

POLISH FINANCIAL SUPERVISION AUTHORITY

Half-year report P 2013

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

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

for the first half of financial year 2013 comprising the period from 1 January 2013 to 30 June 2013 containing the interim condensed financial statements according to IAS 34 in PLN.

publication date: 30 August 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>Basic materials</b> (issuer branch title per the Warsaw Stock Exchange)
<b>59 - 301</b> (postal code)	<b>LUBIN</b> (city)
<b>M. Skłodowskiej – Curie</b> (street)	<b>48</b> (number)
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<b>692-000-00-13</b> (NIP)	<b>390021764</b> (REGON)

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

SELECTED FINANCIAL DATA	in '000 PLN		in '000 EUR	
	half-year 2013 period from 1 January 2013 to 30 June 2013	half-year 2012 restated period from 1 January 2012 to 30 June 2012	half-year 2013 period from 1 January 2013 to 30 June 2013	half-year 2012 restated period from 1 January 2012 to 30 June 2012
I. Sales	9 502 625	10 503 890	2 255 013	2 486 363
II. Operating profit	2 390 341	3 781 320	567 238	895 072
III. Profit before income tax	2 345 638	3 764 404	556 630	891 068
IV. Profit for the period	1 724 946	2 969 477	409 337	702 901
V. Other comprehensive income	236 931	( 266 496)	56 225	( 63 082)
VI. Total comprehensive income	1 961 877	2 702 981	465 562	639 819
VII. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII. Earnings per ordinary share (in PLN/EUR)	8.63	14.85	2.05	3.51
IX. Net cash generated from operating activities	2 383 480	2 259 057	565 610	534 739
X. Net cash used in investing activities	(1 239 227)	(10 374 841)	( 294 074)	(2 455 816)
XI. Net cash used in financing activities	(1 038 362)	( 32)	( 246 408)	( 8)
XII. Total net cash flow	105 891	(8 115 816)	25 128	(1 921 085)
	<b>At 30 June 2013</b>	<b>At 31 December 2012</b>	<b>At 30 June 2013</b>	<b>At 31 December 2012</b>
XIII. Non-current assets	23 021 106	22 410 582	5 317 635	5 481 772
XIV. Current assets	6 126 381	5 766 730	1 415 130	1 410 579
XV. Total assets	29 147 487	28 177 312	6 732 765	6 892 351
XVI. Non-current liabilities	2 512 748	2 454 910	580 419	600 487
XVII. Current liabilities	4 709 391	3 798 931	1 087 820	929 243
XVIII. Equity	21 925 348	21 923 471	5 064 526	5 362 621

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

	30 June 2013	31 December 2012	30 June 2012
Average exchange rate for the period*	4.2140	not applicable	4.2246
Exchange rate at the end of the period	4.3292	4.0882	not applicable

\*Exchange rates are the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2013 and 2012

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

# **KGHM POLSKA MIEDŹ S.A.**

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**HALF-YEAR REPORT P 2013 COMPRISES:**

- 1. AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS**
  - 2. DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED INTERIM CONDENSED FINANCIAL STATEMENTS**
  - 3. DECLARATION BY THE MANAGEMENT BOARD REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS**
  - 4. INTERIM CONDENSED FINANCIAL STATEMENTS**
  - 5. REPORT OF THE MANAGEMENT BOARD ON THE COMPANY'S ACTIVITIES**
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**KGHM POLSKA MIEDŹ S.A.**

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**AUDITOR'S REVIEW REPORT  
ON THE INTERIM CONDENSED  
FINANCIAL STATEMENTS  
FOR THE FIRST HALF OF 2013**

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Lubin, August 2013



**Independent registered auditor's report  
on the review of the interim condensed financial statements  
for the period from 1 January to 30 June 2013  
to the Shareholders and the Supervisory Board  
of KGHM Polska Miedź Spółka Akcyjna**

We have reviewed the accompanying interim condensed financial statements of KGHM Polska Miedź Spółka Akcyjna (hereinafter called *the Company*), with its registered office in Lubin, M. Skłodowskiej-Curie 48 Street, comprising the interim statement of financial position as at 30 June 2013, the interim statement of profit or loss, the interim statement of comprehensive income, the interim statement of changes in equity, the interim statement of cash flows for the period from 1 January to 30 June 2013 and selected explanatory notes to the interim condensed financial statements.

The Company's Management Board is responsible for the preparation of interim condensed financial statements which comply with the International Financial Reporting Standards adopted by the European Union concerning interim reporting (IAS 34). Our responsibility was to issue a report on these interim condensed financial statements based on our review.

We conducted our review in accordance with the requirements of the national standards of auditing issued by the National Chamber of Registered Auditors. These standards require us to plan and perform the review to obtain moderate assurance that the interim condensed financial statements are free of material misstatements. We conducted the review mainly by analysing the data in the interim condensed financial statements, inspecting the accounting records, and making use of information obtained from the Company's Management Board and persons responsible for financial and accounting matters in the Company.

The scope and methodology of the review of interim condensed financial statements is significantly different from the scope of an audit aimed at expressing an opinion on compliance of the financial statements with the applicable accounting policies and their fairness and clarity, therefore we cannot express an opinion on the accompanying interim condensed financial statements.

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**Independent registered auditor's report  
on the review of the interim condensed financial statements  
for the period from 1 January to 30 June 2013  
to the Shareholders and the Supervisory Board  
of KGHM Polska Miedź Spółka Akcyjna (cont.)**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

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

Marcin Sawicki

Key Registered Auditor  
No. 11393

Wrocław, 28 August 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  
INTERIM CONDENSED  
FINANCIAL STATEMENTS**

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Lubin, August 2013

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

According to our best judgement the interim condensed 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 half-year 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>
28 August 2013	Herbert Wirth	President of the Management Board	
28 August 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
28 August 2013	Wojciech Kędzia	Vice President of the Management Board	
28 August 2013	Adam Sawicki	Vice President of the Management Board	
28 August 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>
28 August 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, August 2013



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

The entity entitled to audit financial statements, and which has reviewed the interim condensed financial statements, was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this review, have met the conditions for issuing an impartial and independent report on their review, 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>
28 August 2013	Herbert Wirth	President of the Management Board	
28 August 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
28 August 2013	Wojciech Kędzia	Vice President of the Management Board	
28 August 2013	Adam Sawicki	Vice President of the Management Board	
28 August 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>
28 August 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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**INTERIM CONDENSED  
FINANCIAL STATEMENTS  
FOR THE FIRST HALF OF 2013**

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Lubin, August 2013

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KGHM Polska Miedź S.A.  
Interim condensed financial statements prepared in accordance with IAS 34  
for the period from 1 January 2013 to 30 June 2013  
(amounts in tables in PLN million, unless otherwise stated)

**Interim statement of financial position**

		At		
	Note	30 June 2013	31 December 2012 restated*	1 January 2012 restated*
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant and equipment	5	8 920	8 445	7 277
Intangible assets	6	218	175	151
Shares and investment certificates in subsidiaries	7	11 733	11 641	2 012
Interest in joint ventures	7	33	33	-
Deferred tax assets	18	231	266	169
Available-for-sale financial assets	8	799	882	992
Mine closure financial assets	9	168	141	112
Derivatives	10	661	742	899
Trade and other receivables	11	258	85	84
		<b>23 021</b>	<b>22 410</b>	<b>11 696</b>
<b>Current assets</b>				
Inventories	12	3 000	2 992	2 356
Trade and other receivables	11	1 672	1 687	1 503
Mine closure financial assets	9	1	-	2
Derivatives	10	630	381	859
Cash and cash equivalents	13	823	707	12 836
		<b>6 126</b>	<b>5 767</b>	<b>17 556</b>
<b>TOTAL ASSETS</b>		<b>29 147</b>	<b>28 177</b>	<b>29 252</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity</b>				
Share capital	14	2 000	2 000	2 000
Revaluation reserve from measurement of financial instruments	15	608	286	535
Actuarial gains/losses on post-employment benefits	15	( 248)	( 519)	( 356)
Retained earnings	15	19 565	20 156	20 956
<b>TOTAL EQUITY</b>		<b>21 925</b>	<b>21 923</b>	<b>23 135</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Trade and other payables	16	20	36	12
Derivatives	10	138	230	538
Employee benefits liabilities	19	1 578	1 471	1 216
Provisions for other liabilities and charges	20	777	718	484
		<b>2 513</b>	<b>2 455</b>	<b>2 250</b>
<b>Current liabilities</b>				
Trade and other payables	16	4 284	2 227	1 828
Borrowings and finance lease liabilities	17	-	1 013	-
Current corporate tax liabilities		133	390	1 588
Derivatives	10	150	23	330
Employee benefits liabilities	19	110	110	107
Provisions for other liabilities and charges	20	32	36	14
		<b>4 709</b>	<b>3 799</b>	<b>3 867</b>
<b>TOTAL LIABILITIES</b>		<b>7 222</b>	<b>6 254</b>	<b>6 117</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>29 147</b>	<b>28 177</b>	<b>29 252</b>

\* explanation in note 2

The accounting policies and other explanatory information presented on pages 8 to 57 represent an integral part of these interim condensed financial statements

KGHM Polska Miedź S.A.  
Interim condensed financial statements prepared in accordance with IAS 34  
for the period from 1 January 2013 to 30 June 2013  
(amounts in tables in PLN million, unless otherwise stated)

**Interim statement of profit or loss**

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012 restated*
Sales	21	9 503	10 504
Cost of sales	22	(6 561)	(5 893)
<b>Gross profit</b>		<b>2 942</b>	<b>4 611</b>
Selling costs	22	( 62)	( 55)
Administrative expenses	22	( 302)	( 341)
Other operating income	24	382	895
Other operating costs	25	( 569)	(1 329)
<b>Operating profit</b>		<b>2 391</b>	<b>3 781</b>
Finance costs	26	( 45)	( 17)
<b>Profit before income tax</b>		<b>2 346</b>	<b>3 764</b>
Income tax expense	29	( 621)	( 795)
<b><u>Profit for the period</u></b>		<b>1 725</b>	<b>2 969</b>
<b>Earnings per share for the half-year period (in PLN per share)</b>	30		
- basic		8.63	14.85
- diluted		8.63	14.85

\* explanation in note 2

The accounting policies and other explanatory information presented on pages 8 to 57 represent an integral part of these interim condensed financial statements

KGHM Polska Miedź S.A.  
Interim condensed financial statements prepared in accordance with IAS 34  
for the period from 1 January 2013 to 30 June 2013  
(amounts in tables in PLN million, unless otherwise stated)

**Interim statement of comprehensive income**

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012 restated*
<b><u>Profit for the period</u></b>		<b>1 725</b>	<b>2 969</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>322</b>	<b>( 243)</b>
Available-for-sale financial assets		5	( 141)
Income tax		( 1)	27
		4	( 114)
Cash flow hedging instruments		392	( 159)
Income tax		( 74)	30
		318	( 129)
<b>Other comprehensive income, which will not be reclassified to profit or loss</b>		<b>( 85)</b>	<b>( 23)</b>
Actuarial losses*		( 105)	( 28)
Income tax		20	5
<b><u>Other comprehensive net income for the financial period</u></b>	15	<b>237</b>	<b>( 266)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>1 962</b>	<b>2 703</b>

\* explanation in note 2

The accounting policies and other explanatory information presented on pages 8 to 57 represent an integral part of these interim condensed financial statements

KGHM Polska Miedź S.A.  
Interim condensed financial statements prepared in accordance with IAS 34  
for the period from 1 January 2013 to 30 June 2013  
(amounts in tables in PLN million, unless otherwise stated)

**Interim statement of changes in equity**

	Note	Share capital	Revaluation reserve from measurement of financial instruments	Actuarial gains/losses on post-employment benefits	Retained earnings	Total equity
<b>At 1 January 2013 - restated*</b>		<b>2 000</b>	<b>286</b>	<b>( 519)</b>	<b>20 156</b>	<b>21 923</b>
Dividends from profit for 2012, resolved but unpaid	31	-	-	-	(1 960)	<b>(1 960)</b>
Offsetting of profit from prior years with the reserves arising from actuarial gains and losses		-	-	356	( 356)	-
Total comprehensive income		-	322	( 85)	1 725	<b>1 962</b>
Profit for the period	15	-	-	-	1 725	<b>1 725</b>
Other comprehensive income	15	-	322	( 85)	-	<b>237</b>
<b>At 30 June 2013</b>		<b>2 000</b>	<b>608</b>	<b>( 248)</b>	<b>19 565</b>	<b>21 925</b>
<b>At 1 January 2012</b>		<b>2 000</b>	<b>535</b>	<b>-</b>	<b>20 600</b>	<b>23 135</b>
Change in presentation principles		-	-	( 356)	356	-
<b>At 1 January 2012 - restated*</b>		<b>2 000</b>	<b>535</b>	<b>( 356)</b>	<b>20 956</b>	<b>23 135</b>
Dividends from profit for 2011, resolved but unpaid		-	-	-	(5 668)	<b>(5 668)</b>
Total comprehensive income		-	( 243)	( 23)	2 969	<b>2 703</b>
Profit for the period	15	-	-	-	2 969	<b>2 969</b>
Other comprehensive income	15	-	( 243)	( 23)	-	<b>( 266)</b>
<b>At 30 June 2012 - restated*</b>		<b>2 000</b>	<b>292</b>	<b>( 379)</b>	<b>18 257</b>	<b>20 170</b>

\* explanation in note 2

The accounting policies and other explanatory information presented on pages 8 to 57 represent an integral part of these interim condensed financial statements

KGHM Polska Miedź S.A.  
Interim condensed financial statements prepared in accordance with IAS 34  
for the period from 1 January 2013 to 30 June 2013  
(amounts in tables in PLN million, unless otherwise stated)

**Interim statement of cash flows**

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012 restated*
<b>Cash flow from operating activities</b>			
Profit for the period	15	1 725	2 969
<b>Total adjustments to profit for the period:</b>		1 555	1 404
Income tax recognised in profit or loss		621	795
Amortisation/Depreciation		418	391
Losses on sale of property, plant and equipment and intangible assets		11	-
Impairment loss on available-for-sale financial assets		89	-
Interest and share in profits (dividends)		( 37)	( 58)
Foreign exchange losses		18	872
Change in provisions		2	9
Change in assets/liabilities due to derivatives		425	( 80)
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives		( 166)	( 141)
Changes in working capital:		174	( 384)
Inventories		( 8)	( 500)
Trade and other receivables		9	( 453)
Trade and other payables		173	569
Income tax paid		( 897)	(2 114)
<b>Net cash generated from operating activities</b>		<b>2 383</b>	<b>2 259</b>
<b>Cash flow from investing activities</b>			
Purchase of shares and investment certificates in subsidiaries		( 92)	(9 570)
Purchase of property, plant and equipment and intangible assets		( 959)	( 762)
Advances granted for purchase of property, plant and equipment and intangible assets		( 35)	( 18)
Proceeds from sale of property, plant and equipment and intangible assets		5	5
Purchase of mine closure financial assets		( 28)	( 25)
Loans granted		( 166)	( 7)
Repayments of loans granted		3	3
Interest received		1	1
Dividends received		36	-
Other investment expenses		( 4)	( 2)
<b>Net cash used in investing activities</b>		<b>(1 239)</b>	<b>(10 375)</b>
<b>Cash flow from financing activities</b>			
Repayments of bank loans		(1 037)	-
Interest paid		( 2)	-
Other financial proceeds		1	-
<b>Net cash used in financing activities</b>		<b>(1 038)</b>	<b>-</b>
<b>Total net cash flow</b>		<b>106</b>	<b>(8 116)</b>
Exchange gains/(losses) on cash and cash equivalents		10	( 870)
<b>Movements in cash and cash equivalents</b>		<b>116</b>	<b>(8 986)</b>
<b>Cash and cash equivalents at beginning of the period</b>	13	<b>707</b>	<b>12 836</b>
<b>Cash and cash equivalents at end of the period</b>	13	<b>823</b>	<b>3 850</b>
including restricted cash and cash equivalents		-	1

\* explanation in note 2

The accounting policies and other explanatory information presented on pages 8 to 57 represent an integral part of these interim condensed 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 District 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.

By a resolution of the Management Board of KGHM Polska Miedź S.A., from 1 July 2013 the name „KGHM Polska Miedź S.A. Head Office” was changed to „KGHM Polska Miedź S.A. Central Office”.

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

In view of the above, in 2010 the Company commenced the project CONCESSIONS 2013, which goal is to obtain concessions for the mining of copper ore from the aforementioned mining deposits 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 to completing the concession applications together with the required appendices.

The mining concession applications were submitted to the Concessions Body (the Ministry of the Environment) on 4 December 2012. The Concessions Body forwarded the Deposit Development Plans (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, for their opinion. The Deposit Development Plans, corrected in accordance with the suggestions of the reviewers, were sent to the MRC on 12 March 2013. In March 2013, the Concessions Body received information from the MRC on the supplementation and amendment by the company of the texts of the Deposit Development Plans. Following the receipt of the MRC's opinion, the Concessions Body added its concerns and suggestions to the contents of the concession applications. On 24 April 2013, the amended versions of the applications were submitted to the concessions body.

On 4 June 2013, the Concessions Body forwarded the concession applications together with the draft concessioning decisions for the agreement of 9 relevant mining municipalities (Lubin, the City of Lubin, Polkowice, Radwanice, Jerzmanowa, Rudna, Chocianów, Grębocice and Żukowice). By 18 June 2013 the mining municipalities (Gminas) had positively agreed the draft concessions for the 5 relevant deposits (in the form of a decision sent to the Ministry of the Environment).

## 1. General information (continued)

On 3 and 4 July 2013, the Concessions Body sent to KGHM Polska Miedź S.A. agreements on the setting of mining usufruct rights, whose signing is a requisite condition for the obtaining concessions. These agreements on mining usufruct rights, signed by the Management Board of the Company, were sent to the Ministry of the Environment on 30 July 2013. In letters dated 17 and 18 July 2013 the Concessions Body informed the Company of the conclusion of proceedings regarding the granting of concessions for the mining of copper ore from the deposits „Polkowice”, „Radwanice-Wschód” and „Rudna”. Proceedings remain in progress for the deposit „Sieroszowice”, arising from the necessity to enter into an agreement with the State Treasury (represented by the Minister of the Environment) on obtaining the right to geological information on the rock salt located above the copper ore deposit in the Sieroszowice mine. Following receipt of the position of the Concessions Body (April 2013) on the need to purchase this right in connection with the process of seeking a mining concession for the copper ore deposit, KGHM Polska Miedź S.A. assessed the value of this information, and on 14 June 2013 submitted it to the Concessions Body together with the request to enter into an agreement. The Ministry of the Environment forwarded the value assessment for review by an expert, who accepted the mining assessment prepared by the company. The agreement prepared by the Concessions Body was signed by the Management Board of the Company and forwarded to the Ministry of the Environment. Proceedings on the granting of a concession for the mining of copper ore deposit „Sieroszowice” will be concluded only after the signing of an agreement on the use of geological information. The Company expects to receive the concession for the deposit „Sieroszowice” at the end of August/beginning of September 2013.

Administrative proceedings also remain in progress with respect to the „Lubin-Małomice” deposit. According to information obtained, the Concessions Body intends to prepare the justification for the concession for the mining of copper ore from the deposit „Lubin-Małomice” by the end of August 2013.

On 14 August 2013, the Minister signed three concession decisions, i.e. Concession No. 7/2013 for the mining of copper ore from the deposit „Polkowice”, Concession No. 8/2013 for the mining of copper ore from the deposit „Radwanice-Wschód” and Concession No. 9/2013 for the mining of copper ore from the deposit „Rudna”. On the same day, three agreements were also signed on the setting of mining usufruct rights for the concessions in question.

In addition, also on 14 August 2013, two decisions were issued on the expiration of the former concessions, i.e. Decision no. DGKks-4771-13/32466/12/MJ dated 14 August 2013, confirming the expiration as at 31 December 2013 of concession No. 24/96, dated 24 June 1996, granted to KGHM Polska Miedź S.A. in Lubin for the mining of copper ore from part of the deposit „Rudna” and Decision no. DGKks-4771-15/32438/13/JM dated 14 August 2013, confirming the expiration as at 31 December 2013 of concession No. 10/95, dated 9 May 1995, granted to KGHM Polska Miedź S.A. in Lubin for the mining of copper ore from the deposit „Radwanice-Wschód”.

The final task of the project CONCESSIONS 2013 is the execution of Mine Operating Plans for the 3 mines. Execution of the Mine Operating Plans and their submission for approval is planned in October 2013. Pursuant to the Geological and Mining Law, the mining supervisory body has 30 days for approval.

Additionally, the Management Board believes that the probability of not receiving the remaining 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 8<sup>th</sup>-term Management Board of KGHM Polska Miedź S.A. as at 1 January 2013 consisted of:

- 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).

As at 30 June 2013, the composition of the Management Board of KGHM Polska Miedź S.A. had not changed.

### Supervisory Board

The 8<sup>th</sup>-term Supervisory Board of KGHM Polska Miedź S.A. as at 1 January 2013 consisted of:

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

## 1. General information (continued)

as well as the member elected by the Company's employees:

- Bogusław Szarek.

During the period from 1 January 2013 to the date of signing of this report, the bodies of the Company undertook the following decisions, which affected the composition of the Supervisory Board:

- 1) On 19 June 2013, the Extraordinary General Meeting resolved to:
  - o dismiss from the Supervisory Board: Dariusz Krawczyk, Ireneusz Piecuch,
  - o appoint to the Supervisory Board: Marek Panfil, Andrzej Kidyba, Iwona Zatorska-Pańtak.
- 2) On 19 June 2013, Paweł Białek submitted his resignation as a Member of the Supervisory Board.

At 30 June 2013 and at the date of signing of this report for issue, the composition of the Supervisory Board was as follows:

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

as well as the member elected by the Company's employees:

- Bogusław Szarek.

## Signing of the interim condensed financial statements

These interim condensed financial statements (financial statements) do not require approval by an approving body pursuant to art. 53 of the Accounting Act dated 29 September 1994. The financial statements are signed by the head of the unit, i.e. the Management Board of KGHM Polska Miedź S.A. and by the person responsible for accounting. These financial statements were signed on 28 August 2013.

## Seasonal or cyclical activities

The Company is not affected by seasonal or cyclical activities.

## 2. Basis of preparing financial statements

### Accounting principles

These financial statements have been prepared in accordance with IAS 34 Interim financial reporting and, for a full understanding of the financial situation and the results of the Company, should be read together with the financial statements for the financial year ended 31 December 2012 which are an element of the Annual Report R 2012 available at the website [www.kghm.pl](http://www.kghm.pl). These financial statements have been prepared in accordance with the same principles for the current and comparable periods.

These financial statements have been prepared 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.

