This event will be the signal to recognise these liabilities in the statement of financial position.

As at 31 December 2012, the amount of liabilities not recognised in the statement of financial position is shown at their present value.

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

	At	
	31 December 2012	31 December 2011
Up to one year	3	19
From one to five years	8	12
Over five years	-	1
<b>Total:</b>	<b>11</b>	<b>32</b>

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
<b>Lease payments recognised in profit or loss</b>	5	12

Total value of future minimum payments due to perpetual usufruct of land was presented in note 6.

### 36. Social Fund assets and liabilities

KGHM Polska Miedź S.A., in accordance with the obligation resulting from the Social Fund Act dated 4 March 1994, creates a Social Fund. The Fund's purpose is to subsidise the Company's social activity, housing loans to employees and other social expenditures.

The Company has netted the assets of the Fund with the liabilities towards the Fund, as these assets are not subject to control of the Company and do not meet the definition of an asset. Accordingly, the net balance (liability towards Social Fund) as at 31 December 2012 amounts to PLN 2 million, and the net balance (liability towards Social Fund) as at 31 December 2011 amounted to PLN 3 million.



### 36. Social Fund assets and liabilities (continued)

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

	At	
	31 December 2012	31 December 2011
<b>Social Fund assets and liabilities</b>		
Housing loans granted to employees	120	114
Cash and cash equivalents	24	20
Liabilities towards Social Fund	(146)	(137)
<b>Net balance</b>	<b>(2)</b>	<b>(3)</b>
<b>Charged on operating costs of the financial period due to transfers made to the Social Fund</b>	109	105

### 37. Government grants

The balance of government grants recognised in deferred income at 31 December 2012 is PLN 9 million. In terms of financing from the National Fund for Environmental Protection and Water Management, the Company signed an agreement in 2010 with subsequent appendices for financing in respect of realisation of a project called „Restriction in the volume of waste at the Głogów smelter – construction of a fourth Doerschel furnace”.

### 38. Employment structure

	For the period	
	from 1 January 2012 to 31 December 2012	from 1 January 2011 to 31 December 2011
White-collar employees (persons)	4 625	4 568
Blue-collar employees (persons)	13 941	14 010
<b>Total:</b>	<b>18 566</b>	<b>18 578</b>

### 39. Subsequent events

#### Significant contracts

- (a) On 21 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch for silver sales in 2013. The estimated value of the contract is PLN 1 672 million.  
As a result of entering into this contract, the total estimated value of contracts entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch over the last 12 months exceeded 10% of the equity of the Company and amounts to PLN 3 654 million. The highest-value contract signed during this period with HSBC Bank USA N.A. is the above-mentioned contract.
- (b) On 28 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2013. The estimated value of this contract is PLN 1 524 million. As a result of entering into this contract, the total estimated value of contracts entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH over the last 12 months exceeded 10% of the equity of the Company and amounts to PLN 3 497 million. The highest-value contract entered into with MKM Mansfelder Kupfer und Messing GmbH during this period is the contract for the sale of copper cathodes in 2012 entered into on 30 January 2012. The value of this contract is PLN 1 824 million.
- (c) On 31 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and Prysmian Metals Limited for the sale of copper wire rod in 2013 and 2014. The estimated value of this contract is from PLN 2 382 million to PLN 2 865 million, depending on the amount of tonnage under option and on the relocation of tonnage between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH. This amount was calculated based on the forward copper curve from 30 January 2013 and the USD/PLN exchange rate per the NBP from 30 January 2013. The contract with Prysmian Metals Limited provides for the relocation of materials between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH.

### **39. Subsequent events (continued)**

#### **Signing of an Annex to the Framework Agreement on the Joint Exploration for and Extraction of Shale Gas**

On 21 February 2013, the Management Board of the Company signed an annex to the Framework Agreement on the Joint Exploration for and Extraction of Shale Gas of 4 July 2012. The parties of the Annex are all parties of the Agreement, i.e. KGHM Polska Miedź S.A., Polskie Górnictwo Naftowe i Gazownictwo SA, PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. The Parties have decided to prolong the period for determination of details regarding the terms of cooperation until 4 May 2013.

#### **Forecast of results for 2013**

On 14 February 2013, the Supervisory Board of the Company approved the Budget of KGHM Polska Miedź S.A. for 2013 submitted by the Management Board. The bases for preparation of the Budget were the preliminary results for 2012 and the assumptions of individual operating plans (detailed data on the approved Budget is presented in the Report of the Management Board on the Company's Activities, point 3.8).

#### **Elections by employees of persons to the Supervisory Board of the Company**

As a result of elections carried out on 12-13 March 2013, the employees of the Company chose the following two persons to the Supervisory Board: Józef Czyczerski and Leszek Hajdacki.

The persons elected by the Company's employees become members of the Eighth Term Supervisory Board from the moment of adoption of appropriate resolutions by the General Meeting of KGHM Polska Miedź S.A.

#### **Borrowing agreements entered into by the Company**

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

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

<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Herbert Wirth	President of the Management Board	
27 March 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
27 March 2013	Wojciech Kędzia	Vice President of the Management Board	
27 March 2013	Adam Sawicki	Vice President of the Management Board	
27 March 2013	Dorota Włoch	Vice President of the Management Board	

<b>SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
27 March 2013	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

**KGHM POLSKA MIEDŹ S.A.**

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**REPORT OF THE MANAGEMENT  
BOARD ON THE COMPANY'S  
ACTIVITIES IN 2012**

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Lubin, March 2013

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**KGHM POLSKA MIEDZ S.A. IN THE YEARS 1997-2012**  
(data for the years 1997-2009 per published annual reports, and for the years 2010-2011 per report for 2012)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Changes 2011-2010	CAGR (%) ****
<b>Statement of comprehensive income</b>																		
Sales	4 089	3 642	4 113	4 983	4 218	4 488	4 741	6 158	8 000	11 670	12 183	11 303	11 061	15 945	20 097	20 737	103.2	11.4
Profit on sales	905	240	348	941	173	152	431	1 445	2 707	4 139	4 880	3 392	3 197	6 650	9 437	7 135	75.6	14.8
EBITDA*	1 212	631	319	1 198	144	753	956	1 761	2 937	4 784	5 101	4 078	3 646	6 246	14 433	7 198	49.9	12.6
Profit before income tax	914	310	(58)	795	(147)	310	569	1 446	2 635	4 380	4 656	3 554	3 067	5 598	13 727	6 417	46.7	13.9
Profit for the period	502	179	(170)	618	(190)	255	412	1 397	2 289	3 605	3 799	2 920	2 540	4 563	11 394	4 868	42.7	16.4
<b>Statement of financial position</b>																		
Total assets	4 937	4 975	4 884	5 757	7 557	8 155	8 695	8 948	10 977	12 251	12 424	13 901	13 953	19 829	29 252	28 177	96.3	12.3
Non-current assets	3 558	3 698	3 579	4 177	4 735	6 440	6 621	6 552	7 079	7 017	7 431	8 704	9 509	12 125	11 696	22 410	191.6	13.1
Current assets	1 364	1 242	1 250	1 381	2 657	1 715	2 074	2 397	3 899	5 234	4 992	5 174	4 444	7 704	17 556	5 767	32.8	10.1
Equity	4 021	4 096	3 470	4 067	3 696	4 011	4 007	5 337	6 214	8 116	8 966	10 591	10 404	14 456	23 135	21 923	94.8	12.0
Liabilities and provisions	846	775	1 187	1 380	3 634	4 144	4 689	3 612	4 763	4 136	3 458	3 309	3 549	5 373	6 117	6 254	102.2	14.3
<b>Financial ratios</b>																		
Earnings per share (EPS)	2.51	0.89	(0.85)	3.09	(0.95)	1.27	2.06	6.99	11.45	18.02	18.99	14.60	12.70	22.81	56.97	24.34	42.7	16.4
Dividend per share (DPS)**	0.25	0.10	-	1.00	-	-	-	2.00	10.00	16.97	9.00	11.68	3.00	14.90	28.34	x	x	x
Price per share / Earnings per share (P/E)	5.4	14.0	(30.8)	8.3	(13.7)	10.6	12.7	4.5	5.5	4.9	5.6	1.9	8.3	7.6	1.9	7.8	410.5	2.5
Current liquidity	2.2	2.3	2.6	2.3	1.0	0.9	0.7	0.8	1.0	1.3	1.7	2.2	2.4	2.6	4.5	1.5	33.3	(2.5)
Quick liquidity	1.0	0.9	1.0	0.9	0.7	0.6	0.7	0.8	1.0	1.3	1.7	2.2	1.4	1.9	3.9	0.7	17.9	(2.7)
Return on assets (ROA)	10.2	3.6	(3.5)	10.7	(2.5)	3.1	4.7	15.6	20.9	29.4	30.6	21.0	18.2	23.0	39.0	17.3	44.4	3.6
Return on equity (ROE)	12.5	4.4	(4.9)	15.2	(5.1)	6.3	10.3	26.2	36.8	44.4	42.4	27.6	24.4	31.6	49.3	22.2	45.0	3.9
Debt ratio	14.2	13.5	14.3	15.9	38.2	34.2	38.8	24.0	28.2	33.8	27.8	23.8	25.4	27.1	20.9	22.2	106.2	3.0
Durability of financing structure	86.1	87.1	85.7	84.1	63.4	79.0	76.8	75.0	70.6	77.0	83.8	88.0	86.8	84.9	86.8	86.5	99.7	0.0
<b>Production results</b>																		
Electrolytic copper production	440.6	446.8	470.5	486.0	498.5	508.7	529.6	550.1	560.3	556.6	533.0	526.8	502.5	547.1	571.0	565.8	99.1	1.7
Metallic silver production	1 029	1 098	1 093	1 119	1 163	1 192	1 358	1 344	1 244	1 242	1 215	1 193	1 203	1 161	1 260	1 274	101.1	1.4
<b>Macroeconomic data (average annual)</b>																		
Copper prices on LME	USD/t	2 276	1 653	1 574	1 814	1 578	1 558	1 780	2 868	6 731	7 126	6 952	5 164	7 539	8 811	7 950	90.2	8.7
Silver prices on LBM	USD/troz	4.88	5.54	5.23	4.95	4.37	4.60	4.88	6.66	7.31	11.55	13.38	14.99	14.67	20.19	31.15	88.7	13.1
Exchange rate	USD/PLN	3.28	3.49	3.96	4.35	4.10	4.08	3.89	3.65	3.23	3.10	2.77	2.41	3.12	3.02	3.26	110.1	0.0
<b>Other data</b>																		
Market capitalisation, end of period	PLN/share	13.50	12.50	26.20	25.80	13.00	13.50	26.20	31.30	62.50	89.00	105.80	28.12	106.00	173.00	190.00	171.8	19.3
Capital expenditure	M PLN	649	487	379	584	433	360	424	616	651	709	828	1 140	1 070	1 263	1 767	116.3	6.9
Equity investments ***	M PLN	493	200	229	468	271	105	146	707	613	24	155	793	170	1 321	9 637	1 498.8	21.9
Electrolytic copper production cost	PLN/t	5 527	5 556	5 836	6 156	6 328	6 305	6 237	6 660	7 723	10 497	11 160	11 736	11 170	12 983	17 496	129.0	8.0
Electrolytic copper production cost	USD/t	1 685	1 590	1 472	1 417	1 544	1 545	1 603	1 825	2 388	3 381	4 031	4 878	4 302	4 578	5 370	117.3	8.0

\* operating profit (in the years 1997-2006 profit before extraordinary items and taxation adjusted by interest cost) + depreciation/amortisation

\*\* dividend for financial year

\*\*\* purchase/acquisition of shares and investment certificates

\*\*\*\* CAGR (Compound Annual Growth Rate), t0=1997

## 1. Company profile

### 1.1. Company organisation

In 2012 the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised a Head Office and 10 Divisions.

**Diagram 1. Organisational structure of the Company as at 31 December 2012**



### Supervisory Board of the Company

Under the Company's Statutes, the Members of the Supervisory Board are appointed and dismissed by the General Meeting. The composition of the 8th-term Supervisory Board of KGHM Polska Miedź S.A. at 1 January 2012 was as follows:

- Jacek Kuciński Chairman,
- Marcin Dyl Deputy Chairman,
- Marek Panfil Secretary,
- Franciszek Adamczyk,
- Arkadiusz Kawecki,
- Marzenna Weresa,
- Jan Rymarczyk

as well as the following employee-elected members:

- Lech Jaroń,
- Maciej Łaganowski,
- Paweł Markowski.

**Table 2. Decisions by Company bodies regarding the composition of the Supervisory Board in 2012**

Date	Event
19.01.2012	The Extraordinary General Meeting resolved to: <ul style="list-style-type: none"> <li>- dismiss from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa,</li> <li>- appoint to the Supervisory Board: Aleksandra Magaczewska, Krzysztof Kaczmarczyk, Mariusz Kolwas, Robert Oliwa and Jacek Poświata.</li> </ul>
13.02.2012	The Supervisory Board selected to serve in the function of: <ul style="list-style-type: none"> <li>- Deputy Chairman - Marek Panfil,</li> <li>- Secretary - Mariusz Kolwas.</li> </ul>
17.04.2012	Marek Panfil resigned from the function of Deputy Chairman. The Supervisory Board selected Aleksandra Magaczewska to serve in the function of Deputy Chairman.
24.04.2012	Mariusz Kolwas submitted his resignation from serving as a Member of the Supervisory Board.
25.04.2012	The Extraordinary General Meeting resolved to: <ul style="list-style-type: none"> <li>- dismiss from the Supervisory Board: Jacek Kuciński and Marek Panfil,</li> <li>- appoint to the Supervisory Board: Paweł Białek, Dariusz Krawczyk, Ireneusz Piecuch.</li> </ul>
21.05.2012	The Supervisory Board selected to serve in the function of: <ul style="list-style-type: none"> <li>- Chairwoman - Aleksandra Magaczewska,</li> <li>- Deputy Chairman - Krzysztof Kaczmarczyk,</li> <li>- Secretary - Dariusz Krawczyk.</li> </ul>
28.06.2012	As a result of a request of Company employees regarding the dismissal of members of the Supervisory Board elected by the Company's employees and the results of voting on this request, the Ordinary General Meeting resolved to dismiss Lech Jaroń, Maciej Łaganowski and Paweł Markowski from the Supervisory Board.

<b>3.07.2012</b>	Robert Oliwa submitted his resignation from serving as a Member of the Supervisory Board effective as of the date of the General Meeting of KGHM Polska Miedź S.A., the subject of which will be changes in the composition of the Supervisory Board.
<b>3.09.2012</b>	The Extraordinary General Meeting appointed Krzysztof Opawski to the Supervisory Board.
<b>21.11.2012</b>	The Extraordinary General Meeting appointed Bogusław Szarek to the Supervisory Board, member of the Supervisory Board elected by the employees of KGHM Polska Miedź S.A.

As at 31 December 2012 and to the date of authorisation of the Financial Statements for issue, the composition of the Supervisory Board was as follows:

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

as well as the following employee-elected members:

- Bogusław Szarek.

The question of remuneration of members of the Supervisory Board is regulated by Resolution No. 15/2003 regarding: changes in principles of remuneration of members of the Supervisory Board, adopted by the Ordinary General Meeting on 29 May 2003. The amount of monthly remuneration of individual members of the Supervisory Board depends on the function served and is set as a multiple of the gross average monthly remuneration in the industrial sector excluding payments from profit, for the last month of the previous quarter.

The Company also covers or reimburses costs related to participation in the work of the Supervisory Board, and in particular to travel costs from the place of residence to the site of Supervisory Board meetings and back, as well as room and board.

#### Management Board of the Company

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Management Board are appointed and dismissed by the Supervisory Board. The composition of the 7th-term Management Board of KGHM Polska Miedź S.A. at 1 January 2012 was as follows:

- Herbert Wirth                                      President of the Management Board,
- Maciej Tybura                                      I Vice President of the Management Board (Finance),
- Wojciech Kędzia                                      Vice President of the Management Board (Production).

**Table 3. Decisions of Company bodies on the composition of the Management Board in 2012**

Date	Description of event
<b>27.06.2012</b>	Due to the expiry of the 7th-term Management Board (28 June 2012) the Supervisory Board appointed Herbert Wirth as President of the 8th-term Management Board, as well as the following members of the Management Board: Włodzimierz Kiciński, Wojciech Kędzia, Dorota Włoch and Adam Sawicki (from 1 September 2012)
<b>25.07.2012</b>	The Supervisory Board appointed Włodzimierz Kiciński to the function of I Vice President of the Management Board.

To the end of 2012 and to the date of authorisation of the Financial Statements for issue, the Management Board of KGHM Polska Miedź S.A. functioned in the following composition:

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

The Supervisory Board segregated the duties of individual members of the Management Board in the following manner:

#### The President of the Management Board

coordinates the work of the Management Board. He directs the shaping of Company personnel policy, including the direct supervision of activities with respect to management staff (their retention and development). Also amongst the duties of the President of the Management Board are supervision of the planning, implementation and updating of the Company Strategy, within the scope required to accomplish the informational obligations towards the Supervisory Board, the supervision of designing, planning and conducting strategic studies in the current and future areas of Company activities, as well as supervision of activities with respect to comprehensive risk management at the corporate level. The President of the Management Board also



supervises activities with respect to building relations with institutions of public administration, government departments and business partners, as well as with external financial and sector investors. He directs the conduct of community communication programs, with particular regard to the principles of corporate social responsibility.

**The I Vice President of the Management Board (Finance)**

manages activities with respect to finance management, financial controlling, realisation of the function through the Chief Accountant, as well as the delivery of products and services to their final customers, combining in this activities related to post-sale servicing.

**The Vice President of the Management Board (Production)**

manages activities with respect to the manufacture of Company products and services, including primary production: mining and metallurgy, excluding IT products and services, as well as with respect to the acquisition, construction and readiness of production and non-production assets, with particular regard to the issues of workplace safety and control of environmental risks.

**The Vice President of the Management Board (Corporate Affairs)**

manages business relations and issues related to the creation and conduct of the Group with respect to the implementation of and adherence to corporate governance principles and of best business practice; manages or coordinates activities related to the appropriate shaping of relations with the external business environment of the Company; develops, implements and monitors corporate communications standards as well as standards with respect to comprehensive personnel management with respect to their retention and development in the international entities of the Group.

**The Vice President of the Management Board (Development)**

manages activities with respect to updating the mission, vision and long-term strategy of the Company in all areas of its activities in response to changing external and internal conditions, and also coordinates the implementation of Company strategy.

**Information on the employment contracts and remuneration of Members of the Management Board of KGHM Polska Miedź S.A.**

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, composed of the basic monthly salary and variable salary. The basic monthly salary is set as a multiple of the average monthly salary in the corporate sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Chief Statistical Office. Payment of the variable salary is contingent on the fulfilment of criteria set for the Management Board by the Supervisory Board, and amounts up to 40% of the annual basic salary. Additionally, the Supervisory Board, based on assessment of the work of the Management Board, may grant the Members of the Management Board up to 10% of the annual basic salary.

Potentially-due remuneration with respect to variable salary for 2012, the payment of which will be decided by the Supervisory Board, is presented in Table 4.

