POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PS 2013

(In accordance with § 82, section 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 condensed consolidated financial statements according to IAS 34 in PLN.

publication date: 30 August 2013

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.	**Basic materials**
(name of issuer in brief)	(issuer branch title per the Warsaw Stock Exchange)
59 - 301	**LUBIN**
(postal code)	(city)
M. Skłodowskiej – Curie	**48**
(street)	(number)
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(e-mail)	(website address)
692–000–00-13	**390021764**
(NIP)	(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	12 517 593	13 111 244	2 970 478	3 103 547
II. Operating profit	2 671 541	3 664 959	633 968	867 528
III. Profit before income tax	2 540 227	3 594 609	602 807	850 876
IV. Profit for the period	1 822 384	2 775 841	432 459	657 066
V. Profit for the period attributable to shareholders of the Parent Entity	1 824 432	2 774 657	432 945	656 786
VI. Profit for the period attributable to non-controlling interests	(2 048)	1 184	(486)	280
VII. Other comprehensive income	955 822	502 219	226 821	118 880
VIII. Total comprehensive income	2 778 206	3 278 060	659 280	775 946
IX. Total comprehensive income attributable to the shareholders of the Parent Entity	2 779 810	3 278 191	659 661	775 977
X. Total comprehensive income attributable to non-controlling interest	(1 604)	(131)	(381)	(31)
XI. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	9.12	13.88	2.16	3.28
XIII. Net cash generated from operating activities	3 106 191	2 537 098	737 112	600 553
XIV. Net cash used in investing activities	(2 324 046)	(8 293 887)	(551 506)	(1 963 236)
XV. Net cash generated from/(used in) financing activities	(1 106 812)	280 237	(262 651)	66 335
XVI. Total net cash flow	(324 667)	(5 476 552)	(77 045)	(1 296 348)
	At 30 June 2013	**At 31 December 2012**	**At 30 June 2013**	**At 31 December 2012**
XVII. Non-current assets	26 327 483	24 108 431	6 081 374	5 897 077
XVIII. Current assets	9 675 708	9 854 495	2 234 988	2 410 473
XIX. Total assets	36 003 191	33 962 926	8 316 362	8 307 550
XX. Non-current liabilities	7 646 087	7 279 374	1 766 166	1 780 581
XXI. Current liabilities	5 614 028	4 769 076	1 296 783	1 166 547
XXII. Equity	22 743 076	21 914 476	5 253 413	5 360 422
XXIII. Equity attributable to non-controlling interest	222 789	231 585	51 462	56 647

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. GROUP

CONSOLIDATED HALF-YEAR REPORT PS 2013 COMPRISES:

1. **AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

2. **DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

4. **INTERIM CONDESED CONSOLIDATED FINANCIAL STATEMENTS**

5. **REPORT ON THE ACTIVITIES OF THE GROUP**

Lubin, August 2013

KGHM POLSKA MIEDŹ S.A.

GROUP

AUDITOR'S REVIEW REPORT ON THE INTERIM CONDESED CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2013

Lubin, August 2013

Independent registered auditor's report on the review of the interim condensed consolidated 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 consolidated financial statements of KGHM Polska Miedź Spółka Akcyjna Group (hereinafter called *the Group*) of which KGHM Polska Miedź Spółka Akcyjna is the parent company (hereinafter called *the Parent Company*) with its registered office in Lubin, M. Skłodowskiej-Curie 48 Street, comprising the interim consolidated statement of financial position as at 30 June 2013, the interim consolidated statement of profit or loss, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity, the interim consolidated statement of cash flows for the period from 1 January to 30 June 2013 and selected explanatory notes to the interim condensed consolidated financial statements.

The Parent Company's Management Board is responsible for the preparation of interim condensed consolidated 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 consolidated 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 consolidated financial statements are free of material misstatements. We conducted the review mainly by analysing the data in the interim condensed consolidated financial statements, inspecting the consolidation documentation, and making use of information obtained from the Company's Management Board and persons responsible for financial and accounting matters in the Group.

The scope and methodology of the review of interim condensed consolidated 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 consolidated financial statements.

PricewaterhouseCoopers Sp. z o.o., Aleja Armii Ludowej 14, 00-638 Warszawa, Poland
Telephone +48 22 523 4000, Facsimile +48 22 508 4040, www.pwc.pl

Independent registered auditor's report
on the review of the interim condensed consolidated 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 consolidated 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

Group's Auditor, 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.
GROUP

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

Lubin, August 2013

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. ON THE ACCURACY OF THE PREPARED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

According to our best judgement the interim condensed consolidated 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 the KGHM Polska Miedź S.A. Group and the profit for the period of the Group. The half-year report on the activities of the Group presents a true picture of the development and achievements, as well as the condition of the KGHM Polska Miedź S.A. Group, including a description of the basic exposures and risks.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position / Function**	**Signature**
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	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last name**	**Position / Function**	**Signature**
28 August 2013	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

GROUP

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

Lubin, August 2013

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

The entity entitled to audit financial statements, and which has reviewed the interim condensed consolidated 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.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position / Function**	**Signature**
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	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last name**	**Position / Function**	**Signature**
28 August 2013	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.
GROUP

INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE FIRST HALF OF 2013

Lubin, August 2013

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

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

Interim consolidated statement of financial position

	Note	At 30 June 2013	31 December 2012 restated*	1 January 2012
ASSETS				
Non-current assets				
Property, plant and equipment	6	14 689	13 971	9 093
Intangible assets	7	2 202	1 989	663
Investment property	8	65	59	60
Investments accounted for using the equity method	9	4 191	3 911	-
Deferred tax assets	22	548	565	272
Available-for-sale financial assets	10	801	892	994
Mine closure financial assets	11	523	460	112
Derivatives	12	674	745	899
Trade and other receivables	13	2 634	1 516	40
		26 327	**24 108**	**12 133**
Current assets				
Inventories	14	3 841	3 769	2 658
Trade and other receivables	13	2 560	2 846	1 839
Current corporate tax receivables		48	77	8
Available-for-sale financial assets	10	158	149	16
Mine closure financial assets	11	1	-	2
Derivatives	12	636	382	860
Cash and cash equivalents	15	2 423	2 629	13 130
Non-current assets held for sale		9	2	4
		9 676	**9 854**	**18 517**
TOTAL ASSETS		**36 003**	**33 962**	**30 650**
EQUITY AND LIABILITIES				
Equity attributable to shareholders of the Parent Entity				
Share capital	16	2 000	2 000	2 000
Revaluation reserve from measurement of financial instruments	17	627	235	536
Exchange differences from the translation of foreign operations statements	17	668	19	19
Actuarial gains/losses on post-employment benefits	17	(272)	(543)	(373)
Retained earnings	18	19 497	19 971	20 920
		22 520	**21 682**	**23 102**
Non-controlling interest	19	**223**	**232**	**289**
TOTAL EQUITY		**22 743**	**21 914**	**23 391**
LIABILITIES				
Non-current liabilities				
Trade and other payables	20	872	880	142
Borrowings, debt securities and finance lease liabilities	21	1 918	1 783	194
Derivatives	12	139	230	538
Deferred tax liabilities	22	1 904	1 772	129
Employee benefits liabilities	23	1 723	1 615	1 339
Provisions for other liabilities and charges	24	1 090	999	485
		7 646	**7 279**	**2 827**
Current liabilities				
Trade and other payables	20	5 002	3 008	2 249
Borrowings, debt securities and finance lease liabilities	21	73	1 075	104
Current corporate tax liabilities		189	448	1 596
Derivatives	12	152	25	331
Employee benefits liabilities	23	132	133	126
Provisions for other liabilities and charges	24	66	80	26
		5 614	**4 769**	**4 432**
TOTAL LIABILITIES		**13 260**	**12 048**	**7 259**
TOTAL EQUITY AND LIABILITIES		**36 003**	**33 962**	**30 650**

* details presented in note 2

The accounting policies and other explanatory information presented on pages 9 to 79 represent an integral part of these interim condensed consolidated financial statements