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

- 1) Changes in the principles of presentation, which did not impact the financial data presented in the financial statements for the reporting and comparable periods, were with respect to the presentation of items of equity. Taking into consideration the nature of individual items of equity and the transparency of the financial data presented, the following actions were performed:
  - (a) in the statement of financial position the equity item „Actuarial gains/losses on post-employment benefits” was separated from „Retained earnings”,

## 2. Basis of preparing financial statements (continued)

- (b) the combination in the statement of financial position of homogenous items of equity, i.e. "Revaluation reserve from the measurement of available-for-sale financial assets" and "Revaluation reserve from the measurement of cash flow hedging instruments", into a single item - "Revaluation reserve from the measurement of financial instruments".
- 2) Changes in accounting principles which affected amounts presented in prior periods involved the adoption by the Company from 1 January 2012 of changes to IAS 19 *Employee Benefits*, in accordance with rules regarding transition. The changes introduced by the Company involved the recognition of actuarial gains and losses on specified post-employment benefits in other comprehensive income and not as previously in profit or loss. The Company applied the standard in the annual financial statements for 2012 and adjusts results as at 30 June 2012 presented in the interim condensed financial statements for the period from 1 January 2013 to 30 June 2013. As a result of the application of this standard in the financial statements as at 30 June 2012, other comprehensive income for the period from 1 January 2012 to 30 June 2012 decreased by PLN 23 million (gross amount of PLN 28 million less deferred tax of PLN 5 million), and simultaneously the profit for the period increased by the same amount.

Past service costs unrecognised in the statement of financial position as at 30 June 2012 were recognised in profit or loss in the net amount of PLN 3 million, cost of sales increased.

In the statement of profit or loss for the period from 1 January 2012 to 30 June 2012 due to a change in the recognition of actuarial gains/losses on post-employment benefits there was a decrease in:

- costs of sales in the amount of PLN 7 million,
  - administrative expenses in the amount of PLN 21 million,
- and an increase in deferred tax in the amount of PLN 5 million.

### From 1 January 2013 the following standards and interpretations are binding for the Company:

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

All of the above changes to the standards and interpretations have been approved by the European Union up to the date of publication of these financial statements. In the Company's opinion, their application either does not affect the Company's financial statements, or the effect is insignificant.

Up to the date of publication of these financial statements, further standards and interpretations have been published by the International Accounting Standards Board which as at this date have not come into force, while some of them have been approved for use by the European Union.

The Company decided against early implementation of any of these standards. It is estimated that the impact of these changes on the financial statements of the Company will be immaterial.

## 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.

### 3.1 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 30 June 2013, 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.

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

#### 3.2 Financial instruments

In accordance with the guidelines of IAS 39 relating to the classification of non-derivatives with fixed payments or determinable maturity, these assets are classified as held-to-maturity investments. In making this judgement, the intended use and possibility of holding such investments to maturity are evaluated. Should the Company fail to hold such instruments to maturity, apart from the situation described in IAS 39, it would have to reclassify all such assets recognised in this group as available-for-sale. In such a situation, the reclassified investments would be measured at fair value, and not at amortised cost.

#### 3.3 Impairment of available-for-sale financial assets

As at 30 June 2013, the Company performed an analysis of evidence indicating an impairment of shares classified to the category of available-for-sale assets. The significant and prolonged decrease in the fair value of these shares versus their acquisition cost resulted in the loss in the value of shares of Tauron Polska Energia S.A., which are listed on the Warsaw Stock Exchange, and of shares of the company ABACUS MINING & EXPLORATION CORPORATION listed on the TSX Venture EXchange, and the necessity to recognise an impairment loss as at 31 December 2012. Analysis of the current value of these shares versus their carrying amount (acquisition cost less impairment) is performed each quarter. In the first quarter of 2013, the fair value of the shares of Tauron Polska Energia S.A. was lower than their carrying amount, which justified the recognition of a further impairment loss in the amount of PLN 86 million recognised in profit or loss. In the second quarter of 2013, the shares of Tauron slightly increased in value, and their fair value was higher than their carrying amount. As a result there was a partial reversal of impairment loss, recognised previously in the amount of PLN 5 million, which increased other comprehensive income.

The fair value of the shares of ABACUS MINING & EXPLORATION CORPORATION in the first half of 2013 was lower than their carrying amount, which required the recognition of an impairment loss in the amount of PLN 3 million, in profit or loss.

As at 30 June 2013 the carrying amount of available-for-sale financial assets was PLN 799 million (as at 31 December 2012, PLN 882 million).

#### 3.4 Provisions

1. 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 obligations depends on many factors, which are used as assumptions in the actuarial method. Every change in these assumptions impacts the carrying amount of the provisions.

One of the basic assumptions for setting the amount of these provisions is the discount rate. At the end of the reporting period, an independent actuary applies an appropriate discount rate, used for setting the present value of estimated future cash flow due to these benefits. When setting the discount rate, IAS 19 requires that reference be made to the market yields of corporate bonds or, if there is no deep market for such bonds, the market yields of treasury bonds should be used.

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

As at 30 June 2013 the carrying amount of employee benefits liabilities was PLN 1 688 million (as at 31 December 2012, PLN 1 581 million).

2. 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 profitability 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 30 June 2013, provisions were re-measured using the real discount rate for year 2013 at the level of 2.27% and 1.27% for the remaining periods following 2013.

As at 30 June 2013 the carrying amount of provisions for decommissioning costs of mines and other facilities was PLN 781 million (as at 31 December 2012, PLN 728 million).

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

#### 3.5 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. Additionally, the smelters producing refined copper make use of purchased copper-bearing materials in various forms (concentrate, scrap, copper blister) which amount to approx. 20% of total production volume. 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, processing plants, 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 principles 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 financial results, which comprise each stage of the production process, are analysed for the entire Company.

The organisational structure of KGHM Polska Miedź S.A. includes 11 divisions: mines, concentrators, smelters and a Central Office (until 30 June 2013 Head Office). The Central Office carries out sales of the Company's basic products - copper cathodes, round billets, wire rod, rod and silver, and smelter by-products, of which sulphuric acid, nickel sulphate and copper sulphate. In addition, the Central Office carries out support functions, particularly including the management of financial assets, centralisation of finance and accounting, marketing, legal and other services.

#### Production of basic products

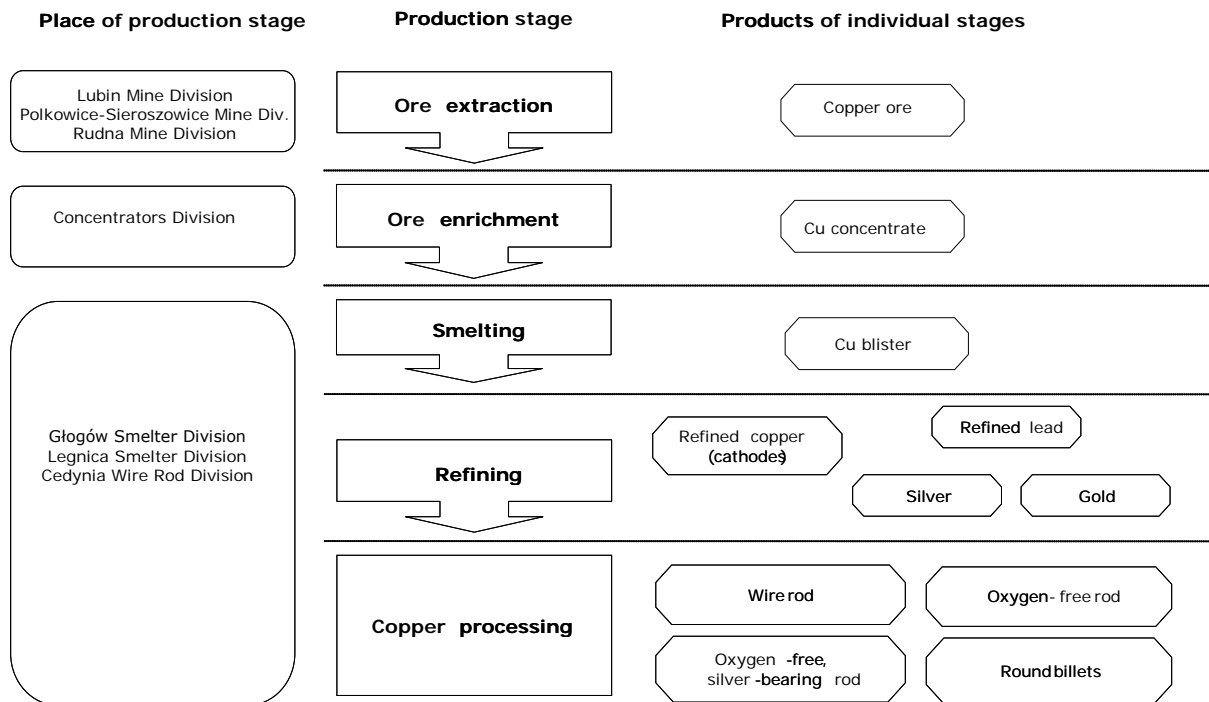
In the first half of 2013 the Company produced approx. 286 thousand tonnes of refined copper and 544 tonnes of metallic silver (in the comparable period of the prior year, 273 thousand tonnes of refined copper and 653 tonnes of metallic silver). The C1 cost<sup>1</sup> amounted respectively in the first half of 2013, 1.73 USD/lb (in comparable period of the prior year, 1.02 USD/lb).

The increase in the C1 cost was mainly due to the higher amount of the minerals extraction tax (the tax was introduced in April 2012) and to the lower value of silver in by-products, whose price in PLN in the first half of 2013 was 17% lower than in the comparable period of 2012.

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<sup>1</sup> C1 cash cost of copper production - cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, minerals extraction tax, administrative expenses, smelter treatment and refining charges (TC/RC) less by-product revenues

#### 4. Business segments (continued)



#### Segment assets and liabilities

	At	
	30 June 2013	31 December 2012
Assets	29 147	28 177
Liabilities	7 222	6 254

In the process of making decisions on the allocation of resources, reports are prepared for managing purposes on capital expenditures, which are presented in the following table.

#### Expenditures on the property, plant and equipment and intangible assets of the segment

	For the period	
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
<b>Expenditure structure by Divisions</b>	<b>864</b>	<b>673</b>
Mining	577	505
Metallurgy	203	100
Other	84	68
<b>Expenditure structure by project allocation</b>	<b>864</b>	<b>673</b>
Local	454	397
Central	404	276
At the stage of studies and analyses	6	-
<b>Uncompleted capitalised development</b>	<b>29</b>	<b>-</b>

#### 4. Business segments (continued)

Segment profit or loss	For the period	
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
<b>Sales</b>	<b>9 503</b>	<b>10 504</b>
Interest income	19	101
Interest cost	( 2)	-
Amortisation/depreciation	( 418)	( 391)
Other operating income on measurement and realisation of derivatives	233	712
Other operating costs on measurement and realisation of derivatives	( 434)	( 752)
Income tax	( 621)	( 795)
<b>Profit for the period</b>	<b>1 725</b>	<b>2 969</b>
ROA* - return on assets (%)	5.9	9.6
ROE** - return on equity (%)	7.9	14.7
<b>EBITDA (operating profit + amortisation/depreciation)</b>	<b>2 809</b>	<b>4 172</b>

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

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

#### Geographical areas

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

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
Poland		1 746	2 042
Germany		2 192	2 315
The United Kingdom		1 380	1 930
China		1 058	1 014
The Czech Republic		623	702
France		405	483
Hungary		377	396
Italy		349	693
Malaysia		348	-
Turkey		261	127
Switzerland		231	221
Austria		130	160
Belgium		98	116
Romania		86	86
Denmark		62	61
The USA		46	-
Slovakia		23	52
Bulgaria		19	26
Slovenia		19	17
Bosnia and Herzegovina		18	16
Ukraine		12	10
Other countries		20	37
<b>Total</b>	<b>21</b>	<b>9 503</b>	<b>10 504</b>

#### Main contractors

In the first half of 2013 the revenues from no single Company contractor exceeded 10% of the revenues of KGHM Polska Miedź S.A.

In the first half of 2012, the revenues from sales from one customer of KGHM Polska Miedź S.A. in the amount of PLN 1 107 million exceeded 10% of the revenues of the Company.



## 5. Property, plant and equipment

	At	
	30 June 2013	31 December 2012
Land	18	18
Buildings	3 118	3 074
Technical equipment and machinery	3 169	3 087
Motor vehicles	78	78
Other fixed assets	18	18
Fixed assets under construction	2 519	2 170
<b>Total</b>	<b>8 920</b>	<b>8 445</b>

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

	At	
	30 June 2013	31 December 2012
Construction of the SW-4 shaft	480	438
Deep Głogów (Głogów Głęboki – Przemysłowy)	464	419
Construction of gas-steam blocks in Głogów and Polkowice Powerplants	417	345
Program of Pyrometallurgy Modernisation	348	195
Investments related to mining region infrastructural development	157	189
Investments in power and communications infrastructure, replacement of technological facilities and other investments in the Concentrators	58	60
Exchange of floatation machinery in the Concentrators	56	47
Execution of opening-out headings	49	-
Power and communications infrastructure	47	47
Investments allowing achievement of salt production of 1 million tonnes per year	39	-
Ventilation and air conditioning equipment in the mines	38	33
Purchase of mine machinery and technical equipment	36	36
Conveyor belt and pipeline transport investments	24	34
Shafts and primary equipment in mines	19	18
<b>Total</b>	<b>2 232</b>	<b>1 861</b>

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

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

	At	
	30 June 2013	31 December 2012
Purchase of property, plant and equipment	4 822	3 931
Purchase of intangible assets	66	46
<b>Total capital commitments</b>	<b>4 888</b>	<b>3 977</b>

## Purchase and sale of property, plant and equipment

	For the period		
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 31 December 2012	1 January 2012 to 30 June 2012
Purchase of property, plant and equipment	830	1 682	639
Net sale of property, plant and equipment	-	6	-

## 6. Intangible assets

	At	
	30 June 2013	31 December 2012
Development costs	2	2
Software	2	2
Acquired concessions, patents, licenses	19	14
Other intangible assets	52	51
Exploration and evaluation assets	84	73
Expenditures on development	41	12
Other intangible assets not yet available for use	18	21
<b>Total</b>	<b>218</b>	<b>175</b>

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

	Shares and investment certificates in subsidiaries	Joint ventures
<b>At 1 January 2013</b>		
Amount at cost	11 743	33
Impairment losses	( 102)	-
<b>Net carrying amount at 1 January 2013</b>	<b>11 641</b>	<b>33</b>
Changes in the first half of 2013		
- acquisition of investment certificates	85	-
- acquisition of newly-issued shares	7	-
<b>At 30 June 2013</b>		
Amount at cost	11 835	33
Impairment losses	( 102)	-
<b>Net carrying amount at 30 June 2013</b>	<b>11 733</b>	<b>33</b>
<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>	-
Changes in 2012		
- acquisition of shares, certificates	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 2012</b>		
Amount at cost	2 114	-
Impairment losses	( 102)	-
<b>Net carrying amount at 1 January 2012</b>	<b>2 012</b>	-
Changes in the first half of 2012		
- acquisition of shares, certificates	93	-
- acquisition of newly-issued shares	9 503	-
<b>At 30 June 2012</b>		
Amount at cost	11 710	-
Impairment losses	( 102)	-
<b>Net carrying amount at 30 June 2012</b>	<b>11 608</b>	-

In the first half of 2013, the Company acquired investment certificates in the following funds:

- KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in the amount of PLN 42 million,
- KGHM IV Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in the amount of PLN 1 million,
- KGHM V Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in the amount of PLN 42 million,

and increased the share capital of KGHM Kupfer AG in the amount of PLN 7 million.

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

- Miedziowe 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.

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

In the first half of 2012 KGHM acquired for cash newly-issued shares in the following companies:

- Miedziowe Centrum Zdrowia S.A. in the amount of PLN 9 million,
- KGHM Metraco S.A. in the amount of PLN 5 million,
- Energetyka sp. z o.o. in the amount of PLN 67 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 9 422 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 Quadra FNX Mining 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.

In the first half of 2012, the Company exercised an 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 the first half of 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 and joint ventures (continued)

Investments in subsidiaries (direct share)			As at					
Entity	Head office	Subject of activities	30 June 2013			31 December 2012		
			% 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
BIPROMET S.A.	Katowice	design services, general realisation of construction projects, supply completion	66	66	31	66	66	31
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	13	100	100	13
DFM ZANAM - LEGMET Sp. z o.o.	Polkowice	repair and construction of machinery	100	100	50	100	100	50
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	488	100	100	488
Fermat 1 S.a r.l.	Luxembourg	holding activity	100	100	9 624	100	100	9 624
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 CUPRUM sp. z o.o. - CBR	Wrocław	R&D activities	100	100	13	100	100	13
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100	387	100	100	387
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	49	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 IV FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	1	100	100	-
KGHM V FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	42	100	100	-
KGHM Kupfer AG	Berlin	copper and other deposits exploring and mining	100	100	62	100	100	55
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	33
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	58
NITROERG S.A.	Bieruń	production and sale of explosives, blasting materials, emulsions, nitroacet	85	85	121	85	85	121
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
					<b>11 733</b>	<b>11 641</b>		

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

	Note	At	
		30 June 2013	31 December 2012
Shares in unlisted companies		9	9
Shares in listed companies		790	873
<b>Non-current available-for-sale financial assets</b>	<b>27</b>	<b>799</b>	<b>882</b>

The change in the amount of PLN 83 million is due to the fair value measurement of available-for-sale financial assets. Impairment of available-for-sale financial assets is described in detail in note 3.3.

#### 9. Mine closure financial assets

	Note	At	
		30 June 2013	31 December 2012
Cash held in the Mine Closure Fund		168	141
<b>Non-current mine closure financial assets</b>		<b>168</b>	<b>141</b>
Cash held in the Mine Closure Fund		1	-
<b>Current mine closure financial assets</b>		<b>1</b>	<b>-</b>
<b>Total mine closure financial assets</b>	<b>27</b>	<b>169</b>	<b>141</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 of the Mine Closure Fund (MCF) to cover future decommissioning costs of mines and other facilities.

As at 30 June 2013 the balance of mine closure financial assets comprised MCF bank deposits in the amount of PLN 169 million, as at 31 December 2012, PLN 141 million.

## 10. Derivatives

	Note	At	
		30 June 2013	31 December 2012
<b><u>Non-current assets</u></b>			
hedging instruments		661	742
<b>Non-current assets due to derivatives, total</b>		<b>661</b>	<b>742</b>
<b><u>Current assets</u></b>			
hedging instruments		492	381
trade instruments		12	-
instruments initially designated as hedging instruments excluded from hedge accounting		126	-
<b>Current assets due to derivatives, total</b>		<b>630</b>	<b>381</b>
<b>Total assets due to derivatives</b>	<b>27</b>	<b>1 291</b>	<b>1 123</b>
<b><u>Non-current liabilities</u></b>			
hedging instruments		108	197
trade instruments		30	33
<b>Non-current liabilities due to derivatives, total</b>		<b>138</b>	<b>230</b>
<b><u>Current liabilities</u></b>			
hedging instruments		8	21
trade instruments		142	2
<b>Current liabilities due to derivatives, total:</b>		<b>150</b>	<b>23</b>
<b>Total liabilities due to derivatives</b>	<b>27</b>	<b>288</b>	<b>253</b>

## 11. Trade and other receivables

	Note	At	
		30 June 2013	31 December 2012
<b>Trade and other non-current receivables</b>			
Payment to subsidiaries		60	53
Other financial receivables		1	2
Loans granted		197	30
<b>Total loans and financial receivables, net</b>	<b>27</b>	<b>258</b>	<b>85</b>
<hr/>			
<b>Total trade and other non-current receivables, net</b>		<b>258</b>	<b>85</b>

As at 30 June 2013, loans granted to Group companies in the amount of PLN 197 million are the most significant item of non-current receivables. A loan granted to Fermat 1 S.a.r.l. in the amount of PLN 165 million is the largest item.

<b>Trade and other current receivables</b>			
Trade receivables		1 158	1 213
Loans granted		14	14
Other financial receivables		73	36
Receivables due to unsettled derivatives*		47	22
Impairment allowances		(33)	(33)
<b>Total loans and financial receivables, net</b>	<b>27</b>	<b>1 259</b>	<b>1 252</b>
Non-financial receivables		320	340
Advances granted		105	103
Impairment allowances		(12)	(8)
<b>Total non-financial current receivables, net</b>		<b>413</b>	<b>435</b>
<hr/>			
<b>Total trade and other current receivables, net</b>		<b>1 672</b>	<b>1 687</b>
<hr/>			
<b>Total trade and other current and non-current receivables, net</b>		<b>1 930</b>	<b>1 772</b>

\* The amount of receivables due to unsettled derivatives represents the items whose date of settlement falls on 2 July 2013 for the balance as at 30 June 2013 and 3 January 2013 for the balance as at 31 December 2012.



## 12. Inventories

	Note	At	
		30 June 2013	31 December 2012
Materials		394	409
Half-finished products and work in progress		2 053	1 876
Finished goods		553	702
Merchandise		-	5
<b>Total net carrying amount of inventories</b>		<b>3 000</b>	<b>2 992</b>

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
<b>Write-down of inventories in the financial period</b>			
Write-down of inventories recognised in cost of sales	22	( 4)	( 1)
Write-down used		4	2

## 13. Cash and cash equivalents

	Note	At	
		30 June 2013	31 December 2012
Cash at bank		15	18
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		808	689
<b>Total cash and cash equivalents</b>	<b>27</b>	<b>823</b>	<b>707</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

### Share capital

At 30 June 2013, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 000 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 associates do not have shares of KGHM Polska Miedź S.A.

In the first half of 2013 and in the first half of 2012 there were no changes in the registered share capital or in the number of shares.

### Ownership structure

At 30 June 2013, the only shareholder of the Company holding shares granting the right to at least 5% of the total number of votes at the General Meeting was the Polish State Treasury, which - based on notification dated 12 January 2010 - held 63 589 900 shares, representing 31.79% of the share capital and the same number of votes at the General Meeting.

The remaining shareholders held shares representing less than 5% of the total number of votes at the General Meeting – a total of 136 410 100 shares, representing 68.21% of the share capital and the same number of votes at the General Meeting.

In the first half of 2013 and in the first half of 2012 there were no changes in significant blocks of shares of KGHM Polska Miedź S.A. Up to the date of signing of these financial statements by the Management Board of KGHM Polska Miedź S.A. this has not changed.