**Table 4. Potentially-due remuneration for Members of the Management Board for 2012**

Name	Position	Potentially-due remuneration for 2012
Herbert Wirth	Member of the Management Board - President of the Management Board	PLN 311 thousand
Włodzimierz Kiciński	Member of the Management Board - I Vice President of the Management Board	PLN 199 thousand
Wojciech Kędzia	Member of the Management Board - Vice President of the Management Board	PLN 249 thousand
Adam Sawicki	Member of the Management Board - Vice President of the Management Board	PLN 138 thousand
Dorota Włoch	Member of the Management Board - Vice President of the Management Board	PLN 177 thousand
Maciej Tybura	Member of the Management Board - I Vice President of the Management Board*	PLN 105 thousand

\* for the period from 1 January 2012 to 28 June 2012

The contracts entered into with Members of the Management Board forbidding any activities which would be competitive towards KGHM stipulate that, for adherence to such contracts, within a period of 12 months from the date of termination of employment in KGHM Polska Miedź S.A. – regardless of the cause of termination, the Company shall pay the Management Board Member, for each month during this period, compensation in the amount of 40% of the basic salary resulting from the employment contract.

A Management Board Member who violates the stipulations of the aforementioned contract shall be obligated to return the full amount of compensation received.

The employment contracts with Management Board Members also regulate the following matters:

- coverage by the Company of costs required for the proper fulfilment of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred pursuant to the budget),
- the use of business cars and rental of a flat for Management Board members (the costs associated with the use of a business car and flat are defined in a separate contract),
- medical benefits (in each calendar year of the life of the contract the Company purchases a medical packet for Management Board members worth up to PLN 10 thousand),
- life insurance premiums (once every year the Company covers or reimburses the amount of the premiums to an amount up to one monthly basic salary, with the principles and manner of settlement being agreed by the parties in a separate contract).

Detailed information on remuneration paid, bonuses or benefits for Members of the Management Board and Supervisory Board can be found in Note 33 of the financial statements of KGHM Polska Miedź S.A. for 2012.

## 1.2. Production

The main objectives set forth by the Management Board with respect to production in 2012 were:

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

The objectives set forth required fulfilment of the following tasks:

with respect to **mining**:

- improving the ore selection system, extraction efficiency and workplace safety,
- increasing the scope of drift work to prepare new working areas in the mines and improve knowledge of the deposit,
- gathering information on gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract this threat;

with respect to **ore processing**:

- adapting the production capacity of specific areas of the concentrators to the amount and quality of ore supplied,
- improving concentration parameters through the successive replacement of floatation equipment in specific areas of the concentrators,
- maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters,
- commencing the separation of concentrate produced at the Rudna mine concentrator into two types of concentrate with varied organic carbon content.

with respect to **smelting**:

- continued modernisation of technology at the Głogów I Smelter as part of the Pyrometallurgy Modernisation Program,
- completion of modernisation of the overhead pouring units at the Głogów I Smelter,
- construction of a concentrate warehouse at the Głogów II Smelter,
- modernisation of the casting forms unit and caissons at the Głogów Smelter,
- construction of a unit for the thermal elimination of oil emulsions in the Contirod line at the Cedynia Wire Rod Division.

## Mine production

Mine production in the Company, in comparison to 2011, remained at a similar level, with a deterioration on copper content in ore (due to work in regions with lower copper ore mineralisation) compensated by increased ore extraction (due to increased extraction on working days and to intensified work on statutorily free days).

**Table 5. Mine production**

	Unit	2010	2011	2012	Change 2011=100
Copper ore (dry weight)	Mt	29.3	29.7	30.2	101.7
Copper content in ore	%	1.64	1.61	1.59	98.8
Copper content in ore	kt	480.6	479.3	479.3	100.0
Silver content in ore	t	1 390	1 356	1 342	99.0
Copper concentrate (dry weight)	kt	1 841	1 875	1 861	99.3
Copper content in concentrate	kt	425.4	426.7	427.1	100.1
Silver content in concentrate	t	1 181	1 167	1 149	98.5

## Smelter production

The production of electrolytic copper in 2012 was slightly (1%) lower than the level in 2011, when it was the highest in the Company's history. Maintaining a similar level of production despite a higher level of production from inventories in the prior year was possible thanks to an increased share of production from purchased copper-bearing materials in the form of scrap, copper blister and imported concentrates. Supplementing own concentrates with purchased copper-bearing materials enabled the efficient utilisation of existing production capacity.

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

In relation to 2011, the production of metallic gold increased by 212 kg, i.e. 30%, mainly due to a higher gold content in purchased copper-bearing materials. In addition, the production of silver and lead increased respectively by 14 t (1%) and 2.3 kt (9%).

**Table 6. Smelter production**

	Unit	2010	2011	2012	Change 2011=100
Electrolytic copper	kt	547.1	571.0	565.8	99.1
of which from purchased copper-bearing materials	kt	120.0	124.6	146.7	117.7
Wire rod, OFE and CuAg rod	kt	253.4	242.7	242.9	100.1
Round billets	kt	18.7	20.3	18.0	88.7
Metallic silver	t	1 161	1 260	1 274	101.1
Metallic gold	kg	776	704	916	130.1
Refined lead	kt	20.9	25.2	27.5	109.1

## Main directions in production

The main production goals set out by the Management Board in 2013 are a continuation of the goals from 2012, i.e.:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of the copper content in ore and concentrate.

With respect to mining, the key goals for 2013 are:

- achieving a ventilation breakthrough between the SW-4 shaft and underground workings, continued access and preparatory work on intersecting the ore at the level of 1 200 m and below in the Rudna mine in the direction of the Deep Głogów (Głogów Głęboki-Przemysłowy) area and continued work aimed at achieving a ventilation connection between the F and E declines in the Polkowice-Sieroszowice mine,
- the application of new drift development technology using drift combines,
- continued work related to gathering information on gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract this threat, and
- restricting dilution in extracted ore, among others by adapting the machinery park to varying geological conditions.

With respect to ore processing, the key goals for 2013 are:

- continued replacement of floatation machinery at the Lubin, Polkowice and Rudna concentrators, tests of new floatation machinery construction, fewer returns in the floatation process through increased effectiveness of the classifier units,
- optimisation of the concentration process in terms of decreasing the impact of reduced quantity-quality parameters by applying the FloVis system at all floatation stages, including cleaning floatation, tests and the application of new floatation mixture reagents,
- continued separation of concentrate produced into two products with varied calorific values at the Rudna concentrator and the commencement of research into the separation of organic carbon at the rougher floatation stage (prefloatation),
- increased liberation of sulphide minerals through changes in the milling units, such as optimising the work of the mills, the application of grinding mediums with a high chromium content, and the application of secondary milling in vertical mills.

With respect to metallurgy, the key goals for 2013 are:

- continued modernisation of technology at the Głogów I Smelter as part of the Pyrometallurgy Modernisation Program,
- flash furnace maintenance at the Głogów II Smelter, and
- main maintenance on the Contirod line at the Cedynia Wire Rod Division in Orsk.

### **Process of obtaining concessions for mining regions currently being worked**

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

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

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

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

### **Status at the date of signing the financial statements**

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

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

### **Planned actions following the date of signing of the financial statements**

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

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

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

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

Based on art. 106 §5 of the Administrative Proceedings Code (APC) the taking of a position by a body (the relevant municipality), including refusal to agree the applications and concession decisions, will occur in the form of a decision.

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

Another legal tool available to the parties is to appeal the decisions of the Government Appeals Collegium to the Regional Administrative Court (RAC). An appeal, based on art. 53 §1 of the Law on Proceedings before Administrative Courts must be submitted within 30 days of delivery/handing over to the appealing party. Parties are allowed to appeal the judgement of the RAC, under art. 173 of the Law on Proceedings before Administrative Courts, in the form of a cassation appeal to the Supreme Administrative Court (SAC) in Warsaw, submitted within 30 days of delivery/handing over to the party an official copy of the judgement with justification. A judgement issued as a result of a cassation appeal by the SAC is legally binding.

Due to the awareness of the importance attached to the continuation of the operations of KGHM Polska Miedź S.A. in the region as the main employer and taxpayer to the municipalities, the Management Board of the Company does not foresee the possibility of a failure to agree the concession decisions. This is confirmed by the previous stage of agreement by the RDEP with the municipalities of environmental decisions, when none of the municipalities raised any concerns. As a result of the close and open cooperation of the Company with the municipalities and the good atmosphere between the parties, no concerns whatsoever have been raised during the process of obtaining environmental decisions. In the Company's opinion, this is a clear signal confirming the declarations of acceptance for the actions of KGHM Polska Miedź S.A. which were submitted many times by the municipal bodies, and justifies minimisation of the assessed actual threat of not obtaining these mining concessions. We assume that any eventual concerns which are raised will be of a substantive nature and will not threaten the successful realisation of the project CONCESSIONS 2013.

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

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

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

### 1.3. Product sales structure

In 2012, versus the prior year, the Company increased the volume of copper sales by 13 kt (2%). The volume of precious metals sales was higher versus the prior year – silver sales amounted to 1 267 t and were higher by 7% (88 t), while gold sales amounted to 908 kg and were higher by 38% (248 kg).

**Table 7. Sales volume for basic products**

		2010	2011	2012	Change 2011=100
Copper and copper products	kt	545.3	566.9	580.3	102.4
- of which export *	kt	406.0	445.8	466.2	104.6
Silver	t	1 247	1 179	1 267	107.5
- of which export *	t	1 214	1 147	1 247	108.7
Gold	kg	840	660	908	137.6
- of which export *	kg	647	435	635	146.0

\* including sales to European Union countries

**Table 8. Revenues from the sale of products (M PLN)**

	2010	2011	2012	Change 2011=100
Copper and copper products	12 837	15 179	15 525	102.3
- of which export *	9 522	11 942	12 416	104.0
Silver	2 468	4 067	4 301	105.8
- of which export *	2 405	3 960	4 235	106.9
Gold	102	112	156	139.3
- of which export *	79	80	110	137.5
Other products and services	424	619	528	85.3
- of which export *	7	6	10	166.7
<b>Total</b>	<b>15 830</b>	<b>19 977</b>	<b>20 510</b>	<b>102.7</b>
<b>- of which export *</b>	<b>12 012</b>	<b>15 988</b>	<b>16 771</b>	<b>104.9</b>

\* including sales to European Union countries

Total revenues from the sale of KGHM Polska Miedź S.A. products in 2012 amounted to PLN 20 510 million, and were higher by 3% than revenues achieved in 2011, mainly due to an increase in the amount of copper and precious metals sold. Revenues from the sale of copper and copper products were higher by 2%. Revenues from silver and gold sales versus their level in 2011 were higher respectively by 6% and 39%.

Revenues from sales in 2012 reflect the positive result from the settlement of hedging instruments in the amount of PLN 333 million (in the prior year PLN 242 million).

#### Geographical structure of product sales

In 2012 the volume of domestic sales of copper and copper products represented 20% of total copper sales, with export and European Union sales accounting for 80%. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and Italy. During 2012 domestic silver sales amounted to 2% of the total volume of silver sales, while export and European Union sales accounted for 98% of sales volume. The largest foreign customers for silver were Great Britain, Belgium and Switzerland.

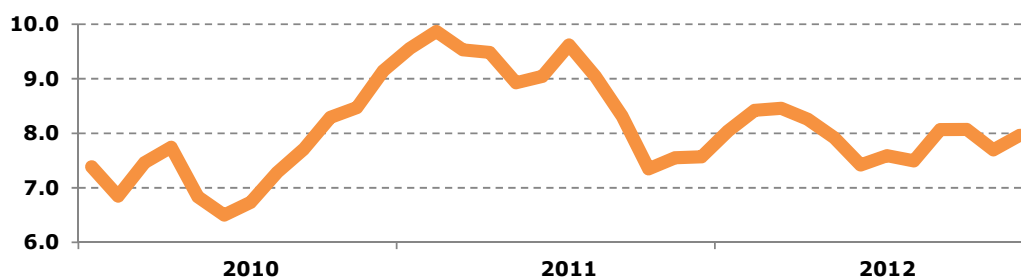
#### 1.4. Macroeconomic sales conditions

After the record year of 2011 on the industrial and precious metals market, the past year brought a correction to prices. The average annual price of electrolytic copper in 2012 on the London Metal Exchange was 7 950 USD/t and was 10% lower than in 2011, when it amounted to 8 811 USD/t.

The start of the year brought a clear increase on the base metals market, mainly due to positive information out of China, which is the largest metals consumer in the world. Declarations by government ministers suggesting the possible easing of monetary policy and the stimulation of demand in China resulted in a leap in copper prices.

The best month for copper producers was March, when the average price was around 8 457 USD/t. The end of the first half of the year saw falls in prices, caused by escalating problems in the Eurozone. This period recorded the minimum average monthly price, which in June amounted to 7 420 USD/t. In the second half of the year raw materials prices were positively impacted by the expansionist policies of the world's central banks, although the increases were limited by information on growing copper inventories in China. According to available market analyses, up to 1 million tonnes of copper may have been stored in Chinese duty-free warehouses.

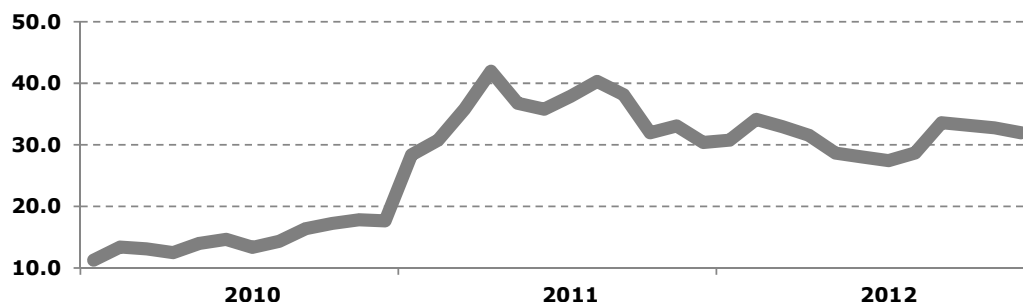
**Chart 1. Copper prices on the LME ('000 USD/t)**



The average annual silver price on the London Bullion Market in 2012 amounted to 31.15 USD/troz (1 002 USD/kg). This means a decrease by 11% versus the price in 2011 – 35.12 USD/troz (1 129 USD/kg). The minimum average monthly silver price was recorded in July at 27.43 USD/troz (882 USD/kg), while the highest

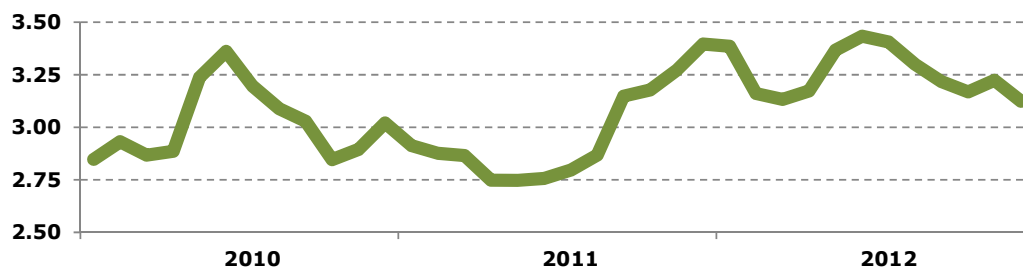
average monthly silver price was recorded in February – 34.14 USD/troz (1 098 USD/kg). The price of silver in 2012 followed that of gold. Precious metals prices in the recent period were mainly impacted by the policies of the world's central banks to keep interest rates low and by quantitative easing programs. This was especially apparent in the second half of the year, when information about increased asset buybacks by the FED and the European Central Bank led to increases in the prices of gold and silver.

**Chart 2. Silver prices on the LBMA (USD/troz)**



From the start of the year until April the Polish zloty appreciated versus the USD and the Euro. However, in May the situation on the financial market diametrically changed. As a result of information coming from Greece, investors became more and more resigned to the exit of this country from the Eurozone. Unease in the European market was additionally strengthened by fears about the condition of the financial system in Spain and by the increased profitability of Italian and Spanish bonds. Due to risk aversion, the Polish zloty began to depreciate against the currencies of other countries, and this trend continued to the end of July. From August to the end of the year the zloty again began to appreciate, when the domestic economy performed better than those of European countries and foreign capital gradually flowed into the Polish bond market. The USD/PLN exchange rate (per the NBP) in 2012 amounted to 3.26 USD/PLN and was higher versus the prior year by 10% (2.96 USD/PLN). In 2012 the minimum USD/PLN exchange rate was recorded in the second half of December at the level of 3.07 USD/PLN, while the maximum was reached at the beginning of June – 3.58 USD/PLN.

**Chart 3. USD/PLN exchange rate per the NBP**



The macroeconomic factors of greatest importance for the Company's operations are presented in Table 9.

**Table 9. Macroeconomic factors of importance for the Company's operations**

	Unit	2010	2011	2012	Change 2011=100
Average copper prices on the LME	USD/t	7 539	8 811	7 950	90.2
Average silver prices on the LBM	USD/troz	20.19	35.12	31.15	88.7
Average NBP USD/PLN exchange rate	PLN/USD	3.02	2.96	3.26	110.1

### 1.5. Position of the Company on the copper and silver markets

According to preliminary estimates by the CRU, in 2012 the refined copper market recorded a supply surplus over demand of 187 kt. Global production of refined copper in 2012 amounted to 19 826 kt, which means an increase versus 2011 of around 1.8%. Demand for refined copper in 2012 amounted to 19 639 kt, which means an increase of 2.4% versus 2011.

According to preliminary estimates by CRU International, global copper mine production in 2012 amounted to 16 463 kt. During this same period KGHM Polska Miedź S.A. produced 427.1 kt of copper in concentrate, representing 2.6% of global copper mine production.

Global production of refined copper, according to preliminary estimates of the CRU, amounted to 19 826 kt. Refined copper production in the Company amounted to 565.8 kt, representing 2.9% of global refined copper production.

In 2012, global silver mine production amounted to 783 million ounces (estimated data from CRU International). During this period the Company produced 36.9 million ounces of silver in concentrate, representing 4.7% of global production of this metal.

#### **1.6. Contracts significant for the activities of the Company**

In 2012, the Company entered into one contract of significance for the activities of the Company – an agreement for the acquisition of an additional 29% of the shares (exercise of a call option) of KGHM AJAX MINING INC. with its registered head office in Vancouver („Ajax”) from Abacus Mining & Exploration Corporation („Abacus”), based on the shareholders agreement of KGHM AJAX MINING INC. dated 12 October 2010. As a result of this agreement the Company increased its share of Ajax from 51% to 80%. The shares were acquired for the amount of USD 30 million (the equivalent of PLN 93 million, according to the average rate of the National Bank of Poland for USD/PLN of 2 April 2012).

In addition, on 5 March 2012 the company 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver („0929260 B.C. U.L.C.”), as an indirect subsidiary of KGHM Polska Miedź S.A., purchased from the former shareholders of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") 193 334 154 shares of Quadra FNX („Shares”), for the price of CAD 15.00 per share (representing the equivalent of PLN 47.31 at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012), and the total price of CAD 2 900 million (representing the equivalent of PLN 9 147 million at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012). The shares purchased by the company 0929260 B.C. U.L.C. represent 100% of the share capital of Quadra FNX and 100% of the votes at the General Meeting of this company. The purchase price of the Shares was paid using funds obtained by 0929260 B.C. U.L.C. based on financing agreements entered into within the KGHM Polska Miedź S.A. Group, derived from the Company's own funds.