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

Interim consolidated statement of profit or loss

		For the period	
Continued operations	**Note**	**from 1 January 2013 to 30 June 2013**	**from 1 January 2012 to 30 June 2012 restated***
Sales	26	12 518	13 111
Cost of sales	27	(8 987)	(8 339)
Gross profit		**3 531**	**4 772**
Selling costs	27	(227)	(191)
Administrative expenses	27	(470)	(527)
Other operating income	29	522	1 041
Other operating costs	30	(685)	(1 430)
Operating profit		**2 671**	**3 665**
Finance costs	31	(131)	(70)
Profit before income tax		**2 540**	**3 595**
Income tax expense	34	(718)	(819)
Profit for the period		**1 822**	**2 776**
Profit for the period attributable to:			
shareholders of the Parent Entity		1 824	2 775
non-controlling interest		(2)	1
Earnings per share from continued operations attributable to the shareholders of the Parent Entity during the period (in PLN per share)	36		
- basic		9.12	13.88
- diluted		9.12	13.88

* details presented in note 2

The accounting policies and other explanatory information presented on pages 9 to 79 represent an integral part of these interim condensed consolidated financial statements

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

Interim consolidated statement of comprehensive income

	Note	For the period from 1 January 2013 to 30 June 2013	For the period from 1 January 2012 to 30 June 2012 restated*
Profit for the period		**1 822**	**2 776**
Other comprehensive income			
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met, due to:		**1 041**	**525**
Available-for-sale financial assets		77	(205)
Income tax		(3)	27
		74	(178)
Cash flow hedging instruments		392	(159)
Income tax		(74)	30
		318	(129)
Exchange differences from the translation of foreign operations statements		649	832
Other comprehensive income, which will not be reclassified to profit or loss, due to:		**(85)**	**(23)**
Actuarial losses on post-employment benefits*		(105)	(28)
Income tax		20	5
Other comprehensive net income for the financial period	17	**956**	**502**
TOTAL COMPREHENSIVE INCOME		**2 778**	**3 278**
Total comprehensive income attributable to:			
shareholders of the Parent Entity		2 780	3 278
non-controlling interest		(2)	-

* details presented in note 2

The accounting policies and other explanatory information presented on pages 9 to 79 represent an integral part of these interim condensed consolidated financial statements

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

Interim consolidated statement of changes in equity

	Note	Equity attributable to shareholders of the Parent Entity						Equity attributable to non-controlling interest	Total equity
		Share capital	Revaluation reserve from measurement of financial instruments	Exchange differences from the translation of foreign operations statements	Actuarial gains/losses on post-employment benefits	Retained earnings	Total		
At 1 January 2013 restated*		**2 000**	**235**	**19**	**(543)**	**19 971**	**21 682**	**232**	**21 914**
Dividends from profit for 2012 resolved but unpaid	37	-	-	-	-	(1 960)	**(1 960)**	-	**(1 960)**
Offsetting of profit from prior years with the reserves arising from actuarial gains and losses		-	-	-	356	(356)	**-**	-	**-**
Total comprehensive income		**-**	**392**	**649**	**(85)**	**1 824**	**2 780**	**(2)**	**2 778**
Profit for the period		**-**	**-**	-	-	1 824	**1 824**	(2)	**1 822**
Other comprehensive income	17	-	392	649	(85)	-	**956**	-	**956**
Obligation to repurchase of non-controlling interest		-	-	-	-	14	**14**	-	**14**
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19.1	-	-	-	-	4	**4**	(7)	**(3)**
At 30 June 2013		**2 000**	**627**	**668**	**(272)**	**19 497**	**22 520**	**223**	**22 743**
At 1 January 2012		**2 000**	**536**	**19**	**-**	**20 547**	**23 102**	**289**	**23 391**
Change in presentation principles*		-	-	-	(373)	373	**-**	-	**-**
At 1 January 2012 restated*		**2 000**	**536**	**19**	**(373)**	**20 920**	**23 102**	**289**	**23 391**
Dividends from profit for 2011 resolved but unpaid		-	-	-	-	(5 668)	**(5 668)**	(1)	**(5 669)**
Total comprehensive income		**-**	**(307)**	**833**	**(23)**	**2 775**	**3 278**	**-**	**3 278**
Profit for the period – restated*		-	-	-	-	2 775	**2 775**	1	**2 776**
Other comprehensive income - restated*	17	-	(307)	833	(23)	-	**503**	(1)	**502**
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19.1	-	-	11	-	(33)	**(22)**	(53)	**(75)**
At 30 June 2012 restated*		**2 000**	**229**	**863**	**(396)**	**17 994**	**20 690**	**235**	**20 925**

* details presented in note 2

The accounting policies and other explanatory information presented on pages 9 to 79 represent an integral part of these interim condensed consolidated financial statements

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

Interim consolidated statement of cash flows

	Note	For the period from 1 January 2013 to 30 June 2013	For the period from 1 January 2012 to 30 June 2012 restated*
Cash flow from operating activities			
Profit for the period		1 822	2 776
Adjustments to profit for the period:		**2 246**	**1 978**
Income tax recognised in profit or loss		718	819
Amortisation/Depreciation		694	775
Losses/(gains) on sale of property, plant and equipment and intangible assets		14	(2)
Impairment loss on property, plant and equipment, intangible assets and available-for-sale financial assets		228	1
Interest and share in profits (dividends)		(63)	(30)
Foreign exchange losses		23	1 131
Change in provisions		9	1
Change in assets/liabilities due to derivatives		411	(92)
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives		(167)	(141)
Other adjustments		2	(50)
Changes in working capital:		377	(434)
Inventories		(41)	(411)
Trade and other receivables		309	(653)
Trade and other payables		109	630
Income tax paid		(962)	(2 217)
Net cash generated from operating activities		**3 106**	**2 537**
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents	4	-	(6 995)
Purchase of interest in a joint venture		(5)	-
Purchase of non-controlling shares		(19)	-
Purchase of property, plant and equipment and intangible assets		(1 401)	(1 084)
Advances granted for purchase of property, plant and equipment and intangible assets		(42)	(17)
Proceeds from sale of property, plant and equipment and intangible assets		14	17
Purchase of available-for-sale financial assets		(42)	-
Proceeds from sale of available-for-sale financial assets		25	3
Purchase of mine closure financial assets		(45)	(92)
Proceeds from sale of mine closure financial assets		3	-
Establishment of deposits		-	(7)
Termination of deposits		39	52
Loans granted		(885)	(172)
Interest received		1	3
Dividends received		37	-
Other investment expenses		(4)	(2)
Net cash used in investing activities		**(2 324)**	**(8 294)**

* details presented in note 2

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

Interim consolidated statement of cash flows (continued)

	Note	For the period from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012 restated*
Cash flow from financing activities			
Capital contributions to a subsidiary from holders of non-controlling interest		12	18
Proceeds from bank and other loans		15	386
Repayments of bank and other loans		(1 052)	(52)
Payments of liabilities due to finance leases		(6)	(5)
Interest paid		(70)	(71)
Other financial (expenses)/proceeds		(6)	4
Net cash (used in)/generated from financing activities		**(1 107)**	**280**
Total net cash flow		**(325)**	**(5 477)**
Exchange gains/(losses) on cash and cash equivalents		119	(870)
Movements in cash and cash equivalents		**(206)**	**(6 347)**
Cash and cash equivalents at beginning of the period	15	**2 629**	**13 130**
Cash and cash equivalents at end of the period	15	**2 423**	**6 783**
including restricted cash and cash equivalents		103	97

* details presented in note 2

Accounting policies and other explanatory information

1. General information

Company name, registered office, business activities

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

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

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 Parent Entity comprise:
- mining of copper and non-ferrous metals ore,
- excavation of gravel and sand,
- production of copper, precious and non-ferrous metals,
- production of salt,
- casting of light and non-ferrous metals,
- forging, pressing, stamping and roll forming of metal - powder metallurgy,
- waste management,
- wholesale based on direct 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.

The business activities of the Group also include:
- mining production of metals, e.g. copper, nickel, gold, platinum, palladium,
- production of goods from copper and precious metals,
- underground construction services,
- production of machinery and mining equipment,
- transport services,
- activities in the areas of research, analysis and design,
- production of road-building material, and
- recovery of associated metals from copper ore.