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**15. Other equity items**

	Note	Revaluation reserve from measurement of financial instruments		Actuarial gains/losses on post-employment benefits	Retained earnings		Profit/(loss) from prior years
		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	
<b>At 1 January 2013 - restated*</b>		-	286	( 519)	660	14 272	5 224
Dividends from profit for 2012 resolved but unpaid		-	-	-	-	-	(1 960)
Transfer of profit for 2012 to reserve capital		-	-	-	-	2 908	(2 908)
Offsetting of profit from prior years with the reserves arising from actuarial gains and losses		-	-	356	-	-	( 356)
<b>Total comprehensive income:</b>		<b>4</b>	<b>318</b>	<b>( 85)</b>	<b>-</b>	<b>-</b>	<b>1 725</b>
<b>Profit for the period</b>		-	-	-	-	-	1 725
<b>Other comprehensive income</b>		<b>4</b>	<b>318</b>	<b>( 85)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Impact of effective cash flow hedging transactions entered into		-	558	-	-	-	-
Amount transferred to profit or loss due to the reclassification of hedging instruments		-	( 166)	-	-	-	-
Gains/(losses) due to change in fair value of available-for-sale financial assets		5	-	-	-	-	-
Actuarial gains/(losses) on post-employment benefits		-	-	( 105)	-	-	-
Deferred income tax	18	( 1)	( 74)	20	-	-	-
<b>At 30 June 2013</b>		<b>4</b>	<b>604</b>	<b>( 248)</b>	<b>660</b>	<b>17 180</b>	<b>1 725</b>

\*explanation in note 2

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 30 June 2013 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	Revaluation reserve from measurement of financial instruments		Actuarial gains/losses on post-employment benefits	Retained earnings restated		
	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	Profit/(loss) from prior years
<b>At 1 January 2012</b>	( 39)	574	-	660	8 605	11 335
Changes in presentation principles	-	-	( 356)	-	-	356
<b>At 1 January 2012 restated*</b>	( 39)	574	( 356)	660	8 605	11 691
Dividends from profit for 2011 resolved but unpaid	-	-	-	-	-	(5 668)
Transfer of profit for 2011 to reserve capital	-	-	-	-	5 667	(5 667)
<b>Total comprehensive income:</b>	<b>39</b>	<b>( 288)</b>	<b>( 163)</b>	<b>-</b>	<b>-</b>	<b>4 868</b>
<b>Profit for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4 868</b>
<b>Other comprehensive income</b>	<b>39</b>	<b>( 288)</b>	<b>( 163)</b>	<b>-</b>	<b>-</b>	<b>-</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 due to the reclassification of hedging instruments	-	( 333)	-	-	-	-
Actuarial gains/(losses) on post-employment benefits	-	-	( 201)	-	-	-
Deferred income tax	( 9)	67	38	-	-	-
<b>At 31 December 2012</b>	<b>-</b>	<b>286</b>	<b>( 519)</b>	<b>660</b>	<b>14 272</b>	<b>5 224</b>

\*explanation in note 2

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

Note	Revaluation reserve from measurement of financial instruments		Actuarial gains/losses on post-employment benefits	Retained earnings restated		Profit/(loss) from prior years
	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	
<b>At 1 January 2012</b>	( 39)	574	-	660	8 605	11 335
Changes in presentation principles	-	-	( 356)	-	-	356
<b>At 1 January 2012 restated*</b>	( 39)	574	( 356)	660	8 605	11 691
Dividends from profit for 2011 resolved but unpaid	-	-	-	-	-	(5 668)
Transfer of profit for 2011 to reserve capital	-	-	-	-	5 667	(5 667)
<b>Total comprehensive income:</b>	( 114)	( 129)	( 23)	-	-	2 969
<b>Profit for the period restated*</b>	-	-	-	-	-	2 969
<b>Other comprehensive income restated*</b>	( 114)	( 129)	( 23)	-	-	-
Fair value losses on available-for-sale financial assets	( 141)	-	-	-	-	-
Impact of effective cash flow hedging transactions entered into	-	( 18)	-	-	-	-
Amount transferred to profit or loss - due to the reclassification of hedging instruments	-	( 141)	-	-	-	-
Actuarial gains/(losses) on post-employment benefits	-	-	( 28)	-	-	-
Deferred income tax	27	30	5	-	-	-
<b>At 30 June 2012 restated*</b>	( 153)	445	( 379)	660	14 272	3 325

\*explanation in note 2

## 16. Trade and other payables

	Note	At	
		30 June 2013	31 December 2012
<b>Trade and other non-current payables</b>			
Trade payables		2	-
of which payables due to purchase, construction of property, plant and equipment and intangible assets		2	-
Other financial liabilities		8	27
<b>Total financial liabilities (scope of IFRS 7)</b>	<b>27</b>	<b>10</b>	<b>27</b>
Deferred income		10	9
<b>Total non-financial liabilities</b>		<b>10</b>	<b>9</b>
<b>Total trade and other non-current payables</b>		<b>20</b>	<b>36</b>
<b>Trade and other current payables</b>			
Trade payables		1 049	1 044
of which payables due to purchase, construction of property, plant and equipment and intangible assets		338	448
Payables due to unsettled derivatives		-	16
Other financial liabilities*		2 056	31
<b>Total financial liabilities (scope of IFRS 7)</b>	<b>27</b>	<b>3 105</b>	<b>1 091</b>
Employee benefits liabilities		74	157
Liabilities due to taxes and social security		468	411
Other non-financial liabilities		37	46
Special funds		181	166
Deferred income		4	2
Accruals		415	354
<b>Total non-financial liabilities</b>		<b>1 179</b>	<b>1 136</b>
<b>Total trade and other current payables</b>		<b>4 284</b>	<b>2 227</b>
<b>Total trade and other non-current and current payables</b>		<b>4 304</b>	<b>2 263</b>

\*The most significant item within current payables is a liability due to the unpaid shareholders dividend from appropriation of profit for financial year 2012 in the amount of PLN 1 960 million. Details presented in note 31.

## 17. Borrowings and finance lease liabilities

	Note	At	
		30 June 2013	31 December 2012
<b>Current borrowings and finance lease liabilities</b>	<b>27</b>	<b>-</b>	<b>1 013</b>

In the first half of 2013, the Company made use of borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility.

As at 30 June 2013, the Company did not hold liabilities due to bank loans drawn (as at 31 December 2012, the Company held a liability due to bank loans drawn in the amount of PLN 1 013 million).

In order to ensure financial liquidity if needed, as at 30 June 2013, the Company owned open lines of credit (working capital facility and overdraft facility), whose limits were as follows:

## 17. Borrowings and finance lease liabilities (continued)

Type of bank loan	Bank loan currency	Balance of bank loan in the currency
Working capital facility and overdraft facility	USD	178
Working capital facility and overdraft facility	EUR	50
Working capital facility and overdraft facility	PLN	2300

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

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		
		30 June 2013	31 December 2012	30 June 2012 restated*
<b>Net deferred tax assets at the beginning of the reporting period, of which:</b>		<b>266</b>	<b>169</b>	<b>169</b>
Deferred tax assets at the beginning of the reporting period		1 189	978	978
Deferred tax liabilities at the beginning of the reporting period		( 923)	( 809)	( 809)
<b>Changes during the period</b>				
Credited/(Charged) to profit for the period*	29	20	1	43
Increase/(Decrease) in other comprehensive income*	15	( 55)	96	62
<b>Net deferred tax assets at the end of the reporting period, of which:</b>		<b>231</b>	<b>266</b>	<b>274</b>
Deferred tax assets at the end of the reporting period		<b>1 086</b>	<b>1 189</b>	<b>1 159</b>
Deferred tax liabilities at the end of the reporting period		<b>( 855)</b>	<b>( 923)</b>	<b>( 885)</b>

\*explanation in note 2

## Deferred tax assets prior to offsetting

	At	
	30 June 2013	31 December 2012
Provision for decommissioning of mines and other facilities	151	143
Measurement of forward transactions	418	466
Re-measurement of hedging instruments	-	93
Amortisation/Depreciation	29	27
Future employee benefits liabilities	319	299
Other	169	161
<b>Total</b>	<b>1 086</b>	<b>1 189</b>

**18. Deferred tax (continued)**

**Deferred tax liabilities prior to offsetting**

	<b>At</b>	
	<b>30 June 2013</b>	<b>31 December 2012</b>
Measurement of forward transactions	215	251
Re-measurement of hedging instruments	142	161
Amortisation/Depreciation	496	478
Other	2	33
<b>Total</b>	<b>855</b>	<b>923</b>

## 19. Employee benefits

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 2013</b>	<b>1 581</b>	<b>255</b>	<b>219</b>	<b>1 077</b>	<b>30</b>
Total costs recognised in profit or loss	<b>60</b>	<b>20</b>	<b>10</b>	<b>30</b>	<b>-</b>
Interest costs	<b>32</b>	5	5	22	-
Current service cost	<b>21</b>	8	5	8	-
Actuarial losses recognised in profit or loss	<b>7</b>	7	-	-	-
Actuarial losses recognised in other comprehensive income	<b>105</b>	-	6	98	1
Benefits paid	<b>( 58)</b>	( 11)	( 9)	( 38)	-
<b>As at 30 June 2013</b>	<b>1 688</b>	<b>264</b>	<b>226</b>	<b>1 167</b>	<b>31</b>
of which:					
Carrying amount of non-current liabilities	<b>1 578</b>	229	196	1 125	28
Carrying amount of current liabilities	<b>110</b>	35	30	42	3



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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 2012</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>	<b>51</b>	<b>22</b>	<b>66</b>	<b>3</b>
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

	<b>TOTAL liabilities</b>	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
<b>As at 1 January 2012</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>79</b>	<b>30</b>	<b>11</b>	<b>37</b>	<b>1</b>
Interest costs	<b>45</b>	7	6	31	1
Current service cost	<b>18</b>	7	5	6	-
Actuarial losses recognised in profit or loss	<b>16</b>	16	-	-	-
Actuarial losses recognised in other comprehensive income	<b>28</b>	-	3	22	3
Benefits paid	<b>( 61)</b>	( 12)	( 11)	( 37)	( 1)
<b>As at 30 June 2012 – restated*</b>	<b>1 369</b>	<b>254</b>	<b>214</b>	<b>872</b>	<b>29</b>
of which:					
Carrying amount of non-current liabilities	<b>1 261</b>	221	181	831	28
Carrying amount of current liabilities	<b>108</b>	33	33	41	1

\*explanation in note 2

## 19. Employee benefits (continued)

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 rates of increase in coal prices and in the lowest salary, and also based on the anticipated profitability of non-current government bonds.

### Main actuarial assumptions at 30 June 2013:

	2013	2014	2015	2016	2017 and beyond
- discount rate	3.80%	3.80%	3.80%	3.80%	3.80%
- rate of increase in coal prices	0.00%	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	1.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	2.50%	2.50%	2.50%	2.50%	2.50%

### Main actuarial assumptions at 31 December 2012:

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

### Main actuarial assumptions at 30 June 2012:

	2012	2013	2014	2015	2016 and beyond
- discount rate	5.50%	5.50%	5.50%	5.50%	5.50%
- rate of increase in coal prices	0.00%	3.30%	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	3.10%	2.80%	2.50%	2.50%	2.50%
- future expected increase in salary	1.40%	3.80%	3.50%	3.50%	3.50%

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

## 20. Provisions for other liabilities and charges

		TOTAL	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
<b>Provisions at 1 January 2013</b>	<b>Note</b>	<b>754</b>	<b>734</b>	<b>20</b>
Provisions recognised in other operating costs	25	4	-	4
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	24,25	( 1)	( 1)	-
Changes in provisions arising from updating of estimates recognised in fixed assets		55	55	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	26	18	18	-
Utilisation of provisions		( 7)	( 7)	-
Release of provisions and recognition in other operating income	24	( 1)	-	( 1)
Adjustment due to transfer to Mine Closure Fund		( 13)	( 13)	-
<b>Provisions at 30 June 2013</b>		<b>809</b>	<b>786</b>	<b>23</b>
of which:				
<b>Non-current provisions</b>		<b>777</b>	<b>773</b>	<b>4</b>
<b>Current provisions</b>		<b>32</b>	<b>13</b>	<b>19</b>

		TOTAL	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
<b>Provisions at 1 January 2012</b>		<b>498</b>	<b>481</b>	<b>17</b>
Provisions recognised in other operating costs		18	4	14
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs		( 2)	5	( 7)
Changes in provisions arising from updating of estimates recognised in fixed assets		243	243	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs		33	33	-
Utilisation of provisions		( 8)	( 5)	( 3)
Release of provisions and recognition in other operating income		( 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>

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

	Note	TOTAL	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
<b>Provisions at 1 January 2012</b>		<b>498</b>	<b>481</b>	<b>17</b>
Provisions recognised in other operating costs	25	1	-	1
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	24,25	( 8)	( 1)	( 7)
Changes in provisions arising from updating of estimates recognised in fixed assets		31	31	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	26	17	17	-
Utilisation of provisions		( 3)	( 1)	( 2)
Release of provisions and recognition in other operating income	24	( 1)	-	( 1)
Adjustment due to transfer to Mine Closure Fund		( 13)	( 13)	-
<b>Provisions at 30 June 2012</b>		<b>522</b>	<b>514</b>	<b>8</b>
of which:				
<b>Non-current provisions</b>		<b>510</b>	<b>505</b>	<b>5</b>
<b>Current provisions</b>		<b>12</b>	<b>9</b>	<b>3</b>

As at 30 June 2013 the largest item of provisions for other liabilities is the assessment for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying value of PLN 781 million (as at 31 December 2012: PLN 728 million). The amount was calculated in accordance with the methodology defined in the International Financial Reporting Standards.

## 21. Sales

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

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
Copper, precious metals, smelter by-products		9 351	10 279
Salt		42	26
Services		37	33
Merchandise		35	127
Scrap and production materials		32	33
Other goods		6	6
<b>Total</b>	<b>4</b>	<b>9 503</b>	<b>10 504</b>

	For the period	
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
Average copper price on LME (USD/t)	7 540	8 097
Average exchange rate (USD/PLN) per NBP	3.18	3.27

## 22. Expenses by nature

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012 restated*
Depreciation of property, plant and equipment and amortisation of intangible assets	5,6	418	391
Employee benefits expenses	23	1 448	1 476
Materials and energy		3 126	3 299
External services		746	634
Taxes and charges**		1 194	605
Advertising costs and representation expenses		19	22
Property and personal insurance		12	12
Research and development costs not capitalised in intangible assets		1	2
<b>Other costs, of which:</b>		<b>16</b>	<b>12</b>
Write-down of inventories	12	4	1
Losses on the sale of financial instruments	27	4	4
Business trip expenses		5	5
Other operating costs		3	2
<b>Total expenses by nature</b>		<b>6 980</b>	<b>6 453</b>
Merchandise and materials sold (+)		61	151
Change in inventories of finished goods and work in progress (+/-)		( 32)	( 225)
Cost of manufacturing products for internal use (-)		( 84)	( 90)
<b>Total cost of sales, selling costs and administrative expenses</b>		<b>6 925</b>	<b>6 289</b>

\*explanation in note 2

\*\* The minerals extraction tax is a significant item in operating costs.

This tax was introduced in accordance with the Act on the minerals extraction tax dated 2 March 2012, which came into force on 18 April 2012. The amount of the tax, recognised in operating costs in the current reporting period, amounted to PLN 1 021 million (from 1 January 2012 to 30 June 2012: PLN 443 million).

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

## 23. Employee benefits expenses

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012 restated*
Remuneration		1 021	1 042
Costs of social security and other benefits		425	416
Costs of future benefits (liabilities) due to employee benefits paid during employment period		2	18
<b>Employee benefits expenses</b>	<b>22</b>	<b>1 448</b>	<b>1 476</b>

\*explanation in note 2

## 24. Other operating income

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
Income and gains on financial instruments classified under other operating activities, resulting from:	27	359	871
Measurement and realisation of derivatives		233	712
Interest		19	101
Foreign exchange gains		70	-
Dividends received		36	57
Gains on sale		-	1
Reversal of allowance for impairment of other receivables		1	-
Gain on the sale of intangible assets and property, plant and equipment		-	1
Reversal of allowance for impairment of non-financial receivables		1	1
Release of unused provisions for:		2	10
Decommissioning of mines		1	2
Disputed issues and court proceedings		1	1
Liabilities towards municipal authorities		-	7
Penalties and compensation received		4	3
Other operating income/gains		16	9
<b>Total other operating income</b>		<b>382</b>	<b>895</b>

## 25. Other operating costs

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
Costs and losses on financial instruments classified under other operating activities, resulting from:	27	525	1 225
Measurement and realisation of derivatives		434	752
Interest		1	-
Foreign exchange losses		-	473
Losses on measurement of non-current liabilities		1	-
Impairment losses on available-for-sale financial assets		89	-
Losses on the sale of property, plant and equipment and intangible assets		11	-
Donations granted		16	86
Interest on overdue non-financial liabilities		-	2
Provisions for:		4	2
Decommissioning of mines		-	1
Disputed issues, pending court proceedings		1	-
Real estate tax		3	-
Other		-	1
Contributions to a voluntary organisation		9	6
Other operating costs/losses		4	8
<b>Total other operating costs</b>		<b>569</b>	<b>1 329</b>

## 26. Finance costs

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
Interest on bank loans	27	1	-
Net foreign exchange losses/(gains) on borrowings	27	25	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to measurement of provisions for decommissioning of mines	20	18	17
Other finance costs		1	-
<b>Total finance costs</b>		<b>45</b>	<b>17</b>



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**27. Financial instruments**

**27.1 Carrying amount**

		<b>At 30 June 2013</b>						
		<b>Categories of financial instruments</b>						
<b>Classes of financial instruments</b>	<b>Note</b>	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and financial receivables	Other liabilities		Hedging instruments	<b>Total</b>
					Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost		
Listed shares	8	790	-	-	-	-	-	<b>790</b>
Unlisted shares	8	9	-	-	-	-	-	<b>9</b>
Trade receivables (net)	11	-	-	1 133	-	-	-	<b>1 133</b>
Cash and cash equivalents and deposits		-	-	992	-	-	-	<b>992</b>
Mine closure financial assets	9	-	-	169	-	-	-	<b>169</b>
Cash and cash equivalents	13	-	-	823	-	-	-	<b>823</b>
Other financial assets (net)	11	-	-	384	-	-	-	<b>384</b>
Derivatives - Currency (net)	10	-	1	-	( 5)	-	281	<b>277</b>
Derivatives - Metals (net)	10	-	137	-	( 167)	-	756	<b>726</b>
Trade payables	16	-	-	-	-	(1 051)	-	<b>(1 051)</b>
Other financial liabilities	16	-	-	-	-	(2 064)	-	<b>(2 064)</b>
<b>Total</b>		<b>799</b>	<b>138</b>	<b>2 509</b>	<b>( 172)</b>	<b>(3 115)</b>	<b>1 037</b>	<b>1 196</b>

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**27. Financial instruments (continued)**

**At 31 December 2012**

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	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 – 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>

The fair value of individual classes of financial instruments did not differ significantly from their carrying amount both at 30 June 2013 and at 31 December 2012.

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**27. Financial instruments (continued)**

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

For the period from 1 January 2013 to 30 June 2013	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for- sale financial assets	Loans and receivables	Other financial liabilities		Total
					Financial liabilities measured at amortised cost	Hedging instruments	
Dividends received	24	-	36	-	-	-	<b>36</b>
Interest income/(costs) recognised in:		-	-	<b>19</b>	<b>( 2)</b>	-	<b>17</b>
Other operating income	24	-	-	19	-	-	19
Other operating costs	25	-	-	-	( 1)	-	( 1)
Finance costs	26	-	-	-	( 1)	-	( 1)
Foreign exchange gains/(losses) recognised in:		-	-	<b>162</b>	<b>( 117)</b>	-	<b>45</b>
Other operating income	24	-	-	162	( 92)	-	70
Finance costs	26	-	-	-	( 25)	-	( 25)
Gains/(Losses) on measurement of non-current liabilities recognised in:		-	-	-	<b>( 1)</b>	-	<b>( 1)</b>
Other operating costs	25	-	-	-	( 1)	-	( 1)
Impairment allowances recognised in:		-	<b>( 89)</b>	-	-	-	<b>( 89)</b>
Other operating costs	25	-	( 89)	-	-	-	( 89)
Reversal of impairment allowances recognised in:		-	-	<b>1</b>	-	-	<b>1</b>
Other operating income	24	-	-	1	-	-	1
Adjustment to sales due to hedging transactions	15	-	-	-	-	166	<b>166</b>
Gains/(losses) from disposal of financial instruments recognised in:		-	-	<b>( 4)</b>	-	-	<b>( 4)</b>
Expenses by nature	22	-	-	( 4)	-	-	( 4)
Income from measurement and realisation of derivatives	24	233	-	-	-	-	<b>233</b>
Losses on measurement and realisation of derivatives	25	( 434)	-	-	-	-	<b>( 434)</b>
<b>Total net gain/(loss)</b>		<b>( 201)</b>	<b>( 53)</b>	<b>178</b>	<b>( 120)</b>	<b>166</b>	<b>( 30)</b>

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**27. Financial instruments (continued)**

<b>For the period from 1 January 2012 to 30 June 2012</b>	<b>Note</b>	Other financial liabilities					<b>Total</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	
Dividends received	24	-	57	-	-	-	<b>57</b>
Interest income/(costs) recognised in:		-	-	<b>101</b>	-	-	<b>101</b>
Other operating income	24	-	-	101	-	-	101
Foreign exchange gains/(losses) recognised in:		-	-	<b>( 392)</b>	<b>( 81)</b>	-	<b>( 473)</b>
Other operating costs	25	-	-	( 392)	( 81)	-	( 473)
Adjustment to sales due to hedging transactions	15	-	-	-	-	141	<b>141</b>
Gains/(losses) from disposal of financial instruments recognised in:		-	-	<b>( 3)</b>	-	-	<b>( 3)</b>
Expenses by nature	22	-	-	( 4)	-	-	( 4)
Other operating income	24	-	-	1	-	-	1
Gains on measurement and realisation of derivatives	24	712	-	-	-	-	<b>712</b>
Losses on measurement and realisation of derivatives	25	( 752)	-	-	-	-	<b>( 752)</b>
<b>Total net gain/(loss)</b>		<b>( 40)</b>	<b>57</b>	<b>( 294)</b>	<b>( 81)</b>	<b>141</b>	<b>( 217)</b>

### 27.3 Fair value hierarchy

Investments in listed companies (classified as available-for-sale financial assets) are classified under level 1 of the fair value hierarchy. All remaining financial instruments (presented in note 27.1) are classified by the Company under level 2 of the fair value hierarchy. The manner and techniques for measuring instruments which are measured to fair value have not changed in comparison to the manner and techniques for measurement as at 31 December 2012.

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

### 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 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. Under the commercial policy, the Company sets 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.

When analysing the Company's exposure to market risk, the amount of metals contained in purchased external materials should be deducted from the volume of sales of metals.

Exposure of the Company to commodity risk is presented below:

	For the period			
	from 1 January 2013 to 30 June 2013		from 1 January 2012 to 30 June 2012	
	Sales	Purchases	Sales	Purchases
Copper [tonnes]	297 824	83 837	287 102	89 524
Silver [tonnes]	596	19	644	23

##### 28.1.2 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 PLN.

## 28. Financial risk management (continued)

As a result, the Company receives the equivalent in PLN or exchanges the USD it receives for PLN. Such exchanges lead 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 the first half of 2013, 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 was not exposed to currency risk, from the moment such loans are drawn to the moment they are repaid.

### 28.1.3 Commodity and currency risk management

The nominal of copper price hedging strategies settled in the first half of 2013 represented approx. 25% (in the first half of 2012 36%) of the total<sup>2</sup> sales of this metal realised by the Company. With respect to silver sales this figure amounted to approx. 9% (in the first half of 2012: 26%). In the case of the currency market, hedged revenues from sales represented approx. 17% (in the first half of 2012: 18%) of total revenues from sales realised by the Company.

In the first half of 2013, the Company did not implement any hedging strategies on the copper and silver markets. However, a restructure was performed of a hedging position on the silver market, through the buyback of a seagull option structure, implemented in the second quarter of 2011, in the total volume of 1.8 million troz, and a maturity falling in the second half of 2013. Closure of the position and un-designation of the transaction as a hedge was reflected in the revaluation reserve from the measurement of derivatives in the amount of PLN 95 million, which will increase revenues from sales in the second half of 2013.