Detailed descriptions of the economic nature of these transactions are presented on pages 129-132 of this report.

There was no instance of dependence on a single or multiple customers or suppliers in 2012. The share of no customer exceeded 10% of the revenues from sales of the Company.

The only supplier whose share of supply exceeded 10% of the revenues from sales of KGHM Polska Miedź S.A. is the subsidiary KGHM Metraco S.A. in Legnica, whose sales to KGHM Polska Miedź S.A. represented 18% of the value of purchases.

The high level of supplies from this company is related to the operating model of the Group, based on which a business goal of KGHM Metraco S.A. is the comprehensive servicing of KGHM Polska Miedź S.A., with respect to specific raw materials and products ensuring continuity of the production line of KGHM Polska Miedź S.A., based on its own logistical and expediting operations.

#### **1.7. Information on contracts for the auditing or review of the separate or consolidated financial statements**

The entity entitled to audit the separate financial statements of the Company and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, Al. Armii Ludowej 14, 00-638 Warsaw.

The contract which was signed on 25 May 2010 is in force for review of the half-year financial statements and for the audit of the annual financial statements for the years 2010, 2011 and 2012.

Detailed information on the amount of remuneration of the entity entitled to audit the financial statements for the review and audit of the financial statements, and remuneration for other purposes is shown in Note 34 of the financial statements.



## 1.8. Employment and remuneration

### Employment and structure

**Table 10. End-of-period employment**

	2010	2011	2012	Change 2011=100
Mines	12 645	12 604	12 618	100.1
Metallurgical plants	3 869	3 810	3 775	99.1
Other divisions	2 125	2 201	2 236	101.6
<b>Total</b>	<b>18 639</b>	<b>18 615</b>	<b>18 629</b>	<b>100.1</b>

Employment in KGHM Polska Miedź S.A. at the end of 2012 was at a similar level to that of prior years.

### Average remuneration in the Company

**Table 11. Total remuneration (million PLN)**

	2010	2011	2012	Change 2011=100
Total remuneration , of which:	1 933	2 012	2 108	104.8
- annual bonus	372	384	402	104.7

The increase in remuneration in 2012 was due to the following factors:

- an increase in the table of basic wages by 2.45%,
- an increase by 8.0% of the coal equivalent payment,
- individual promotions and changes in salary categories for 25% of employees.

**Table 12. Total average monthly remuneration (PLN/person)**

	2010	2011	2012	Change 2011=100
Mines	8 994	9 371	9 794	104.5
Metallurgical plants	7 306	7 429	7 764	104.5
<b>Total</b>	<b>8 640</b>	<b>8 980</b>	<b>9 396</b>	<b>104.6</b>

In 2012, average remuneration, excluding the annual bonus for profit earned, amounted to PLN 7 637, meaning a statistical increase by 4.7% versus 2011.

In 2013 there are no significant changes foreseen in the level of employment and remuneration.

### Relations with the trade unions

On 21 March 2012, the Management Board of KGHM Polska Miedź S.A. and the trade unions being a party to the Collective Labour Agreement signed Additional Protocol No. 13 to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. increasing the table of basic wages from 1 January 2012, due to an increase in the minimum wage. Consequently, the Company paid employees supplementary remuneration for the months of January and February.

On 3 September 2012, appendices were signed to the agreements increasing the contribution to the Employee Retirement Plan, based on which the basic contribution to the PPE increased by 1 percentage point. From the date of approval of the aforementioned appendices by the Polish Financial Supervision Authority, i.e. from 10 October 2012, this contribution amounts to 6% of an employee's wages.

## 2. Investments and development

### 2.1. Company Strategy

On 23 February 2009, the Supervisory Board of KGHM Polska Miedź S.A. approved the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018. In realising the Strategy, KGHM Polska Miedź S.A. intends to become a major, global copper producer and to increase mined copper production in the Group to approx. 700 thousand tonnes annually. The accepted strategic assumptions are derived from the specific nature of the mining sector in which KGHM Polska Miedź S.A. operates. In developing the Strategy, total expenditures of around PLN 20 billion were assumed for the realisation of strategic projects.

Due to the sale of the Company's telecom assets (100% of the shares of Telefonía DIALOG S.A. and 24.4% of the shares of Polkomtel S.A.) the Supervisory Board of the Company, on 10 October 2011, approved the updated Strategy of KGHM Polska Miedź S.A. for the years 2009-2018 with respect to Pillar III – Diversification of revenue sources and independence from energy prices – by removing the strategic goal „Continued investment in the telecommunications sector”. The strategic assumptions for the remaining pillars of the Strategy remained unchanged.

The Strategy for the years 2009-2018 is based on five pillars:

**Pillar I - Improving productivity**, aimed at reversing/halting the trend of rising unit production costs through:

- investments in new technology,
- modernisation of infrastructure,
- optimisation of production procedures and organisation.

**Pillar II - Developing the resource base**, aimed at increasing the production of mined copper to 700 thousand tonnes annually, through:

- developing the system for mining deep ore,
- mining new regional ore deposits,
- acquisitions in the mining sector,
- intensifying the processing of scrap.

**Pillar III - Diversifying sources of revenues and gaining independence from energy prices**, which assumes that by 2018 approx. 30% of the revenues of KGHM Polska Miedź S.A. will be generated from outside the core business, through entrance into the power sector.

**Pillar IV - Regional support** - the creation of 750 new jobs and development of social activities through:

- the creation of jobs using the infrastructure of KGHM Letia S.A.,
- supporting regional sport, health, arts, education and the regional environment.

**Pillar V - Developing organisational know-how and capabilities** through:

- management through goals,
- transparent information and data,
- Company staff development, and
- building a holding structure.

Taking into consideration the long term challenges faced by the global mining sector, assumptions have been developed for an update to the Strategy and comprehensive work has begun on updating the existing Strategy and on a multi-directional strategic analysis of the outlook for the further growth and development of the value of KGHM Polska Miedź S.A.

### 2.2. Realisation of the Strategy in the years 2009-2012

In 2012, KGHM Polska Miedź S.A. consistently implemented the approved development Strategy. The process of implementing the Company Strategy was executed by investing in a continuously updated portfolio of strategic projects fulfilling the intended goals at the level of each pillar's strategic initiatives.

#### **Pillar I - Improving productivity**

Of fundamental importance to building Company value in the long term was the continuation of activities in the copper sector as the basic source of Company revenues. The Company carried out investments aimed at improving the productivity of the core business. Strategic tasks of significance for the development of the Company in this regard were as follows:

- **Research into the use of mechanical mining in the conditions prevalent in the mines of KGHM Polska Miedź S.A.** in terms of developing and implementing mining combine technology, as an alternative to the currently used room-and-pillar systems, in which mining is conducted through blasting. From the technical point of view, this new technology is expected to provide greater efficiency (less rock), accelerated advances through the orebody, lower employment and improved workplace safety. In economic terms, it is expected that extraction costs will be lower and the execution of production plans easier. The main projects being executed in this respect are:
  - **„Development of mining technology using the ACT mining complex by KGHM”.** This project is being carried out in cooperation with Caterpillar Global Mining Europe GmbH (formerly Bucyrus Europe GmbH), for which in 2009 the Company gained the possibility of receiving subsidies from the PARP fund in the amount of approx. PLN 39 million, representing 32% of the project budget. In the years 2009-2013 research and industrial testing will be performed in a pilot section opened in the Polkowice-Sieroszowice mine. The results of this work will be implemented following positive results of profitability analysis in the years 2014-2015.
  - **„Drilling of drifts using combines”.** Work was begun on the preparation of the technical and organisational structure of a mining complex section in the Polkowice-Sieroszowice mine. In the years 2013-2017 technical and economic evaluation will involve mechanical mining technology based on the use of mining combines in the mechanical drilling of multi-face drifts by several machines simultaneously. Due to the watershed nature of this project for the development of the copper mines of KGHM Polska Miedź S.A. it is expected that the drilling of drifts will commence with a team of three combines in the so-called TW 357 combine group as part of the work to access the Deep Głogów area in the Polkowice-Sieroszowice mine. The project is being performed in cooperation with PeBeKa S.A.
- The **„Pyrometallurgy Modernisation Program”**, whose goal is to create a functionally integrated, cost effective and environmentally friendly smelting structure for KGHM Polska Miedź S.A. This program is a multi-year venture, begun in 2008. Completion of the project is expected by the end of 2015. Major modifications and improvements will be achieved by the Głogów Smelter through the construction and operation of a flash smelter complex at Głogów I and through the intensification project of smelting at Głogów II. The Company expects long term economic benefits from execution of this program, including among others a decrease in the total unit processing cost and increased revenues from the sale of additional amounts of silver, rhenium and refined lead. In addition, there will be a clear decrease in the smelter's environmental impact, and therefore an improvement in the Company's international competitive position.
- The **„Ore Extraction IT Management System”** aimed at unifying and improving business processes in the mining operations of KGHM Polska Miedź S.A., both in terms of the main production-related processes as well as in management processes and their efficient and effective support with the aid of a flexible IT system.
- **„Construction of the SW-4 shaft”** for accessing ore below 1 000 m in the Polkowice-Sieroszowice mine, assuming balanced extraction of the ore resources,
- Continued implementation of IT systems enabling improved efficiency and improved machinery operating safety, including among others: **„System for the operation and servicing of underground machinery”, „System for locating machinery in the mining areas”,**
- Project **„Effectiveness”**, under which, since 2009, 38 programs have been realised: 22 involving TOP cost reduction programs and 16 process transformation programs (based on Lean Management) aimed at improving production efficiency.
- Multi-year programs involving the **automation and modernisation of the ore concentration process** involving the replacement of floatation equipment and milling power units, modernisation of classifiers and a program to improve the energy efficiency of the existing machinery park, as well as implementation of a comprehensive production maintenance program in the Concentrator Division,
- **Reorganisation of the procurement process in the KGHM Group** – a Central Procurement Office was opened (2009) and a unified procurement policy was instituted for the Divisions and for the KGHM Group, thanks to which the Company gained substantial added value and savings in the area of procurement, mainly investments.

## Pillar II - Developing the resource base

To achieve an increase in copper production to 700 thousand tonnes and to improve the Company's competitiveness amongst the world's copper and silver producers, a key role was played by actions to secure and increase access to the resource base. The Company continued to realise its adopted strategy of acquiring foreign assets and expanding its mining-related activities mainly through development of the resource base in

the region, i.e. in south-west Poland and in Lusatia, a region in German Saxony. Such an approach provides the Company with the opportunity to geographically diversify its core activities, and over the long term enables an increase in the production of copper and other metals at lower unit costs.

The main **resource projects being pursued in the region** are:

- **Concessions 2013**, based on obtaining new concessions for the extraction of copper ore from deposits currently being worked by KGHM Polska Miedź S.A. by the end of 2013. Detailed information on the realisation of this project may be found on pages 117-118 of this report.
- Accessing the concession area **Deep Głogów** continued since 2006, work on which includes construction of the GG-1 shaft and the execution of primary drifts to access Deep Głogów area along with development of technical infrastructure.
- Exploration and documentation of resources in the **Gaworzyce-Radwanice** deposit, which borders on the west the areas currently being worked by the Polkowice-Sieroszowice mine. In 2011, stage I of a drilling program was carried out (5 drillholes were executed), based on which the scope of further geological work was defined, aimed at designing a mining plan. In December 2012, administrative procedures were commenced to achieve a change in the concession to explore the aforementioned ore resources. Realisation of this work will enable an extension to the scope of operations of this mine.
- Exploration of the concession area **Synklina Grodziecka**, located in the vicinity of the so-called Old Copper Belt near Bolesławiec. The first stage of work was performed: 9 drillholes were executed, and an extension was granted for the concession to continue geological exploration. The drillholes executed to date show a high copper and silver content at shallower depths than those currently being worked. The goal of the drilling program is to document new resources and more precisely define existing documentation. The information gained will enable the preparation of new ore balance estimates reflecting the new drilling data. Until the end of the 1980s the Konrad copper mine had been in operation in this region, which was closed due to economic reasons. It is estimated that, apart from the copper ore deposit of the current Legnica-Głogów Copper Belt, this is the most promising region in the country, due to the possibility of documenting copper ore resources which could in future be mined.
- Exploration and documentation of a copper ore deposit in areas situated to the north and east of the currently concession areas. In 2012, the Company applied to the Minister of the Environment for a concession to explore such areas as **Retków-Ścinawa, Głogów, Bytom Odrzański and Kulów-Luboszyce**. The Ministry commenced concession proceedings for all four applications.
- Project for exploration of the **Weisswasser** copper deposit in Germany, for which KGHM Kupfer AG, a 100%-owned subsidiary of KGHM Polska Miedź S.A. registered in Germany, holds a concession for the exploration for and evaluation of copper deposits. In the years 2011-2012 the first stage of the drilling project in the Weisswasser region was performed, under which four boreholes were drilled and geophysical research was conducted. The results of this research enabled determination of the form of the second stage of exploration work. In February 2013 the Supervisory Board of KGHM Polska Miedź S.A. expressed consent for the financing of the second stage of this project. The timeframe for realisation of further work is 2013-2014.
- Apart from work aimed at documenting copper ore deposits, the Company conducted geological documentation work on the concessioned nickel ore deposit **Szklary**, to the north of Zabkowice Śląskie. In 2011 a program of drilling was conducted in this region, under which 54 boreholes were drilled. Pilot testing was completed on developing tailings-free technology for processing the nickel ore from the Szklary deposit. Technical and economic analysis was begun which will determine the project's economic feasibility and further steps.
- With respect to the project to **increase salt production by KGHM Polska Miedź S.A. from 425 thousand tonnes to do 1 million tonnes/year**, the project's technological and organisational requirements were determined as well as work related to the design and construction of a salt processing plant. The successful realisation of this project will establish a solid technical and economic basis for the subsequent realisation initiatives related to the deposition of smelter waste in the worked-out areas of the salt deposit, as well as to the production of table salt.

With respect to the development of **foreign mining projects** in the years 2010-2012, KGHM Polska Miedź S.A. made acquisitions which enabled the Company to achieve the status of a global mining company:

- Acquisition of shares in the **Afton-Ajax copper and gold project** located in British Columbia, Canada. In 2010 the Company signed an Investment Agreement with Abacus Mining & Exploration Corporation regarding the joint realisation of the project, based on which the Company acquired 51% of the shares of KGHM Ajax Mining Incorporated, a company founded jointly with the Canadian company Abacus Mining & Exploration Corporation, along with options to acquire a further 29% of the shares following publication of

the Bankable Feasibility Study as well as the obligation to organise project financing. At the same time, 8.75% of the shares of Abacus Mining & Exploration were purchased.

In 2011, work was completed on the Bankable Feasibility Study for the Afton-Ajax project, which describes the specific technical and economic conditions related to the construction and operation of the future copper and gold mine located in the vicinity of the town of Kamloops in Canada. The Study confirmed the chief geologic and mining parameters of the Afton-Ajax project, which until then had been estimated in a preliminary report from 2009. It assumes annual copper production of 50 thousand tonnes and gold production of 100 thousand ounces over a mine life of 23 years. The cost of producing one tonne of copper was calculated in the range of USD 1 740 – USD 2 800. Mine construction will last two years.

In 2012, the company KGHM AJAX MINING INC. continued activities aimed at obtaining environmental permitting to construct the mine. While the timeframe for obtaining these permits is not under the company's control, it assumes that the permits which will allow construction of the mine to begin will be received in 2014, which in consequence will enable construction of the Afton-Ajax mine and the commencement of Cu-Au concentrate production in 2016. This deferral of the schedule versus prior plans is mainly due to the need to perform additional analyses related to environmental permitting which were not previously foreseen. Detailed engineering work is being simultaneously performed which is required to receive permission for mining and construction of the future mine.

Investment expenditures on the project have been estimated at USD 795 million (the equivalent of PLN 2 466 million, according to the average USD/PLN exchange rate of the National Bank of Poland of 2 April 2012).

In April 2012, KGHM Polska Miedź S.A. exercised the option to increase its share in KGHM AJAX MINING INC. from 51% to 80%, and performed a change in ownership as described in the section „Significant changes in the KGHM Group”. In September 2012, KGHM INTERNATIONAL LTD. began to manage the project.

- **Acquisition of 100% of the shares of the mid-sized mining company Quadra FXN** listed on the stock exchange in Toronto, Canada. In the first quarter of 2012, KGHM Polska Miedź S.A. engaged in the friendly takeover of the Canadian company Quadra FXN for the total price of CAD 2 900 million (representing the equivalent of PLN 9 147 million at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012). The transaction was financed using the Company's own funds. The name of the company was changed to KGHM INTERNATIONAL INC. In 2012, work continued on integrating the company into the KGHM Group.

Detailed information on the above transactions may be found on pages 129-132 of this report.

Another important initiative aimed at increasing copper production by the Company is the **intensification of scrap processing**. In 2011, feasibility studies were performed related to the preparation of technical and economic assumptions for the investment **construction of a unit for the processing of scrap and other secondary copper-bearing materials at the Legnica Smelter**. In December 2012, an overall concept and area plan was developed with estimated construction costs for building a new production line for the processing of secondary copper-bearing materials. This line will consist of a unit for the melting and processing of scrap and secondary copper-bearing materials based on modern technology in current use applying BAT (Best Available Technology), which ensures the production of copper blister as a feed material used in cathode production. Realisation of this investment is planned for the years 2013-2015.

### Pillar III - Diversifying sources of revenues and gaining independence from energy prices

The purpose of diversifying revenues and gaining independence from energy prices, crucial from the point of view of business opportunities for KGHM Polska Miedź S.A., were **investments in the energy sector, mainly in the energy generation segment**. From the point of view of KGHM Polska Miedź S.A., power generation is one of the most attractive sectors, as it is not correlated with conditions on the metals markets and represents a stable source of revenues.

In respect to increasing energy production to meet the Company's own energy needs, projects were continued whose realisation will ensure approx. 30% of the energy needs of KGHM Polska Miedź S.A. (at present, energy production by the subsidiary Energetyka Sp. z o.o. represents around 10% of the Company's total energy needs) and will also lead to diversification of the energy generation portfolio and will significantly reduce the Company's exposure to the risk represented by the EU's climate policy and to changes in fuel and electricity prices. The most important projects in this regard are:

- **„Construction of gas-steam blocks at the Głogów and Polkowice power plants”** with installed capacity of 90 MWe and planned power generation of 560 GWh, all of which will be used to meet the Company's power needs. In the years 2010-2012 work was performed in respect of construction, assembly of key equipment, installation and electrical work, as well as equipment related to control and measurement and automation based on actual execution projects. Key equipment from the electrical and installation

sectors was delivered. Commencement of operations by these blocks is planned in the second quarter of 2013.

- **„Construction of a research installation for the underground gasification of brown coal in the Legnica-Głogów Copper Belt”.** Under the concession obtained in 2012 for exploration of the brown coal deposit in the Głogów region, in a selected area located in the Legnica-Głogów Copper Belt, a program of geological work was begun (6 boreholes were drilled) aimed at exploring and evaluating the brown coal resources in the years 2012-2015. Positive results from this geological work will enable a decision to be taken on whether to apply for a concession for mining of this deposit using an underground brown coal gasification research installation.