Going concern assumption

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

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

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

1. General information (continued)

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

In view of the above, in 2010 the Parent Entity 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 Parent Entity 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 Concessioning Body (the Ministry of the Environment) on 4 December 2012. The Concessioning 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 Concessioning 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 Concessioning 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 concessioning body.

On 4 June 2013, the Concessioning 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 Concessioning Body sent to KGHM Polska Miedź S.A. draft 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 Parent Entity, were sent to the Ministry of the Environment on 30 July 2013. In letters dated 17 and 18 July 2013 the Concessioning 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 Concessioning 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 Concessioning 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 Concessioning Body was signed by the Management Board of the Parent Entity 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 Parent Entity 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 Concessioning 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 of the Parent Entity 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 Parent Entity has an unlimited period of operation.

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

1. General information (continued)

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 of the Parent Entity

The 8th-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 and up to the date of signing these interim condensed consolidated financial statements, the composition of the 8th-term Management Board of KGHM Polska Miedź S.A. had not changed.

Supervisory Board

The 8th-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.	

as well as the member elected by the employees of the Parent Entity:
- Bogusław Szarek.

During the period from 1 January 2013 to the date of signing of this interim condensed consolidated financial statements for issue, the bodies of the Parent Entity undertook the following decisions, which affected the composition of the Supervisory Board:

1) On 19 June 2013, the Extraordinary General Meeting resolved to:
   - dismiss from the Supervisory Board: Dariusz Krawczyk, Ireneusz Piecuch,
   - 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, 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 employees of the Parent Entity:
- Bogusław Szarek.

Signing of the interim condensed consolidated financial statements

These interim condensed consolidated financial statements (consolidated financial statements) do not require approval by an approving body pursuant to art. 53 of the Accounting Act dated 29 September 1994. The interim condensed consolidated 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 consolidated financial statements were signed on 28 August 2013.

Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

2. Basis of preparing consolidated financial statements and impact of final accounting for an acquisition

2.1 Accounting principles

These consolidated 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 Group, should be read together with the consolidated financial statements for the financial year ended 31 December 2012 which are an element of the Consolidated Annual Report RS 2012 available at the website www.kghm.pl.

These consolidated 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.

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

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

Due to the restatement of comparable data, the data in the consolidated statement of financial position at 1 January 2012 conforms to IFRS. In the explanatory notes to the consolidated financial statements items in which the change in accounting principles did not impact the amounts presented in the comparable period, the name of the comparable period will not be referred to as “restated”.

2.1.1 Changes in the principles of presentation

Changes in the principles of presentation, which did not impact the financial data presented in the consolidated 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 consolidated statement of financial position the equity item „Actuarial gains/losses on post-employment benefits” was separated from „Retained earnings”,

(b) the combination in the consolidated 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”.

2.1.2 Changes in accounting principles which affected amounts presented in prior periods

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

(a) adoption by the Group from 1 January 2012 of changes to IAS 19 *Employee Benefits,* in accordance with rules regarding transition. The changes introduced by the Group involved the recognition of actuarial gains and losses on specified post-employment benefits in other comprehensive income and not as previously in profit or loss. The Group applied the standard in the annual financial statements for 2012 and as at 30 June 2012 adjusts results presented in the interim condensed consolidated financial statements for the period from 1 January 2013 to 30 June 2013. As a result of the application of this standard in the consolidated 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. In the statement of profit or loss for the period from 1 January 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 8 million,
   - administrative expenses in the amount of PLN 20 million,

   and an increase in deferred tax in the amount of PLN 5 million.

   Past service costs unrecognised in the consolidated 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.

2. Basis of preparing consolidated financial statements and impact of final accounting for an acquisition (continued)

(b) changes in the accounting principles from 1 January 2012 regarding recognition in the consolidated financial statements of greenhouse gas emissions allowances granted to Group companies under the National Allocation Plan. The Group decided to present allowances and the respective non-cash subsidies separately and also the principle was adopted that a liability due to greenhouse gas emissions is recognised at the amount of the allowances held, and if there is a deficit of allowances, the remaining part is recognised at the market value of the allowances needed (a detailed description of the change in policy may be found in the consolidated annual report RS 2012). The result of this change on the comparable data for the period from 1 January 2012 to 30 June 2012 was an increase in costs of sales of PLN 13 million due to the recognition of a provision for allowances which should be submitted for redemption and simultaneous recognition of the respective non-cash subsidies received, which increased other operating income in the amount of PLN 13 million. This change did not affect profit or loss in the period from 1 January 2012 to 30 June 2012.

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

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

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

5 March 2012 was assumed as the date of obtaining control. Until the moment of obtaining control by the KGHM Polska Miedź S.A. Group, the Quadra FNX shares were listed on the TSX Venture Exchange in Toronto.

The operations of Quadra FNX (name changed to KGHM INTERNATIONAL LTD. from 12 March 2012) are focused on mine production of metals (including copper, nickel, gold, platinum, palladium) in the following mines: Robinson in the USA, Franke in Chile, and McCreedy West, and Levack (with the Morrison deposit) in Canada.
Activities of the acquired Group also include mining projects at the pre-operational stage at various stages of development, including Sierra Gorda in Chile - the company's major development project, involving one of the largest new copper and molybdenum deposits in the world. In addition, exploration projects are conducted in the companies of the KGHM INTERNATIONAL LTD. Group.
The signing of the Agreement is consistent with the strategy of the KGHM Polska Miedź S.A. Group aimed at increasing the resource base as well as copper production. The acquisition will increase annual mined copper production in the KGHM Polska Miedź S.A. Group by over 100 thousand tonnes beginning from 2012, and in 2018 by over 180 thousand tonnes, meaning a 25% increase versus the pre-acquisition level of the KGHM Polska Miedź S.A. Group production.

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

2. Basis of preparing consolidated financial statements and impact of final accounting for an acquisition (continued)

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

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

* To avoid volatility of the financial result for individual quarters of 2012 during initial accounting for this acquisition, the gain on a bargain purchase determined at this stage was not recognised in the financial result, due to the significant risk of changes in the amount of this gain. The provisionally determined gain on a bargain purchase was accounted for as a decrease of the largest item in assets, „Mineral properties, property, plant and equipment and other intangible assets", as the most exposed to further adjustments of changes in value due to completion of the process of determining the fair value of the acquired net assets.

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

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

2. Basis of preparing consolidated financial statements and impact of final accounting for an acquisition (continued)

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

Items adjusted to fair value	Description	Method / key assumption
Mineral properties, property, plant and equipment	Assets held by acquired entities	Fair value set by the discounted cash flow method
Investment in Sierra Gorda	Investment in joint venture	Fair value set by the discounted cash flow method
Intangible assets due to signed services sales contracts	Recognised intangible assets	Fair value set by the discounted cash flow method
Inventories	Inventories held by acquired entities	Method based on net realisable value (assuming the rational level of profit on sales) less the costs necessary to make the sale
Issued bonds	Senior notes for financing a share of the Sierra Gorda project	Method based on determining the amount of debt portion together with adjustment due to issuer options
Liabilities due to Franco Nevada streaming contract	Recognised liabilities due to supply of metal (deferred income in this regard was presented in the financial statements of the acquired Group)	Fair value set by the discounted cash flow method (using contractual clauses involving contracted metals prices and forecast metals market price)
Provisions	Provision for site closure and other	Adjustment to the applied discount rate
Trade and other liabilities	Derivatives related to the supply of water and hydrochloric acid	Separation of embedded instruments pursuant to the terms of the host contract and based on forward copper market prices as at the date control was obtained, fair value equal to zero at the date of separation
Deferred tax	Recognised deferred tax from adjustment to fair value	Tax rates were applied which are in force in the countries where the Group operates (Canada – 33%, USA – 35%, Chile – 22%)

Based on final accounting for the acquisition, an adjustment was also made in the comparable period respecting a change in depreciation of the assets measured at fair value.

The effects of the depreciation of non-current assets and the realisation of inventories and liabilities decreased profit before taxation for the period from 1 January to 30 June 2012 by PLN 16 million, and increased profit for the period due to deferred income tax for the period from 1 January to 30 June 2012 by PLN 20 million.