In the case of the forward currency market, in the first half of 2013 the Company implemented transactions hedging revenues from sales with a total nominal amount of USD 480 million and a time horizon falling in years 2014-2015. The Company made use of option strategies: collars (European options). Additionally, in the reporting period the Company performed a restructure, implemented in the fourth quarter of 2011, of seagull option strategies for the first half of 2014 of a total amount of USD 180 million, through the buyback of sold put options. This restructure in derivatives allows the full utilisation of put options purchased within this structure in case of any eventual strengthening of the Polish currency in the first half of 2014.

Following is presented condensed information on open transactions in derivatives, by type of hedged asset and instruments used as at 30 June 2013 (the hedged nominal/volume in the presented periods is equally balanced in the months).

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<sup>2</sup> Relates to the sales of products from own concentrates or from purchased copper-bearing materials.

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

**COPPER MARKET**

	Instrument	Volume [tonnes]	Option execution price <sup>3</sup> [USD/t]			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t]	
			Sold call option	Purchased put option	Sold put option			Participation limited to	Hedge limited to
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 II half of 2013</b>	<b>61 500</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>							

<sup>3</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", while *sold put options* of seagull structure are shown in the table "Trade instruments".

## 28. Financial risk management (continued)

### CURRENCY MARKET

	Instrument	Notional [million USD]	Option execution price <sup>4</sup> [USD/PLN]			Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Limitations [USD/PLN]	
			Sold call option	Purchased put option	Sold put option			Participation limited to	Hedge limited to
II half of 2013	Seagull Collar	240	4.0000	3.1500	2.6000	(0.0230)	3.1270	4.0000	2.6000
	<b>Total</b>	<b>480</b>	4.2000	3.2000	-	(0.0650)	3.1350	4.2000	-
<b>TOTAL II half of 2013</b>		<b>480</b>							
I half of 2014	Collar	180	4.5000	3.5000	-	(0.0641)	3.4359	4.5000	-
	Collar	180	4.5000	3.4000	-	(0.0093)	3.3907	4.5000	-
	Collar	120	4.0000	3.2000	-	(0.0574)	3.1426	4.0000	-
<b>Total</b>		<b>480</b>							
II half of 2014	Seagull Collar	180	4.5000	3.5000	2.7000	(0.0345)	3.4655	4.5000	2.7000
	Collar	180	4.5000	3.4000	-	(0.0093)	3.3907	4.5000	-
	Collar	120	4.0000	3.2000	-	(0.0554)	3.1446	4.0000	-
<b>Total</b>		<b>480</b>							
<b>TOTAL 2014</b>		<b>960</b>							
I half of 2015	Collar	180	4.5000	3.4000	-	(0.0080)	3.3920	4.5000	-
	Collar	120	4.0000	3.3000	-	(0.0694)	3.2306	4.0000	-
	<b>Total</b>	<b>300</b>							
II half of 2015	Collar	180	4.5000	3.4000	-	(0.0080)	3.3920	4.5000	-
	Collar	120	4.0000	3.3000	-	(0.0694)	3.2306	4.0000	-
	<b>Total</b>	<b>300</b>							
<b>TOTAL 2015</b>		<b>600</b>							

### SILVER MARKET

	Instrument	Volume [million troz]	Option execution price [USD/troz]			Average weighted premium [USD/troz]	Effective hedge price [USD/troz]	Limitations [USD/troz]	
			Sold call option	Purchased put option	Sold put option			Participation limited to	Hedge limited to
II half of 2013	Position closed	-	-	-	-	Closure of the position and un-designation of the transaction as a hedge was reflected in the <i>Revaluation reserve from measurement of financial instruments</i> in the amount of PLN 95 million, which will increase revenues from sales in the second half of 2013.			
	<b>Total</b>	<b>-</b>							
<b>TOTAL II half of 2013</b>		<b>-</b>							

As at 30 June 2013, the Company remains hedged for a portion of copper sales planned in the period from July to December 2013 (61.5 thousand tonnes), in 2014 (81 thousand tonnes) and in 2015 (42 thousand tonnes). The Company does not hold any open hedging transactions on the silver market. With respect to revenues from sales (currency market) the Company holds a hedging position in the period from July to December 2013 (USD 480 million), in 2014 (USD 960 million) and in 2015 (USD 600 million).

In terms of currency risk management, the source of which are bank loans, the Company applies natural hedging, which is based on drawing bank loans in those currencies in which revenues are earned.

<sup>4</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", while *sold put options* of seagull structure are shown in the table "Trade instruments".



## 28. Financial risk management (continued)

### 28.1.4. 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 is presented in the table below:

	For the period	
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
<b>Impact on sales</b>	<b>166</b>	<b>141</b>
<b>Impact on other operating activities</b>	<b>(201)</b>	<b>(40)</b>
(Losses) on realisation of derivatives	(50)	(86)
(Losses)/Gains on measurement of derivatives	(151)	46
<b>Total impact of derivatives on profit or loss:</b>	<b>(35)</b>	<b>101</b>

The impact of derivatives on the revaluation reserve from measurement of cash flow hedging instruments is presented in the table below:

	At	
	30 June 2013	31 December 2012
<b>Revaluation reserve from measurement of cash flow hedging instruments</b>		
Commodity price risk hedging transactions (copper and silver) – derivatives	705	163
Currency risk hedging transactions – derivatives	41	191
<b>As at the end of the period (excluding the deferred tax effects)</b>	<b>746</b>	<b>354</b>

In the first half of 2013, other comprehensive income increased by the amount of PLN 392 million (excluding the impact of deferred tax), composed of:

- changes in fair value in the period, which increased the effective part of revaluation reserve from measurement of cash flow hedging financial instruments, in the amount of PLN 558 million,
- the amount of PLN 166 million, which decreased revaluation reserve from the measurement of cash flow hedging instruments and was transferred to increase revenues from sales, due to settlement of the effective part of hedging transactions.

The fair value of derivatives and receivables due to unsettled derivatives, as at 30 June 2013:

	Derivatives	Receivables due to unsettled derivatives <sup>5</sup>
Financial assets	1 291	47
Financial liabilities	(288)	-
<b>As at 30 June 2013</b>	<b>1 003</b>	<b>47</b>

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

<sup>5</sup> Settlement date falls on 2 July 2013.

## 28. Financial risk management (continued)

TRADE INSTRUMENTS		At 30 June 2013 [PLN '000]								
Type of derivative	Volume/ Notional Cu [t] Ag ['000 troz] Currency ['000 USD]	Avg. weighted price/ex. rate Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	Financial assets		Financial liabilities					
			Current	Non-current	Current	Non-current				
<b>Derivatives - Metals – Copper:</b>										
Options										
Sold put options	144 000	4 635	-	-	(3 051)	(26 592)				
<b>TOTAL:</b>			<b>-</b>	<b>-</b>	<b>(3 051)</b>	<b>(26 592)</b>				
<b>Derivatives - Metals – Silver:</b>										
Options										
Purchased call options	1 800	65.00								
Purchased put options	1 800	20.00	11 144	-	-	-				
Sold put options	3 600	30.00			(137 058)	-				
<b>TOTAL:</b>			<b>11 144</b>	<b>-</b>	<b>(137 058)</b>	<b>-</b>				
<b>Derivatives – Currency contracts</b>										
Options USD										
Purchased put options	180 000	2.7000	1 421	-	-	-				
Sold put options	600 000	2.6600	-	-	(1 466)	(3 723)				
<b>TOTAL:</b>			<b>1 421</b>	<b>-</b>	<b>(1 466)</b>	<b>(3 723)</b>				
<b>TOTAL TRADE INSTRUMENTS</b>			<b>12 565</b>	<b>-</b>	<b>(141 575)</b>	<b>(30 315)</b>				
HEDGING INSTRUMENTS		At 30 June 2013 [PLN '000]								
Type of derivative	Volume/ Notional Cu [t] Ag ['000 troz] Currency ['000 USD]	Avg. weighted price/ ex. rate Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	Maturity/ settlement period		Period of profit/loss impact		Financial assets		Financial liabilities	
			From	To	From	To	Current	Non-current	Current	Non-current
<b>Derivatives – Metals- Copper</b>										
Options										
Collar	40 500	7 989-10 570	July-13	Dec-13	Aug-13	Jan-14	173 383	-	(320)	-
Seagull	144 000	7 752-10 008	July-13	Dec-15	Aug-13	Jan-16	209 957	419 595	(3 874)	(42 672)
<b>TOTAL:</b>							<b>383 340</b>	<b>419 595</b>	<b>(4 194)</b>	<b>(42 672)</b>
<b>Derivatives – Metals - Silver</b>										
Options	-	-					-	-	-	-
<b>TOTAL:</b>							<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Derivatives – Currency contracts</b>										
Options USD										
Collar	1 440 000	3.3167-4.2833	July-13	Dec-15	July-13	Dec-15	56 429	192 429	(3 503)	(61 849)
Collar-seagull	180 000	3.5000-4.5000	Jan-14	June-14	Jan-14	June-14	44 379	-	(571)	-
Seagull	420 000	3.3000-4.2143	July-13 July-14	Dec-13 Dec-14	July-13 July-14	Dec-13 Dec-14	7 692	49 140	(527)	(2 955)
<b>TOTAL:</b>							<b>108 500</b>	<b>241 569</b>	<b>(4 601)</b>	<b>(64 804)</b>
<b>TOTAL HEDGING INSTRUMENTS</b>							<b>491 840</b>	<b>661 164</b>	<b>(8 795)</b>	<b>(107 476)</b>
INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING		At 30 June 2013 [PLN '000]								
Type of derivative	Volume Ag ['000 troz]	Avg. weighted price Ag [USD/troz]	Maturity/ settlement period		Period of profit/loss impact		Financial assets		Financial liabilities	
			From	To	From	To	Current	Non-current	Current	Non-current
<b>Derivatives – Metals – Silver:</b>										
Options										
Seagull	1 800	40.00-65.00	July-13	Dec-13	Aug-13	Jan-14	125 914	-	-	-
<b>TOTAL</b>							<b>125 914</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING</b>							<b>125 914</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

### **28.1.5 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 30 June 2013, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 790 million.

Impairment of available-for-sale financial assets is described in note 3.3.

### **28.1.6 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, implemented service of cash management (zero-balance cash-pool) and borrowing.

As at 30 June 2013, the balances of the above items were as follows:

- loans granted - PLN 210 million,
- cash and cash equivalents - PLN 823 million,
- receivables due to participation in zero-balance cash-pool – PLN 23 million.
- liabilities due to participation in zero-balance cash-pool – PLN 30 million.

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

As at 30 June 2013, the Company did not hold liabilities due to bank loans drawn.

In order to ensure financial liquidity if needed, as at 30 June 2013, the Company owned open lines of credit (working capital facility and overdraft facility) in the amount of PLN 3 107 million.

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

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

## **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,
- the financial standing 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.

## 28. Financial risk management (continued)

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 on account of the Mine Closure Fund and on the account of 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>6</sup>, medium-high<sup>7</sup> and medium<sup>8</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 standing 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>9</sup>

Rating levels	At	
	30 June 2013	31 December 2012
Highest	16%	15%
Medium-high	62%	37%
Medium	22%	48%

As at 30 June 2013 the maximum exposure of the Company to a single bank in respect of deposited cash and cash equivalents amounted to 19% (as at 31 December 2012 – 20%).

### 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 of the financial institutions with whom the Company engaged in derivatives transactions, representing an exposure to credit risk<sup>10</sup>

Rating levels	At	
	30 June 2013	31 December 2012
Highest	7%	12%
Medium-high	91%	82%
Medium	2%	6%

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

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

<sup>6</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>7</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>8</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>9</sup> weighed by amount of deposits

<sup>10</sup> weighed by positive fair value of open and unsettled derivatives

## 28. Financial risk management (continued)

### 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:

	At					
	30 June 2013			31 December 2012		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	37%	52%	11%	22%	61%	17%

The Company limits its exposure to credit risk related to trade and other receivables by evaluating and monitoring the financial standing 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.

Credit limits 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, corporate guarantees, mortgages, and documentary collection. In addition, the majority of contracts where customers are provided with credit limits contain an ownership rights reservation clause 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 credit limits 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 30 June 2013 the Company had secured 90% of its trade receivables.

The total value of the Company's net trade receivables as at 30 June 2013, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 1 133 million (as at 31 December 2012: PLN 1 190 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 30 June 2013 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 68% of the trade receivables balance (as at 31 December 2012: 66%). 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.

### 28.2.4 Credit risk related to loans granted

As at 30 June 2013 loans granted by KGHM Polska Miedź S.A. amounted to PLN 210 million, of which PLN 197 million represented the long-term loans, and PLN 13 million – short-term loans. The loans were granted to KGHM Polska Miedź S.A. Group companies. 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.

<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 trade contract clause officially certified by a notary means that the ownership of merchandise is transferred to the buyer only upon payment, regardless of their 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)

### 28.2.5 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 is presented in the table below

	At 30 June 2013				At 31 December 2012			
	Total value	Up to 1 month	From 1 up to 3 months	Over 1 year	Total value	Up to 1 month	From 1 up to 3 months	Over 1 year
Trade receivables	22	21	1	-	115 <sup>14</sup>	115	-	-
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.

### 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.

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 the first half of 2013, the Company made use of borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility.

As at 30 June 2013, the Company did not hold liabilities due to bank loans drawn. As at 31 December 2012, the Company held a liability due to bank loans drawn in the amount of PLN 1 013 million.

As at 30 June 2013, the Company owned open lines of credit, whose balances were as follows:

Type of bank loan	Bank loan currency	Available balance of bank loan [PLN million]
Working capital facility and overdraft facility	USD	178
Working capital facility and overdraft facility	EUR	50
Working capital facility and overdraft facility	PLN	2 300

Open lines of credit are available in PLN, USD and EUR.

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.

<sup>14</sup> After the end of the reporting period and prior to the signing of the financial statements for 2012, payment was made on overdue receivables in the amount of PLN 114 million.

## 28. Financial risk management (continued)

Due to the lack of Company debt as at 30 June 2013, the *ratio of net debt/EBITDA* amounted to 0.00.

The equity ratio was above the assumed minimum level and amounted to 0.74 as at 30 June 2013.

In the first half of 2013 and in 2012 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 2013, the Company granted a guarantee in the amount of PLN 11 million with a maturity of up to March 2014. The guarantee represents contingent liabilities which did not significantly impact liquidity risk in the Company.

The process was continued of adding additional companies to the cash management service of the KGHM Polska Miedź S.A. Group (zero-balance cash pool). The funds available under this service bear an interest rate based on variable WIBOR. The credit limit available in the account as at 30 June 2013 was PLN 246 million.

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

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.

As at 30 June 2013 the Company held net liabilities of PLN 7 million towards Group companies due to the implementation of cash management services in the Group.

## 29. Income tax

Income tax	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012 restated
Current income tax		645	840
Deferred income tax	18	( 20)	( 43)
Adjustments to income tax from prior periods		( 4)	( 2)
<b>Total</b>		<b>621</b>	<b>795</b>

The rate applied to the taxation of income in accordance with corporate income tax law in force amounted to 19% (in the first half of 2012: 19%). The effective interest rate was 26.47% (in the first half of 2012: 21.13%). The increase in the effective interest rate in the first half of 2013 was mainly due to the introduction from April 2012 of the minerals extraction tax, which is not a deductible cost for tax purposes.

## 30. Earnings per share

	For the period	
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
Profit for the period	1 725	2 969
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	8.63	14.85

There are no dilutive ordinary shares.

### 31. Dividends

In accordance with Resolution No. 5/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2013 regarding the appropriation of Company profit for financial year 2012, the amount of PLN 1 960 million, representing PLN 9.80 per share, was allocated as a shareholders dividend.

The right to dividend date was set at 12 July 2013, the dividend payment dates: 1st instalment: 14 August 2013, 2nd instalment: 14 November 2013.

All Company shares are ordinary shares.

### 32. Related party transactions

For the period  
from 1 January 2013 to 30 June 2013

Sales	Sales of products	Sales of merchandise and materials	Other transactions
- to subsidiaries	101	36	23
<b>Total sales to related entities</b>	<b>101</b>	<b>36</b>	<b>23</b>

For the period  
from 1 January 2012 to 30 June 2012

Sales	Sales of products	Sales of merchandise and materials	Other transactions
- to subsidiaries	286	36	5
<b>Total sales to related entities</b>	<b>286</b>	<b>36</b>	<b>5</b>

During the period from 1 January 2013 to 30 June 2013, no sales of property, plant and equipment, intangible assets and investment property between the Company and its related entities were reported.

For the period  
from 1 January 2013 to 30 June 2013

Purchases from related entities	Purchase of services, merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
- from subsidiaries	2 360	368	1
<b>Total purchases from related entities</b>	<b>2 360</b>	<b>368</b>	<b>1</b>

For the period  
from 1 January 2012 to 30 June 2012

Purchases from related entities	Purchase of services, merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other transactions
- from subsidiaries	2 501	334	9
<b>Total purchases from related entities</b>	<b>2 501</b>	<b>334</b>	<b>9</b>



### 32. Related party transactions (continued)

	At	
	30 June 2013	31 December 2012
<b>Trade and other receivables, and loans from related entities</b>		
- from subsidiaries	362	224
<b>Total receivables from related entities</b>	<b>362</b>	<b>224</b>

	At	
	30 June 2013	31 December 2012
<b>Trade and other payables towards related entities</b>		
- towards subsidiaries	472	460
<b>Total payables towards related entities</b>	<b>472</b>	<b>460</b>

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

The remaining transactions, which were collectively significant, between the Company and the government and with entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, 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 2013 to 30 June 2013 amounted to PLN 357 million (for the period from 1 January 2012 to 30 June 2012 – PLN 381 million), the unsettled balance of liabilities from these transactions as at 30 June 2013 amounted to PLN 33 million (as at 31 December 2012: PLN 41 million), and the unsettled balance of receivables at 30 June 2013 amounted to PLN 6 million (at 31 December 2012: PLN 4 million). Revenues from sales from State Treasury companies in the period from 1 January 2013 to 30 June 2013 amounted to PLN 30 million (for the period from 1 January 2012 to 30 June 2012, PLN 28 million).

	For the period	
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
<b>Remuneration of the Management Board [PLN '000]</b>		
Salaries and other current employee benefits	3 786	1 966
Benefits due to termination of employment	-	42
<b>Total</b>	<b>3 786</b>	<b>2 008</b>

	For the period	
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
<b>Remuneration of the Supervisory Board [PLN '000]</b>		
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	515	838
<b>Total</b>	<b>515</b>	<b>838</b>

### 33. 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	
	30 June 2013	31 December 2012
<b>Contingent assets</b>	<b>501</b>	<b>414</b>
- disputed State Budget issues	1	7
- guarantees received	254	182
- promissory notes receivables	117	98
- real estate tax on underground workings	87	87
- inventions, implementation of projects	42	40
<b>Contingent liabilities</b>	<b>175</b>	<b>178</b>
- guarantees	11	5
- disputed issues, pending court proceedings	14	15
- liabilities due to implementation of projects and inventions	120	126
- real estate tax on underground workings	30	18
- other	-	14
<b>Liabilities not recognised in the statement of financial position</b>		
- liabilities towards local government entities due to expansion of the tailings pond	206	193
- liabilities due to finance leases	18	11

### 34. Employment structure

	For the period	
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
White-collar employees (persons)	4 687	4 608
Blue-collar employees (persons)	13 882	13 942
<b>Total:</b>	<b>18 569</b>	<b>18 550</b>

### 35. Subsequent events

#### Filing of suits requesting that resolutions of the General Meeting be repealed

On 5 August 2013 the Company received, from the Regional Court in Legnica, Section VI Economic, suits filed by shareholders of KGHM Polska Miedź S.A.:

- Ryszard Zbrzyzny, submitted to the court on 22 July 2013 "on the repeal of Resolution No. 35/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013 regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Leszek Hajdacki and Józef Czyczerski elected by the employees of KGHM Polska Miedź S.A.",
- Waldemar Brus, submitted to the court on 22 July 2013 "on the repeal of Resolution No. 35/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013 regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Leszek Hajdacki and Józef Czyczerski elected by the employees of KGHM Polska Miedź S.A."

The Regional Court in Legnica has not set a date for the hearing and committed the company to submit a response to the suits within 14 days from the date received. The response to the suits was submitted on 19 August 2013.

#### Payment of first instalment of dividend

On 14 August 2013, the Company paid to its shareholders the first instalment, in the amount of PLN 4.90 per share, of the dividend from profit for financial year 2012.

<b>SIGNATURES OF PERSONS REPRESENTING THE COMPANY</b>			
<b>DATE</b>	<b>FIRST, LAST NAME</b>	<b>POSITION / FUNCTION</b>	<b>SIGNATURE</b>
28 August 2013	Herbert Wirth	President of the Management Board	
28 August 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
28 August 2013	Wojciech Kędzia	Vice President of the Management Board	
28 August 2013	Adam Sawicki	Vice President of the Management Board	
28 August 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>
28 August 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 THE FIRST HALF OF 2013**

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Lubin, August 2013

## Contents of the Report of the Management Board on the Company's Activities

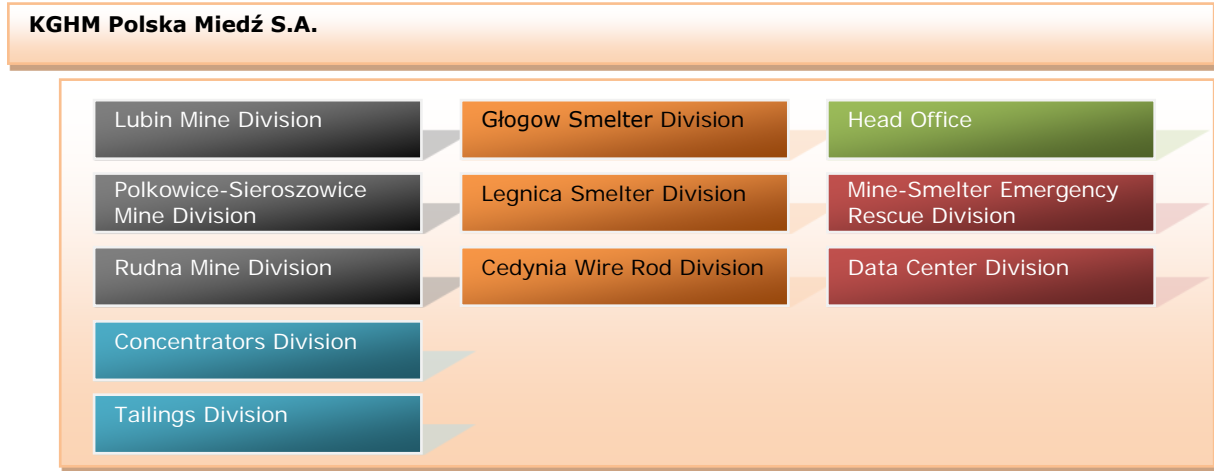
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## 1. Company profile

### 1.1. Company organisation

In the first half of 2013, the multi-divisional enterprise, 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 30 June 2013**



By a resolution of the Management Board of KGHM Polska Miedź S.A., from 1 July 2013 the name „KGHM Polska Miedź S.A. Head Office” was changed to „KGHM Polska Miedź S.A. Central Office”.