In 2012, the Company took an active part in the realisation of the most important energy projects of a national scope. These projects are being considered on a purely commercial basis, and their realisation will enable diversification of the structure of revenues and an increase in the market value of the Company. The long term investments in the energy sector are aimed at ensuring 30% of revenues. The main projects in this regard are:

- **„Construction of a power generation source based on the utilisation of natural gas as the raw material for its generation, on the grounds of the existing Blachownia Power Plant”.**

In respect of realisation of the agreement entered into on 20 January 2010 with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., and on the basis of the permission received on 23 July 2012 of the European Commission (the applicable antimonopoly body) with respect to concentration, on 5 September 2012, KGHM Polska Miedź S.A. founded a special purpose company with TAURON Wytwarzanie S.A. called „Elektrownia Blachownia Nowa sp. z o.o.” KGHM Polska Miedź S.A. acquired 50% of the shares in the share capital of the special purpose company. The share capital of this company is PLN 65 million.

Together with the founding of this company, a Shareholders Agreement was signed describing the detailed principles of cooperation between the parties regarding realisation of the enterprise, comprising the preparation, construction and operation of the approx. 850 MW gas-steam block on the grounds of the Blachownia power plant in Kędzierzyn-Koźle belonging to the TAURON Group. In accordance with this Agreement, the Partners anticipate that the total estimated expenditure on this investment in the years 2012-2017 will amount to around PLN 3.5 billion. The project will be realised using the project finance formula – at least 50% of its budget will be financed from outside sources.

In 2012, the special purpose company performed work related to preparing the investment, involving the acquisition of required documentation comprising among others sector projects, construction permits, connection conditions and the commencement of tender procedures to select advisors and a contractor to build the block.

- **„Exploration for and extraction of shale gas in Poland (KCT Project)”**

On 4 July 2012, KGHM Polska Miedź S.A. signed a Framework Agreement with the following companies: Polskie Górnictwo Naftowe i Gazownictwo S.A. (“PGNiG”), ENEA S.A., PGE Polska Grupa Energetyczna S.A., and TAURON Polska Energia S.A. on the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted to PGNiG for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo area with respect to the Kochanowo, Częstkowo and Tępcz pads of total area of 160 km<sup>2</sup> (KCT Project).

Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones within the area of cooperation determined in the agreement are estimated at PLN 1 720 million.

In accordance with Annex No. 1 to the Framework Agreement signed on 12 November 2012, the parties agreed that the date for determining the details regarding the terms of cooperation, including the budget and project schedule, participation of the parties in financing expenditures resulting from the agreed budget, participation in profit and on the principles of responsibility, among others contractual penalties, would be prolonged from 4 November 2012 to 4 February 2013.

Due to on-going negotiations regarding the detailed terms of cooperation under which among others the project documentation is being developed, on 21 February 2013 the parties decided to prolong the period for determination of details regarding the terms of cooperation until 4 May 2013 by signing Annex no. 2 to the Framework Agreement.

Should such specific arrangements not be determined by 4 May 2013, the Agreement may be terminated by each of the Parties. Moreover, if within three months after reaching such arrangements the Parties have not

received all of the required corporate approvals, or if by 31 December 2013 the required antimonopoly clearances have not been received, the Agreement will expire.

– **„Preparation for the construction and operation of the first Polish nuclear power plant“.**

On 5 September 2012, KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. signed a Letter of Intent regarding the purchase of shares of a special purpose company founded in order to build and operate the first Polish nuclear power plant. In accordance with the Letter of Intent, the above-mentioned companies will work together to develop a draft agreement which will describe their rights and obligations in executing the project, with the assumption that PGE Polska Grupa Energetyczna S.A. will play the leading role.

On 28 December 2012 the Parties to the Letter of Intent prolonged the effective period of the Letter of Intent to 31 March 2013.

#### **Pillar IV - Regional support**

KGHM Polska Miedź S.A., assuming responsibility for its impact on the social and natural environments in which it operates, commenced work on implementation of the CSR (Corporate Social Responsibility) strategy adopted in 2012. The CSR strategy comprises the Company's principles of corporate social responsibility and balanced growth in accordance with international CSR guidelines for the mining sector and with ISO 26000 defining standards in this area. The CSR strategy assumes the achievement by the Company over the period to the year 2018 a position as a stable, professional, global leader, which takes into consideration the common good and a balanced management of its resources through:

- creating innovative solutions minimising the environmental impact of the operations KGHM Polska Miedź S.A.,
- building a position as a „good neighbour“ and trusted investor,
- ethics and transparency in managing relations with stakeholders, and
- care for its employees.

In 2012, the first CSR report was published for the years 2010-2011 along with a historical profile of the Company's actions in regards to corporate social responsibility in the years 1961- 2011.

#### **Pillar V - Developing organisational know-how and capabilities**

Realisation of the strategic development of KGHM Polska Miedź S.A. is supported by activities aimed at continuous **improvement of skills and organisational know-how**. Key initiatives in this regard involve development of employees and the Company's management potential, amongst which the following should be noted:

- development of educational systems and employee training programs,
- career planning and management of skills and knowledge,
- optimising the process of recruitment and professional adaptation, programs to develop young talent,
- planning the employee evaluation system and appropriate employee motivation,
- development of internal communication systems and shaping the organisational culture,
- continuation of projects adjusting organisational standards and management systems (such as an integrated management system, a system to management projects, programs and portfolios, and a corporate risk management system), and
- improvement in the management and supervision of investments carried out by the Group.

#### **2.3. Equity investments**

At 30 June 2012, KGHM Polska Miedź S.A. directly owned shares of 22 subsidiaries, 1 joint venture company, 2 other companies (in which the share is less than 20%) and investment certificates in 3 closed-end non-public investment funds. Seven direct subsidiaries (KGHM Ecoren S.A., PHP „MERCUS“ sp. z o.o., POL-MIEDŹ TRANS Sp. z o.o., „Energetyka“ sp. z o.o., BIPROMET S.A., Fermat 1 S.à r.l. and KGHM I FIZAN) have their own capital groups.

KGHM Polska Miedź S.A. has equity investments in entities engaged in various businesses. They mainly offer products and services related to the core business of KGHM Polska Miedź S.A. and to its servicing, including: mine production of metals (such as copper, nickel, gold, platinum and palladium), exploring for and mining deposits of copper ore and other metals, mine construction, power generation and heat production, production of mining machinery and equipment, production of explosives and research and development). Other activities, which are not related to the Company's core business, involve services related to transportation, health and cash investing.

In 2012, the KGHM Polska Miedź S.A. Group was managed under a model introduced in 2011 as a result of the Group's increased acquisitions activity. This model assumes the Group will be managed based on separate business units. The changes which occurred in the structure of the Group in 2012, mainly including acquisition of the shares of QUADRA FNX MINING LTD. (currently KGHM INTERNATIONAL LTD.), required the introduction

of new organisational solutions in the way the Group is managed. Under these activities the „Policy of coordination, support and integration with KGHM INTERNATIONAL LTD.” was adopted, which outlines new internal structures and operating tools in terms of the supervision of and integration with KGHM INTERNATIONAL LTD. The new structures comprise bodies such as the Coordination and Integration Board (composed among others of Members of the Management Board of KGHM Polska Miedź S.A. and Members of the Management Board of KGHM INTERNATIONAL LTD.) and its supporting Functional Committees (finance, budgeting, commerce, corporate governance, production and a knowledge exchange center, resource projects, auditing, balanced development and environmental protection). The goal of the „Policy of coordination, support and integration with KGHM INTERNATIONAL LTD.” is the efficient implementation of the strategy of KGHM Polska Miedź S.A., maximisation of the Company's shareholder value and risk management.

Diagram 2 presents entities by business units, in which KGHM Polska Miedź S.A. directly held shares and investment certificates as at 31 December 2012.

**Diagram 2. Entities in which KGHM Polska Miedź S.A. directly held shares and investment certificates at 31 December 2012**

<b>KGHM Polska Miedź S.A.</b>			
<b>KGHM Ecoren S.A.</b>	100%	<b>CBJ sp. z o.o.</b>	100%
<b>„Energetyka” sp. z o.o.</b>	100%	<b>KGHM Kupfer AG</b>	100%
<b>KGHM Kupferhandelsges.m.b.H.i.L. (in liquidation)</b>	100%	<b>KGHM Metraco S.A.</b>	100%
<b>KGHM I FIZAN</b>	100%	<b>PeBeKa S.A.</b>	100%
<b>KGHM II FIZAN</b>	100%	<b>DFM ZANAM-LEGMET Sp. z o.o.</b>	100%
<b>KGHM III FIZAN</b>	100%	<b>INOVA Spółka z o.o.</b>	100%
<b>KGHM TFI S.A.</b>	100%	<b>POL-MIEDŹ TRANS Sp. z o.o.</b>	100%
<b>Zagłębie Lubin S.A.</b>	100%	<b>Fermat 1 S.à r.l.*</b>	100%
<b>KGHM (SHANGHAI) COPPER TRADING CO., LTD.</b>	100%	<b>„MCZ” S.A.</b>	100%
		<b>PHP „MERCUS” sp. z o.o.</b>	100%
		<b>KGHM CUPRUM sp. z o.o. - CBR</b>	100%
		<b>TUW - CUPRUM</b>	94%
		<b>KGHM LETIA S.A.</b>	85%
		<b>NITROERG S.A.</b>	85%
		<b>BIPROMET S.A.</b>	66%
		<b>„Elektrownia Blachownia Nowa” sp. z o.o.</b>	50%
		<b>TAURON Polska Energia S.A. **</b>	10%
		<b>Abacus Mining &amp; Exploration Corporation</b>	7%

\* Fermat 1 S.à r.l. is the indirect owner of KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC.

\*\* share of KGHM Polska Miedź S.A. according to current report dated 23 March 2011

### Significant changes in the KGHM Group

In 2012, KGHM Polska Miedź S.A. carried out the largest equity investments in the history of the Company. Total expenditures amounted to PLN 9 637 million and were mainly incurred towards development of the resource base with respect to international expansion. The largest enterprise was the acquisition by KGHM Polska Miedź S.A. of the Canadian mining company Quadra FNX Mining Ltd.

### Purchase of the shares of QUADRA FNX MINING LTD. (currently KGHM INTERNATIONAL LTD.) with its registered head office in Vancouver

On 5 March 2012, the company 0929260 B.C. Unlimited Liability Company with its registered head office in Vancouver, as an indirect subsidiary of KGHM Polska Miedź S.A., purchased from the former shareholders of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") 100% of the shares of Quadra FNX, representing 100% of the votes at the General Meeting. The amount of the payment recognised in the consolidated financial statements for accounting of the acquisition amounted to PLN 9 707 million and comprises:

- the purchase of ordinary shares for the amount of PLN 9 362.4 million,
- the purchase of warrants for the amount of PLN 39.4 million,
- the realisation of purchased warrants in the amount of PLN 305.2 million.



The shares were purchased in execution of the agreement dated 6 December 2011 signed by KGHM Polska Miedź S.A. and Quadra FNX under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX.

Following the obtaining of control, the decision was taken to delist the shares of Quadra FNX from the trade on the Toronto Stock Exchange and to change the company's name to KGHM INTERNATIONAL LTD.

The focus of operations of the KGHM INTERNATIONAL LTD. Group is the mined production of metals (including copper, nickel, gold, platinum, palladium) in the following mines: Robinson and Carlota in the USA, Franke in Chile, and McCreedy West, Levack (with the Morrison deposit) and Podolsky in Canada. Its portfolio of assets also includes pre-operational mining projects at various stages of development, including Sierra Gorda in Chile (the company's major development project, involving one of the largest new copper and molybdenum deposits in the world), Victoria in Canada and Malmbjerg in Greenland, as well as exploration projects.

In 2012, the KGHM INTERNATIONAL LTD. Group continued realisation of projects in its mining portfolio, including its largest project at the pre-operational stage - the world class mine project Sierra Gorda, located in northern Chile. This is a joint venture (under the company named Sierra Gorda SCM) of KGHM INTERNATIONAL LTD. (55%) and companies from the Sumitomo Group - Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%).

As a result of this transaction, KGHM Polska Miedź became the owner of:

- world class deposits and operating copper mines located in Canada (McCreedy West, Levack (with the Morrison deposit) and Podolsky), USA (Robinson and Carlota) and Chile (Franke),
- pre-operational mining projects at various stages of development, including Sierra Gorda in Chile (the most important development project, involving one of the largest new copper and molybdenum deposits in the world), Victoria in Canada and Malmbjerg in Greenland, and
- exploration projects Kirkwood, Falconbridge and Foy in the Sudbury region of Canada.

Total ore resources increased by over 8 million tonnes of copper, i.e. by 28%, placing KGHM Polska Miedź in fourth place globally in this regard. KGHM Polska Miedź gained an increase in copper production in 2012 of nearly 25%, and in 2018, once production begins at the Sierra Gorda project in Chile and the Victoria project in Canada, the planned increase will be nearly 50%. The start-up of new projects reduces the average cost of copper production in the Group and has a positive impact on the diversification of revenues from metals produced.

The Sierra Gorda project comprises the construction of an open-pit mine on one of the largest new deposits of copper and molybdenum in the world. The start of production at Sierra Gorda is planned for 2014. Planned annual production: approx. 220 thousand tonnes of copper, 11 thousand tonnes of molybdenum and 2 tonnes of gold for over 20 years.

Since the first quarter of 2012 work has continued on stripping the overburden, while in the third quarter of 2012 construction of the processing plant commenced. At the end of 2012 over 393 tenders were completed for the delivery of machinery and equipment and of services, including design services. 16 tenders remain in progress. Key long term contracts (20 - 22 years) were signed for the supply of water, railway transport services and the purchase and transmission of electricity, as well as for port-related services. In terms of project execution, further machinery was purchased and its assembly begun, including a variety of components of the processing plant. Recruitment continued for management and operating positions. Foundation work was executed according to plan on building the processing plant and on infrastructure. The main work on the construction of basic infrastructure, i.e. social buildings, fresh water supplies etc., was completed. At 31 December 2012, 92% of the engineering was completed, and 33% of the project construction. Currently, work is focused on construction of the processing plant and on stripping the overburden. Assembly of the machine park continues.

In the first quarter of 2013, the project's final capital expenditure estimate was updated. Total initial capital expenditure amounts to USD 3.9 billion versus USD 2.9 billion forecast in February 2011. The main factors responsible for increasing expenditure are: rising costs of labour, services and materials, inflation and appreciation of the peso, increased legal requirements regarding buildings and environmental protection and changes in the project's scope. However, thanks to a variety of preventative measures, including realisation of a hedging policy and cost saving measures, the impact of external factors on realisation of the Sierra Gorda investment was partially alleviated. All of the partners of the Sierra Gorda joint venture intend to continue to cooperate on actions aimed at reducing capital expenditure and implementing a mine machinery leasing program.

With respect to the exploration projects being realised by the KGHM INTERNATIONAL LTD. Group, the most important project is Victoria (the subsidiary FNX Mining Company Inc. owns 100% of the project). The Company continues technical and economic analyses into the feasibility of mining the deposit of copper, nickel and precious metals located in the Sudbury Basin in Canada. Their results will indicate the course of future exploration work. In 2012, discussions continued with Vale regarding ownership of the future project (Vale holds a back-in right to the Victoria project). Activities were also continued aimed at obtaining required

permissions, including discussions with First Nations. In the fourth quarter of 2012 the company completed exploratory drilling and is now concentrating on engineering work and developing project documentation needed to obtain all required permits.

This acquisition will increase annual mined copper production in the KGHM Polska Miedź S.A. Group by over 100 thousand tonnes beginning from 2012. The target increase by 2018 is over 180 thousand tonnes annually. In addition, following the start-up of production in Sierra Gorda in Chile in 2014 and Victoria in Canada, the transaction will lead to a substantial decrease in average unit copper production costs in the entities directly and indirectly managed by KGHM Polska Miedź S.A. As a result of the acquisition of KGHM INTERNATIONAL LTD., the KGHM Polska Miedź S.A. Group advanced to fourth place in the world in terms of documented copper resources.

In order to optimise the transaction structure for the purchase of the shares of Quadra FNX:

- on 30 December 2011, KGHM Polska Miedź S.A. founded the company Fermat 1 S.à r.l. with its registered head office in Luxembourg. KGHM Polska Miedź S.A. acquired 100% of the share capital of Fermat 1 S. à r.l.,
- on 30 December 2011, Fermat 1 S.à r.l. founded the company Fermat 2 S.à r.l. with its registered head office in Luxembourg. Fermat 1 S. à r.l. acquired 100% of the share capital of Fermat 2 S.à r.l.,
- at the start of 2012, Fermat 2 S.à r.l. founded the special purpose company 0929260 B.C. Unlimited Liability Company in Canada acquiring 100% of the share capital, while Fermat 1 S.à r.l. founded a company under the name Fermat 3 S.à r.l. in Luxembourg acquiring 100% of the share capital.

On 5 March 2012, the subsidiary Fermat 1 S.à r.l., of which KGHM Polska Miedź S.A. owns 100% of the shares, entered into a significant transaction under other than arm's length conditions with Fermat 3 S.à r.l. – a company in which Fermat 1 S.à r.l. owns 100% of the shares. This transaction relates to the granting by Fermat 1 S.à r.l. of an interest-free loan to Fermat 3 S.à r.l. in the amount of USD 1 873 million (PLN 5 873 million at the average exchange rate of the National Bank of Poland from the transaction date). This loan was granted for the purpose of optimising the structure for the purchase of KGHM INTERNATIONAL LTD.

With the exception of the transaction described above, in 2012 neither KGHM Polska Miedź S.A. nor its subsidiaries entered into significant transactions with related entities under other than arm's length conditions.

Following the aforementioned events, 100% of the shares of KGHM INTERNATIONAL LTD. belong to 0929260 B.C. Unlimited Liability Company.

#### **Purchase of the shares KGHM AJAX MINING INC. with its registered head office in Vancouver**

On 2 April 2012 KGHM Polska Miedź S.A. exercised the option to purchase an additional 29% of the shares of KGHM AJAX MINING INC. with its registered head office in Vancouver from Abacus Mining & Exploration Corporation, based on the shareholders agreement dated 12 October 2010. KGHM AJAX MINING INC. will operate the copper and gold mine on the Afton-Ajax deposit in Canada.

As a result of the signing of this agreement, KGHM Polska Miedź S.A. increased its share in KGHM AJAX MINING INC. from 51% to 80%. The shares were acquired for the amount of USD 30 million (the equivalent of PLN 93 million, according to the average rate of the National Bank of Poland for USD/PLN of 2 April 2012). Under the agreement of shareholders of KGHM AJAX MINING INC., when KGHM Polska Miedź S.A. exercised its option to purchase an additional 29% of the company's shares, the commitment arose by KGHM Polska Miedź S.A. to arrange financing for the project. Capital expenditure on the project is estimated at USD 795 million (the equivalent of PLN 2 466 million, according to the average rate of the National Bank of Poland for USD/PLN of 2 April 2012).

The decision to exercise this option was taken following analysis of the Bankable Feasibility Study for the Afton-Ajax project received in December 2011, prepared in accordance with the Canadian standard NI 43-101 by a consortium of independent consultants under the direction of Tetra Tech WEI (Wardrop). This document describes the specific technical and economic conditions related to the construction and operation of the future copper and gold mine located in the vicinity of the town of Kamloops, in British Columbia, Canada.