In the first half of 2013, as a result of final accounting for the acquisition, exchange differences in the amount of PLN 255 million which arose at the acquisition date due to translation of the net assets of KGHM INTERNATIONAL LTD. using the average exchange rate of the NBP, as compared to the sell exchange rate of the bank which was used in setting the payment price in PLN, were allocated to property, plant and equipment.

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

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

2. Basis of preparing consolidated financial statements and impact of final accounting for an acquisition (continued)

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

Costs related to the acquisition incurred to 30 June 2012 were recognised in the administrative expenses in the amount of PLN 90 million, of which PLN 16 million was settled in 2011, while PLN 74 million in the first half of 2012.

Revenues of the KGHM INTERNATIONAL LTD. Group recognised in the consolidated statement of profit or loss of the KGHM Polska Miedź S.A. Group for the period from the moment of acquisition to 30 June 2012 amounted to PLN 1 465 million, and the loss for this same period amounted to PLN 104 million at the level of the carrying amount; taking into consideration the final accounting for the acquisition, the loss amounted to PLN 192 million.

Had the KGHM INTERNATIONAL LTD. Group been acquired on 1 January 2012, the consolidated statement of profit or loss of the KGHM Polska Miedź S.A. Group for the first half of 2012 would have shown revenues in the amount of PLN 13 747 million and a profit for the period in the amount of PLN 2 877 million.

2.3 Standards and interpretations binding for the Group from 1 January 2013

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

Up to the date of publication of these consolidated financial statements, all of the above changes to the standards and interpretations have been approved for use by the European Union.
With the exception of IFRIC 20, application of the remaining standards and interpretations binding for the Group from 1 January 2013 had no or immaterial impact on the consolidated financial statements. The effects of application of IFRIC 20 are presented in note 3.

Up to the date of publication of these consolidated 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 adopted for use by the European Union.
The Group decided not to apply any of these standards prior than their coming into force.

3. Important estimates and assumptions

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

(a) Accounting for the acquisition of subsidiaries

In the current reporting period, the KGHM Polska Miedź S.A. Group performed in accordance with IFRS 3 a final identification of the assets and liabilities of the acquired KGHM INTERNATIONAL LTD. Group and recognised them in the consolidated financial statements. Estimates and assumptions related to the identification and fair value measurement of the acquired assets and liabilities of the KGHM INTERNATIONAL LTD. Group are described in note 2.

(b) Joint ventures (jointly controlled entities)

In the current period the Group classified the following three projects as joint ventures under IAS 31:

- the „JV Sierra Gorda" agreement, in which the share of KGHM INTERNATIONAL LTD. equals to 55%, entered into to develop the extraction of copper and molybdenum in the Sierra Gorda area,
- the agreement „Elektrownia Blachownia Nowa", in which the Group has 50% interest, entered into to build a gas-fired source of power generation on the grounds of the existing Blachownia Power Plant,
- agreement on the realisation of a project involving the commercialisation of research into graphene, based on supporting of R&D work to accelerate them, selecting the products portfolio and introducing selected products for the market, between KGHM III FIZAN and the industry development agency Agencja Rozwoju Przemysłu S.A. The Group owns 49% of the company „Nano Carbon Sp. z o.o.", which will realise the assigned goals.

Classification of Sierra Gorda S.C.M. and „Nano Carbon Sp. z o.o." as joint venture agreement despite the respective 55% and 49% share of the Group, was made based on analysis of the terms of the agreements between the parties and contractual stipulations which indicated jointly control relationship.

Analysis was also performed of the impact of IFRS 11 *Joint arrangements*, which is obligatory for the Group for annual periods beginning on or after 1 January 2014, on the recognition and measurement of the current joint ventures of the Group. This analysis determined that IFRS 11 will not cause changes in the classification and recognition of the current joint ventures of the Group.

In the consolidated financial statements, the shares in the jointly controlled entities were measured using the equity method. According to this method the shares in the jointly controlled entities were measured at the moment of initial recognition at cost, and then on dates ending subsequent reporting periods were respectively adjusted by any changes which appeared after the date of their acquisition in the value of assets attributable to the share of the joint operator.

(c) Useful lives of property, plant and equipment

The management boards of Group companies perform annual reviews of residual values, depreciation methods and anticipated periods of use of property, plant and equipment subject to depreciation.

The depreciation methods adopted reflect the manner of use of the economic benefits received from a given asset.

For assets which, in the opinion of companies management boards, are used on a systematic basis, the straight-line method of depreciation is applied. Depreciation are set through the estimation of periods of use and equal distribution of the amounts to be depreciated. It is estimated that the periods of use of assets acquired by Group companies for purposes of depreciation reflect the expected periods in which these assets will provide economic benefits in the future. The net value of property, plant and equipment subject to depreciation using the straight line method as at 30 June 2013 amounted to PLN 8 424 million (as at 31 December 2012, PLN 8 110 million).

For assets whose utilisation, in the opinion of company management boards, is directly related to the amount of mineral extracted from ore or the amount of cathodes produced, and extraction or production is not equally distributed during their useful lives, the natural depreciation method (units of production method) is applied. Depreciation are estimated based on the expected amount of mineral reserves tonnage to be extracted, or based on the expected amount of copper cathodes to be produced. The net value of property, plant and equipment subject to depreciation using the units of production method as at 30 June 2013, amounted to PLN 3 359 million (as at 31 December 2012, PLN 3 468 million).

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

3. Important estimations and assumptions (continued)

(d) Testing for impairment

Pursuant to IAS 36, the Management Board of the Parent Entity, due to the identification of impairment indicators, performed testing for the impairment of the cash-generating units to which the assets were allocated. The testing for impairment which was performed in the reporting period was with respect to:

- the joint venture Sierra Gorda S.C.M. accounted for using the equity method, representing the separate business segment „Sierra Gorda Project". In the current reporting period, due to changes in macro- and microeconomic conditions, the Group prepared CAPEX definitive cost estimate of the Sierra Gorda S.C.M. project, as a result of which total capital expenditure to commence the project amounts to USD 3.9 billion versus USD 2.9 billion forecast in a prior period. This was the main impairment test indicator for joint venture, with carrying amount as at 30 June 2013 amounted to USD 1 251 million (PLN 4 157 million). To determine the recoverable amount of the tested asset, the fair value less cost to sell has been estimated as net present value of the asset using the discounted cash flows method. Key assumptions used in the estimation:

Start of production	2014
Life of mine	20 years
Payable metals	4.2 million tonnes of copper (77% of revenues), 1.1 billion ounces of gold (4% of revenues), 227 tonnes of molybdenum (19% of revenues)
Average operating margin during the life of the mine	50.5%
Capital expenditure (together with second stage of the mine's development)	USD 4 552 million to be incurred mainly in the period 2013-2018 (of which: USD 3 917 million to 2018, USD 635 million in the period 2019-2033)
Applied income tax rate	20%
Applied discount rate	8.0%

Based on the performed impairment test on Sierra Gorda, the fair value less cost to sell has been determined in amount of USD 1 367.7 million (PLN 4 537 million, based on the average exchange rate of the NBP of 28 June 2013), which exceeds the carrying amount of the investment and therefore no impairment losses have been recognised.

Pursuant to International Financial Reporting Standards, a sensitivity analysis was also performed of the recoverable amount to key parameters which have a significant impact on the results of measuring the Sierra Gorda investment. Six key factors were identified as having a significant impact on the recoverable amount of the tested investment:

- copper price,
- discount rate,
- processing cost,
- initial capital expenditure,
- extraction cost,
- molybdenum price.

For the sensitivity analysis, each of the above parameters value taken in the test has been increased and decreased by 5% versus the base value. This sensitivity analysis showed that changes in the copper price have the greatest impact on the recoverable amount of the tested assets. Given a long term change in the copper price by 5% versus the base value, the recoverable amount of the investment in Sierra Gorda ranged between USD 1 211.1 million and USD 1 523.6 million (between PLN 4 017.8 million and PLN 5 054.5 million, based on the average exchange rate of the NBP of 28 June 2013).