### 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 2013 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 member:

- Bogusław Szarek.

On 19 June 2013 Paweł Białek resigned from the function of Member of the Supervisory Board. On this same day the Ordinary General Meeting resolved the following:

- Dariusz Krawczyk and Ireneusz Piecuch were dismissed from the Supervisory Board,
- Marek Panfil, Andrzej Kidyba and Iwona Zatorska-Pańtak were appointed to the Supervisory Board.

The composition of the Supervisory Board as at 30 June 2013 was as follows:

- Aleksandra Magaczewska                      Chairwoman,
- Krzysztof Kaczmarczyk                      Deputy Chairman,
- Andrzej Kidyba
- Krzysztof Opawski
- Marek Panfil
- Jacek Poświata
- Iwona Zatorska - Pańtak

as well as the following employee-elected member:

- Bogusław Szarek

During the period from 30 June 2013 to the date of signing this Report there were no changes in the composition of the Supervisory 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 8th-term Management Board of KGHM Polska Miedź S.A. at 1 January 2013 was as follows:

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

From 1 January to the date of signing this Report there were no changes in the composition of the Management Board of KGHM Polska Miedź S.A.

The Supervisory Board segregated the duties of individual members of the Management Board in the following manner:

**President of the Management Board** – coordinates the work of the Management Board, directs the shaping of Company personnel policy. The duties of the President of the Management Board also include the initiation and direct supervision of the process of developing and updating the Company Strategy; supervision over 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, manages communication with the public, and supervises activities related to development of the Company's resource base.

**The I Vice President of the Management Board (Finance)** – manages activities with respect to financial management, including among others financial risk, financial controlling, activities with respect to realisation of the function through the Chief Accountant, who is Executive Director of the Financial Services Center, as well as sales and logistics.

**The Vice President of the Management Board (Production)** – manages activities with respect to the manufacture of Company products and services and supervises manufacturing activities in Group subsidiaries, including core mining and metallurgical production, as well as with respect to the acquisition, construction and readiness of 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, including determining the manner of organising the Group and its legal forms; manages or coordinates activities related to the appropriate shaping of relations with the external business environment of the Company.

**The Vice President of the Management Board (Development)** – responsible for coordinating activities related to implementation of the Core Strategy in all of the Group's operational areas, supervises realisation of the Primary Development Plan, and manages the Company's capital investments.

## 1.2. Employment and remuneration

### Level and structure of employment

In the first half of 2013, employment in the Company was stable, as shown in the following table.

**Table 1. End-of-period employment**

	30.06.2012	31.12.2012	30.06.2013	Change 31.12.12=100
Mines	12 513	12 618	12 606	99.9
Metallurgical plants	3 770	3 775	3 720	98.5
Other divisions	2 196	2 236	2 240	100.2
<b>Total</b>	<b>18 479</b>	<b>18 629</b>	<b>18 566</b>	<b>99.7</b>

### Average remuneration

There was an increase in average remuneration by 1.7% versus the comparable prior period, which was due to an increase in the basic salary rates of employees at the lowest salary categories due to an increase in the minimum salary and in the coal equivalent payment.

**Table 2. Total average monthly remuneration**

	2012	I-VI 2012	I-VI 2013	Change I-VI '12=100
Mines	9 794	8 984	9 058	100.8
Metallurgical plants	7 764	7 606	7 761	102.0
<b>Total</b>	<b>9 396</b>	<b>8 690</b>	<b>8 837</b>	<b>101.7</b>

### Relations with the trade unions

On 11 February 2013, the Management Board of KGHM Polska Miedź S.A. and the trade unions as a party to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. (ZUZP) signed Additional Protocol No. 14 to the ZUZP, providing among others for the following:

- conformance of the table of basic salaries to the minimum salary in force from 1 January 2013,
- an increase in the contribution to the Social Fund (ZFŚS) to be used for financing the costs incurred by parents who send their children to daycare and preschool.

The agreement entered into with the trade unions on 11 February 2013 regarding the shape of salaries and employee benefits in 2013 also provides for an increase in the basic contribution to the Employee Retirement Plan by 1 percentage point to 7%, beginning from 1 July 2013.

### 1.3. Production

In the first half of 2013, there was an increase in ore extraction (dry weight) versus the comparable prior year period due to an increase in daily extraction on workdays and to optimisation of work in the mines on holidays. The content of copper in ore fell from 1.60% to 1.58%. As a result, production of copper in ore increased by 912 t (0.4%).

Production of copper in concentrate increased by around 1.3 kt versus the first 6 months of 2012. This was mainly the result of an increase in mine production and improved floatation recovery.

Refined copper production increased versus the comparable period by 13 kt (4.8%) and was due to increased processing of both own concentrate as well as purchased copper-bearing materials (in the form of copper blister and copper scrap).

The lower production of metallic silver in the first half of 2013 was due to the lower content of silver in processed concentrate and to the maintenance in the Precious Metals Plant. Despite this, the current situation regarding charge materials with respect to silver should enable production to be realised in accordance with the Company's Budget assumptions for 2013.

The decrease in gold production was due to a lower content of the metal in consumed purchased copper-bearing materials in the form of concentrate and copper blister.

The volume of copper products– wire rod, round billets, oxygen-free rod and copper grains – was the result of market demand.

The planned 3-month maintenance shutdown of the flash furnace at the Głogów II smelter began on 15 July 2013. The production of refined copper will be realised according to plan.

**Table 3. Mine production**

	Unit	2012	I-VI 2012	I-VI 2013	Change I-VI '12=100
Copper ore (dry weight)	Mt	30.2	15.3	15.5	101.3
Copper content in ore	%	1.59	1.60	1.58	98.8
Copper content in ore	kt	479.3	243.7	244.6	100.4
Silver content in ore	t	1 342	694	699	100.7
Copper content in concentrate	kt	427.1	215.3	216.6	100.6
Silver content in concentrate	t	1 149	593	599	101.0



**Table 4. Metallurgical production**

	Unit	2012	I-VI 2012	I-VI 2013	Change I-VI '12=100
Refined copper	kt	565.8	272.9	286.0	104.8
of which from purchased copper-bearing materials	kt	146.7	68.7	72.7	105.8
Wire rod, OFE and CuAg rod	kt	242.9	122.4	124.5	101.7
Round billets	kt	18.0	10.8	8.2	75.9
Metallic silver	t	1 274	653	544	83.3
	<i>M troz</i>	<i>41.0</i>	<i>21.0</i>	<i>17.5</i>	<i>83.3</i>
Metallic gold	kg	916	445	353	79.3
	<i>k troz</i>	<i>29.45</i>	<i>14.31</i>	<i>11.35</i>	<i>79.3</i>
Crude lead	kt	30.0	14.7	14.0	95.2
Refined lead	kt	27.5	14.0	14.2	101.4

#### Process of obtaining concessions for mining areas currently in use

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

In view of the above, in 2010 the Company commenced the project CONCESSIONS 2013, which goal is to obtain concessions for the mining of copper ore from the aforementioned mining deposits 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 to completing the concession applications together with the required appendices.

The mining concession applications were submitted to the Concessions Body (the Ministry of the Environment) on 4 December 2012. The Concessions Body forwarded the Deposit Development Plans (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, for their opinion. The Deposit Development Plans, corrected in accordance with the suggestions of the reviewers, were sent to the MRC on 12 March 2013. In March 2013, the Concessions Body received information from the MRC on the supplementation and amendment by the company of the texts of the Deposit Development Plans. Following the receipt of the MRC's opinion, the Concessions Body added its concerns and suggestions to the contents of the concession applications. On 24 April 2013, the amended versions of the applications were submitted to the concessions body.

On 4 June 2013, the Concessions Body forwarded the concession applications together with the draft concessioning decisions for the agreement of 9 relevant mining municipalities (Lubin, the City of Lubin, Polkowice, Radwanice, Jerzmanowa, Rudna, Chocianów, Grębocice and Żukowice). By 18 June 2013 the mining municipalities (Gminas) had positively agreed the draft concessions for the 5 relevant deposits (in the form of a decision sent to the Ministry of the Environment).

On 3 and 4 July 2013, the Concessions Body sent to KGHM Polska Miedź S.A. agreements on the setting of mining usufruct rights, whose signing is a requisite condition for the obtaining concessions. These agreements on mining usufruct rights, signed by the Management Board of the Company, were sent to the Ministry of the Environment on 30 July 2013. In letters dated 17 and 18 July 2013 the Concessions Body informed the Company of the conclusion of proceedings regarding the granting of concessions for the mining of copper ore from the deposits „Polkowice”, „Radwanice-Wschód” and „Rudna”. Proceedings remain in progress for the deposit „Sieroszowice”, arising from the necessity to enter into an agreement with the State Treasury (represented by the Minister of the Environment) on obtaining the right to geological information on the rock salt located above the copper ore deposit in the Sieroszowice mine. Following receipt of the position of the Concessions Body (April 2013) on the need to purchase this right in connection with the process of seeking a mining concession for the copper ore deposit, KGHM Polska Miedź S.A. assessed the value of this information, and on 14 June 2013 submitted it to the Concessions Body together with the request to enter into an agreement. The Ministry of the Environment forwarded the value assessment for review by an expert, who accepted the mining assessment prepared by the company. The agreement prepared by the Concessions Body was signed by the Management Board of the Company and forwarded to the Ministry of the Environment. Proceedings on the granting of a concession for the mining of copper ore deposit „Sieroszowice” will be concluded only after the signing of an agreement on the use of geological information. The Company expects to receive the concession for the deposit „Sieroszowice” at the end of August/beginning of September 2013.

Administrative proceedings also remain in progress with respect to the „Lubin-Małomice” deposit. According to information obtained, the Concessions Body intends to prepare the justification for the concession for the mining of copper ore from the deposit „Lubin-Małomice” by the end of August 2013.

On 14 August 2013, the Minister signed three concession decisions, i.e. Concession No. 7/2013 for the mining of copper ore from the deposit „Polkowice”, Concession No. 8/2013 for the mining of copper ore from the deposit „Radwanice-Wschód” and Concession No. 9/2013 for the mining of copper ore from the deposit „Rudna”. On the same day, three agreements were also signed on the setting of mining usufruct rights for the concessions in question.

In addition, also on 14 August 2013, two decisions were issued on the expiration of the former concessions, i.e. Decision no. DGKks-4771-13/32466/12/MJ dated 14 August 2013, confirming the expiration as at 31 December 2013 of concession No. 24/96, dated 24 June 1996, granted to KGHM Polska Miedź S.A. in Lubin for the mining of copper ore from part of the deposit „Rudna” and Decision no. DGKks-4771-15/32438/13/JM dated 14 August 2013, confirming the expiration as at 31 December 2013 of concession No. 10/95, dated 9 May 1995, granted to KGHM Polska Miedź S.A. in Lubin for the mining of copper ore from the deposit „Radwanice-Wschód”.

The final task of the project CONCESSIONS 2013 is the execution of Mine Operating Plans for the 3 mines. Execution of the Mine Operating Plans and their submission for approval is planned in October 2013. Pursuant to the Geological and Mining Law, the mining supervisory body has 30 days for approval.

Additionally, the Management Board believes that the probability of not receiving the remaining 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.

#### 1.4. Product sales structure

In the first half of 2013, versus the comparable prior year period, the Company recorded an increase in the volume of copper sales by 4% (10.7 kt). There was a change in the sales structure, i.e. a decrease in the sales volumes of copper rod, OFE rod and round billets by 3% (4.5 kt) alongside higher cathode sales by 10% (15.3 kt).

The volume of sales of precious metals was lower versus the comparable prior year period, and decreased for silver by 8% (48.2 t) and for gold by 12% (56 kg).

**Table 5. Sales volume for basic products**

	Unit	2012	I-VI 2012	I-VI 2013	Change I-VI '12=100
Copper and copper products	kt	580.3	287.1	297.8	103.7
- of which export *	kt	466.2	229.5	240.3	104.7
Silver	t	1 267	644	596	92.5
- of which export *	t	1 247	633	585	92.4
Gold	kg	908	461	405	87.9
- of which export *	kg	635	253	181	71.5

\* including sales to European Union countries

**Table 6. Revenues from the sale of products and services (PLN million)**

	2012	I-VI 2012	I-VI 2013	Change I-VI '12=100
Copper and copper products	15 525	7 811	7 395	94.7
- of which export *	12 416	6 220	5 967	95.9
Silver	4 301	2 187	1 704	77.9
- of which export *	4 235	2 150	1 673	77.8
Gold	156	78	60	76.9
- of which export *	110	43	26	60.5
Other products and services	528	268	277	103.4
- of which export *	10	6	91	×15.2
<b>Total</b>	<b>20 510</b>	<b>10 344</b>	<b>9 436</b>	<b>91.2</b>
<b>- of which export *</b>	<b>16 771</b>	<b>8 419</b>	<b>7 757</b>	<b>92.1</b>

\* including sales to European Union countries

In the first half of 2013, total revenues from the sale of KGHM Polska Miedź S.A. products amounted to PLN 9 436 million, and were lower by 9% than revenues achieved in the comparable period of 2012, mainly due to the decrease in metals prices: copper on the London Metals Exchange (LME) and silver on the London Bullion Market (LBMA). With respect to sales of copper and copper products, revenues decreased by 5%. Revenues from silver sales versus the comparable period of 2012 were lower by 22%, while revenues from gold sales were lower by 24%. In terms of the export of other products and services there was an approx. 15-times increase in revenues due to centralisation of sales of by-products.

Revenues from sales in the first half of 2013 reflect the positive result from the settlement of hedging instruments in the amount of PLN 166 million (in the comparable prior year period, PLN 141 million).

### Geographical structure of product sales

In the first half of 2013, the volume of domestic sales of copper and copper products represented 19% of total copper sales, with export and European Union sales accounting for 81%. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic, France, Hungary and Italy. During the first six months of 2013, the volume of 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 the United Kingdom, Switzerland and Belgium.

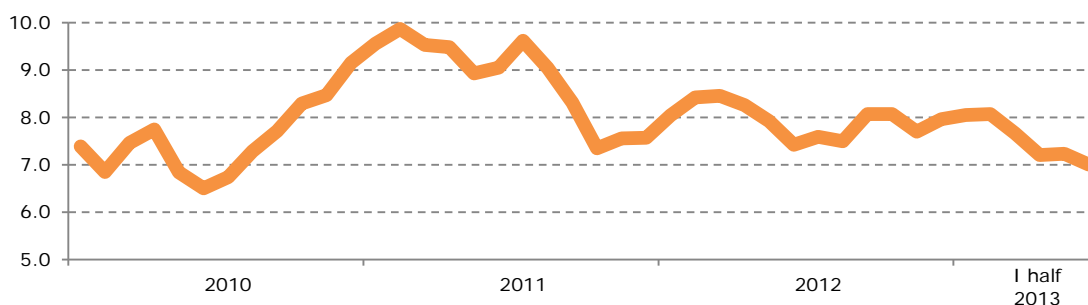
### Macroeconomic sales conditions

Copper prices in the first half of 2013 ranged between 6600–8300 USD/t, with the falling trend mainly due to the global economic slowdown and the partial withdrawal of money by investors from the base materials market. Other factors which had an impact on copper prices were the high volume of copper inventories in global and customs warehouses and expectations of an accelerated increase in metal production from investment projects under development in the mining sector.

In terms of the silver market, prices ranged from 18-33 USD/ounce, also remaining in a falling trend. The decrease in prices was mainly due to the announcement of the gradual reduction by the American Federal Reserve (FED) of the program of purchasing financial assets from the market (Quantitative Easing) and potential monetary tightening, which has a direct impact on reducing fears of high, uncontrolled inflation.

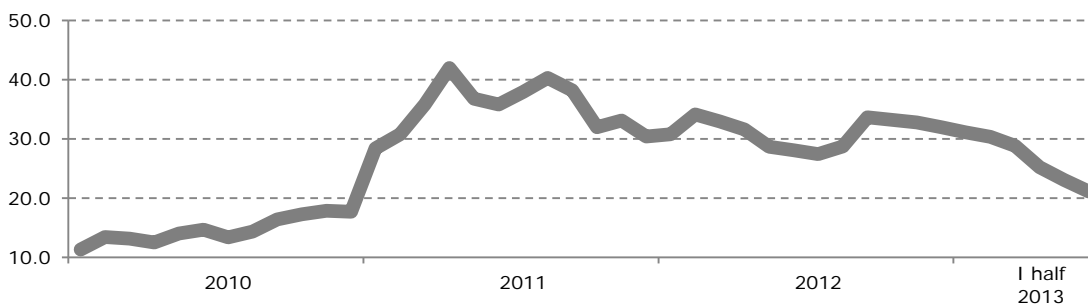
The average copper price in the first half of 2013 on the London Metal Exchange (LME) amounted to 7 540 USD/t and was 7% lower than in the first half of 2012, when it reached 8 097 USD/t.

**Chart 1. Copper prices on the LME ('000 USD/t)**



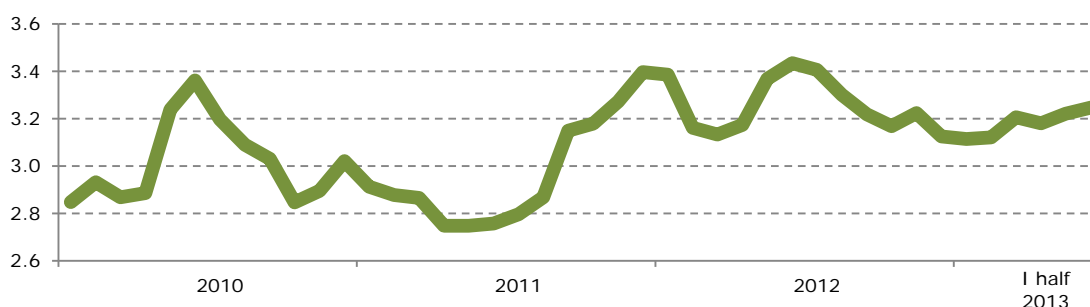
The average **silver price** according the London Bullion Market (LBMA) in the first half 2013 amounted to 26.63 USD/troz (856 USD/kg), meaning a decrease by 14% versus the average price in the first half of 2012 – 31.06 USD/troz (999 USD/kg).

**Chart 2. Silver prices per the LBMA (USD/troz)**



The first half of 2013 was marked by a strong depreciation of the Polish zloty versus the USD and EUR. From the start of January, the USD and EUR strengthened versus the zloty respectively: 8% and 6%. The USD/PLN exchange rate fluctuated mainly in the range of 3.05 – 3.33. A stronger reaction on the PLN market was seen from the start of May, when foreign investors began to withdraw from the Polish debt market, convinced they were facing the end of the program of purchasing financial assets from the market (Quantitative Easing) conducted by the FED. The average USD/PLN (NBP) exchange rate in the first half of 2013 amounted to 3.18 USD/PLN and was lower versus the first half of the prior year by 3% (3.27 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 7.

**Table 7. Significant metals and currency prices for the Company's operations**

	Unit	2012	I-VI 2012	I-VI 2013	Change I-VI'12=100
Average copper price on the LME	USD/t	7 950	8 097	7 540	93.1
Average silver price on the LBMA	USD/troz	31.15	31.06	26.63	85.7
Average NBP USD/PLN exchange rate	USD/PLN	3.26	3.27	3.18	97.2

### 1.5. Significant contracts for the activities of the Company

In the first half of 2013, the Company entered into three contracts of significance for the Company's activities:

- A contract for silver sales in 2013 entered into on 21 January 2013 between KGHM Polska Miedź S.A. and HSBC Bank USA N.A. London Branch. The estimated value of the contract is PLN 1 672 million. The contract meets the criteria used for describing the contract as significant together with other contracts from the last 12 months prior to its signing.
- A contract for the sale of copper cathodes in 2013 entered into on 28 January 2013 between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH. The estimated value of the contract is PLN 1 524 million. The contract meets the criteria used for describing the contract as significant together with other contracts from the last 12 months prior to its signing.
- A contract for the sale of copper wire rod in the years 2013-2014 entered into on 31 January 2013 between KGHM Polska Miedź S.A. and Prysmian Metals Limited. The estimated value of the contract is from PLN 2 382 million to PLN 2 865 million.

A significant agreement/contract is understood as being an agreement/contract whose value represents at least 10% of the equity of KGHM Polska Miedź S.A. In addition, also understood as being a significant agreement/contract are two or more agreements/contracts entered into by KGHM Polska Miedź S.A. or a subsidiary thereof with a single entity or, to the extent that KGHM Polska Miedź S.A. using its best efforts is able to determine the type of relationship, with a subsidiary of the given entity during a period of less than 12 months, if the total value of these agreements/contracts meets the above criteria (10% of the equity).

### 1.6. Disputed issues

As at 30 June 2013, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. did not exceed 10% of equity and amounted to PLN 252 million, including receivables of PLN 59 million and liabilities of PLN 193 million.

In addition, in the subsidiaries of the Company the value of proceedings amounted to PLN 145 million, including receivables of PLN 84 million and liabilities of PLN 61 million.

**Table 8. Largest proceedings involving the liabilities and receivables of KGHM Polska Miedź S.A. at the end of the first half of 2013**

<b>Relating to liabilities due to:</b>	
<b>Setting additional royalties for the extraction of copper ore for the period from the start of 2006 to the end of the 3rd quarter of 2011</b>	<p>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 additional royalties for the extraction by KGHM Polska Miedź S.A., for the period from the start of 2006 to the end of the 3rd quarter of 2011, of copper ore from deposits located in these municipalities and to allow them to participate as parties in these proceedings.</p> <p>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.</p> <p>The Minister of the Environment, in decisions dated 11 April 2012, discontinued the proceedings declaring that they were groundless. The municipalities submitted appeals dated 26 April 2012 to the Minister of the Environment to reopen these proceedings. By decisions taken in August 2012, the Minister of the Environment upheld the appealed decisions.</p> <p>The claims of the municipalities, filed on the above decisions to the Voivodeship Administrative Court, were dismissed at a hearing on 31 January 2013. In April 2013, the municipalities of Polkowice, Jerzmanowa, Lubin, the City of Lubin filed cassation appeals against the decision to the Supreme Administrative Court. A date has not been set to hear the cassation appeals.</p> <p>The judgement of the Voivodeship Administrative Court on 31 January 2013, dismissing the claims of the municipality of Radwanice, gained legal force on 12 April 2013.</p> <p>In the Company's opinion the claims of the four municipalities are unfounded, and therefore will not have a financial impact on KGHM Polska Miedź S.A.</p>
<b>Royalties for use of invention project no. 1/97/KGHM</b>	<p>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 information on 14 January 2008 on the filing of a suit. Each of the plaintiffs in this suit is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8th period of the project's application (calendar year 2006).</p> <p>In accordance with a judgement of the Regional Court in Legnica, in June 2012 a court expert issued a further opinion regarding the methodology for calculating the economic effects by the plaintiffs and the Company for 2006, being the basis for setting potential royalties. The Company questioned the opinion, and requested that supplementary opinion be prepared.</p> <p>At a hearing on 13 November 2012, the Court admitted evidence from a supplementary opinion, which was submitted in April 2013. In May 2013, the Company requested that additional expert clarifications be submitted on the opinion.</p> <p>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.</p>
<b>Return of costs of protecting against mining damage</b>	<p>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.</p> <p>The Regional Court, by a judgement on 26 February 2013, ordered KGHM Polska Miedź S.A. to pay the amount of PLN 0.3 million. Both parties filed appeals: the defendant in the amount of PLN 0.3 million, and the plaintiff in the amount of PLN 16 million. The Appeals Court has not set a date for a hearing.</p> <p>In the Company's opinion the claim is unfounded and should be dismissed. However, due to the complex nature of the issue and the decision made by the Regional Court, it is difficult to say what the final outcome will be.</p>

**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 6th and 7th periods (calendar years 2004 – 2005).

The court has combined this matter with the claims of the 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, for mutual hearing.