Measured & Indicated mineral resources amount to 512 million tonnes of ore containing 0.31% copper and 0.19 g/t of gold. Proven & Probable mineral reserves were calculated at 1.34 million tonnes of copper and 2.75 million troz of gold. Average annual production of copper and gold in concentrate amounts respectively to 50 thousand tonnes of copper and 100 thousand troz of gold. Mine life was calculated at 23 years.

Under the base scenario, the investment payback period is approx. 8 years, while at current metals prices this period is less than 3 years.

The cost of producing one tonne of copper was calculated in the range of USD 1 740 – USD 2 800. Mine construction will last two years. KGHM AJAX MINING INC. is currently engaged in activities aimed at obtaining environmental permitting to construct the mine. The timeframe for obtaining these permits is not under the company's control. However, it is assumed that the permits which are required to begin the mine's construction

will be obtained in 2014, and consequently it will allow the completion of the construction of the Afton-Ajax mine and the start of Cu-Au concentrate production in 2016.

As part of the process of reorganising the structure of the KGHM Polska Miedź S.A. Group, ownership changes were carried out, as a result of which KGHM AJAX MINING INC., a direct subsidiary of KGHM Polska Miedź S.A., became an indirect subsidiary of KGHM Polska Miedź S.A. and a direct subsidiary of 0929260 B.C. UNLIMITED LIABILITY COMPANY as a result of the following transactions:

- KGHM Polska Miedź S.A. sold all of the shares held in KGHM AJAX MINING INC. to the indirect subsidiary 0929260 B.C.U.L.C. in Canada in exchange for the issuance of its own shares in the amount of PLN 203 049 thousand, which were acquired by KGHM Polska Miedź S.A.;
- KGHM Polska Miedź S.A. subsequently transferred these shares to Fermat 1 S.à r.l. in exchange for newly-issued shares in the share capital of Fermat 1 S.à r.l. in the amount of PLN 203 049 thousand. This transaction did not affect profit or loss, and additionally the shares in Fermat 1 S.à r.l. were recognised in an amount equivalent to the carrying amount of the transferred shares of KGHM AJAX MINING INC. As a result of these transactions, the carrying amount of the shares of Fermat 1 S.à r.l. amounts to PLN 9 624 347 thousand.
- the company Fermat 1 S.à r.l. next transferred shares in 0929260 B.C.U.L.C. to Fermat 2 S.à r.l.

#### **Founding of the company „Elektrownia Blachownia Nowa” sp. z o.o.**

On 5 September 2012, KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. founded a special purpose company called „Elektrownia Blachownia Nowa” sp. z o.o. with its registered head office in Kędzierzyn Koźle.

This Company was founded in order to fully realise an investment, comprising the preparation, construction and operation of an 850 MWe gas-steam block on grounds belonging to TAURON Wytwarzanie S.A. - Blachownia Power Plant Division. The founding of this company was preceded by receipt of the consent of the antimonopoly body, i.e. the European Commission, issued on 23 July 2012.

The share capital of the company amounts to PLN 65 million. Each of the partners acquired 50% of the shares in the share capital. The shares of this company are equal and indivisible.

Together with the founding of „Elektrownia Blachownia Nowa” sp. z o.o., a Shareholders Agreement was signed describing the detailed principles of cooperation between the parties regarding realisation of the enterprise. In accordance with this Agreement, the Partners anticipate that the total estimated expenditure on this investment will amount to around PLN 3.5 billion. The project will be realised using the project finance formula – at least 50% of its budget will be financed from outside sources.

The design and construction of the gas-steam block will be in the form of a turnkey project, together with infrastructure, installations and auxiliary equipment. The block will be connected to the new 400kV switching station, providing electricity to the National Electricity System, and will meet all of the standards set forth in the Transmission Network Operation Instructions. In accordance with the approved schedule, the block will be commissioned in the second quarter of 2017. The founding of this Company is in accord with the Strategy of KGHM Polska Miedź S.A., assuming diversification of sources of revenues through progressive engagement in the energy sector.

#### **Main equity investments of KGHM Polska Miedź S.A.**

The main equity investments include the following:

- Investments with respect to expanding the resource base and increasing copper production, in which KGHM INTERNATIONAL LTD. is the leading company - this is a major investment, both in terms of the size of the amount invested and its share in realisation of the strategy of the KGHM Polska Miedź S.A. Group
- Investments in companies in the production unit, acting mainly in support of the core business of KGHM Polska Miedź S.A., whose task is to ensure the continuity of its operations – with respect to this area, in 2012, KGHM Polska Miedź S.A. carried out equity investments of PLN 67 million through the acquisition of shares in the increased share capital of „Energetyka” sp. z o.o. The funds obtained by this company were mainly used to finance investment projects. The share capital of „Energetyka” sp. z o.o. following the increase amounted to PLN 470 million.

In terms of capital committed, another important equity investment is in the shares of TAURON Polska Energia S.A. (carrying amount PLN 865 million). This investment is also important in realisation of the strategy of diversification of revenues through progressive engagement in the energy sector.

## Direction of the equity investments

The equity investments of KGHM Polska Miedź S.A. are mainly aimed at:

- development of the resource base – the increase and geographical diversification of the resource base in the Group, the increase of mined copper production,
- realisation of investments in enterprises/entities which directly support the core business and in the energy sector.

The development of the resource base is one of the main goals of the strategy pursued by KGHM Polska Miedź S.A. Equity investments in this regard enable the realisation of exploration projects and geological assessment work, the realisation of development projects, including mine construction, and the acquisition of entities with mining assets.

On 5 March 2012, KGHM Polska Miedź S.A. completed the acquisition of a Canadian mining company listed on a Toronto stock exchange - Quadra FNX Mining Ltd (currently KGHM INTERNATIONAL LTD.). In 2013 and in subsequent years work will continue on development and exploration projects acquired as part of the acquisition of Quadra FNX – including the Sierra Gorda project in Chile, Victoria in Canada, exploratory work in Canada and Chile, and also on optimisation of the operations of existing production assets.

In addition, work will be carried out aimed at commencing construction of a mine under the Afton-Ajax project in British Columbia in Canada, and at continuing an exploration project in Saxony.

KGHM Polska Miedź S.A. provides equity-based support to Group companies whose strategies and scopes of operation are closely connected to the core business in the Legnica-Głogów Copper Belt.

With respect to the energy sector, on 4 July 2012, KGHM Polska Miedź S.A. signed a framework agreement ("Agreement") with the following companies: Polskie Górnictwo Naftowe i Gazownictwo S.A. ("PGNiG"), ENEA S.A., PGE Polska Grupa Energetyczna S.A., and TAURON Polska Energia S.A. on the exploration, evaluation and extraction of shale gas. Under the Agreement the subject of cooperation will be the exploration, evaluation and extraction of shale gas in geological formations for which concessions have been granted for the exploration and evaluation of deposits of crude oil and natural gas in relation to the Wejherowo concession held by PGNiG ("Wejherowo concession"). With respect to the Wejherowo concession, there will be close cooperation involving a total area of around 160 km<sup>2</sup> („Area of Cooperation”).

Estimated expenditures on exploration, evaluation and extraction with respect to the first three zones (the Kochanowo, Częstkowo and Tęczp pads) within the Area of Cooperation are projected to be in the amount of PLN 1 720 million.

In accordance with the annexes to the Agreement signed on 12 November 2012 and on 20 February 2013, the period for determination of details regarding the terms of cooperation was extended to 4 February 2013, and then to 4 May 2013. Should such specific arrangements not be determined by 4 May 2013, the Agreement may be terminated by each of the Parties. The annex also stipulated that if within three months after reaching such arrangements the Parties have not received all of the required corporate approvals, or if by 31 December 2013 the required antimonopoly clearances have not been received, the Agreement will expire.

In addition, KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. are jointly realising an investment based on the construction of a power plant. Towards this end, on 5 September 2012 both entities founded a special purpose company called „Elektrownia Blachownia Nowa” sp. z o.o. with its registered head office in Kędzierzyn Koźle. The project involves the preparation, construction and operation of an approx. 850 MWe gas-steam block on the grounds of the Blachownia power plant in Kędzierzyn-Koźle belonging to TAURON Wytwarzanie S.A.

Realising the strategy related to corporate social responsibility (CSR), KGHM Polska Miedź S.A. intends to continue to support selected investments in pursuit of this strategy.

In addition, activities will be continued aimed at optimising the structure of KGHM Group Polska Miedź S.A., including among others through the liquidation process. At present the liquidation process is continuing for the companies KGHM CONGO S.P.R.L. with its registered head office in Lubumbashi in the Democratic Republic of Congo and KGHM Kupferhandelsges. m.b.H.i.L in Vienna. The commencement of other proceedings is being considered, among others within the KGHM INTERNATIONAL LTD. Group.

## 2.4. Capital expenditure

In 2012, capital expenditures amounted to PLN 1 766 million (expenditures on property, plant and equipment and uncompleted development) while actual expenditures amounted to PLN 1 836 million.

**Table 13. Structure of capital expenditures (million PLN)**

	2010	2011	2012	Change 2011=100
Mining	985	1 057	1 292	122.2
Metallurgy	231	218	274	125.7
Other activities, of which:	47	239	192	80.3
Uncompleted development	-	5	9	180.0
<b>Total</b>	<b>1 263</b>	<b>1 519</b>	<b>1 766</b>	<b>116.3</b>

In 2012, development-related investments amounted to PLN 1 040 million, meaning an increase of 22% versus 2011.

Investments were aimed at locally-realised and centrally-realised projects:

- **centrally-realised** projects – these are development- and replacement-related investments of greater difficulty, size and risk having a substantial impact on the development of the Company and the realisation of its strategy, which represent around 58%,
- **locally-realised** projects – these are replacement-related projects, and typical/repeatable development projects, minor conformatory and purchases of mining machinery, mine vehicles, pumps, ventilators and other equipment, which represent around 42%.

The Management Board of the Company assigned responsibility for the management of centrally-realised investments to the project leaders, and for locally-realised investments to the directors of the Divisions.

In classifying projects as central or local, the following is considered:

- the unrepeatability of the activity and its result – uniqueness of the product,
- the degree of complication of the project (is it interdisciplinary),
- whether the project is high risk, and
- need to segregate the organisational structure of the project if the functional structure does not permit its realisation.

The major investment projects realised in 2012 are presented in the following table:

**Table 14. Major projects and facilities realised in 2012**

Mining
Construction of the SW-4 shaft – work continued on sinking the shaft – since work started the depth of the shaft has reached 1.0 km (in 2012, 0.2 km) and major drift work was continued – in 2012, 1.6 km of major drift work was executed (from the beginning, 11.8 km)
Deep Glogów - work continued on realisation of temporary and permanent facilities, and on major drift work with infrastructure – in 2012, 2.9 km of drifts were excavated (since 2005 a total of 43.2 km of drifts of the planned 129.9 km, representing 33%). Work begun on the handover of freezing units stations and Contractor support at the GG-1 construction site.
With respect to modernisation and replacement of the machinery park in the mines, 214 mining machines were purchased, representing 100% of the amount planned for purchase in 2012.
In the mining divisions, work was carried out on investments related to development of the infrastructure of the mining sections, ventilation and cooling equipment and investments in the conveyor belts and pipelines.
With respect to the replacement of floatation machinery, 87 of the 113 machines planned for replacement since 2009 were replaced (35 in the reporting period).
Work began on realisation of the project „Modernisation of classification units” involving modernisation of the over 30-year-old hydrocyclone batteries with new-generation equipment. The project foresees the exchange of a total of 78 hydrocyclone batteries throughout the Concentrators Division: <ul style="list-style-type: none"> <li>- a hydrocyclones supplier was selected and a contract was signed for stage I,</li> <li>- a hydrocyclones plan for stage I of the modernisation of the classification units was designed and delivered,</li> <li>- hydrocyclones and pumps for installation in part 1 of stage I of the modernisation of the classification units were delivered,</li> <li>- installation of the hydrocyclones commenced.</li> </ul>
As part of the exploration project Investigation and documentation of the Synklina Grodziecka region of the „Niecka Grodziecka” deposit, 9 boreholes were drilled. On 8 October 2012, KGHM Polska Miedź S.A. received a decision changing the concession for the exploration for and research into copper ore deposits in the Synklina Grodziecka region. A tender procedure is currently underway to select drilling contractors for the realisation of a further 6 boreholes.
As part of the project CONCESSIONS 2013, whose goal is to obtain concession for the extraction of copper ore from the deposits currently being worked, of crucial significance in 2012 was the issuance on 3 December 2012, by the Regional Directorate for Environmental Protection in Wrocław of a decision on the environmental impact of a project titled „The extraction of copper ore from the following deposits: „Polkowice”, „Sieroszowice”, „Radwanice-Wschód”, „Rudna” and „Lubin-Małomice”, with an order of immediate enforceability. This decision became final on 16 January 2013. More detailed information on the aforementioned project may be found on pages 117-118 of this report.

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As part of the project „Development and implementation in the mines of KGHM Polska Miedź S.A. of technology for the mechanical extraction of ore” (automated extraction machinery), a pilot section was outfitted, mine testing was completed at a research facility in Lunen and delivery and assembly commenced of components of the ACT mining complex

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Realisation was continued on the project „Development of the Żelazny Most mining tailings treatment pond to ensure the ability to store floatation tailings after 2016”. Facilities were realised related to improving and maintaining the operational safety of the Żelazny Most mining tailings treatment pond and to eliminate its environmental impact.

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Realisation was continued on the project „Achieving rock salt production of 1 million tonnes/year”:

- construction of a salt processing unit was realised,
- handover of an MB-770 dedicated combine made in a factory in Austria prior to its planned delivery to the mine underground and start-up,
- with respect to adaptation of equipment for the SW-1 shaft, work was completed in support shaft ZR-2,
- purchase was completed of all associated machinery planned in 2012,
- Geological Documentation and the Deposit Development Plan was prepared. Following receipt of Environmental Decisions, in June 2013 – a Concession Application will be submitted to the Ministry. Based on this concession, an Agreement will be signed for mining usufruct rights.

### Metallurgy

As part of the Pyrometallurgy Modernisation Program - in the reporting period design, construction and assembly work continued with respect to preparing infrastructure for the construction of the Flash Furnace, and tender procedures were carried out for the purchase of key equipment for operation of the flash furnace – a contract was signed for the purchase of strategic equipment for the new technology (Steam Drier, Flash Furnace charging unit, Recovery Boiler, Electrofilters, Electric Furnace power unit).

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Realisation commenced of the project „Intensification of smelting by the Głogów II Smelter”:

- The design process was completed for most of the installations to be modernised. Other units to be realised during the maintenance shutdown of Głogów II are in the final stage of design work.
  - Contracts were signed or are in the process of being prepared for the supply of materials, machines and equipment, and for construction and assembly work, with respect to key production units.
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Realisation commenced of the project „Construction of a scrap melting unit at the Legnica Smelter” with respect to developing a Project Concept Plan.

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### Other

With respect to the Construction of Gas-Steam Blocks at the power plants in Głogów and Polkowice, in the reporting period during the reporting period construction, assembly, installation and electrical work was performed based on updated execution projects. The General Contractor delivered key equipment from the electrical and installation sectors.

- assembly was completed on the gas turbounits for Polkowice and Głogów,
  - delivery was completed on the steam turbounits for Polkowice and Głogów,
  - technical handover was performed for the gas reduction-measurement stations in Polkowice and Głogów,
  - an agreement was signed for connection to the power grid of TAURON Dystrybucja for the gas-steam blocks at Polkowice and Głogów,
  - work was begun on building the high-pressure gas network in Polkowice and Głogów,
  - assembly continues of the auxiliary installation and on insulation of the recovery boilers,
  - with respect to construction of the gas-steam block at the Głogów power plant, work continues on switching over to a 110kV current.
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## 2.5. Environmental protection

### Activities of the Company in respect of environmental protection

KGHM Polska Miedź S.A., as one of the most important and socially responsible companies in Lower Silesia, cannot and does not want to avoid its responsibility for the environment in which it operates. The idea of balanced growth, and in particular respect for the environment, is an important element of the strategy of KGHM Polska Miedź S.A.

The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations serving the environment, both those built in the past as well as new investments in this area. In 2012, the Company spent PLN 179 million on the realisation of investments related to environmental protection. The largest expenditure, in the amount of PLN 166 million, was incurred on continuation of the construction of two gas-steam blocks, one in Głogów and one in Polkowice.

In addition, KGHM Polska Miedź S.A., taking into consideration its corporate social responsibility, continued in 2012 a Program to Promote Health and Prevent Environmental Threats. This program is aimed mainly at children from ages 1 to 16 who live in the vicinity of our metallurgical facilities, comprised among others of blood testing for lead content, trips to „Green schools”, pool-related activities and education related to ecology and health. In 2012, this program covered 253 children.

### Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2012 amounted to PLN 27 million. The amount of fees paid was higher by PLN 1.5 million than in 2011, mainly due to the annual increase in environmental fee rates.

In 2012 the largest fees paid by the Company were for waste discharge: PLN 16 million, nearly all of which was for the drainoff of excess water from the Żelazny Most waste treatment tailings pond.

### Legal aspect and intentions

KGHM Polska Miedź S.A. operates eight installations whose functioning, in accordance with the Act on Environmental Protection, requires the possession of integrated permits. These include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the smelter which do not require integrated permits at the Głogów Smelter,
- an installation titled The Biechów industrial waste storage facility at the Głogów Smelter,
- an installation titled The Biechów II industrial waste storage facility at the Głogów Smelter,
- an installation for the production of refined lead at the Legnica Smelter,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electronic processes, the tailings waste facility „Polowice”, a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the Legnica Smelter,
- an installation for the melting, continuous casting and drawing of copper rod at the Cedynia Wire Rod Division,
- an installation for the storage of tailings from the floatation of copper ore at the Tailings Division, and
- an installation for the neutralisation of sulphuric acid waste at the Concentrators.

The remaining Divisions of the Company possess environmental sector administrative decisions.

In addition, the Głogów and Legnica Smelters received permits to participate in the CO<sub>2</sub> emissions trading system.

In 2012, the Company completed administrative procedures and obtained decisions on the environmental impact of a project involving the extraction of ore from the mining areas currently being worked. This decision is a necessary annex to application for obtaining a concession for the underground extraction of copper ore after 2013. Administrative procedures were also concluded related to obtaining permits for the operation of the tailings facility, to which the Company attached the confirmed program for the management of mine tailings together with the decision on environmental impact. This work was required by the Law on mining waste.

Due to on-going changes in environmental law and the resulting changes in modernisation of installations, it is necessary to continuously monitor current administrative decisions permitting the Company to operate its installations. In 2012, procedures continued related to changes in decisions for the mines, smelters and concentrators.

Amongst the most important investments planned in the near term are the following:

- continuation of a program to promote health and prevent environmental threats – aimed at the inhabitants of former protective zones,
- continuation of work related to the modernisation of pyrometallurgy at the Głogów Smelter,
- adaptation of administrative decisions held to legal changes,
- introduction in the Company of a system for trading CO<sub>2</sub>,
- work related to ensuring the security of the Żelazny Most tailings pond, such as strengthening the containment dam,
- development of the Żelazny Most tailings pond by the so-called Southern quarter,
- work on the building of an Integrated Management System for the entire Company,
- registration by 1 June 2018 with respect to REACH: selenium and gold as end substances and silver chloride and copper chloride as indirect substances,
- detailed analysis of new ECHA guidelines, which tighten permissible conditions for indirect products.