For the remaining parameters, a change of 5% versus the base value would not result in the decrease of the recoverable amount below the carrying amount of the investment.

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

3. Important estimations and assumptions (continued)

- Carlota mine from the KGHM INTERNATIONAL LTD. Group. For this asset, as at 30 June 2013, there was a significant change in the expected cash flow which justified the performance of impairment testing on this asset. The following key assumptions were used in the test:

Life of mine	4 years, recultivation beginning in 2017
Payable metals	51 million lbs of copper
Average operating margin during the life of the mine	23.9%
Capital expenditure	USD 13 million during the life of the mine
Applied income tax rate	US federal income tax (35%, with due regard to AMT) and state income tax of Arizona (7%)
Applied discount rate	10%

As a result of the testing it was determined that the recoverable amount for the Carlota mine amounted to zero, which resulted in the recognition of an impairment loss in the amount of USD 16 million (PLN 53 million).

IAS 36 also requires annual testing for impairment of intangible assets with unspecified periods of use and cash-generating units to which goodwill was allocated. In the opinion of the Management Board of the Parent Entity, there was no indication that such testing was required. In accordance with the accounting policy of the KGHM Polska Miedź S.A. Group, required testing will be performed on 31 December 2013.

(e) Valuation of inventories

As at 30 June 2013, in accordance with approved accounting policy, the Group performed a measurement of inventories. For inventories whose acquisition cost or manufacturing cost at the end of the reporting period was higher than their net recoverable sale price, an impairment loss was recognised in the amount of PLN 40 million (as at 30 June 2012, PLN 1 million), which was recognised in cost of sales.

In the consolidated financial statements the amount of the inventories of the KGHM INTERNATIONAL LTD. Group, which arise from the leaching process, is determined based on the estimated recovery of metal from ore. The nature of the process of leaching copper from ore restricts the precision of monitoring the level of inventories arising during this process. In subsequent reporting periods, adjustments are made to the estimated recovery of copper from the leaching of ore in a given reporting period to the level of production achieved in the subsequent period.

(f) Costs of stripping of overburden

As a result of the application of IFRIC 20, as at 30 June 2013 the Group recognised the costs of accessing ore through the stripping of overburden as non-current assets (mining and metallurgical assets) in the amount of PLN 75 million. These costs were incurred in the first half of 2013 during the production phase of open pit mines belonging to KGHM INTERNATIONAL LTD. The assets will be amortised in useful lives of the identified area of the deposit, to which access has improved as a result of this work. Accounting policy applied in this regard did not change comparable data due to the nature of the mining process in KGHM INTERNATIONAL LTD.

(g) Impairment of available-for-sale financial assets

As at 30 June 2013, in accordance with accounting policy, the Group performed an analysis of evidence indicating an impairment of shares classified to the category of available-for-sale assets. Analysis of the value of these shares versus their cost of acquisition is performed at the end of each quarter. In the first half of 2013, the most important impairment losses involved:

- shares of the company Tauron Polska Energia S.A. In the first quarter of 2013, the fair value of the shares of Tauron Polska Energia S.A. remained at a level below their carrying amount, which justified the recognition of an impairment loss in the amount of PLN 86 million in profit or loss. In the second quarter of 2013, the shares of Tauron rose slightly, and the fair value of the shares reached a level 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.
- shares of the group of companies listed on the TSX Venture Exchange. The fair value of these shares in the first half of 2013 remained at a level below their carrying amount, which justified the recognition of an impairment loss in the amount of PLN 97 million, of which PLN 29 million was taken directly to profit or loss, while PLN 68 million was transferred from other comprehensive income to profit or loss as a reclassification adjustment.

As at 30 June 2013, the carrying amount of available-for-sale financial assets was PLN 959 million (as at 31 December 2012, PLN 1 041 million).

3. Important estimations and assumptions (continued)

(h) Measurement of future employee benefits liabilities

Future employee benefits (retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments) are equal to the present value of the defined benefit obligation. The amount of obligations depends on many factors, which are used as assumptions in the actuarial method. Every change in these assumptions impacts the carrying amount of the liability.

One of the basic assumptions for setting the amount of these liabilities is the 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. The Group used the discount rate calculated based on the yield of treasury bonds with the maturities nearest to planned financial outflow.

Remaining macroeconomic assumptions used to measure liabilities due to future employee benefits, such as inflation or the lowest salary, are based on current market conditions. Other information and the assumptions applied may be found in note 23.

As at 30 June 2013 the carrying amount of employee benefits liabilities was PLN 1 855 million (as at 31 December 2012, PLN 1 748 million).

(i) Provision for decommissioning costs of mines and other facilities

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

a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),
b) the real discount rate calculated based on the yield of treasury bonds with the maturities nearest to planned financial outflow (nominal discount rate) and the forecast rate of inflation.
c) the rate of return on investments in US 10-year treasury notes, and
d) the rate of return on investments in 5-year and 10-year government bonds issued by the National Bank of Canada.

Detailed information on measurement of provisions is presented in Note 24.

As at 30 June 2013 the carrying amount of provision for decommissioning costs of mines and other facilities was PLN 1 090 million (as at 31 December 2012, PLN 1 014 million).

(j) Deferred tax assets/liabilities

The deferred tax assets/liabilities are measured using the tax rates which are expected to apply at the moment when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted at the end of the reporting period in the given country.
The probability of realising the deferred tax asset with future tax income is based on the budgets of Group companies. The companies of the Group recognised in their accounts deferred tax assets in amounts to which it is probable that they will achieve taxable profit which will enable the deduction of deductible temporary differences.
Companies of the Group which historically have generated losses, and whose financial projections do not foresee the achievement of taxable profit enabling the deduction of deductible temporary differences, do not recognise deferred tax assets in their accounts.

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

4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries

Entity	Head office	Scope of activities	% of Group's share as at 30 June 2013	% of Group's share as at 31 December 2012
"BIOWIND" sp. z o.o.	Lubin	generation, transfer and distribution of electricity	100	100
BIPROMET S.A.	Katowice	construction, urban planning, and technology design; erection of complete facilities or parts thereof; civil and water engineering; property leasing	66	66
Bipromet Ecosystem Sp. z o.o.	Katowice	execution of central heating and ventilation installations	33.66	33.66
CBJ sp. z o.o.	Lubin	chemical-physical research and analyses; measurement of imissions and emissions; industrial research	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	purchase/sale of scrap: steel, coloured metals and steel alloys, sale of smelter products and construction reinforcing materials, waste recycling	94.22	85
KGHM ZANAM Sp. z o.o. (formerly DFM ZANAM-LEGMET Sp. z o.o.)	Polkowice	repair and manufacture of machinery	100	100
Ecoren DKE sp. z o.o. in liquidation	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	100	100
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat; water-sewage management	100	100
Fermat 1 S.á r.l.	Luxembourg	foundation, development, management or exercise of control of other companies	100	100
Fermat 2 S.á r.l.	Luxembourg	foundation, development, management or exercise of control of other companies	100	100
Fermat 3 S.á r.l.	Luxembourg	foundation, development, management or exercise of control of other companies	100	100
Fundusz Hotele 01 Sp. z o.o.	Wrocław	financial activities, trade in own real estate, management consulting	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Wrocław	financial activities, retail and wholesale of different merchandise and products	100	100
Polska Grupa Uzdrowisk Sp. z o.o.	Wrocław	financial holding activities, financial services, turnover and real estate services	100	100
Polska Grupa Uzdrowisk Sp. z o.o. SKA	Warsaw	financial activities, retail and wholesale of different merchandise and products	100	100
INOVA Spółka z o.o.	Lubin	inspections and control of machinery, R&D work	100	100
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	67.71	67.71
Interferie Medical SPA Sp. z o.o.	Lubin	hotel services, recreation, rehabilitation, health tourism and wellness	89.46	89.46
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	80	80
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100

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

4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)