Proceedings are in progress. In the Company's opinion the payment of royalties to the project's authors was unfounded.

## 2. Investments and development

### 2.1. Equity investments

As at 30 June 2013, KGHM Polska Miedź S.A. directly owned shares of 22 subsidiaries, 1 company being a joint venture, 2 other companies (in which the share is less than 20%) and investment certificates in 5 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) had their own groups.

KGHM Polska Miedź S.A. has equity investments in entities engaged in various businesses. They offer mainly products and services both related to the core business and with servicing the core business of KGHM Polska Miedź S.A., including the 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, the manufacture of mining machinery and equipment, the production of explosives and research and development. The remaining activities, unrelated to the core business of the Company, include the providing of services in areas such as transportation, health and cash investing.

**Diagram 2. Entities in which as at 30 June 2013 KGHM Polska Miedź S.A. directly held shares and investment certificates\***

<b>KGHM Polska Miedź S.A.</b>			
<b>KGHM Ecoren S.A.</b>	<b>100%</b>	<b>„MCZ” S.A.</b>	<b>100%</b>
<b>„Energetyka” sp. z o.o.</b>	<b>100%</b>	<b>Zagłębie Lubin S.A.</b>	<b>100%</b>
<b>PeBeKa S.A.</b>	<b>100%</b>	<b>Fermat 1 S.à r.l. ***</b>	<b>100%</b>
<b>KGHM ZANAM Sp. z o.o. **</b>	<b>100%</b>	<b>KGHM Kupfer AG</b>	<b>100%</b>
<b>POL-MIEDŹ TRANS Sp. z o.o.</b>	<b>100%</b>	<b>KGHM (SHANGHAI) COPPER TRADING CO., LTD.</b>	<b>100%</b>
<b>KGHM Metraco S.A.</b>	<b>100%</b>	<b>KGHM Kupferhandelsges.m.b.H.i.L.</b>	<b>100%</b>
<b>PHP „MERCUS” sp. z o.o.</b>	<b>100%</b>	<b>KGHM TFI S.A.</b>	<b>100%</b>
<b>INOVA Spółka z o.o.</b>	<b>100%</b>	<b>KGHM I FIZAN</b>	<b>100%</b>
<b>KGHM CUPRUM sp. z o.o. - CBR</b>	<b>100%</b>	<b>KGHM II FIZAN in liquidation</b>	<b>100%</b>
<b>CBJ sp. z o.o.</b>	<b>100%</b>	<b>KGHM III FIZAN</b>	<b>100%</b>
		<b>KGHM IV FIZAN</b>	<b>100%</b>
		<b>KGHM V FIZAN</b>	<b>100%</b>
		<b>TUW - CUPRUM</b>	<b>94%</b>
		<b>KGHM LETIA S.A.</b>	<b>85%</b>
		<b>NITROERG S.A.</b>	<b>85%</b>
		<b>BIPROMET S.A.</b>	<b>66%</b>
		<b>„Elektrownia Blachownia Nowa” sp. z o.o.</b>	<b>50%</b>
		<b>TAURON Polska Energia S.A. ****</b>	<b>10%</b>
		<b>Abacus Mining &amp; Exploration Corporation</b>	<b>7%</b>

\* diagram does not include KGHM CONGO S.P.R.L. in liquidation, over which control was lost,

\*\* change of name (formerly DFM ZANAM-LEGMET Sp. z o.o.),

\*\*\* Fermat 1 S.à r.l. is the indirect owner, among others of KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC.,

\*\*\*\* share of KGHM Polska Miedź S.A. according to current report dated 23 March 2011

In the first half of 2013, the subsidiaries did not enter into significant transactions with related entities under other than arm's length conditions.

### Main equity investments of KGHM Polska Miedź S.A.

#### KGHM INTERNATIONAL LTD.

Amongst the main equity investments are those involving development of the resource base and increased copper production, under which the leading place is held by the indirect subsidiary KGHM INTERNATIONAL LTD. This is the largest equity investment both in terms of the amount incurred on the investment as well as its share in realisation of the strategy of the KGHM Polska Miedź Group.

The KGHM INTERNATIONAL LTD. Group, apart from its operation of mines extracting copper (and other metals) located in Canada, the USA and Chile, realise two main development projects: Sierra Gorda, a project in the preoperational stage located in northern Chile (advanced construction of an open pit mine and processing plant on one of the largest new deposits of copper and molybdenum in the world) and the exploration project Victoria

in the Sudbury Basin of Canada (management of a deposit containing copper, nickel and precious metals and construction of an underground mine).

The most important production assets of the KGHM INTERNATIONAL LTD. Group, providing over 85% of copper production, are the following mines:

- Robinson – an open pit mine working a porphyry/skarn deposit of copper ore, located near the town of Ely in Nevada, USA. The extracted ore is processed through flotation. The end product is a concentrate of copper and gold.
- Levack/Morrison - located at the edge of the town of Sudbury, in Ontario, Canada. It is connected on the east with the McCreedy West mine. This is an underground mine, whose end product is a copper/nickel ore. Associated metals are gold, platinum and palladium. Since 2012 operations at the mine have made use of leased infrastructure of the neighbouring Craig mine, belonging to Xstrata Nickel.
- Franke - located near the town of TalTal, in Region II in Chile. Extraction from the Franke mine is by traditional open pit methods from two deposits: China and Franke. Processing of the ore, due to its nature, is by heap leaching, solvent extraction and electrowinning. The end product is refined copper cathodes.

**Table 9. Basic economic results of the KGHM INTERNATIONAL LTD. Group**

	Unit	2012*	I-VI 2012*	I-VI 2013	Change I-VI'12=100
Copper production	kt	110.5	52.1	55.1	105.8
Nickel production	kt	4.8	2.4	2.3	95.8
Production of precious metals **	koz	95.2	45.4	53.0	116.7
of which gold	koz	47.9	22.3	34.9	156.5
Cash cost of copper production– C1	USD/lb	2.43	2.66	2.13	80.1
<b>Financial results of the KGHM International Ltd. Group</b> (excluding final accounting for the fair value of acquired assets)					
Net revenues from sales***	M PLN	4 501	2 106	1 886	89.6
Profit on mining operations	M PLN	601	178	293	164.6
Adjusted EBITDA****	M PLN	1 082	477	466	97.7
Profit for the period	M PLN	338	16	53	×3.3

\* for the full reporting period

\*\* gold, platinum, palladium

\*\*\* revenues from sales less TC/RC

\*\*\*\* profit on mining operations increased by amortisation/depreciation, and fee for management of the Sierra Gorda JV, less administrative expenses

Despite the closure of the Podolsky mine at the end of the first quarter of 2013, copper production by the KGHM INTERNATIONAL LTD. Group increased in the first half of 2013 by 6% versus the comparable prior year period. An increase in copper production was recorded in all of the existing mines, apart from Morrison, in which remediation work was performed in the Craig shaft and a decrease was recorded in average copper content in ore from 9.1% in the first half of 2012 to 7.8% in the first half of 2013. In the Robinson mine, in the first half of 2013 production of copper and gold increased respectively by 22% and 79% versus the comparable prior year period, thanks to a significant increase in metals recovery during flotation and to a significant increase in milling capacity by the processing plant.

The unit cash cost (C1) in KGHM INTERNATIONAL LTD. achieved in the first half of 2013 was lower by 20% than in the first half of 2012. The decrease in the unit cost was due to lower production costs and to higher by-product revenues, with the same volume of copper sold. The main impact on this decrease was from the realisation of cost cutting initiatives at the Robinson mine, which produced 57% of the total amount of copper sold by KGHM INTERNATIONAL LTD in the first half of 2013, and to an over 50% increase in revenues from precious metals sales due mainly to the high recovery achieved by this mine's processing plant.

The decrease in revenues from sales recorded by the company in the first six months of 2013 versus the comparable prior year period by over 10%, (to PLN 1 886 million) was due to a significant drop in metals prices alongside the positive impact of a higher sales volume.



Despite the lower sales prices, the result on mining activities was around 65% higher versus the prior year and amounted to PLN 293 million. The result was favourably impacted by the lower costs of production alongside higher production and sales volumes.

The profit for the period in the amount of PLN 53 million, higher than that of the prior year by PLN 37 million, mainly includes the following: higher interest income on the loan granted to Sierra Gorda, the financial impact of one-off events comprising among others an impairment loss on assets, foreign exchange losses and an increase in the real income tax rate, in comparison to the lack of such events in the comparable prior year period.

On 19 June 2013, KGHM International Ltd. entered into a USD 200 million (PLN 664 million) corporate facility. The facility was used to secure a liability of USD 137.5 million (PLN 456 million - per the average exchange rate of the NBP at the end of June 2013) in connection with an agreement for the power supply to the Sierra Gorda project in the form of letter of credit.

On 1 August 2013, KGHM International Ltd., FNX Mining Company Inc. and Vale signed an off-take agreement for all of KGHM International Ltd.'s production from its mines in the Sudbury Basin in Ontario, Canada. The estimated value of the agreement for the 5 years following the effective date of the agreement, i.e. from 1 January 2013 to 31 December 2017, is approximately USD 1.13 billion (PLN 3.6 billion – based on the USD/PLN exchange rate set by the National Bank of Poland on 31 July 2013).

In the first quarter of 2013 final accounting for was made of the acquisition on 5 March 2012 of the Quadra FNX Mining Ltd. Group (currently KGHM International Ltd.). After final accounting, the loss of KGHM International Ltd. for the period from 1 January to 30 June 2013 amounts to PLN (23) million. Analogously, the loss for the period from the moment of acquisition to 30 June 2012 amounts to PLN (192) million. The adjustments which arose due to final accounting for the transaction are mainly in respect of the costs of depreciation/amortisation and of realisation of an adjustment to arrive at the fair value of non-current assets, inventories and liabilities.

### **Sierra Gorda Project**

Sierra Gorda is a joint venture (under the company Sierra Gorda SCM) of KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group: Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%). The project is located in northern Chile. Estimated Mineral Reserves: 1.3 billion tonnes of ore at 0.39% Cu and 0.024% Mo.

The Sierra Gorda project comprises the construction of an open-pit mine and processing plant on one of the largest new deposits of copper and molybdenum in the world. 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.

In the first half of 2013, work continued on stripping the overburden. By the end of June 91.5 million tonnes of waste material were mined, i.e. 45% of the amount required before commissioning. In the second quarter of 2013, the engineering stage was largely completed in terms of the detailed design of the processing plant, sea water pipeline and tailings facility. The main work involving construction of basic infrastructure, including social buildings, fresh water supplies etc., was completed. In the second quarter there was significant progress on constructing the foundations of the processing facilities, and work continued on the assembly of mining machinery and other equipment. The project is in an advanced stage of realising construction and assembly work, and at the end of the first half 51% of the project was completed.

In addition, key long term contracts (20–22 years) were signed for the construction of a pipeline and the delivery of sea water, railway transport, construction of a power distribution line and delivery of electricity, and for port services. A collective labour agreement was negotiated and signed with the employees.

In the first half of 2013, the project's CAPEX estimation was updated. Total initial capital expenditure amounts to USD 3.9 billion (PLN 12.9 billion\*) versus USD 2.9 billion (PLN 9.6 billion\*) forecast in February 2011. The main factors responsible for increasing expenditure are factors beyond the control of the investor: rising costs of labour, services and materials in the mining sector in Chile, inflation and appreciation of the peso, increased legal requirements regarding buildings and environmental protection and changes in the project's scope. The amount of the updated CAPEX does not include potential savings, of which hedge policy applied and the possibility of implementing a program of leasing mining equipment for the project. In the first half of 2013, Sierra Gorda S.C.M. signed finance lease agreements for a period of 84 months, for various mining equipment in the amount of USD 48 million (PLN 159 million\*).

As at 30 June 2013, in respect of the Sierra Gorda project a total of USD 3.5 billion (PLN 11.6 billion\*) in contracts had been signed, i.e. 87% of the updated budget, of which approximately USD 2.4 billion (PLN 8.0 billion\*) has been incurred.

The Sierra Gorda project is financed by the joint venture partners (KGHM INTERNATIONAL LTD. and Sumitomo Group companies) and by loan funds. Project finance in the amount of USD 1.0 billion (PLN 3.3 billion\*) was granted for a period of 9.5 years by a consortium of financial institutions: Japan Bank for International Cooperation and by the four private banks Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd. and The Sumitomo Trust & Banking Co., Ltd. This is a project finance loan without recourse to KGHM INTERNATIONAL LTD. As at 30 June 2013, the JV had drawn down USD 920 million (PLN 3.1 billion\*) on the project loan. As at 30 June 2013, the JV had cash of USD 667 million (PLN 2.2 billion\*).

\*per the average exchange rate of the NBP at the end of June 2013.

### **Victoria Project**

FNX Mining Company Inc., a company belonging to the KGHM INTERNATIONAL LTD. Group, is realising the exploration project Victoria, located in the Sudbury Basin of Ontario, Canada. Estimated project resources: 14.5 million tonnes of ore with average grade of 2.5% Cu and 2.5% Ni. In addition, the ore is also rich in precious metals (gold, platinum), with a projected grade of 7.6 g/t. This is planned as a deep underground mine. The project is currently developing an economic feasibility study.

The Victoria project is the most important development project being realised by the KGHM INTERNATIONAL LTD. Group (the subsidiary FNX Mining Company Inc. owns 100% of the project). In the first half of 2013, discussions continued with Vale regarding ownership of the future project (Vale held a back-in right to the Victoria project).

On 1 August 2013, an agreement was entered into between subsidiaries of KGHM Polska Miedź S.A.: KGHM International Ltd. and FNX Mining Company Inc., with Vale Canada Limited (a subsidiary of Vale S.A.), which provides the framework for KGHM International Ltd. to develop the Victoria project. KGHM International Ltd. will retain its 100% ownership of the Victoria project, and Vale will receive a 2.25% Net Smelter Return royalty on all future production from the project.

As part of the project work continued on the project plan along with discussions with First Nations, as well as on development of a mine closure plan which is required in order to submit an application for a permit to build the mine.

### **KGHM AJAX MINING INC.**

Amongst the important foreign companies which are carrying out the strategy of developing the resource base is also the indirect subsidiary KGHM AJAX MINING INC., which is realising the Afton-Ajax copper and gold resource project in British Columbia, Canada.

The Afton-Ajax project is located in Kamloops in British Columbia, Canada. Estimated project resources: 512 million tonnes of ore with an average grade of 0.31% Cu and 0.19 g/t Au. Ownership structure of the project: 80% KGHM AJAX MINING INC., 20% Abacus Mining & Exploration Corp. This is planned as an open pit mine.

To maximise the value of the Afton-Ajax project and fully utilise its potential, the company began work on a revised mine plan which will result in lower impact by the mine on the surrounding municipal infrastructure. In addition, in the first half of 2013, KGHM AJAX MINING INC. carried out geophysical work over the area covered by the project, as a result of which a significant potential for copper mineralisation was discovered. Based on this, the company intends to conduct further surveys and drilling to more fully identify the deposit's potential.

### **Weisswasser Project**

The Weisswasser project is located on the German side of the Nysa łużycka river, in the vicinity of the town of Weisswasser (Saxony, Germany). The concession area (Weisswasser and Weisswasser II) has a surface area of approximately 550 km<sup>2</sup>. Ownership structure of the project: 100% KGHM Kupfer AG. Planned mine type: underground mine.

In 2012, the first stage of exploratory work on the Weisswasser concession was completed. Four drillholes were executed as well as geophysical research and chemical analysis of the bore samples. Copper and silver mineralisation was identified which is similar in nature to the ore currently being mined by KGHM Polska Miedź S.A. in the Polish Copper Belt.

In 2013, work began on the first phase of stage II of the Weisswasser project. This phase will comprise surface geophysical research. In June 2013 the Saxon Mining Office issued an exploration permit for the Weisswasser II area, located to the southwest of the Weisswasser area. Conclusion of the work is planned for 2014.

This company is performing specialised tasks related to exploring areas of potential base materials mineralisation, resulting from the strategy of developing the resource base of KGHM Polska Miedź S.A.

#### **Other investments**

From the point of view of ensuring continuity of the core production of KGHM Polska Miedź S.A., of importance are investments in companies operating in Poland on behalf of this core production, including among others PeBeKa S.A., KGHM ZANAM Sp. z o.o., KGHM Metraco S.A., „Energetyka” sp. z o.o. and others.

In terms of the amount of capital committed, an important equity investment is in the shares of TAURON Polska Energia S.A., a company listed on the Warsaw Stock Exchange.

#### **Changes in the structure of the KGHM Polska Miedź S.A. Group**

In the first half of 2013, KGHM Polska Miedź S.A. realised equity investments in the total amount of PLN 92 million, through the acquisition of shares in the subsidiary KGHM Kupfer AG and the purchase of Investment Certificates in the Funds managed by KGHM TFI S.A.

In February 2013, KGHM Polska Miedź S.A. acquired newly-issued shares in the increased share capital of the subsidiary KGHM Kupfer AG for cash in the amount of EUR 1.6 million (PLN 7 million). The funds obtained from this increase in capital were used to finance the first phase of research in stage II of the Weisswasser project, comprising the exploration for and investigation of a copper deposit on the German side of the Nysa Łużycka river, in the vicinity of the town of Weisswasser (Saxony, Germany).

In April 2013, KGHM Polska Miedź S.A. acquired investment certificates in KGHM II FIZAN, in the total issue amount of PLN 42 million. The funds obtained from this issuance of certificates were invested in accordance with an investment decision of the General Meeting. KGHM Polska Miedź S.A. is the only participant in the KGHM II FIZAN fund. In June 2013 the General Meeting of KGHM II FIZAN adopted a resolution to dissolve the fund. Liquidation of the fund is in progress, with the fund's investments being transferred to other funds managed by KGHM TFI S.A.

In May 2013, two new closed-end investment funds were registered: KGHM IV FIZAN and KGHM V FIZAN, managed by KGHM TFI S.A. KGHM Polska Miedź S.A. acquired investment certificates in KGHM IV FIZAN with a total issue price of PLN 1 million and investment certificates in KGHM V FIZAN with a total issue price of PLN 42 million. The Company is the only participant in these funds. The funds obtained from this issuance of certificates will be invested in accordance with the investment decision of the General Meeting. The objective of KGHM IV FIAZAN is to realise commercial property-type projects, while that of KGHM V FIZAN is to invest in energy projects.

As a result of the process of liquidation, in February 2013 the indirect subsidiary Quadra Mining Australia PTY Limited, part of the KGHM INTERNATIONAL LTD. Group, was de-registered. The company had no operating activities.

#### **Intentions as regards equity investment directions**

##### **Development of the resource base**

The development of the resource base is one of the main goals of the strategy realised by KGHM Polska Miedź S.A. Investments in this area are aimed at:

- conducting exploration projects, and
- developing the resource base through mergers and acquisitions of mining assets.

In terms of exploration projects, with respect to work aimed at documenting areas immediately adjacent to or in the vicinity of the mining concessions held by KGHM Polska Miedź S.A., work will be continued on obtaining concessions for the exploration for and evaluation of copper ore deposits in these areas. In June 2013, concessions were received for the exploration for and evaluation of copper ore deposits in the area „Retków-Ścinawa”. Proceedings are currently in progress at the concessioning body regarding the applications of KGHM Polska Miedź S.A. on the granting of concessions for the exploration for and evaluation of copper ore deposits in the areas „Głogów”, „Bytom Odrzański” and „Kulów-Luboszyce”. In addition, proceedings are in progress at the concessioning body regarding the modification of concessions for the evaluation of the areas „Gaworzyce” and „Radwanice”.

Based on a decision of the Saxon Mining Office – granting KGHM Kupfer AG (a subsidiary of KGHM Polska Miedź S.A.) permission for exploratory work in the area „Weisswasser II” – exploratory work will be continued in Saxony, Germany. In addition, KGHM Polska Miedź S.A. is pursuing a project called „Synklina Grodziecka”, with

respect to which in the first half 2013 the second stage of drilling commenced. This stage assumes the drilling of 6 boreholes and the acquisition of geological material, aimed at documenting the deposit. In April 2013, a concession application was submitted for the exploration for and evaluation of copper ore deposits in the area „Konrad”, which is directly adjacent to the concessioned area „Synklina Grodziecka”.

With respect to the realisation of projects aimed at developing the resource base, KGHM Polska Miedź S.A. also intends to take advantage of its experience gained during the acquisition of a Canadian company (currently KGHM International Ltd.). The actions of the Company will be aimed at searching for mining assets at the pre-production stage. It is assumed this will be possible through mergers, acquisitions or through joint ventures with a sector partner. These projects will meet the criteria set by KGHM Polska Miedź S.A. i.e.:

- resources: at least 1.5 million tonnes of copper equivalent,
- annual production: over 50 thousand tonnes of copper,
- life of mine: at least 10 years,
- cost of production: low, below the cost of production in KGHM,
- location: stable and mining friendly,
- stage of project: at least has a preliminary economic assessment (PEA).

### **Energy projects**

One of the directions for equity investments are energy projects at a national level, whose realisation will enable diversification of the structure of revenues and an increase in the market value of KGHM Polska Miedź S.A. The activities begun in 2012 have been continued in 2013.

Last year, KGHM Polska Miedź S.A. entered into a framework agreement („Agreement”) with the 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 Tęczysk pads. In the current period the parties continued their agreements and analyses.

In 2012, KGHM Polska Miedź S.A. and 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 June 2013, the parties to the project entered into an understanding to continue work related to the development of a draft agreement for the acquisition of shares in the aforementioned special purpose company. The understanding is in force until 30 September 2013 with the possibility of extending it by one quarter with the consent of all of the parties to the Understanding.

In addition, in 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, in order to fully realise an investment, comprising the preparation, construction and operation of an 850 MWe gas-steam block on grounds belonging to the Blachownia Power Plant Division of TAURON Wytwarzanie S.A. in Kędzierzyn Koźle. In the current period the special purpose company performed a competitive scenario analysis of the planned Elektrownia Blachownia power plant using various market scenarios and technological variants. Work continues on optimising the project.

### **Other intentions**

KGHM Polska Miedź S.A. intends to provide equity support to entities of the Group whose strategies and scopes of operation are closely connected with the core business of KGHM Polska Miedź S.A. This support will be aimed to a large extent at investments in new technology, maintaining production capacity and ensuring continuous operations by KGHM Polska Miedź S.A.

With respect to realisation of its corporate social responsibility (CSR) strategy, KGHM Polska Miedź S.A. intends to continue to support selected investments pursuing this strategy.

In addition, actions will be continued aimed at optimising the structure of the KGHM Polska Miedź S.A. Group, through the processes of restructurisation and liquidation, including among others within the KGHM INTERNATIONAL LTD. Group.