### 3. Review of financial position

#### 3.1. Assets

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

**Table 15. Current and non-current assets (million PLN)**

	31.12.2010*	31.12.2011*	31.12.2012	Change 2011=100	Structure %
Property, plant and equipment	6 551	7 277	8 445	116.1	30.0
Shares and investment certificates in subsidiaries and associates and interest in joint ventures	3 803	2 012	11 674	×5.8	41.4
Deferred tax asset	360	169	266	157.4	0.9
Available-for-sale financial assets	1 155	992	882	88.9	3.1
Derivatives	698	1 758	1 123	63.9	4.0
Trade and other receivables	2 480	1 587	1 772	111.7	6.3
Inventories	2 012	2 356	2 992	127.0	10.6
Cash and cash equivalents	2 595	12 836	707	5.5	2.5
Other assets	175	265	316	119.2	1.1
<b>Total assets</b>	<b>19 829</b>	<b>29 252</b>	<b>28 177</b>	<b>96.3</b>	<b>100.0</b>

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

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

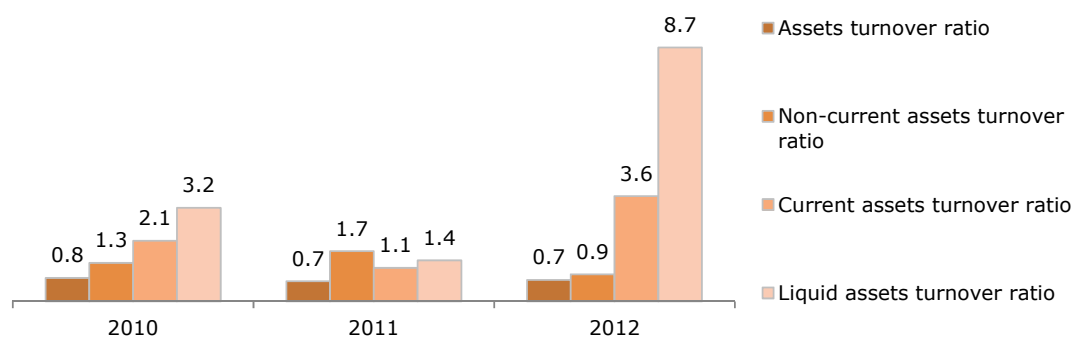
- Shares and investment certificates in subsidiaries and associates and interest in joint ventures – an increase by PLN 9 662 million, mainly due to the acquisition of the Canadian company Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.). In addition, in April 2012, KGHM Polska Miedź S.A. increased its engagement in KGHM AJAX MINING INC. from 51% to 80%. Next, as part of the process of reorganising the structure of the KGHM Polska Miedź S.A. Group, all of the shares were acquired by the indirect subsidiary 0929260 B.C. Unlimited Liability Company in exchange for the newly-issued shares of this company acquired by KGHM Polska Miedź S.A. The remaining equity expenditures mainly involved subsidiaries, including Energetyka Sp. z o.o., whose share capital in 2012 was increased by PLN 67 million designated for the purchase and modernisation of property, plant and equipment. Investments in joint ventures in the amount of PLN 33 million involve the acquisition of shares in the special purpose company Elektrownia Blachownia Nowa Sp. z o.o. founded jointly with Tauron Wytwarzanie S.A.
- Cash and cash equivalents – a decrease by PLN 12 129 million mainly due to expenditures incurred on the realisation of equity investments (mainly the acquisition of 100% of the shares of Quadra FNX Mining Ltd.) and payment of a shareholder dividend in the amount of PLN 5 668 million.
- Inventories – an increase by PLN 636 million, mainly due to an increase in the volume of inventories due to the planned three month maintenance shutdown of the flash furnace of the Głogów II Smelter in the second half of 2013. Also of significance was the unit cost of copper production, representing the basis for inventory valuation. Introduction of the minerals extraction tax had the greatest impact on its increase, which in annual terms amounted to 29%.
- Derivatives – a decrease by PLN 635 million, due to a change in the forward prices of metals and the settlement of derivatives.
- Property, plant and equipment – an increase by 1 167 million, the result of investment activities. In 2012, expenditures in this regard amounted to PLN 1 766 million, of which development-related investments amounted to PLN 1 040 million (60%), while the remainder involved replacement-related investments.
- Receivables – an increase by PLN 185 million, mainly trade receivables, which were higher by PLN 98 million (higher sales) and non-financial receivables, higher by PLN 103 million, mainly in respect of receivables involving taxation, customs and insurance as well as non-financial prepayments.
- Available-for-sale financial assets – a decrease by PLN 110 million, mainly due to valuation of the shares of Tauron Polska Energia S.A. at prices lower than at the end of 2011 (in yearly terms the value of these shares listed on the WSE decreased by 11%). In addition, according to the requirements of International Financial Reporting Standards, due to the fact that the decrease in the fair value of the shares of this company versus their cost has lasted over 12 months, an impairment loss was recorded. The amount of this impairment loss which decreased the financial result amounted to PLN 151 million.

The increase in the current assets turnover ratio and in the liquid assets turnover ratio is the result of a decrease in cash and cash equivalents, alongside a substantially unchanged level of sales. At the end of 2011, a significant part of the Company's current assets were in the form of highly liquid financial resources. This



structure of assets was due to the need to accumulate financial resources for realisation of the acquisition of Quadra FNX Mining Ltd. at the start of 2012.

#### Chart 4. Assets effectiveness ratios



Ratios calculated based on end-of-year balances, pursuant to methodology described in Appendix A.

### 3.2. Equity and liabilities

In 2012, the basic source for financing assets was equity, whose share in total assets amounted to 78%.

**Table 16. Equity and liabilities (million PLN)**

	31.12.2010*	31.12.2011*	31.12.2012	Change 2011=100	Structure %
<b>Equity</b>	<b>14 456</b>	<b>23 135</b>	<b>21 923</b>	<b>94.8</b>	<b>77.8</b>
Share capital	2 000	2 000	2 000	100.0	7.1
Revaluation reserve from the measurement of available-for-sale financial assets	121	(39)	-	-	0.0
Revaluation reserve from the measurement of cash flow hedging instruments	90	574	286	49.8	1.0
Retained earnings	12 245	20 600	19 637	95.3	69.7
<b>Current and non-current liabilities</b>	<b>5 373</b>	<b>6 117</b>	<b>6 254</b>	<b>102.2</b>	<b>22.2</b>
Trade and other payables	1 742	1 840	2 263	123.0	8.0
Borrowings and finance lease liabilities	11	-	1 013	x	3.6
Derivatives	1 194	868	253	29.1	0.9
Current corporate tax liability	669	1 588	390	24.6	1.4
Employee benefits liabilities	1 221	1 323	1 581	119.5	5.6
Provisions for other liabilities and charges	536	498	754	151.4	2.7
<b>Total equity and liabilities</b>	<b>19 829</b>	<b>29 252</b>	<b>28 177</b>	<b>96.3</b>	<b>100.0</b>

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

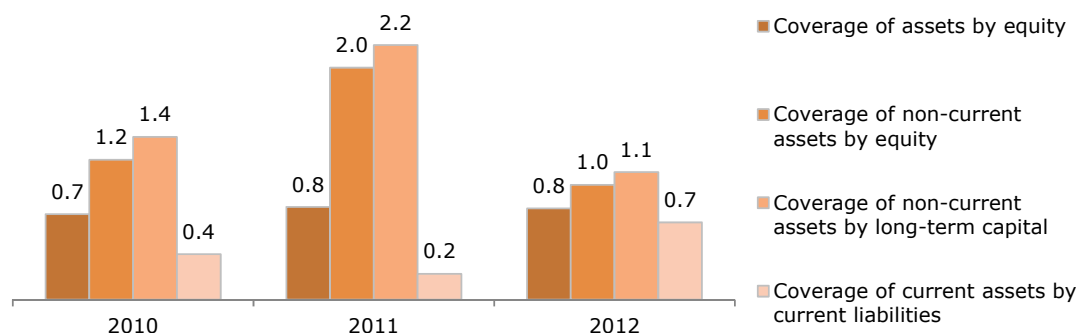
There were significant changes in the following items of equity and liabilities:

- Equity – a decrease by PLN 1 212 million, due to the following:
  - Profit for 2012 +PLN 4 868 million,
  - Dividend from profit for 2011 -PLN 5 668 million,
  - Other comprehensive income -PLN 412 million  
(mainly due to the measurement of hedging instruments)
- Borrowings and finance lease liabilities – in the second half of the year the Company engaged in financing in the form of bank loans. At 31 December 2012, bank loan liabilities amounted to PLN 1 013 million (at the end of 2011, there were no bank loan liabilities).
- Current corporate tax liability – a decrease by PLN 1 198 million, due to settlement of CIT paid for 2011, which in 2011 was paid in the form of fixed monthly prepayments on income tax based on the tax result for 2009. The amount of these prepayments was lower than the actual filed CIT 8 liability for 2011 by PLN 1 588 million, as the tax paid in the form of prepayments for 2012 was lower than the actual amount of taxation for 2012 by PLN 390 million.
- Derivatives – a decrease by PLN 615 million due to a change in forward metals prices, the forward USD/PLN exchange rate, the settlement of instruments during the year and the opening of new transactions on the copper and currency markets. In the case of the currency market there was a decrease in liabilities by PLN

361 million, while for the copper and silver markets there was a decrease in liabilities respectively of PLN 220 million and PLN 34 million.

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

#### Chart 5. Assets financing ratios



Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A.

#### Contingent assets and liabilities

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

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

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

#### 3.3. Financial resources of the Company

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

**Table 17. Structure of cash and cash equivalents (million PLN)**

	31.12.2010	31.12.2011	31.12.2012	Change 2011=100
Cash*	50	8	18	× 2.3
Other monetary assets with a maturity up to 3 months	2 545	12 828	689	5.4
<b>Total</b>	<b>2 595</b>	<b>12 836</b>	<b>707</b>	<b>5.5</b>

\* in hand and on-demand bank deposits

#### Borrowings

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

**Table 18. Borrowings (million)**

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

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

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

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

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

#### Loans granted

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

On 8 May 2012, KGHM Polska Miedź S.A. granted a loan to KGHM LETIA S.A. in the amount of PLN 7.5 million. Interest on the loan is based on WIBOR 1M + a margin of 2.5%, with interest capitalised monthly. In accordance with Appendix no. 1 to this loan dated 17 December 2012, repayment of the principal together with interest will be made by 30 June 2013. At 31 December 2012, the balance of the loan granted (together with capitalised interest) amounted to PLN 7.8 million.

#### Financial guarantees granted and received

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

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

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

### 3.4. Statement of profit or loss

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

**Table 19. Basis items in the statement of profit or loss (million PLN)**

	2010*	2011*	2012	Change 2011=100
Sales	15 945	20 097	20 737	103.2
Operating costs	9 295	10 660	13 602	127.6
<b>Profit from operations</b>	<b>6 650</b>	<b>9 437</b>	<b>7 135</b>	<b>75.6</b>
Profit on other operating activities	(1 019 )	4 324	(709)	x
- Profit on the sale of companies	-	2 662	-	-
- Exchange differences	(30)	895	(566)	x
- Measurement and realisation of derivatives	(1 172)	321	(84)	x
- Dividends	147	277	57	20.6
- Other	37	169	(117)	x
<b>Operating profit (EBIT)</b>	<b>5 631</b>	<b>13 761</b>	<b>6 426</b>	<b>46.7</b>
Finance costs	33	34	9	26.5
Profit before income tax	5 598	13 727	6 417	46.7
<b>Profit for the period</b>	<b>4 563</b>	<b>11 394</b>	<b>4 868</b>	<b>42.7</b>
EBITDA (EBIT + depreciation/amortisation)	6 246	14 433	7 198	49.9

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

The most important factors impacting the result are presented in Table 20.

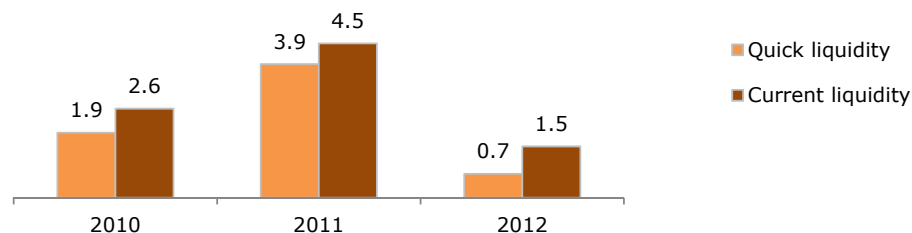
**Table 20. Basic factors impacting the financial result**

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

\* Impact on sales

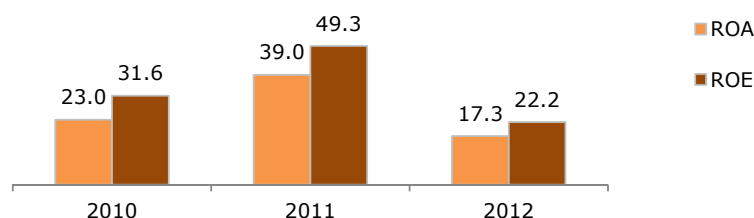
Basic ratios describing financial liquidity, the profitability of assets and equity and financing is shown in Charts 6, 7 and 8.

**Chart 6. Liquidity ratios**



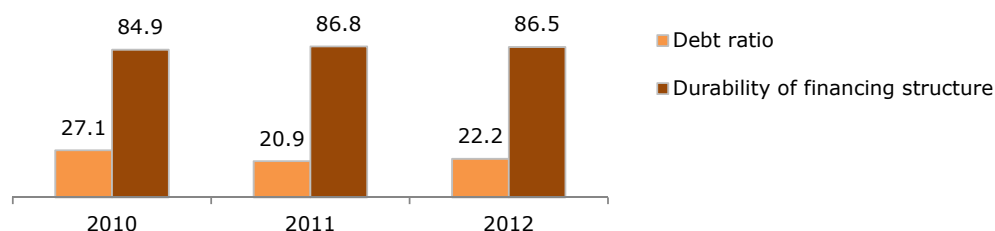
Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The deterioration in these ratios is mainly due to a lower level of cash – at the end of 2011, the Company maintained a high level of cash and cash equivalents to acquire the shares of Quadra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

**Chart 7. Profitability ratios**



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

### Chart 8. Financing ratios



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

### Capital market ratios

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

**Table 21. Capital market ratios**

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

\* Financial surplus = profit for the period + depreciation/amortisation

\*\* Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares × PLN 173.00 in 2010; PLN 110.60 in 2011; PLN 190.00 in 2012)

\*\*\* Carrying amount of equity at the end of the reporting period

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

### 3.5. Operating costs

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

**Table 22. Unit cost of electrolytic copper production - total (PLN/t)**

	2010	2011	2012	Change 2011=100
Pre-precious metals credit unit cost of copper production	15 540	17 534	21 542	122.9
Value of anode slimes	2 557	3 968	4 046	102.0
Total unit cost of copper production	12 983	13 566	17 496	129.0
Electrolytic copper production (kt)	547.1	571.0	565.8	99.1

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

**Table 23. Unit cost of electrolytic copper production – from own concentrate (PLN/t) and C1 cost of concentrate production (USD/lb)**

	2010	2011	2012	Change 2011=100
Pre-precious metals credit unit cost of copper production	13 661	14 875	19 628	132.0
Value of anode slimes	3 174	4 576	5 038	110.1
Total unit cost of copper production	10 487	10 299	14 590	141.7
Electrolytic copper production from own concentrate (kt)	427.0	446.4	419.1	93.9
C1 cost of concentrate production (USD/lb)	1.07	0.63	1.34	×2.1
Production of copper in concentrate (kt)	425.4	426.7	427.1	100.1

The pre-precious metals credit unit cost of copper production from own concentrate increased by 4 753 PLN/t, i.e. by 32%, mainly due to the introduction of the minerals extraction tax (+3 167 PLN/t) and to the increase in

expenditures by nature described below (excluding purchased copper-bearing materials), alongside the negative impact of a lower volume of copper production from own concentrate (-6% versus 2011).

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

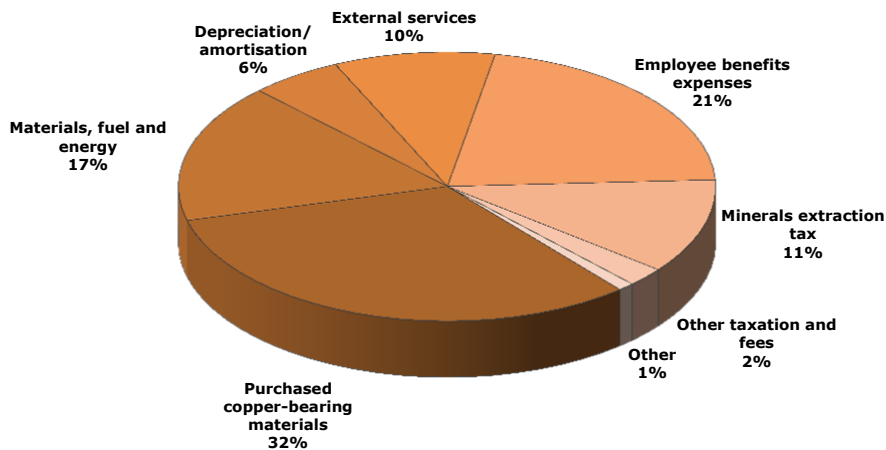
The increase in the C1 cost was mainly due to the introduction from April 2012 of the minerals extraction tax and the lower valuation of silver in by-products, whose price in 2012 was 11% lower than in 2011.

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

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

The structure of expenses by nature in 2012 is shown in Chart 9. With respect to prior years, the change in the structure is mainly due to an increase in the share of taxation due to the introduction of the minerals extraction tax (3% in 2011, 14% in 2012) alongside the lower share of other costs.

**Chart 9. Structure of expenses by nature in 2012**



### Act on the minerals extraction tax

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

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

### 3.6. Risk management in the Company in 2012

The goal of financial risk management in KGHM Polska Miedź S.A. is to restrict the undesired impact of financial factors on cash flow and Company results in the short and medium terms and to build Company value over the long term. Financial risk management includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures applied in the Company.

In 2012, the Company was exposed to many types of financial risk, and in particular to market risks (risk of changes in metal prices and exchange rates), credit risk and liquidity risk.

## Market risk

In 2012, the Company was mainly exposed to the risk of changes in the prices of metals sold on the market: copper and silver. In addition, of major significance for KGHM Polska Miedź S.A. was the risk of changes in currency rates, in particular the USD/PLN exchange rate. To restrict market risk, the Company, to the extent possible, uses natural hedging (incurring costs in USD), however the basic technique in market risk management involves hedging strategies utilising derivatives.

In accordance with hedge policy, the Company applied a consistent and step-by-step approach to market risk management in order to hedge against unfavourable changes in copper prices and in the PLN exchange rate versus the USD.

In 2012, the result on derivatives was PLN 249 million. The effective portion of the measurement of hedging instruments transferred from accumulated other comprehensive income to profit or loss in the reporting period as a reclassification adjustment caused an increase in revenues from sales by PLN 333 million. Gain on the measurement of derivatives amounted to PLN 203 million, while loss on the realisation of derivatives amounted to PLN 287 million. The adjustment of other operating income due to the measurement of derivatives results mainly from changes in the time value of options which are to be settled in future periods. In accordance with the hedge accounting principles applied by the Company, changes in the time value of options are not recognised in accumulated other comprehensive income.