Entity	Head office	Scope of activities	% of Group's share as at 30 June 2013	% of Group's share as at 31 December 2012
KGHM Ecoren S.A.	Lubin	production of ammonium perrhenate and road-building material; sale of raw materials for the production of abrasives; the processing and recovery of metals from ores, mineral resources and industrial waste	100	100
KGHM Kupfer AG	Berlin	exploration for and evaluation of deposits of copper and other metals in Europe	100	100
KGHM I FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM II FIZAN in liquidation	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM III FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM IV FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM V FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM Kupferhandelsges. m.b.H.i L.	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation; technology transfer; operation of a technology park; property sale and rental	85.45	85.45
KGHM Metraco S.A.	Legnica	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt, spedition services	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	wholesale activities, import/export of copper/silicon products and chemicals, mechanical and electrical equipment, office materials, commercial consulting services	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	hospital services; physician practice; activities related to protecting human health; occupational medicine	100	100
NITROERG S.A.	Bieruń	production of explosives and detonation agents used in mining	85	85
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
Przedsiębiorstwo Budowlane Katowice S.A.	Katowice	construction of complete facilities or parts thereof, general and specialty construction	58.08	58.08
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
Sugarloaf Ranches Limited	Vancouver	agricultural activity	100*	100*

* actual Group share

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

4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)

Entity	Head office	Scope of activities	% of Group's share as at 30 June 2013	% of Group's share as at 31 December 2012
PMT Linie Kolejowe Sp. z o.o.	Polkowice	management over railway infrastructure	100	100
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	railway and road transportation services; trade in fuels	100	100
„Uzdrowisko Cieplice" Sp. z o.o. – Grupa PGU	Jelenia Góra	spa services	91.67	91.67
Uzdrowisko Połczyn Grupa PGU S.A.	Połczyn Zdrój	spa services	90.45	90.45
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o. – Grupa PGU	Świeradów Zdrój	spa services	87.74	87.74
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics	98.5	98.5
WMN "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	84.96	84.96
WPEC w Legnicy S.A.	Legnica	generation, transfer and distribution of heat	85	85
Zagłębie Lubin S.A.	Lubin	management of football section, organisation of professional sporting events	100	100
Uzdrowiska Kłodzkie S.A. – Grupa PGU	Polanica Zdrój	spa services, production and sale of mineral waters	91.80	91.80
0929260 B.C U.L.C.	Vancouver	management or exercise of control of other companies	100	100
KGHM INTERNATIONAL LTD. Group				
KGHM INTERNATIONAL LTD.	Vancouver	foundation, development, management or exercise of control of other companies	100	100
Quadra FNX Moly Holdings (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	100
Quadra FNX Intermoly Holdings Limited	Barbados	management and exercise of control of other companies	100	100
Malmbjerg Molybdenum A/S	Greenland	management and development of the Malmbjerg project with respect to molybdenum mining	100	100
International Molybdenum Plc	United Kingdom	financial activities	100	100
Quadra FNX Holdings (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	100
Quadra FNX Chile (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	100
Quadra FNX Holdings Chile Limitada	Chile	management and exercise of control of other companies	100	100
Quadra FNX SG (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	100
Quadra FNX Water Holdings (Barbados) Ltd.	Barbados	management and exercise of control of other companies	100	100
Aguas de la Sierra Limitada	Chile	ownership and exercise of water rights in Chile	100	100

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

4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)

Entity	Head office	Scope of activities	% of Group's share as at 30 June 2013	% of Group's share as at 31 December 2012
Quadra FNX FFI Ltd.	Barbados	financial activities	100	100
Robinson Holdings (USA) Ltd.	Nevada, USA	technical and management services for subsidiaries in the USA	100	100
Wendover Bulk Transhipment Company	Nevada, USA	loading services for the Robinson mine	100	100
Robinson Nevada Mining Company	Nevada, USA	copper ore mining, copper production and sale	100	100
Robinson Nevada Railroad Company	Nevada, USA	railway services for the Robinson mine	100	100
Carlota Holdings Company	Arizona, USA	management and exercise of control of other companies	100	100
Carlota Copper Company	Arizona, USA	leaching of copper ore, copper production and sale	100	100
FNX Mining Company Inc.	Ontario, Canada	copper and nickel ore mining, copper and nickel production and sale, Victoria project development	100	100
DMC Mining Services Ltd.	Ontario, Canada	mining services contracting	100	100
Quadra FNX Holdings Partnership	British Columbia, Canada	management and exercise of control of other companies	100	100
Raise Boring Mining Services, S.A. de C.V.	Mexico	mining services contracting	100	100
FNX Mining Company USA Inc.	USA	management and exercise of control of other companies	100	100
DMC Mining Services Corporation	USA	mining services contracting	100	100
Centenario Holdings Ltd.	British Virgin Islands	management and exercise of control of other companies	100	100
Pan de Azucar (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	100	100
Minera Carrizalillo Limitada	Chile	management and exercise of control of other companies	100	100
Volcanes (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	100	100
Mineria y Exploraciones KGHM International SpA	Chile	exploration services for the Sierra Gorde project and the Franke mine	100	100
Frankie (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	100	100
Sociedad Contractual Minera Franke	Chile	leaching of copper ore, production and sale of copper	100	100
Centenario Copper (BVI) Ltd.	British Virgin Islands	financial activities	100	100
0899196 B.C. Ltd.	British Columbia, Canada	management and exercise of control of other companies	100	100

4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)

In the current period in the consolidated financial statements one associated entity - BAZALT-NITRON Sp. z o.o. and three joint ventures: Sierra Gorda S.C.M., „Elektrownia Blachownia Nowa" sp. z o.o. and NANO CARBON sp. z o.o. were accounted for using the equity method.

Changes in the structure of the KGHM Polska Miedź S.A. Group during the reporting period

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

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

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

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

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

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

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

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

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

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

Opening of proceedings to liquidate KGHM II FIZAN

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

4. Composition of the KGHM Polska Miedź S.A. Group – subsidiaries (continued)

In the reporting period a final accounting for the Quadra FNX Mining Ltd. (Quadra FNX) Group acquired on 5 March 2012 was performed. Detailed data on this accounting may be found in this report point 2.

Significant changes in the structure of the KGHM Polska Miedź S.A. Group during period from 1 January 2012 to 31 December 2012:

- acquisition on 5 March 2012, 100% of the shares of KGHM INTERNATIONAL LTD. (previously Quadra FNX Mining Ltd.), the details on accounting for the acquisition are presented in note 2.2 of these statements,

- exercise of option to purchase a further 29% of the shares of KGHM AJAX MINING INC. from Abacus Mining & Exploration Corporation ("Abacus") based on the shareholders agreement dated 12 October 2010, which increased the share in Ajax from 51% to 80%. The shares were acquired for the amount of USD 30 million (the equivalent of PLN 93 million, according to the sale exchange rate of the National Bank of Poland for USD/PLN of 2 April 2012).
  The difference of PLN (22) million between the purchase price for a 29% non-controlling interest and a 29% of the acquired equity of KGHM AJAX MINING INC. was recognised in the consolidated statement of financial position to retained earnings in the amount of PLN (33) million and to exchange differences from the translation of foreign operations in the amount of PLN 11 million.

5. Information on business segments

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

As a result of significant changes made in 2012 in the structure of the KGHM Polska Miedź S.A. Group and the new manner of perceiving areas of activities by the bodies making operating decisions, new solutions were introduced in the way the Group is managed.

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

– KGHM Polska Miedź S.A. – this segment comprises KGHM Polska Miedź S.A.,
– KGHM INTERNATIONAL LTD. - this segment comprises companies of the KGHM INTERNATIONAL LTD. Group,
– Sierra Gorda project - this segment comprises the joint venture Sierra Gorda S.C.M.,
– resource base development – this segment comprises companies involved in the exploration for and evaluation of minerals resources, intended to carry out mining,
– support of the core business – this segment comprises companies directly related to the core business of the Parent Entity*.

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

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

Due to a change during the prior reporting periods in the Group's organisational structure and a change in the composition of its reporting segments, analogous information for the comparable period was restated.

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

5. Information on business segments (continued)

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

KGHM Polska Miedź S.A.