## **2.2. Capital expenditure**

In the first half 2013, capital expenditures amounted to PLN 864 million and were higher than in the prior year by 28%. During the first six months of 2013, in accordance with the Company Budget for 2013, 35% of the investments planned for 2013 were realised.

**Table 10. Structure of capital expenditures by Division (PLN million)**

	2012	I-VI 2012	I-VI 2013	Change I-VI '12=100
Mining	1 291	505	577	114.3
Metallurgy	274	100	203	203.0
Other activities	192	68	84	123.5
<b>Total</b>	<b>1 757</b>	<b>673</b>	<b>864</b>	<b>128.4</b>
Uncompleted development	9	-	29	x
<b>Total including uncompleted development</b>	<b>1 766</b>	<b>673</b>	<b>893</b>	<b>132.7</b>

**Table 11. Structure of capital expenditures by type of project (PLN million)**

	2012	I-VI 2012	I-VI 2013	Change I-VI '12=100
Local	1 010	397	454	114.4
Central	741	276	404	146.4
At the studies and analyses stage	6	-	6	x
<b>Total</b>	<b>1 757</b>	<b>673</b>	<b>864</b>	<b>128.4</b>
Uncompleted development	9	-	29	x
<b>Total including uncompleted development</b>	<b>1 766</b>	<b>673</b>	<b>893</b>	<b>132.7</b>

Capital expenditures, including expenditures incurred on uncompleted development, amounted to PLN 893 million, while PLN 919 million was spent (expenditures plus advances paid on future supplies and work, which will be included in expenditures upon technical handover).

Expenditures on development-related investments amounted to PLN 518 million, representing 60% of total expenditures.

Investments are 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 47%,
- locally-realised projects – these are replacement-related projects, and typical/repeatable development projects, minor conformatory and purchases, which represent around 53%.

The capital expenditures plan has provisioned for expenditures on investments at the studies and analyses stage – while this is a provision for early-stage projects, due to the potential benefits to the Company a financial provision was created.

The realisation of investments in the Company's Divisions in the current reporting period went according to the approved schedule:

- actions were undertaken aimed at preparing investments for realisation, which resulted in the preparation of documents, the acquisition of required construction permits, the conduct of tenders for the selection of work contractors and equipment suppliers as well as contracting for deliveries and services,
- work was performed and purchases made of machinery and equipment according to approved plans and signed contracts.

**Table 12. Major projects and facilities realised as at end-June 2013**

Construction of Gas-Steam Blocks at the Głogów and Polkowice Power Plants	<ul style="list-style-type: none"> <li>- Assembly completed on auxiliary installations for the recovery boilers for Polkowice and Głogów.</li> <li>- Additional work in progress on the units distributing power from the gas-steam blocks to the switching stations at the Rudna mine and the Głogów Smelter/Refinery.</li> </ul>
Deep Głogów	<ul style="list-style-type: none"> <li>- Work continued on realisation of major drift work with infrastructure – in the first 6 months of 2013, 1 040 meters of drifts were excavated – since 2005 a total of 44.4 km of drifts of the planned 128.2 km of drifts have been executed (35%).</li> <li>- With respect to construction of the GG-1 shaft, work continued on the shaft tower, while freezing of the rock mass and assembly of the finishing elements of the lightweight hoist housing is underway</li> </ul>

	<ul style="list-style-type: none"> <li>- A contract was signed with the general contractor for execution of the central surface-based cooling station and of the power aggregates station at the R-XI shaft.</li> </ul>
Construction of the SW-4 shaft	<ul style="list-style-type: none"> <li>- work continued on sinking the shaft – since work started the depth of the shaft has reached 1 182.0 m (in 2013, 144.5 m).</li> <li>- Major drift work continued – since the start of the project 13 228 m of major drift work was executed (in 2013, 1 634 m of drifts in the area of the SW-4 shaft).</li> </ul>
Concessions 2013	Detailed information on the process of obtaining the concessions may be found on page 64.
Exploration and documentation of the Synklina Grodziecka area	<ul style="list-style-type: none"> <li>- 9 holes drilled.</li> <li>- On 8 October 2012, KGHM Polska Miedź S.A. received a decision altering the concession for the exploration and documentation of the copper ore deposit in the Synklina Grodziecka area.</li> <li>- A contract was signed with a drilling contractor as well as with a contractor to provide supervision and geological inspection.</li> <li>- A Drilling Plan for the W-XI/4 borehole was submitted to the Regional Office in Wrocław for its approval.</li> </ul>
Development and implementation in the mining conditions of KGHM Polska Miedź S.A. of technology for the mechanical mining of ore (combine technology)	<ul style="list-style-type: none"> <li>- Delivery and assembly completed of components of the ACT Mining Complex in a mine section.</li> <li>- Delivery and assembly completed of the ACT Mining Complex in a pilot mine section.</li> <li>- Compatibility testing completed of the ACT Mining Complex.</li> <li>- Technical handover made of the ACT Mining Complex.</li> <li>- Mining trials of the ACT Mining Complex commenced at pilot section G-56.</li> </ul>
Modernisation and replacement of the machinery park in the mines	138 mining machines were purchased (of the planned 230), representing 60% of planned purchases of mining machinery in 2013
In addition, 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	
Pyrometallurgy Modernisation Program	<p>Contracts signed regarding:</p> <ul style="list-style-type: none"> <li>- realisation of a trestle bridge near the 4-chamber cooler,</li> <li>- construction of a building complex for the Flash Furnace, Electric Furnace and Recovery Boilers halls, the power building, renovation of naves A-B of the Anode Furnaces Section with construction of equipment and installations foundations,</li> <li>- realisation of construction and assembly work with three Main Contractors.</li> </ul>
Intensification of Processing at the Głogów II smelter	<ul style="list-style-type: none"> <li>- Development of construction and execution projects for design work for Stage I installations.</li> <li>- A contract was signed for the realisation of construction and assembly work to be performed during the maintenance shutdown at the Głogów II smelter to build an installation for the pyrometallurgical elimination of carbon from copper concentrate with an installation for the conditioning of process gases on the grounds of the Głogów II smelter.</li> <li>- Major contracts were signed for the realisation of equipment delivery and construction and assembly work to be performed during the maintenance shutdown at the Głogów II smelter.</li> <li>- Work begun related to renovation of the 110/6kV GST electrical station – delivery of switching gear.</li> </ul>
Replacement of floatation machinery	99 of the 113 machines planned for replacement and modernisation since 2009 were modernised and replaced (in the reporting period 12 machines were modernised and replaced)
Modernisation of classification units	This project foresees the replacement by 2017 of 78 units of hydrocyclone batteries throughout the Concentrators Division; in the reporting period 9 hydrocyclones were built
Development of the Żelazny Most mining tailings treatment pond (to ensure the ability to store floatation tailings after 2016)	<ul style="list-style-type: none"> <li>- Development was completed on an environmental inventarisation required for expansion of the Żelazny Most tailings pond.</li> <li>- Preliminary design work was performed, including a General Investment Plan.</li> <li>- The process is underway of making planning changes to the Study of Conditions and Directions of Area Development and the Municipal Area Development Plan in the Municipalities of Rudna, Grębocice and Polkowice.</li> </ul>

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In addition, facilities were realised related to improving and maintaining the operational safety of the Żelazny Most mining tailings treatment pond and to eliminating its environmental impact.

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Achieving rock salt production of 1 million tonnes/year	<ul style="list-style-type: none"><li>– Geological Documentation and a Deposit Management Plan were prepared.</li><li>– Work is in progress related to the development of documentation related to obtaining concessions. Based on these concessions an Agreement will be entered into regarding mining usufruct rights.</li></ul>
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Continuation of the project „Construction of a scrap melting unit at the Legnica Smelter”	<ul style="list-style-type: none"><li>– In June 2013 the mayor of the City of Legnica issued a Decision on the environmental conditions of the project to build a scrap melting unit.</li><li>– Procedures were initiated to obtain a Decision on the conditions of building and managing the terrain</li></ul>
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### 3. Review of financial position

#### 3.1. Assets

As at 30 June 2013, total assets amounted to PLN 29 147 million, meaning an increase versus the end of 2012 by PLN 970 million (3%).

**Table 13. Current and non-current assets (million PLN)**

	30.06.2012	31.12.2012	30.06.2013	Change 31.12.12=100	Structure
Property, plant and equipment	7 583	8 445	<b>8 920</b>	105.6	30.6
Shares, investment certificates in subsidiaries and investments in joint ventures	11 608	11 674	<b>11 766</b>	100.8	40.4
Deferred tax asset	274	266	<b>231</b>	86.8	0.8
Available-for-sale financial assets	851	882	<b>799</b>	90.6	2.7
Mine closure financial assets	139	141	<b>168</b>	119.1	0.6
Derivatives	1 630	1 123	<b>1 291</b>	115.0	4.4
Trade and other receivables	2 062	1 772	<b>1 930</b>	108.9	6.6
Inventories	2 856	2 992	<b>3 000</b>	100.3	10.3
Cash and cash equivalents	3 850	707	<b>823</b>	116.4	2.8
Other assets	156	175	<b>219</b>	125.1	0.8
<b>Total assets</b>	<b>31 009</b>	<b>28 177</b>	<b>29 147</b>	<b>103.4</b>	<b>100.0</b>

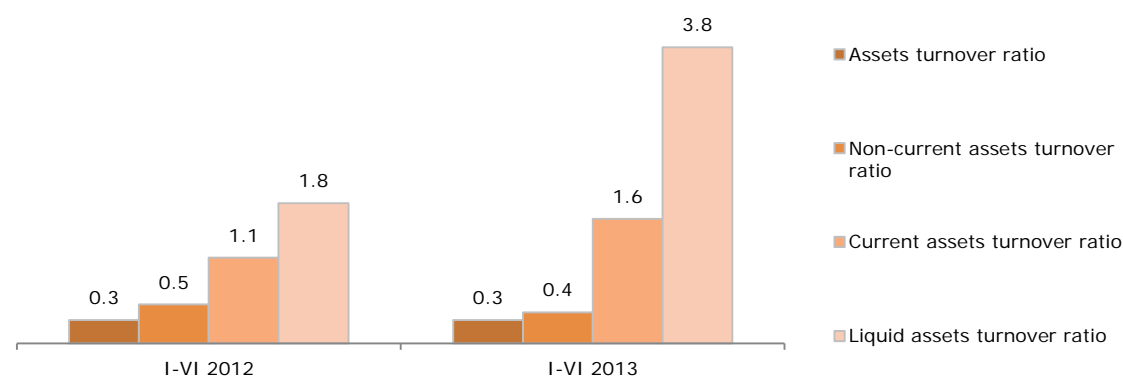
The most important changes in carrying amount versus 31 December 2012 were in the following major asset items:

- Shares and investment certificates – an increase by PLN 92 million due to the acquisition of investment certificates for the amount of PLN 85 million and to an increase in the share capital of KGHM Kupfer AG by PLN 7 million. Equity investments are presented in detail on pages 69-73.
- Cash and cash equivalents – in the first half of 2013, the Company increased its cash resources by PLN 116 million to PLN 823 million. The higher level of cash is related to the substantial expenditures incurred in 2012, i.e. acquisition of the shares of a Canadian company (currently KGHM International Ltd.) and the payment of a shareholder dividend. In the first half of 2013, equity expenditures were significantly lower, while the shareholder dividend will impact cash flow in the second half of the year.
- Receivables – an increase by PLN 158 million, mainly due to loans granted to subsidiaries (receivables in this regard amounted to PLN 211 million versus PLN 44 million at the end of 2012), alongside a decrease in trade receivables by PLN 55 million.
- Property, plant and equipment – an increase by PLN 475 million, mainly due to realisation of investments – expenditures in this regard amounted to PLN 864 million, of which replacement-related investments represented PLN 346 million. Investment activities are described in detail on pages 74-77.
- Derivatives – an increase by PLN 168 million, due to a change in the forward prices of metals, in the forward USD/PLN exchange rate, to the settlement of derivatives and to the opening of new transactions on the silver and currency markets.
- Available-for-sale financial assets – a decrease by PLN 83 million, mainly due to remeasurement of the shares of Tauron Polska Energia S.A. (the decrease in the price of these shares listed on the Warsaw Stock Exchange since the start of 2013 amounted to 9%). In accordance with International Financial Reporting Standards, an impairment loss was recognised due to the fact that the decrease in the fair value of these shares versus their cost has lasted for over 12 months. The impairment loss on Tauron Polska Energia S.A. shares, reducing the result for the first 6 months of 2013, amounted to PLN 86 million.

The lower level of cash versus the end of June 2012 was the reason for the increase in the liquid assets and current assets turnover ratios. The remaining assets effectiveness ratios, relating the value of sales to non-current assets and total assets, did not change significantly during the year.



**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 the first half of 2013, equity was the basic source for financing assets. Its share in total assets as at 30 June 2013 amounted to 75%. The level of equity did not change significantly versus the end of 2012.

**Table 14. Equity and liabilities (million PLN)**

	30.06.2012	31.12.2012	30.06.2013	Change 31.12.12=100	Structure
<b>Equity</b>	<b>20 170</b>	<b>21 923</b>	<b>21 925</b>	<b>100.0</b>	<b>75.2</b>
Share capital	2 000	2 000	2 000	100.0	6.9
Revaluation reserve from the measurement of financial instruments	292	286	608	212.6	2.1
Actuarial gains/losses on post-employment benefits	(379)	(519)	(248)	47.8	(0.9)
Retained earnings	18 257	20 156	19 565	97.1	67.1
<b>Current and non-current liabilities</b>	<b>10 839</b>	<b>6 254</b>	<b>7 222</b>	<b>115.5</b>	<b>24.8</b>
Trade and other payables	7 958	2 263	4 304	190.2	14.8
Borrowings and finance lease liabilities	-	1 013	-	-	-
Derivatives	678	253	288	113.8	1.0
Current corporate tax liability	311	390	133	34.1	0.5
Employee benefits liabilities	1 369	1 581	1 688	106.8	5.8
Provisions for other liabilities and charges	523	754	809	107.3	2.8
<b>Total equity and liabilities</b>	<b>31 009</b>	<b>28 177</b>	<b>29 147</b>	<b>103.4</b>	<b>100.0</b>

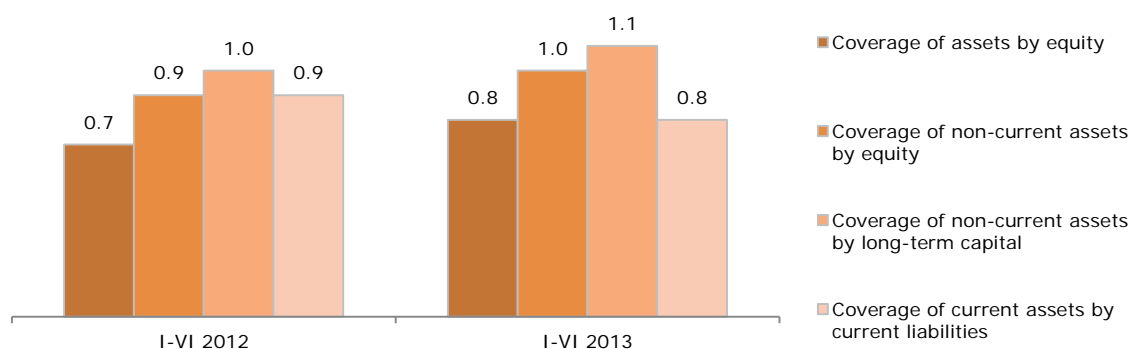
Additionally, there were significant changes in the following items of equity and liabilities versus the carrying amounts as at 31 December 2012:

- Trade and other payables – an increase by PLN 2 041 million, mainly due to the resolved shareholder dividend (PLN 1 960 million), which pursuant to the decision of the General Meeting is paid in the second half of 2013 (PLN 980 million each on 14 August 2013 and 14 November 2013). Trade payables did not significantly change.
- Current corporate tax liability – a decrease by PLN 257 million, due to payment of the difference between corporate tax advances paid in 2012 and tax liabilities resulting from the CIT-8 form for 2012 (in 2012 the Company made use of fixed monthly corporate tax advances based on income earned in 2010).
- Borrowings – in the first quarter of 2013 the Company repaid in full borrowings whose carrying amount at the end of 2012 was PLN 1 013 million. As at 30 June 2013 the Company did not hold liabilities due to the drawing of bank loans.

- Employee benefits liabilities – an increase by PLN 107 million, mainly relate to liabilities due to the coal equivalent payment. The parameters used in measuring employee benefits liabilities are presented in note 19 of the Financial Statements for the first half of 2013.
- Provisions for other liabilities and charges – an increase by PLN 55 million, mainly related to an increase in the provision for the decommissioning of mines and other technological facilities and in the costs of liquidating non-current assets.
- Derivatives – an increase by PLN 35 million due to a change in the forward prices of metals, the forward USD/PLN exchange rate, the settlement of instruments during the first half of the year and the opening of new transactions on the silver and currency markets. For the copper market there was a decrease in liabilities of PLN 134 million, for the silver market an increase by PLN 137 million and for the currency market an increase in liabilities of PLN 32 million.

The assets financing ratios remained at similar levels to those recorded in the first half of 2012.

**Chart 5. Assets financing ratios**



Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A.

### Contingent assets and liabilities

As at 30 June 2013, contingent assets of the Company amounted to PLN 501 million and related mainly to guarantees received (in the amount of PLN 254 million), related to securities to cover potential claims by the Company due to the non-execution or improper execution of agreements by contractors. Other contingent assets primarily involve promissory note receivables (PLN 117 million), and overpayment of the tax on underground mines (PLN 87 million).

Contingent liabilities as at 30 June 2013 amounted to PLN 175 million, including PLN 120 million due to disputed issues involving the implementation of projects and inventions.

In addition, as at 30 June 2013, the Company held liabilities which were not recognised in the statement of financial position in the amount of PLN 224 million, including PLN 206 million towards local government units due to development of the Mining Tailings Treatment Pond.

### 3.3. Financial resources of the Company

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

**Table 15. Structure of cash and cash equivalents (PLN million)**

	30.06.2012	31.12.2012	30.06.2013	Change 31.12.12=100
Cash in bank deposits	9	18	15	83.3
Debt securities	50	-	-	-
Other financial assets with a maturity up to 3 months	3 791	689	808	117.3
<b>Total</b>	<b>3 850</b>	<b>707</b>	<b>823</b>	<b>116.4</b>

### Bank and other loans received

As at 30 June 2013, the Company did not hold debt in the form of bank loans.

To provide financial liquidity if needed, the Company as at 30 June 2013 held open lines of credit (working capital facilities and overdraft facilities) in the amount of PLN 3 107 million.

Lines of credit are available in the currencies PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR plus a 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. Current interest on the loan is based on WIBOR 1M + a margin, 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. As at 30 June 2013, the balance of the loan granted was PLN 32.7 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, with interest capitalised monthly. Pursuant to Appendix no. 2 dated 26 June 2013, repayment of the loan principal with interest will be made by 30 September 2013. As at 30 June 2013, the loan balance (with accrued interest) amounted to PLN 8.1 million.

On 9 January 2013, KGHM Polska Miedź S.A. granted a loan to Zagłębie Lubin S.A. in the amount of PLN 5 million. Interest on the loan is based on WIBOR 3M + a margin, with interest accrued quarterly. Repayment of the loan is in 28 quarterly instalments. Payment of the first instalment will be made by 31 March 2016. As at 30 June 2013 the loan balance amounted to PLN 5 million.

On 28 February 2013, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a.r.l. in the amount of USD 34.6 million (PLN 112.7 million). Interest is calculated based on a fixed interest rate, with repayment by 28 February 2018. As at 30 June 2013, the loan balance amounted to USD 34.6 million (PLN 114.7 million).

On 4 April 2013, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a.r.l. in the amount of CAD 4 million (PLN 13.2 million) denominated in USD at the exchange rate set by the Bank of Canada on the date of payment of the loan. Interest is calculated based on a fixed interest rate, with repayment by 28 February 2018. As at 30 June 2013, the loan balance amounted to USD 3.9 million (PLN 13.0 million).

On 13 May 2013, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a.r.l. in the amount of CAD 43.8 million paid in instalments according to the set schedule, denominated in USD at the exchange rate set by the Bank of Canada on the date of payment of the instalment. Interest is calculated based on a fixed interest rate, with repayment by 28 February 2018. As at 30 June 2013, the loan balance amounted to USD 10.6 million (PLN 35.2 million).

## Financial guarantees granted and received

The Company holds granted guarantees in the amount of PLN 11 million with maturity by March 2014. These guarantees represent contingent liabilities.

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

The cash and cash equivalents currently held by the Company and the external financing obtained guarantee the possibility of achieving the investment goals, both in terms of equity investments as well as capital expenditures on the purchase and construction of property, plant and equipment.

### 3.4. Statement of profit or loss

During the period January-June 2013, the Company realised a profit for the period in the amount of PLN 1 725 million, meaning a decrease by PLN 1 244 million (by 42%) versus the comparable prior year period.

**Table 16. Basis items in the statement of profit or loss (PLN million)**

	2012	I-VI 2012*	I-VI 2013	Change I-VI '12=100
Sales	20 737	10 504	9 503	90.5
Operating costs	13 602	6 289	6 925	110.1
<b>Profit from operations</b>	<b>7 135</b>	<b>4 215</b>	<b>2 578</b>	<b>61.2</b>
Profit on other operating activities	(709)	(434)	(187)	43.1
– Impairment loss on available-for-sale financial assets	(158)	-	(89)	x
– Exchange differences	(565)	(473)	70	x
– Measurement and realisation of derivatives	(84)	(40)	(201)	x 5.0
– Dividends	57	57	36	63.2
– Other	41	22	(3)	x
<b>Operating profit (EBIT)</b>	<b>6 426</b>	<b>3 781</b>	<b>2 391</b>	<b>63.2</b>
Finance costs	9	17	45	264.7
Profit before income tax	6 417	3 764	2 346	62.3
<b>Profit for the period</b>	<b>4 868</b>	<b>2 969</b>	<b>1 725</b>	<b>58.1</b>
EBITDA (EBIT + depreciation/amortisation)	7 198	4 172	2 809	67.3

\*Data restated in accordance with the explanation in note no. 2 of the Financial Statements

The most important factors impacting the change in profit for the period between the first half of 2013 and the first half of 2012 are presented in Table 17.