Interest rate risk is the possibility of a negative impact of changes in interest rates on the Company's results. In 2012, the Company was exposed to this type of risk due to the granting of loans, the depositing of unallocated cash and cash equivalents, the commencement of zero-balance cash pool services, and the use of borrowing.

A decrease in market interest rates results in lower expected interest income on loans granted and on periodically-unallocated cash and cash equivalents which are invested, while an increase in market interest rates results in higher interest costs on drawn borrowings.

In 2012, the Company did not make use of interest rate risk hedging instruments.

## Credit risk

Credit risk is defined as the risk that counterparties will not be able to meet their contractual obligations. In 2012, KGHM Polska Miedź S.A. was exposed to this risk, mainly in three areas of credit risk, related to:

- trade receivables,
- cash and cash equivalents and bank deposits,
- hedging transactions.

The Company restricts its exposure to credit risk related to trade receivables by assessing and monitoring the financial condition of its customers, setting credit limits and the use of receivables insurance. An inseparable element of the credit risk management system realised in the Company is the on-going monitoring of receivables and the internal reporting system. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are in most cases based on prepayments. In 2012, the Company secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages and documentary collection. In addition, the majority of customers which hold buyer's credit on contracts have ownership rights confirmed by a date certain.

To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, at 31 December 2012, the Company had secured 82% of its trade receivables.

The concentration of credit risk in the Company is related to the granting of extended terms of payment to key customers (most of whom operate within the European Union). As a result, at 31 December 2012 the balance of receivables from the Company's 7 largest customers, in terms of receivables at the end of the reporting period, represented 66% of the trade receivables balance (52% at 31 December 2011). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

All of the entities with whom the Company entered into depositary transactions in 2012 operated in the financial sector. These are exclusively banks registered in Poland or operating in Poland as branches of foreign banks, belonging to European and American financial institutions with highest (15% of deposits), medium-high

(37% of deposits) and medium (48% of deposits) ratings, and having an appropriate level of equity and strong and stable market positions. At 31 December 2012, the maximum share of a single bank with respect to the amount of funds deposited by the Company amounted to 20%.

All of the entities with whom the Company enters derivative transactions operate in the financial sector. These are financial institutions (mainly banks), with the high and medium ratings. According to fair value at 31 December 2012, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Company and from unsettled derivatives amounted to 17%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

To restrict cash flow and simultaneously restrict credit risk, the Company performs net settlement (based on framework agreements entered into with customers) to the level of positive balance of fair value measurement of transactions with the given counterparty.

#### Liquidity risk

The Company actively manages the risk of loss of liquidity to which it is exposed. This risk is understood as the ability to pay financial liabilities on time and to gain resources to finance its activities.

The Company manages its financial liquidity in accordance with the policy „Financial Liquidity Management Policy”, which describes in a comprehensive manner the process of managing financial liquidity in the Company, based on best practice for such procedures and instruments.

In order to minimise the risk of loss of liquidity, in 2012 the Company engaged in borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility. Open lines of credit are available in PLN, USD and EUR.

Simultaneously, in order to maintain financial liquidity and the creditworthiness to acquire external financing at a reasonable cost, the Company monitors its capital, among others based on the equity ratio and the ratio of Net Debt/EBITDA.

The Company assumes that the equity ratio shall be maintained at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.

### 3.7. Realisation of projected financial results for 2012

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

Along with the improvement in macroeconomic conditions (weakening of the PLN versus the USD), during the year the Company updated its forecast. The final projection of financial results was published in a current report dated 29 October 2012. Basic assumptions, projected results and their realisation are shown in Table 24.

**Table 24. Realisation of Company financial result forecast for 2012**

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

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

\*\* For forecast dated 29 October 2012

Due to on-going updating of the forecast during 2012, the final realisation of financial results did not substantially differ from the planned amounts.



### 3.8. Projected Company financial situation

On 14 February 2013, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2013. The basis for preparing the Budget were the results of 2012 and the assumptions of operating plans. The basic assumptions of the Budget for 2013 are presented in Table 25.

**Table 25. Company Budget assumptions for 2013**

	Unit	Execution 2012	Budget 2013	Change 2012=100
<b>Sales</b>	<b>M PLN</b>	<b>20 737</b>	<b>18 930</b>	<b>91.3</b>
<b>Profit for the period</b>	<b>M PLN</b>	<b>4 868</b>	<b>3 204</b>	<b>65.8</b>
<b>EBITDA</b>	<b>M PLN</b>	<b>7 198</b>	<b>5 337</b>	<b>74.1</b>
Average annual copper price	USD/t	7 950	7 800	98.1
Average annual silver price	USD/troz	31.15	32.00	102.7
Exchange rate	USD/PLN	3.26	3.10	95.1
Total unit cost of electrolytic copper production from own concentrate	PLN/t	14 590	17 087	117.1
C1 cash cost of concentrate production	USD/lb	1.34	1.76	131.5
Production of copper in concentrate	kt	427.1	425.1	99.5
Electrolytic copper production	kt	565.8	548.0	96.8
- of which from purchased copper-bearing materials	kt	146.7	146.6	99.9
Silver production	t	1 274	1 075	84.4
Capital expenditure	M PLN	1 766	2 470	139.8
Equity investments limit *	M PLN	9 637	523	5.4

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

The decrease in profit versus 2012 is mainly due to:

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

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

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

Realisation of this forecast will be monitored by the Company on an on-going basis. Should there occur significant deviation from the amounts forecasted, the Company will perform an adjustment to the forecast and immediately will publish it in the form of a current report.

### 3.9. Disputed issues

At 31 December 2012, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. amounted to PLN 253 million, including receivables of PLN 74 million and liabilities of PLN 179 million. The total value of the above disputed issues does not exceed 10% of the equity of the Company.

The largest proceedings involving the liabilities and receivables of KGHM Polska Miedź S.A. at the end of 2012 concerned the following:

#### Relating to liabilities due to:

##### **Setting additional royalties for the extraction of copper ore for the period from the start of 2006 to the end of the 3<sup>rd</sup> quarter of 2011**

The municipalities (Gminas) of Polkowice, Lubin, the City of Lubin, Radwanice and Jerzmanowa submitted requests to the Minister of the Environment to open administrative proceedings to set royalties for the extraction by KGHM Polska Miedź S.A., for the period from the start of 2006 to the end of the 3<sup>rd</sup> quarter of 2011, of copper ore from deposits located in these municipalities and to allow them to participate as parties in these proceedings. The municipalities have charged that the Company lowered the amount of royalties paid on extracted non-balance copper ore in the total amount of PLN 90 million, including that portion payable to the municipalities in the amount of PLN 54 million, with the remainder representing payments to the National Fund for Environmental Protection and Water Management.

The Minister of the Environment, in decisions dated 11 April 2012, discontinued the proceedings on the grounds that they were unfounded. The municipalities submitted appeals dated 26 April 2012 to the Minister of the Environment to reopen these proceedings. In decisions dated 11 August 2012, the Minister of the Environment upheld the validity of the decisions. The municipalities submitted appeals to the decisions of the Minister of the Environment to the Regional Administrative Court, which in decisions dated 31 January 2013 dismissed the charges of the municipalities. These decisions are not legally valid. Individual municipalities have the right to submit cassation appeals to the Supreme Administrative Court. In the Company's opinion any cassation appeals by the municipalities should be dismissed.

##### **Royalties for use of invention project no. 1/97/KGHM**

Value of amount under dispute: PLN 42 million. The claim was filed with the Regional Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received a summons on 14 January 2008. Each of the plaintiffs in this suit is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8<sup>th</sup> period of the project's application (calendar year 2006).

In accordance with a decision of the Regional Court in Legnica, in June 2012 a court expert issued a further opinion regarding the methodology for calculating the economic effects by the plaintiffs and the Company for the 8<sup>th</sup> year, being the basis for setting potential royalties. The Company questioned the opinion, and requested that a supplementary opinion be prepared calculating the economic effects. At a hearing on 13 November 2012, the court admitted evidence from the supplementary opinion. This opinion is being prepared.

In the Company's opinion the royalties being pursued by the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project.

##### **Return of costs of protecting against mining damage**

Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the Regional Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of work to protect against mine damages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA” in Lubin. Proceedings are in progress.

In the Company's opinion the claim is unfounded and should be dismissed.

#### Relating to receivables due to:

##### **Return of undue royalties for use of invention project no. 1/97/KGHM**

In January 2008 the Company filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 million for use of invention project no. 1/97/KGHM in the 6<sup>th</sup> and 7<sup>th</sup> periods (calendar years 2004 – 2005). The court has combined both these matters – the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, with the claims of the Company for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 million, for joint hearing.

Proceedings are in progress. In the Company's opinion the payment of royalties to the project's authors was unfounded.

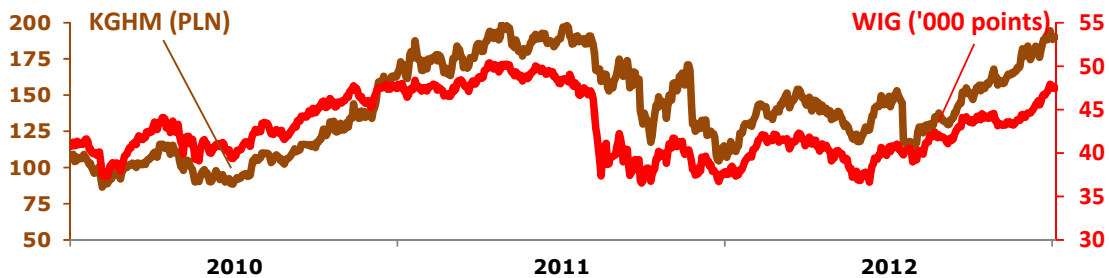
## 4. Ownership structure and Company quotations

### 4.1. The Company on the stock exchange

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

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

**Chart 10. Share price of KGHM Polska Miedź S.A. versus the WIG index**



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

Key data on the share performance of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2010-2012 are presented in the following table:

**Table 26. Key share price data of the Company on the Warsaw Stock Exchange**

	Unit	2010	2011	2012
Number of shares issued	million	200	200	200
Closing price from the last day of trading in the year	PLN	173.00	110.60	190.00
Market capitalisation of the Company at year's end	PLN million	34 600	22 120	38 000
Highest closing price in the year	PLN	173.00	198.40	194.50
Lowest closing price in the year	PLN	86.50	104.60	111.10
Average trading volume per session	'000	966	1 070	945
Dividend paid in the financial year from appropriation of profit for the prior year	PLN/share	3.00	14.90	28.34

### 4.2. Information on the ownership structure and on the issued shares of the Company

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

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

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

The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Based on information held by the Company, at 31 December 2012, members of the Company's Supervisory Board and Management Board were not in the possession of shares of KGHM Polska Miedź S.A. or of related entities.

In 2012, the Company did not have an employee share incentive program.

## 5. Report on the application of corporate governance principles

This report on the application of corporate governance principles in KGHM Polska Miedź S.A. fulfils the requirements set forth in §91 sec. 5 point 4 of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of recognising information as equivalent as required by the laws of a non-member state (Journal of Laws from 2009, No. 33, item 259 with subsequent amendments). The publication of this report is also equivalent to providing the Warsaw Stock Exchange with the report on the application of corporate governance principles in the Company, as provided for by §29 sec. 5 of the Bylaws of the WSE.

In 2012 the corporate governance principles applied were in the form of the „Code of Best Practice for WSE Listed Companies” representing an appendix to resolution no. 20/1287/2011 dated 19 October 2011. These principles are available from the official website of the Warsaw Stock Exchange on this subject ([www.corp-gov.gpw.pl](http://www.corp-gov.gpw.pl)), as well as on the Company's website ([www.kghm.pl](http://www.kghm.pl)) under the section on corporate governance.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, applied the corporate governance principles described in the document „Code of Best Practice for WSE Listed Companies” (chapters II, III and IV). The Company has endeavoured at every stage of its operations to carry out all of the recommendations respecting best practice for listed companies (chapter I). Comments on these recommendations are discussed below.

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, KGHM Polska Miedź S.A. made the broadest possible use of both traditional as well as modern technology for the distribution of information about the Company (recommendation I.1 of the Code of Best Practice for WSE Listed Companies).

In 2012 the Company decided not to comply only with the recommended on-line transmission of General Meetings, but has registered these meetings and immediately made them available on the Company website in both Polish and English, accessible under the section Investors/Webcasts. The Company at present is preparing to provide direct transmissions of General Meetings.

Due to changes in the Code of Best Practice for WSE Listed Companies from 1 January 2013, published in an Appendix to Resolution No. 19/1307/2012 of the Exchange Supervisory Board dated 21 November 2012, the Company announced that it foresees an exemption from application of the principle set out in Section IV point 10 of the Code, regarding providing for the participation of shareholders in General Meetings using electronic means of communication with respect to real-time bilateral communication, based on which shareholders may take the floor during a General Meeting from a location other than that of the Meeting.

The Company does not preclude the possibility of providing shareholders with real-time bilateral communication during General Meetings in the future.

### 5.1. General Meetings

The General Meeting of KGHM Polska Miedź S.A. is the Company's highest body. It meets in either an ordinary or an extraordinary form, based on prevailing law, the Statutes of the Company and the Bylaws of the General Meeting. The Company's corporate documents are available on its website.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the Company's activity and the financial statements, including the consolidated financial statements of the Company Group, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the Company,
- changing the subject of the Company's activity,
- changes in the Company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the Company,
- dissolving and liquidating the Company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the foundation of the Company, or from management or supervisory activities,
- purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the Company or by related companies for a period of at least three years,
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to execute their rights.

In accordance with the Statutes of KGHM Polska Miedź S.A., the State Treasury may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted.

The introduction of changes to the Company Statutes requires a resolution by the General Meeting and an entry in the National Court Register of a constitutive nature. Changes in the Company Statutes are made by the General Meeting in conformance with prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the Company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and materials for the General Meeting on the Company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

## 5.2. Shareholders and their rights

The only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting on both 1 January 2012 and 31 December 2012 was the Polish State Treasury.

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

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

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

## 5.3. Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A., in all of the Company's functional areas. According to the Statutes, the Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 members are elected by the Company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board operates on the basis of prevailing law, the Statutes of the Company and the Bylaws of the Supervisory Board.

The composition of the 8th-term Supervisory Board at 1 January 2012 was as follows:

- |                       |                 |
|-----------------------|-----------------|
| – Jacek Kuciński      | Chairman        |
| – Marcin Dyl          | Deputy Chairman |
| – Marek Panfil        | Secretary       |
| – Franciszek Adamczyk |                 |
| – Arkadiusz Kawecki   |                 |
| – Jan Rymarczyk       |                 |
| – Marzenna Weresa     |                 |

as well as the following employee-elected members:

- Lech Jaroń,
- Maciej Łaganowski,
- Paweł Markowski.

During 2012 the following changes occurred in the composition of the Supervisory Board:

On 19 January 2012 the Extraordinary General Meeting resolved to:

- dismiss from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa,
- appoint to the Supervisory Board: Aleksandra Magaczewska, Krzysztof Kaczmarczyk, Mariusz Kolwas, Robert Oliwa and Jacek Poświata.

On 13 February 2012, the Supervisory Board selected Marek Panfil to serve in the function of Deputy Chairman, and Mariusz Kolwas in the function of Secretary.

On 17 April 2012, Marek Panfil resigned from the function of Deputy Chairman and on the same day the Supervisory Board selected Aleksandra Magaczewska to serve in this function.

On 24 April 2012, Mariusz Kolwas resigned from serving as a Member of the Supervisory Board.

On 25 April 2012, the Extraordinary General Meeting resolved to:

- dismiss from the Supervisory Board: Jacek Kuciński and Marek Panfil,
- appoint to the Supervisory Board: Paweł Białek, Dariusz Krawczyk and Ireneusz Piecuch.

On 21 May 2012, the Supervisory Board selected to serve in the function of:

- Chairwoman - Aleksandra Magaczewska,
- Deputy Chairman - Krzysztof Kaczmarczyk,
- Secretary - Dariusz Krawczyk.

On 28 June 2012, the Ordinary General Meeting resolved to dismiss Lech Jaroń, Maciej Łaganowski and Paweł Markowski from the Supervisory Board, related to a request of the Company's employees regarding the dismissal of members of the Supervisory Board elected by the Company's employees and the results of voting on this request.

On 3 July 2012, Robert Oliwa submitted his resignation from serving as a Member of the Supervisory Board effective as of the date of the General Meeting of KGHM Polska Miedź S.A., the subject of which was changes in the composition of the Supervisory Board.

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

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

Following the aforementioned changes, the composition of the 8th-term Supervisory Board as at 31 December 2012 was as follows:

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

as well as the following employee-elected member:

- Bogusław Szarek.

Krzysztof Kaczmarczyk, Dariusz Krawczyk, Krzysztof Opawski and Jacek Poświata have submitted declarations on the fulfilment of independence criteria described in III.6 of the „Code of Best Practice for WSE Listed Companies”.

### **Supervisory Board Committees**

Under the auspices of the Supervisory Board are the Audit Committee, the Remuneration Committee and the Strategy Committee. These committees assist the Supervisory Board with respect to preparing evaluations and opinions and the taking of other actions aimed at decision-making by the Supervisory Board.

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits.

The Remuneration Committee is responsible for supervising the realisation of contracts signed with the Management Board, the remuneration system and benefits paid out in the Company and Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.

The Strategy Committee supervises the realisation of Company strategy, the Company's annual and multi-year operating plans, supervising the uniformity of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the Company and any changes thereto, as well as on the Company's annual and multi-year operating plans.

The rights, scope of activities and manner of work of these Committees are described by regulations approved by the Supervisory Board. On 10 October 2012, the Supervisory Board introduced changes in the scope of tasks of individual Committees.

### **Audit Committee**

In accordance with the Bylaws of the Supervisory Board the tasks of the Audit Committee are as follows:

- supervision on behalf of the Supervisory Board of the process of financial reporting in the Company, including the process of reporting to the Supervisory Board,
- analysis and/or assessment of the accounting principles adopted by the Company,
- review of the transactions conducted by the Company, which are regarded as material for the Company by the Audit Committee,
- analysis and monitoring of the conclusions resulting from the control of the risk management processes in the Company,
- execution of the process of selection of independent auditors to audit the financial statements of the Company in order to recommend the choice made to the Supervisory Board, and participation in the business negotiations before the conclusion of the agreement with the auditor by the Company,
- on-going cooperation with the independent auditor of the Company during the audit, performance of analysis and the drawing of conclusions from the audit and opinion of the auditor regarding the financial statements, auditor's letter to the Management Board and/or the Supervisory Board, and the preparation of draft reports and assessments required under the regulations by the Company's authorities or other official institutions,
- issuing an opinion on the Company's internal audit plan and on the rules of the internal audit, and on any changes in the position of the internal audit director,
- analysis of the conclusions and recommendations of the Company's internal audit including the monitoring of the degree of implementation of recommendations by the Company's Management Board,
- monitoring of the rules applied in the Company in the areas of accounting, finances and hedging against the business and financial risks and the risk of exposing the Company to major loss, and
- other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board at 1 January 2012:

- Marek Panfil,
- Marcin Dyl,
- Marzenna Weresa.

Following changes in the Supervisory Board, from 31 January 2012 the composition of the Audit Committee was as follows:

- Lech Jaroń (to 28 June 2012),
- Krzysztof Kaczmarczyk,
- Mariusz Kolwas (to 24 April 2012),
- Robert Oliwa (to 3 September 2012).