KGHM INTERNATIONAL LTD. Group

KGHM INTERNATIONAL LTD.
Quadra FNX Moly Holdings (Barbados) Ltd.
Quadra FNX Intermoly Holdings Limited
Malmbjerg Molybdenum A/S
International Molybdenum Plc
Quadra FNX Holdings (Barbados) Ltd.
Quadra FNX Chile (Barbados) Ltd.
Quadra FNX Holdings Chile Limitada
Quadra FNX SG (Barbados) Ltd.
Quadra FNX Water Holdings (Barbados) Ltd.
Aguas de la Sierra Limitada
Quadra FNX FFI Ltd.
Robinson Holdings (USA) Ltd.
Quadra FNX Holdings Partnership
FNX Mining Company USA Inc.
0899196 B.C. Ltd.
Wendover Bulk Transhipment Company
Robinson Nevada Mining Company
Robinson Nevada Railroad Company
Carlota Holdings Company
Carlota Copper Company
Centenario Holdings Ltd.
Pan de Azucar (BVI) Ltd.
Minera Carrizalillo Limitada
Volcanes (BVI) Ltd.
Minera y Exploraciones KGHM International SpA
Frankie (BVI) Ltd.
Sociedad Contractual Minera Franke
Centenario Copper (BVI) Ltd.
DMC Mining Services Ltd.
Raise Boring Mining Services, S.A. de C.V.
DMC Mining Services Corporation
FNX Mining Company Inc.

Sierra Gorda project

Sierra Gorda S.C.M.

Resource base development

KGHM Kupfer AG
KGHM AJAX MINING INC.
Sugarloaf Ranches Ltd.

Support of the core business

KGHM Metraco S.A.
POL-MIEDŹ TRANS Sp. z o.o.
"Energetyka" sp. z o.o.
PeBeKa S.A.
KGHM ZANAM Sp. z o.o.(formerly DFM ZANAM-LEGMET Sp. z o.o.)
KGHM CUPRUM sp. z o.o. – CBR
CBJ sp. z o.o.
INOVA Spółka z o.o.
BIPROMET S.A.
"BIOWIND" sp. z o.o.
WPEC w Legnicy S.A.

Other segments

NITROERG S.A.
PHP "MERCUS" sp. z o.o.
KGHM Ecoren S.A.
CENTROZŁOM WROCŁAW S.A.
WMN "ŁABĘDY" S.A.
WFP Hefra SA
Ecoren DKE spółka z o.o. in liquidation
PHU "Lubinpex" Sp. z o.o.
PMT Linie Kolejowe Sp. z o.o.
KGHM TFI S.A.
INTERFERIE S.A.
Interferie Medical SPA Sp. z o.o.
Uzdrowiska Kłodzkie S.A. – Grupa PGU
Uzdrowisko Połczyn Grupa PGU S.A.
„Uzdrowisko Cieplice" Sp. z o.o. – Grupa PGU
Uzdrowisko „Świeradów - Czerniawa" Sp. z o.o. – Grupa PGU
Fundusz Hotele 01 Sp. z o.o.
Fundusz Hotele 01 Sp. z o.o. S.K.A.
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.
Polska Grupa Uzdrowisk Sp. z o.o.
KGHM I FIZAN
KGHM II FIZAN in liquidation
KGHM III FIZAN
KGHM IV FIZAN
KGHM V FIZAN
"MIEDZIOWE CENTRUM ZDROWIA" S.A.
Zagłębie Lubin S.A.
KGHM LETIA S.A.
KGHM (SHANGHAI) COPPER TRADING CO., LTD.
KGHM Kupferhandelsges. m.b.H.i.L.
Przedsiębiorstwo Budowlane Katowice S.A.
Bipromet Ecosystem Sp. z o.o.

Internal reports on the results of Group are prepared monthly in a condensed form, and quarterly in an expanded scope. The Management Board of the Parent Entity is the body which performs regular reviews of the internal financial reports of the whole Group for purposes of making major investment decisions, as it is the body which is responsible for allocating Group resources.
Inter-segment transaction prices are set under arm's length conditions, similarly as in relations with parties external to the Group.

5. Information on business segments (continued)

	For the period from 1 January 2013 to 30 June 2013								
	KGHM Polska Miedź S.A.	**KGHM INTERNATIONAL LTD.**	**Sierra Gorda project*** **	**Resource base development**	**Support of the core business**	**Other segments**	**Adjustment restating to measurement / principles under IFRS**	**Consolidation adjustments**	**Total**
Sales	9 503	1 886	-	-	2 696	1 443	-	(3 010)	**12 518**
Inter-segment sales	138	-	-	-	2 336	523	-	(2 997)	**-**
External sales	9 365	1 886	-	-	360	920	-	(13)	**12 518**
Operating costs	(6 925)	(1 680)	-	(3)	(2 663)	(1 422)	(117)	3 126	**(9 684)**
Depreciation/Amortisation	(418)	(221)	-	-	(66)	(39)	(140)	190	**(694)**
Operating profit/(loss)	2 391	209*	-	(2)	56*	20*	(117)	114	**2 671**
Profit / (loss) before income tax	**2 346**	**136**	**-**	**(2)**	**43**	**12**	**(117)**	**122**	**2 540**
Income tax expense	(621)	(83)	-	-	(11)	(5)	40	(38)	**(718)**
Profit / (loss) for the period	**1 725***	**53***	**-**	**(2)**	**32**	**7***	**(77)**	**84**	**1 822**
	At 30 June 2013								
Segment assets	**29 147**	**12 265**	**6 509**	**435**	**2 448**	**2 460**	**(3 425)**	**(13 836)**	**36 003**
Liabilities	**7 222**	**3 852**	**4 799**	**12**	**1 044**	**645**	**(3 608)**	**(706)**	**13 260**
Other information									
Investments accounted for using the equity method	33	1 736**	-	-	-	2	2 420	-	**4 191**
Capital expenditure	893	191	1 479	51	124	36	(1 479)	(8)	**1 287**
EBITDA (operating profit plus depreciation/amortisation)	**2 809**	**430**			**122**				
% of sales to KGHM Polska Miedź S.A.					**79%**				
Production and cost data									
Payable copper ('000 t)	286.0	55.1							
- including from purchased copper-bearing materials ('000 t)	213.0	-							
Nickel ('000 t)	-	2.3							
Molybdenum ('000 t)	-	0.2							
Silver (t)	544.0	-							
Gold ('000 troz)	11.3	34.9							
Platinum ('000 troz)	-	6.6							
Palladium ('000 troz)	-	11.5							
C1 cash cost of copper in concentrate production(USD/lb)****	1.73	2.13							

„Adjustment restating to measurement/principles under IFRS" – respecting adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 30 June 2013.

* result analysed in a given segment
** Sierra Gorda S.C.M. accounted for using the equity method
*** 55% share of the Group in Sierra Gorda S.C.M.
**** C1 cash cost of copper production - cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, minerals extraction tax, administrative expenses, smelter treatment and refining charges (TC/RC) less by-product revenues