**Table 17. Basic factors impacting the change in profit**

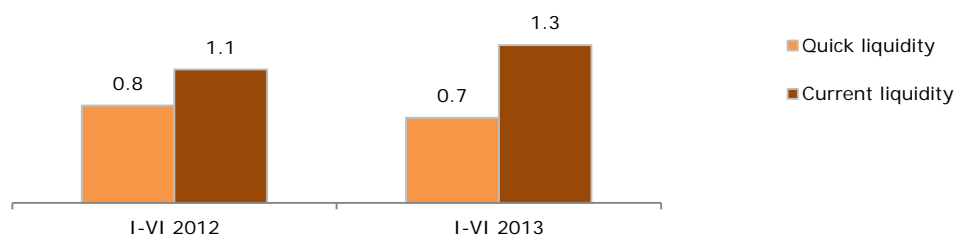
Item	Impact on profit (PLN million)	Description
Change in prices of basic products (Cu,Ag,Au)*	(778)	Copper price lower by 7%, silver by 14%, gold by 8%.
Basic operating costs	(636)	Increase in total unit cost of refined copper production in PLN/t by 15%, mainly due to increased impact by the minerals extraction tax
Exchange differences	+543	In the first half of 2013, the result on exchange differences amounted to + PLN 70 million, while in the prior year it was PLN (473) million
Change in exchange rate *	(288)	A change in the exchange rate from 3.27 USD/PLN to 3.18 USD/PLN (a stronger PLN by 3%)
Income tax	+174	The lower tax is due to the lower tax base
Impact of hedging	(136)	Including a change in the result on other operating activities due to the measurement and realisation of derivatives (PLN (161) million) and a change in adjustment to sales due to hedging (+PLN 25 million)
Change in volume of sales of basic products (Cu,Ag,Au)*	+124	An increase in the volume of copper sold by 10.7 kt, with a decrease in silver sold by 48.2 t and gold by 56 kg
Decrease in sales of merchandise *	(92)	In the first half of 2012, the Company sold 3.5 kt of purchased wire rod. In 2013, there were no sales of wire rod as merchandise.
Impairment loss on available-for-sale financial assets	(89)	In the first half of 2013, an impairment loss was recognised on investments in the total amount of PLN 89 million, of which PLN 86 million was in respect of Tauron Polska Energia S.A., and PLN 3 million was in respect of Abacus Mining&Exploration Corporation. In the first half of 2012, the Company did not record an impairment loss on available-for-sale financial assets.

\* Impact on sales

## Financial ratios

The levels of the basic liquidity, the assets and equity profitability and the financing ratios are presented in Charts 6, 7 and 8.

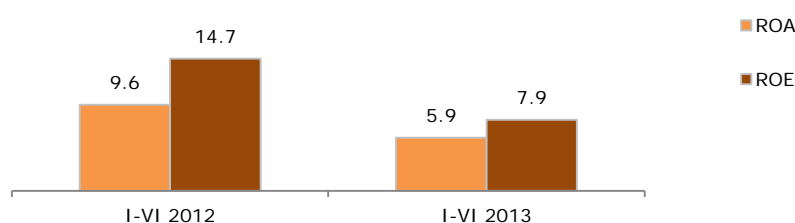
**Chart 6. Liquidity ratios**



Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. Current liquidity increased mainly as a result of a decrease in liabilities due to the resolved but unpaid shareholder dividend. At the end of June 2013, liabilities in this regard amounted to PLN 1 960 million, versus PLN 5 668 million at the end of the first half of 2012.

The liquidity ratio showing the relationship of current assets less inventories to current liabilities remained at a level similar to that recorded in the prior year.

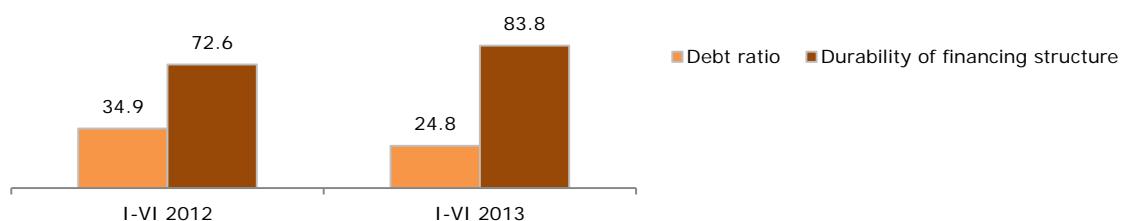
**Chart 7. Profitability ratios\***



\* January-June 2012 based on restated data in accordance with the explanation in note no. 2 of the Financial Statements

The lower profit, the reason for which was described above, was the main cause for the deterioration in the ratios describing the return on assets (ROA) and the return on equity (ROE).

**Chart 8. Financing ratios**



The financing ratios show a change in the assets financing structure, including a decrease in liabilities, mainly due to the dividend.

## Capital market ratios

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

**Table 18. Capital market ratios**

		I-VI 2012	I-VI 2013
EPS (PLN)	Profit for the period / number of shares	14.8	8.6
P/CE	Price per share / financial surplus per share*	8.6	11.3
P/E	Price per share / earnings per share	9.8	14.0
MC/S	Market capitalisation**/ revenues from sales	2.8	2.5
P/BV	Price per share / book value per share***	1.4	1.1

\* Financial surplus = profit for the period + depreciation/amortisation

\*\* Market capitalisation represents total shares outstanding times share price from the last day of the reporting period (200 million shares x PLN 145.00 in the first half of 2012; 121.00 in the first half of 2013)

\*\*\* Carrying amount of the equity at the end of the reporting period

In comparison to the first half of 2012, the capital market ratios were substantially impacted by the lower profit earned by the Company and by the fall in the share price of KGHM from PLN 145.00 at the end of June 2012 to PLN 121.00 at the end of June 2013.

### 3.5. Operating costs

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

**Table 19. Unit cost of refined copper production - total (PLN/t)**

	2012	I-VI 2012	I-VI 2013	Change I-VI '12=100
Pre-precious metals credit unit cost of copper production	21 542	19 664	22 096	112.4
Value of anode slimes	4 046	3 807	3 863	101.5
Total unit cost of copper production	17496	15 856	18 233	115.0
Refined copper production (kt)	565.8	272.9	286.0	104.8

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) in the first half of 2013 versus the first half of 2012 increased by 2 432 PLN/t, i.e. by 12%, mainly due to an increase in the impact of the minerals extraction tax (2 469 PLN/t).

**Table 20. Unit cost of refined copper production – from own concentrate (PLN/t)**

	2012	I-VI 2012	I-VI 2013	Change I-VI '12=100
Pre-precious metals credit unit cost of copper production	19 628	17 019	21 103	124.0
Value of anode slimes	5 038	4 742	4 862	102.5
Total unit cost of copper production	14 590	12 277	16 241	132.3
Production of refined copper from own concentrate (kt)	419.1	204.2	213.3	104.5
Cash cost of copper production – C1 (USD/lb)	1.34	1.02	1.73	169.6
Production of copper in concentrate (kt)	427.1	215.3	216.6	100.6

The pre-precious metals credit unit cost of copper production from own concentrate increased by 4 084 PLN/t, i.e. by 24%, mainly due to an increase in the impact of the minerals extraction tax (share of the tax in the increase in the cost: 3 315 PLN/t).

C1 cost (cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, minerals extraction tax, administrative expenses, smelter treatment and refining charges (TC/RC) less by-product revenues) amounted to 1.73 USD/lb in the first half of 2013 (in the comparable prior year period: 1.02 USD/lb).

The increase in the C1 cost was mainly due to the higher impact of the minerals extraction tax (the tax was introduced in April 2012) and to the lower valuation of silver in by-products, whose price in 2013 was 17% lower than in 2012.

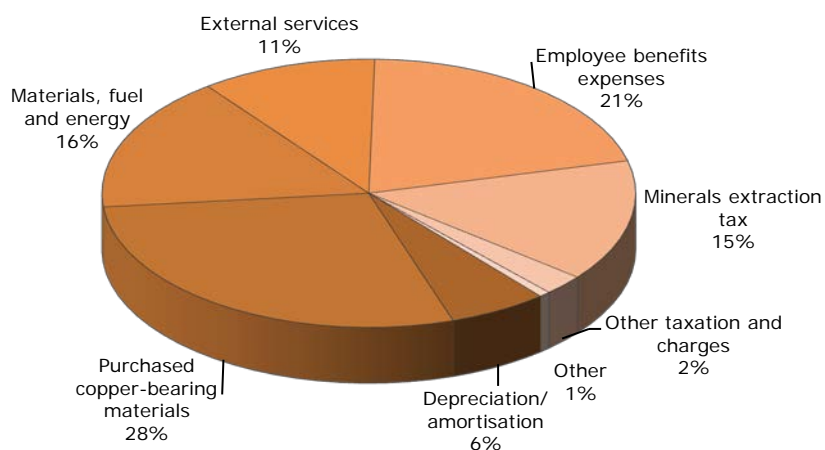
In the first half of 2013, total expenses by nature increased by PLN 528 million, i.e. by 8%, of which:

- the higher impact of the minerals extraction tax (+PLN 579 million) – in 2012 the tax was in force from April,
- the higher cost of external services (+PLN 112 million) of which mainly mine development work (a higher scope of work by 3 km) along with transport services and external processing as a result of taking over the sales of by-products, which in turn caused an increase in sales,

alongside a lower cost of consumption of purchased copper-bearing materials (by PLN 144 million) due to a decrease in purchase price alongside a higher volume consumed by 2.4 thousand tonnes of copper (with an increase in the volume of purchased copper-bearing materials used in the production of refined copper by 7 thousand tonnes of copper).

The structure of expenses by nature in the first half of 2013 is shown in Chart 9. In the comparable prior year period the change in the structure was mainly due to the minerals extraction tax (in the first half of 2012: 7%, in 2013: 15%) alongside a decrease in the share of employee benefits expenses (respectively 23% and 21%) and purchased copper-bearing materials (respectively 33% and 28%).

**Chart 9. Structure of expenses by nature in the first half of 2013**



### 3.6. Financial risk management in the Company in the first half of 2013

The goal of financial risk management in KGHM Polska Miedź S.A. is to limit 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 limitation to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures applied in the Company.

In the first half of 2013, 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 the first half of 2013, 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 limit 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 the first half of 2013, the Company implemented transactions hedging revenues from sales (currency market) with a total nominal amount of USD 480 million and a time horizon falling in the years 2014-2015. Additionally, a restructure was performed of seagull option strategies for the first half of 2014. During the analysed period a restructure was also performed of a hedged position on the silver market, through the buyback of the seagull structure. The closure of this position and the un-designation of the hedge transaction was reflected in the revaluation reserve from the measurement of derivatives in the amount of PLN 95 million, which will increase revenues from sales in the second half of 2013.

In the first half of 2013, the result on derivatives was PLN (35) 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 166 million. Loss on the measurement of derivatives amounted to PLN 151 million, while the loss on the realisation of derivatives amounted to PLN 50 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 the first half of 2013, the Company was exposed to this type of risk due to the granting of loans, the depositing of cash resources, the implemented zero-balance cash pool services, and the use of borrowing.

In the first half of 2013, the Company did not use derivatives to hedge against interest rate risk.

#### Credit risk

Credit risk is defined as the risk that counterparties will not be able to meet their contractual obligations. In the first half of 2013, 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 limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and the use of debtor security. 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. Credit limits is only provided to proven, long-term customers, while sales of products to new customers are in most cases based on prepayments. In the first half of 2013, 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 contracts where customers are provided with credit limits contain an ownership rights reservation clause 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 credit limits 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 30 June 2013, the Company had secured 90% 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, as at 30 June 2013, the balance of receivables from the Company's 7 largest customers, in terms of receivables at the end of the reporting period, represented 68% of the trade receivables balance (66% at 31 December 2012). 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 security used, the level of credit risk is low.

All of the entities with whom the Company entered into depositary transactions in the first half of 2013 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 the highest (16% of deposits), medium-high (62% of deposits) and medium (22% of deposits) ratings, and having an appropriate level of equity and strong and stable market positions. As at 30 June 2013, the maximum share of a single bank with respect to the amount of funds deposited by the Company amounted to 19%.

All of the entities with whom the Company enters into derivative transactions operate in the financial sector. These are financial institutions (mainly banks), with high and medium ratings. According to fair value at 30 June 2013, 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 31%. 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.

### Liquidity risk

Capital management is aimed at maintaining continuous financial liquidity in each period. The Company actively manages the risk of loss of liquidity to which it is exposed. This risk is understood as the loss of ability to pay financial liabilities on time and to gain resources to finance its operations.

Financial liquidity is managed 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. The basic principles arising from this document are:

- the depositing of financial surplus in liquid instruments,
- setting limits on individual categories of financial investments,
- setting limits on the concentration of funds for financial institutions, and
- ensuring the appropriate quality and diversity of available financial sources.

In the first half of 2013, the Company engaged in borrowing in the form of bank loans, both working capital facilities and overdraft facilities.

As at 30 June 2013, the Company did not hold liabilities due to the drawing of bank loans.

As at 30 June 2013, the Company held open lines of credit, whose balance is presented in Table 21.



**Table 21. Information on open lines of credit**

Type of bank loan	Credit currency	Available credit balance (million)
Working capital and overdraft facility	USD	178
Working capital and overdraft facility	EUR	50
Working capital and overdraft facility	PLN	2 300

Open lines of credit are available in PLN, USD and EUR.

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, the Company monitors its capital among others based on the equity ratio and the net debt/EBITDA ratio.

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.

The process was continued of adding additional companies to the cash management service of the KGHM Polska Miedź S.A. Group (zero-balance cash pool). The funds available under this service bear an interest rate based on variable WIBOR. The credit limit available in the account as at 30 June 2013 was PLN 246 million. This service enables optimisation of finance costs and effective management of current cash liquidity in the KGHM Polska Miedź S.A. Group.

The coordinator of the cash pool is KGHM Polska Miedź S.A. This function is based on establishing the conditions for functioning of the system, particularly including the principles of interest calculation and representation of the entire Group in relations with the bank with respect to services. KGHM Polska Miedź S.A. also acts as a participant of the cash pool system, in which it deposits its financial surpluses and, in case of need, takes advantage of financing.

As at 30 June 2013, the Company held liabilities (net balance) of PLN 7 million towards companies of the Group due to the implementation of the cash management service in the Group.

### 3.7. Realisation of financial results forecast

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 22.

**Table 22. Company Budget assumptions for 2013**

	Unit	Execution I-VI '13	Budget 2013	Realisation of Budget (%)
<b>Sales</b>	<b>M PLN</b>	<b>9 503</b>	<b>18 930</b>	<b>50.2</b>
<b>Profit for the period</b>	<b>M PLN</b>	<b>1 725</b>	<b>3 204</b>	<b>53.8</b>
<b>EBITDA</b>	<b>M PLN</b>	<b>2 809</b>	<b>5 337</b>	<b>52.6</b>
Average annual copper price	USD/t	7 540	7 800	96.7
Average annual silver price	USD/troz	26.63	32.00	83.2
Exchange rate	USD/PLN	3.18	3.10	102.6
Total unit cost of refined copper production from own concentrate	PLN/t	16 241	17 087	95.0
C1 - cash cost of copper production	USD/lb	1.73	1.76	98.3
Production of copper in concentrate	kt	216.6	425.1	51.0
Refined copper production	kt	286.0	548.0	52.2
- of which from purchased copper-bearing materials	kt	72.7	146.6	49.6
Silver production	t	543.8	1 075	50.6
Capital expenditure	M PLN	863.7	2 470	35.0
Equity investments limit *	M PLN	253.5	523	48.5

\* Purchase of shares and investment certificates, increases of share capital and owner loans and payments to subsidiaries

Sales in the first half of 2013 amounted to PLN 9 503 million, profit for the period PLN 1 725 million and EBITDA 2 809 million, representing respectively 50%, 54% and 53% of the forecasted amounts. Due to changes in macroeconomic conditions, and in particular to the deterioration in metals prices, the Company is currently revising its published forecast of results.

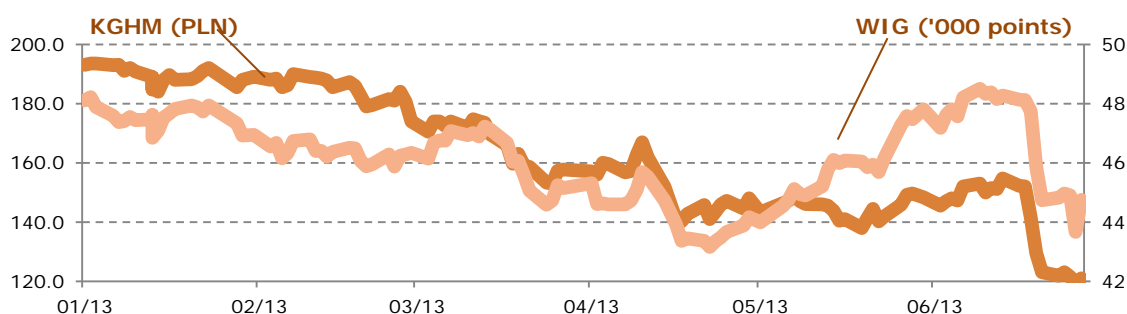
## 4. Ownership structure and Company quotations

### 4.1. Company quotations in the first half of 2013

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.

In the first half of 2013, the main indices on the Warsaw Stock Exchange decreased in value. The Warsaw Stock Exchange's WIG Index fell by 5.72%, and the WIG20 Index by 13.06%. The share price of KGHM Polska Miedź S.A. in the first half also decreased. At the close of the trading session on 28 June 2013, the Company's share price amounted to PLN 121 and was 36.32% lower than at the close of the last trading session of the prior year.

**Chart 10. Share price of KGHM Polska Miedź S.A. versus the WIG index**



In the first half of 2013, the shares of KGHM Polska Miedź S.A. were amongst the most liquid. The Company's share of turnover in value terms in the first half of 2013 amounted to 16.58%. The average per-session trading volume of the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the first half of 2013 amounted to 966 thousand.

Key data on the share performance of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange are presented in the following table:

**Table 23. Key share price data of the Company on the Warsaw Stock Exchange**

	Unit	2012	I-VI 2012	I-VI 2013
Number of shares issued	million	200	200	200
Closing price from the last day of trading in the period	PLN	190.00	145.00	121.00
Market capitalisation of the Company at period's end	million	38 000	29 000	24 200
Highest closing price	PLN	194.50	154.00	193.50
Lowest closing price	PLN	111.10	111.10	118.80
Average trading volume per session	'000	945	980	966

### 4.2. Information on the ownership structure and on the issued shares of the Company

As at 30 June 2013, 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 million fully-paid 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 the first half of 2013, there was no change either in registered share capital or in the number of issued shares.

Both at 30 June 2013, as well as at the date of preparation of this report, as far as the Company is aware, the only shareholder of KGHM Polska Miedź S.A. holding at least 5% of the total number of votes at the General Meeting was the Polish State Treasury, which - based on an announcement dated 12 January 2010 - held 63 589 900 shares, representing 31.79% of the share capital of the Company and the same number of votes at the General Meeting. The remaining shareholders of the Company, at 30 June 2013 and at the date of preparation of this report, held shares granting the right to less than 5% of the total number of votes at the General Meeting – altogether 136 410 100 shares, representing 68.21% of the share capital and the same number of votes at the General Meeting.

During the period from 1 January 2013 to the date of preparation of this report, there was no change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A.

Amongst the Members of the Company's Supervisory Board, as at 30 June 2013 as well as at the date of preparation of this report, only Marek Panfil, appointed to the Supervisory Board on 19 June 2013, held shares of KGHM Polska Miedź S.A. (90 shares with a total nominal amount of PLN 900). As at the date of publication of the consolidated quarterly report for the first quarter of 2013, i.e. as at 15 May 2013, the Members of the Supervisory Board did not hold shares of KGHM Polska Miedź S.A. or rights to them and, in the period from the publication of the report for the first quarter of 2013 to the date of preparation of this report, based on information held by the Company, neither sold nor purchased the shares of KGHM Polska Miedź S.A. or rights to them.

The Members of the Company's Management Board, both as at the date of publication of the consolidated quarterly report for the first quarter of 2013, as well as at 30 June 2013 and at the date of preparation of this report, did not hold shares of KGHM Polska Miedź S.A. or rights to them. Based on information held by the Company, persons serving in the function of Members of the Company's Management Board during this period neither sold nor purchased the shares of KGHM Polska Miedź S.A. or rights to them.

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.

In the first half of 2013, the Company did not have an employee share incentive program.

## 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 after 30 June 2013 – to the date of signing of the half-year report**

### **Significant agreement with Vale Canada Limited (2 August 2013)**

On 1 August 2013 an agreement was entered into between subsidiaries of KGHM Polska Miedź S.A., KGHM International Ltd. and FNX Mining Company Inc., and Vale Canada Limited (a subsidiary of Vale S.A.), which provides the framework for KGHM International Ltd. to develop the Victoria copper-nickel-PGM project in Sudbury, Canada. KGHM International Ltd. will retain its 100% ownership of Victoria and Vale will receive a 2.25% Net Smelter Return royalty on all future production from the project.

At the same time, KGHM International Ltd., FNX Mining Company Inc. and Vale re-negotiated and signed on 01 August 2013 an off-take agreement for all of KGHM International's production from its mines in the Sudbury basin in Ontario, Canada. Vale will purchase polymetallic ore from KGHM International Ltd. and process it at Vale's Clarabelle mill in Sudbury. The contract is valid for the full life of all KGHM International's Sudbury mines, including future production from Victoria. The estimated value of the agreement for the 5 years following the effective date of the agreement (1 January 2013 to 31 December 2017) is approximately USD 1.13 billion, i.e. PLN 3.61 billion.

### **Filing of suits requesting that resolutions of the General Meeting be repealed (6 August 2013)**

On 5 August 2013 the Company received, from the Regional Court in Legnica, Section VI Economic, suits filed by shareholders of the Company:

- Ryszard Zbrzyzny, submitted to the court on 22 July 2013 "on the repeal of Resolution No. 35/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013 regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Leszek Hajdacki and Józef Czczyński elected by the employees of KGHM Polska Miedź S.A.",
- Waldemar Brus, submitted to the court on 22 July 2013 "on the repeal of Resolution No. 35/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013 regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Leszek Hajdacki and Józef Czczyński elected by the employees of KGHM Polska Miedź S.A.",

The Regional Court in Legnica has not set a date for the hearing and committed the company to submit a response to the suits within 14 days from the date received. The response to the suits was submitted on 19 August 2013.

## **Appendix C: List of tables, diagrams and charts**

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**Appendix D: Major events affecting the Company's activities in 2013 \***

Date	Description
22.01.2013	Contract with HSBC Bank USA N.A., London Branch for silver sales in 2013
28.01.2013	Contract with MKM Mansfelder Kupfer und Messing GmbH for copper cathode sales in 2013
31.01.2013	Contract with Prysmian Metals Limited for copper wire rod sales in the years 2013 and 2014
11.02.2013	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
15.02.2013	Publication of forecast of results for 2013
21.02.2013	Signing of an Annex to the Framework Agreement dated 4 July 2012 on the Joint Exploration for and Extraction of Shale Gas
1.03.2013	Sierra Gorda CAPEX definitive cost estimate
14.03.2013	Elections by employees of persons to the Supervisory Board of the Company
8.05.2013	Recommendation of the Management Board on the dividend payout
19.06.2013	Ordinary General Meeting – changes in composition of Supervisory Board, decision on profit appropriation
19.06.2013	Opening of proceedings to liquidate KGHM II FIZAN
26.06.2013	Understanding on continuation of work related to creating a draft agreement regarding the purchase of shares of a special purpose company founded in order to build and operate a nuclear power plant
2.08.2013	Significant agreement with Vale Canada Limited

\* Including events following the end of the reporting period

<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>
28 August 2013	Herbert Wirth	President of the Management Board	
28 August 2013	Włodzimierz Kiciński	I Vice President of the Management Board	
28 August 2013	Wojciech Kędzia	Vice President of the Management Board	
28 August 2013	Adam Sawicki	Vice President of the Management Board	
28 August 2013	Dorota Włoch	Vice President of the Management Board	