On 21 May 2012, Paweł Białek was appointed to the Audit Committee, and on 1 October 2012, Krzysztof Opawski.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board at 31 December 2012:

- Paweł Białek,
- Krzysztof Kaczmarczyk,
- Krzysztof Opawski.

### **Remuneration Committee**

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

- management of the affairs associated with the recruitment and employment of the management board members by preparing and arranging the draft documents and processes to be submitted for the acceptance of the Supervisory Board,
- preparation of the draft agreements and other model documents in relation to the establishment of an employment relationship with the management board members and supervision of the execution of contractual obligations of the parties,
- supervision of the execution of the management board remuneration system, specifically preparation of the settlement documents in the area of variable elements and bonus-based remuneration in order to submit the recommendations to the Supervisory Board,
- monitoring and periodic analyses of the remuneration system of senior management of the Company and, if necessary, the preparation of recommendations for the Supervisory Board,
- supervision of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, apartments, etc., and
- other tasks ordered by the Supervisory Board.



As at 1 January 2012 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:

- Arkadiusz Kawecki (to 19 January 2012)
- Franciszek Adamczyk (to 19 January 2012)
- Jacek Kuciński (to 25 April 2012).

Following changes in the Supervisory Board, from 31 January 2012 the composition of the Remuneration Committee was as follows:

- Maciej Łaganowski (to 28 June 2012)
- Paweł Markowski (to 28 June 2012)
- Jacek Kuciński (to 25 April 2012).

On 21 May 2012 the following persons were appointed to the Remuneration Committee: Paweł Białek, Dariusz Krawczyk and Robert Oliwa (a member of the Committee to 3 September 2012). Ireneusz Piecuch became a member of this Committee on 1 October 2012.

As at 31 December 2012 the composition of the Remuneration Committee was as follows:

- Paweł Białek,
- Dariusz Krawczyk,
- Ireneusz Piecuch.

### **Strategy Committee**

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

- execution on behalf of the Company's Supervisory Board of the tasks in the area of supervision of the issues associated with the Company's strategy and annual and long-term operating plans of the Company,
- monitoring the execution of the Company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
- monitoring the execution of annual and long-term operating plans of the Company by the Management Board, and assessment of whether these plans need to be modified,
- assessment of the consistency of the annual and long-term operating plans of the Company with the Company's strategy executed by the Management Board, and the presentation of any proposed changes in all such Company documents,
- submission to the Company's Supervisory Board of its opinions regarding the draft strategies of the Company and any changes thereto and annual and long-term operating plans of the Company, presented by the Company's Management Board, and
- other tasks ordered by the Supervisory Board.

As at 1 January 2012 the following Members of the Supervisory Board served on the Strategy Committee:

- Franciszek Adamczyk,
- Jacek Kuciński,
- Jan Rymarczyk.

Following changes in the Supervisory Board, from 31 January 2012 the composition of the Strategy Committee was as follows:

- Krzysztof Kaczmarczyk,
- Jacek Kuciński (to 25 April 2012),
- Aleksandra Magaczewska,
- Jacek Poświata.

On 21 May 2012, Paweł Białek and Ireneusz Piecuch were appointed to the Strategy Committee, and on 1 October 2012, Dariusz Krawczyk.

As at 31 December 2012 the composition of the Strategy Committee was as follows:

- Paweł Białek,
- Krzysztof Kaczmarczyk,
- Dariusz Krawczyk,
- Aleksandra Magaczewska,
- Krzysztof Opawski,
- Ireneusz Piecuch,
- Jacek Poświata.

After the end of the year the Audit, Remuneration and Strategy Committees submit a report of their activities to the Supervisory Board.

#### 5.4. Management Board

The Management Board conducts the business of the Company and represents it externally. The duties of the Management Board include all those matters pertaining to the functioning of the Company which have not otherwise been assigned by law or the Statutes to the duties of other Company bodies. The Management Board operates based on prevailing law, the Statutes of the Company and the Regulations of the Management Board. The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. In accordance with §29 sec. 1 point 6 of the Statutes of the Company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the Company). The Management Board of the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The Management Board is comprised of 1 to 7 persons appointed for a mutual term of office. The term of office of the Management Board lasts three years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board. The Supervisory Board appoints and dismisses any employee-elected member of the Management Board.

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

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

On 27 June 2012, the Supervisory Board of KGHM Polska Miedź S.A. decided that the 8th-term Management Board of KGHM Polska Miedź S.A. would be composed of five members of the Management Board.

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

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

On 10 October 2012, the Supervisory Board assigned the following functions to the Members of the Management Board:

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

To the end of 2012 there were no changes in the composition of the Management Board.

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

KGHM Polska Miedź S.A. has an internal control and risk management system, for whose proper and effective functioning in the process of preparing the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group the Management Board is responsible. The system of internal control and risk management in this regard is based on the identification and assessment of areas of risk, with the simultaneous defining and undertaking of actions aimed at its minimisation or total elimination.

##### Supervision of the application of a uniform accounting policy

In order to ensure truth and accuracy in the keeping of the accounting books of KGHM Polska Miedź S.A. and the uniformity of applied accounting principles in preparing the financial statements of Group subsidiaries, the following has been introduced for continuous use:

- an Accounting Policy for KGHM Polska Miedź S.A. and the Group, in accordance with International Financial Reporting Standards, continuously updated based on new regulations, and in addition, for KGHM Polska Miedź S.A.,
- Principles for Financial Management and for an Economic System,
- Documentation for an IT Accounting Data Processing System,
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets, and,
- Sector Chart of Accounts in accordance with IFRS,

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

### **IT Systems**

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, uniformity of accounting records and control between ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. KGHM Polska Miedź S.A. continuously adapts the IT information system to changing accounting principles or other legal standards, thanks to the high operational flexibility available to the IT system modules. In accordance with article 10 of the Accounting Act dated 29 September 1994, documentation of the IT accounting system is periodically verified and updated, and confirmed each time by the heads of the units, i.e. the Management Board of KGHM Polska Miedź S.A. and the management boards of subsidiaries.

Access to the resources of the financial and accounting system and financial reporting – separate and consolidated – is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

### **Audit Committee**

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of KGHM Polska Miedź S.A. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the Company and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- recommends to the Supervisory Board an entity entitled to audit financial statements.

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

### **Internal Audit**

A fundamental element of risk management with respect to the process of preparing financial statements of KGHM Polska Miedź S.A. is examining the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A., carried out by internal audit. The tasks realised by internal audit are based on the "Integrated Audit Plan of KGHM Polska Miedź S.A." for the given calendar year approved by the Management Board of KGHM Polska Miedź S.A. The goal of internal audit is to provide the Management Board and Supervisory Board of the Company with independent and objective information on and evaluations of the risk management and internal control systems, and analyses of business processes in KGHM Polska Miedź S.A., selected companies based in Poland from the KGHM Polska Miedź S.A. Group, and also, from 2013, in Group companies based outside of Poland. In 2012 the following processes were analysed: management of deliveries of materials, raw materials and services, management of maintenance and repairs, management of information technology, and management of consumables. Remedial actions (recommendations) are continuously implemented by the Management Board of KGHM Polska Miedź S.A. and monitored by the Management Board in conjunction with the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A.

### **Internal Control**

The internal control system in KGHM Polska Miedź S.A. encompasses all of the processes functioning in the Company, including those areas which directly or indirectly affect the correctness of the financial statements. Internal (institutional) control is performed by a separate department in the organisational structure, which is focused on diagnosing and clarifying situations which could indicate the existence of improprieties and abuse. Apart from institutional control, the obligation fully remains for every level of management staff to perform their control – within supervisory-related duties.

**Audit and review of the separate and consolidated financial statements by a certified auditor**

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

**Process of approving and providing an opinion on the separate and consolidated financial statements**

The Management Board of KGHM Polska Miedź S.A. approves prior to publication the quarterly, half-year and annual financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group. The half-year and annual financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group, prior to publication, are also subject to the process of providing an opinion by the Supervisory Board in terms of their compliance with IFRS based on the duties set forth in the act on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision. Preparation of the financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the KGHM Polska Miedź S.A. Group are subject to supervision by the I Vice President (Finance) of KGHM Polska Miedź S.A., while responsibility for the preparation of data packets for the consolidated financial statements of the KGHM Polska Miedź S.A. Group lies with the management boards of companies subject to consolidation.

Many years of experience in the identification, documentation, record maintenance and control of economic operations and established audit and inspection procedures supported by modern information technology used in the registration, processing and presentation of economic and financial data have become the basis for the effective systems of internal control and risk management in the process of preparing financial statements in KGHM Polska Miedź S.A., which due to the quality of the information they contain have for many years been awarded the highest assessment in the competition „The Best Annual Report“.

## Appendix A: Methodology of calculating ratios used in the report

### Assets effectiveness ratios

$$\text{Assets turnover ratio} = \frac{\text{sales}}{\text{total assets}}$$

$$\text{Non-current assets turnover ratio} = \frac{\text{sales}}{\text{non-current assets}}$$

$$\text{Current assets turnover ratio} = \frac{\text{sales}}{\text{current assets}}$$

$$\text{Liquid assets turnover ratio} = \frac{\text{sales}}{\text{current receivables} + \text{cash and cash equivalents}}$$

### Assets financing ratios

$$\text{Coverage of assets by equity} = \frac{\text{equity}}{\text{total assets}}$$

$$\text{Coverage of non-current assets by equity} = \frac{\text{equity}}{\text{non-current assets}}$$

$$\text{Coverage of non-current assets by long-term capital} = \frac{\text{equity} + \text{non-current liabilities}}{\text{non-current assets}}$$

$$\text{Coverage of current assets by current liabilities} = \frac{\text{current liabilities}}{\text{current assets}}$$

### Economic activity ratios

$$\text{Current liquidity} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{current assets} - \text{inventories}}{\text{current liabilities}}$$

$$\text{ROA (return on assets)} = \frac{\text{profit for the period}}{\text{total assets}} \times 100$$

$$\text{ROE (return on equity)} = \frac{\text{profit for the period}}{\text{equity}} \times 100$$

$$\text{Debt ratio} = \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{equity} + \text{non-current liabilities}}{\text{equity and liabilities}} \times 100$$

## **Appendix B: Current reports of the Company published in 2013 – to the date of preparation of the annual report**

### **Significant contract with HSBC Bank USA N.A., London Branch (22 January 2013)**

On 21 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch for silver sales in 2013. The estimated value of the contract is PLN 1 672 million. As a result of entering into this contract, the total estimated value of contracts entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A., London Branch over the last 12 months exceeded 10% of the equity of the Company and amounts to PLN 3 654 million. The highest-value contract signed during this period is the above-mentioned contract.

### **Significant contract with MKM Mansfelder Kupfer und Messing GmbH (28 January 2013)**

On 28 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2013. As a result of entering into this contract, the total estimated value of contracts entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH over the last 12 months exceeded 10% of the equity of the Company and amounts to PLN 3 497 million. The highest-value contract entered into during this period is the contract for the sale of copper cathodes in 2012 entered into on 30 January 2012. The value of this contract is PLN 1 824 million.

### **Significant contract for the sale of copper wire rod (1 February 2013)**

On 31 January 2013 a contract was entered into between KGHM Polska Miedź S.A. and Prysmian Metals Limited for the sale of copper wire rod in 2013 and 2014. The estimated value of this contract is from PLN 2 382 million to PLN 2 865 million, depending on the amount of tonnage under option and on the relocation of tonnage between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH.

### **„Technical Report on the Copper-Silver Production Operations of KGHM Polska Miedź S.A. in the Legnica-Głogów Copper Belt Area of Southwestern Poland” prepared by Micon International Limited (11 February 2013)**

On 11 February 2013, the Management Board of the Company, in order to match the highest standards of communicating with the market practiced by global companies from the „Mining and Metals” sector, hereby provided „Technical Report on the Copper-Silver Production Operations of KGHM Polska Miedź S.A. in the Legnica-Głogów Copper Belt Area of Southwestern Poland”, presenting in a comprehensive and detailed manner information on the resources and production activities. This report was prepared by the Canadian company Micon International Limited, independent international mining sector consultants, and is compliant with the Canadian standard NI 43-101, which prescribes strict guidelines in respect of the disclosure of mining assets, and which is obligatory for those companies whose shares are listed on Canadian stock exchanges.

### **Forecast of results for 2013 (15 February 2013)**

The Supervisory Board of the Company, at its meeting on 14 February 2013, approved the Company Budget for 2013 submitted by the Management Board. The bases for preparation of the Budget were the preliminary results for 2012 and the assumptions of individual operating plans. The forecast of Company results, which is based on the assumptions used in the approved Budget, assumes the achievement in 2013 of revenues from sales of PLN 18 930 million, profit for the period of PLN 3 204 million and EBITDA at the level of PLN 5 337 million.

### **Signing of an Annex to the Framework Agreement on the Joint Exploration for and Extraction of Shale Gas (21 February 2013)**

On 21 February 2013 Annex no. 2 (the “Annex”) was signed to the Framework Agreement (“Agreement”) on the Joint Exploration for and Extraction of Shale Gas of 4 July 2012. The parties of the Annex are all parties of the Agreement, i.e. KGHM Polska Miedź S.A., Polskie Górnictwo Naftowe i Gazownictwo SA, PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. The Parties have decided to prolong the period for determination of details regarding the terms of cooperation until 4 May 2013.

### **Sierra Gorda CAPEX definitive cost estimate (1 March 2013)**

On 1 March 2013 the Management Board of KGHM Polska Miedź S.A. announced the definitive cost estimate and scheduled startup for the company's flagship Sierra Gorda copper-molybdenum-gold project in Chile, 55% owned by KGHM International Ltd. (100% subsidiary of KGHM Polska Miedź S.A.), 31.5% owned by Sumitomo Metal Mining and 13.5 % owned by Sumitomo Corporation.

The estimated total initial capex is projected at approximately USD 3.9 billion compared with the February 2011 estimate of USD 2.9 billion. The start of commercial production is still scheduled to be in 2014.

The Management Board of KGHM Polska Miedź S.A. also announced that the Board of Directors of KGHM International Ltd. has approved the 2013 budget. The key assumptions of the budget are: copper production at

the level of 93.7 thousand t (207 million lbs), nickel production at the level of 5 thousand t (11 million lbs) and total precious metal production at the level of 2 t (64 kozs). The estimated C1 cash cost is projected at the level of 2.3 USD/lb. Total capital expenditures for 2013, including the capital expenditures on the Sierra Gorda project, are projected to reach USD 733 million.

**Elections by employees of persons to the Supervisory Board of the Company (14 March 2013)**

As a result of elections carried out on 12-13 March 2013, the employees of the Company chose the following two persons to the Supervisory Board: Józef Czyczerski and Leszek Hajdacki. The persons elected by the employees of the Company become members of the Eighth Term Supervisory Board from the moment of adoption of appropriate resolutions by the General Meeting of KGHM Polska Miedź S.A.

In addition the report on dates of publication of periodic reports in 2013 has been published (23 January 2013).

## Appendix C: List of tables, diagrams and charts

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**Appendix D: Major events affecting the Company's activities in 2012 \***

<b>Date</b>	<b>Description</b>
<b>19.01.2012</b>	Extraordinary General Meeting of KGHM Polska Miedź S.A. – changes in composition of Supervisory Board
<b>14.02.2012</b>	Approval of draft Act on the minerals extraction tax by the parliamentary Public Finances Commission
<b>20.02.2012</b>	General Meeting of Quadra FNX Mining Ltd. – approval for realisation of the acquisition of Quadra FNX Mining Ltd. by KGHM Polska Miedź S.A.
<b>2.03.2012</b>	Adoption by Parliament of the Act on the minerals extraction tax
<b>5.03.2012</b>	Completion of the acquisition of 100% of the shares of Quadra FNX Mining Ltd
<b>12.03.2012</b>	Change in the name of the company Quadra FNX Mining Ltd. to KGHM INTERNATIONAL LTD.
<b>14.03.2012</b>	Adoption by the Senate of the Act on the minerals extraction tax
<b>27.03.2012</b>	Forecast of financial results for 2012
<b>2.04.2012</b>	Execution of option to acquire an additional 29% of the shares of KGHM Ajax Mining Inc.
<b>18.04.2012</b>	The Act on the minerals extraction tax comes into force
<b>25.04.2012</b>	Extraordinary General Meeting of KGHM Polska Miedź S.A. – changes in composition of Supervisory Board
<b>29.05.2012</b>	Management Board recommendation as to the dividend payout
<b>27.06.2012</b>	Appointment of Management Board for the next term
<b>28.06.2012</b>	Ordinary General Meeting of KGHM Polska Miedź S.A. – decision regarding the dividend payout and changes in the composition of the Supervisory Board
<b>4.07.2012</b>	Framework agreement signed on the exploration for and extraction of shale gas
<b>16.07.2012</b>	Dividend date (date of gaining of rights to the dividend)
<b>20.08.2012</b>	Dividend payment date – first instalment
<b>3.09.2012</b>	Extraordinary General Meeting of KGHM Polska Miedź S.A. – changes in composition of Supervisory Board
<b>5.09.2012</b>	Founding of special purpose company „Elektrownia Blachownia Nowa” sp. z o.o.
<b>5.09.2012</b>	Letter of intent signed regarding participation in the construction and operation of a nuclear power plant
<b>20.09.2012</b>	Publication of a report on the mining assets of KGHM Polska Miedź S.A. located within the Legnica-Głogów Copper Belt area
<b>29.10.2012</b>	Adjustment of forecast of financial results for 2012
<b>12.11.2012</b>	Annex signed to framework agreement on the joint exploration for and extraction of shale gas
<b>16.11.2012</b>	Dividend payment date – second instalment
<b>21.11.2012</b>	Extraordinary General Meeting of KGHM Polska Miedź S.A. – changes in composition of Supervisory Board
<b>3.12.2012</b>	Decision of the Regional Directorate for Environmental Protection in Wrocław on environmental conditions – realisation of the CONCESSIONS 2013 project
<b>28.12.2012</b>	Prolongation of the term of validity of the Letter of intent signed regarding participation in the construction and operation of a nuclear power plant
<b>21.01.2013</b>	Contract with HSBC Bank USA N.A., London Branch for the sale of silver
<b>28.01.2013</b>	Contract with MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes
<b>31.01.2013</b>	Contract with Prysmian Metals Limited for the sale of copper rod
<b>11.02.2013</b>	Publication of the „Technical Report on the Copper-Silver Production Operations of KGHM Polska Miedź S.A. in the Legnica-Głogów Copper Belt Area of Southwestern Poland” prepared by Micon International Limited
<b>15.02.2013</b>	Forecast of financial results for 2013
<b>21.02.2013</b>	Annex signed to framework agreement on the joint exploration for and extraction of shale gas
<b>1.03.2013</b>	Sierra Gorda CAPEX definitive cost estimate

\* Reflecting events after the end of the reporting year – to the date of preparation of the annual report

<b>SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD</b>			
<b>Date</b>	<b>First, Last name</b>	<b>Position/Function</b>	<b>Signature</b>
27 March 2013	Herbert Wirth	President of the Management Board	
27 March 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
27 March 2013	Wojciech Kędzia	Vice President of the Management Board	
27 March 2013	Adam Sawicki	Vice President of the Management Board	
27 March 2013	Dorota Włoch	Vice President of the Management Board	