5. Information on business segments (continued)
Information on business segments for the comparable period

	For the period from 1 January 2012 to 30 June 2012 – restated******								
	KGHM Polska Miedź S.A.	**KGHM INTERNATIONAL LTD. (data from the date the control was obtained)**	**Sierra Gorda project *****	**Resource base development**	**Support of the core business**	**Other segments**	**Adjustment restating to measurement/ principles under IFRS**	**Consolidation adjustments**	**Total continued operations**
Sales	10 504	1 465	-	-	3 056	1 373	-	(3 287)	**13 111**
Inter-segment sales	322	-	-	-	2 500	459	-	(3 281)	**-**
External sales	10 182	1 465	-	-	556	914	-	(6)	**13 111**
Operating costs	(6 289)	(1 474)	-	(4)	(3 020)	(1 353)	(16)	3 099	**(9 057)**
Depreciation/Amortisation	(391)	(163)	-	-	(55)	(37)	(104)	(25)	**(775)**
Operating profit/(loss)	3 781	(17)*	-	(5)	58*	44*	21	(217)	**3 665**
Profit/(loss) before income tax	**3 764**	**(63)**	**-**	**(5)**	**52**	**43**	**21**	**(217)**	**3 595**
Income tax expense	(795)	(41)	-	-	(12)	(7)	26	10	**(819)**
Profit/(loss) for the period	**2 969***	**(104)***	**-**	**(5)**	**40**	**36***	**34**	**(194)**	**2 776**
	At 31 December 2012 – restated******								
Segment assets	**28 177**	**11 416**	**4 689**	**375**	**2 341**	**2 290**	**(1 476)**	**(13 850)**	**33 962**
Liabilities	**6 254**	**3 674**	**3 092**	**17**	**1 080**	**628**	**(1 995)**	**(702)**	**12 048**
Other information									
Investments accounted for using the equity method	-	1 766**	-	-	-	-	2 145	-	**3 911**
Capital expenditure	673	152	2 371	49	84	60	(2 371)	(18)	**1 000**
EBITDA (operating profit plus depreciation/amortisation)	**4 172**	**146**			**113**				
% of sales to KGHM Polska Miedź S.A.					**78%**				
Production and cost data									
Production and cost data relating to KGHM INTERNATIONAL LTD. respect the period of 6 months of 2012									
Payable copper ('000 t)	273.0	52.1							
- including from purchased copper-bearing materials ('000 t)	204.0	-							
Nickel ('000 t)	-	2.4							
Molybdenum ('000 t)	-	41.4							
Silver (t)	653.0	-							
Gold ('000 troz)	14.3	22.3							
Platinum ('000 troz)	-	8.6							
Palladium ('000 troz)	-	14.5							
C1 cash cost of copper in concentrate production (USD/lb)*****	1.02	2.66							

„Adjustment restating to measurement/principles under IFRS" – respecting adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 30 June 2012.

* result analysed in a given segment
** Sierra Gorda S.C.M. accounted for using the equity method
*** 55% share of the Group in Sierra Gorda S.C.M.
****details presented in note 2
***** C1 cash cost of copper production - cash cost of payable copper production, reflecting ore mining and processing costs, transport costs, minerals extraction tax, administrative expenses, smelter treatment and refining charges (TC/RC) less by-product revenues

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

5. Information on business segments (continued)

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.

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

The geographical breakdown reflects the location of end clients.

	For the period	
	from 1 January 2013 to 30 June 2013	**from 1 January 2012 to 30 June 2012**
Poland	2 410	2 776
Germany	2 340	2 395
China	1 399	1 233
The United Kingdom	1 387	1 969
The Czech Republic	830	811
The USA	757	220
Canada	647	688
France	406	483
Hungary	379	398
Italy	354	697
Turkey	263	168
Switzerland	232	240
Japan	149	81
Austria	142	171
Belgium	110	140
Denmark	63	61
Slovakia	53	93
South Korea	40	73
Bulgaria	22	30
Slovenia	19	17
Bosnia and Herzegovina	18	16
Ukraine	12	10
Finland	7	10
Other countries (dispersed sale)	479	331
Total	**12 518**	**13 111**

Main customers

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

55.06% of the non-current assets of the Group are located in Poland. The remaining 44.94% of the non-current assets are located in the following countries: Chile – 21.98%; Canada - 18.24%; the USA – 4.15%; other countries – 0.57%.

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

6. Property, plant and equipment

	At	
	30 June 2013	31 December 2012 restated*
Mining and metallurgical assets, of which:	**12 122**	**11 368**
Buildings and land	5 720	5 435
Technical equipment and machinery, motor vehicles and other fixed assets	3 850	3 728
Fixed assets under construction	2 552	2 205
Other assets not related to mining and metallurgical activities, of which:	**2 567**	**2 603**
Buildings and land	1 762	1 483
Technical equipment and machinery, motor vehicles and other fixed assets	656	907
Fixed assets under construction	149	213
Total	**14 689**	**13 971**

*details presented in note 2

Major investment projects recognised under fixed assets under construction, in mining and metallurgical assets

	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 in mines	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
Hoisting machinery	19	-
Exploratory drillings (to analyse mineral ore) in the Weisswasser concession	-	54
Conformatory work	-	27
Total	**2 251**	**1 942**

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

6. Property, plant and equipment (continued)

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**	**from 1 January 2012 to 30 June 2012**
Purchase	1 190	2 294	876
Net sale	8	18	3

Capital commitments not recognised in the consolidated statement of financial position

	At	
	30 June 2013	**31 December 2012**
Capital commitments, of which:	**2 807**	**2 207**
- for the purchase of property, plant and equipment	2 746	2 167
- for the purchase of intangible assets	61	40
Capital commitments related to the Sierra Gorda S.C.M. project, of which:	**6 782**	**7 093**
- for investing activities	2 066	2 307
- for operating activities	4 716	4 786
Total capital commitments:	**9 589**	**9 300**

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

7. Intangible assets

	Note	At 30 June 2013	At 31 December 2012 restated*
Development costs		11	3
Goodwill		66	66
Software		29	27
Acquired concessions, patents, licenses		51	47
Other intangible assets		438	476
- water rights**		196	180
- intangible assets due to service sales contracts**		55	68
- management fee for Sierra Gorda S.C.M.**		27	24
Exploration and evaluation assets		1 545	1 334
Other intangible assets not yet available for use		62	36
Total		**2 202**	**1 989**

*details presented in note 2
** relates to the KGHM INTERNATIONAL LTD. Group

As at 30 June 2013, the largest item within intangible assets not yet available for use is exploration and evaluation assets regarding the following projects:

- the Victoria, located in the Sudbury Basin in Canada, expenditures related to exploration work performed by KGHM INTERNATIONAL LTD. in preparation for accessing a deposit of copper, nickel and precious metals,
- Afton – Ajax, carried out by a company of the KGHM AJAX MINING INC. Group,
- carried out by KGHM Polska Miedź S.A. mainly to manage the nickel deposit „Szklary" and to evaluate the new reserve areas „Gaworzyce", „Radwanice" and „Niecka Grodziecka" .

8. Investment property

	For the period from 1 January 2013 to 30 June 2013	from 1 January 2012 to 31 December 2012	from 1 January 2012 to 30 June 2012
Beginning of financial period	**59**	**60**	**60**
Purchase	1	-	-
Fair value measurement	4	-	-
Reclassification from property, plant and equipment	7	1	-
Reclassification to non-current assets held for sale	(4)	-	(2)
Sale of properties	-	(2)	-
Other	(2)	-	-
End of financial period	**65**	**59**	**58**

The last valuation of investment property by valuer was made as at 31 December 2012.

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

9. Investments accounted for using the equity method

	For the period		
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 31 December 2012 restated*	from 1 January 2012 to 30 June 2012 restated*
Beginning of financial period	**3 911**	**-**	-
At the date of obtaining control of a subsidiary	-	3 880	3 880
Purchase of shares	9	33	-
Exchange differences from the translation of foreign operation shares at the end of the reporting period	271	(2)	359
End of financial period	**4 191**	**3 911**	**4 239**

*details presented in note 2

The largest share in the value of investments accounted for using the equity method is the investment in the joint venture „Sierra Gorda JV" in the amount of PLN 4 157 million as at 30 June 2013.

10. Available-for-sale financial assets

	Note	At	
		30 June 2013	31 December 2012
Shares in unlisted companies		11	11
Shares in listed companies		790	873
Debt securities		-	8
Non-current available-for-sale financial assets		**801**	**892**
Shares in listed companies		150	149
Debt securities		8	-
Current available-for-sale financial assets		**158**	**149**
Total available-for-sale financial assets:	**32**	**959**	**1 041**

The most significant changes in the reporting period related to:
- impairment losses on shares in the amount of PLN 183 million, directly recognised in profit or loss,
- an acquisition of assets in the amount of PLN 42 million,
- the realisation of a sale transaction of assets in the amount of PLN 25 million, in respect of which an impairment loss was recognised in prior periods.

11. Mine closure financial assets

	Note	At	
		30 June 2013	31 December 2012
Financial assets (deposits) for mine closure		191	164
Debt securities		332	296
Non-current mine closure financial assets		**523**	**460**
Financial assets (deposits) for mine closure		1	-
Current mine closure financial assets		**1**	**-**
Total mine closure financial assets	**32**	**524**	**460**

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

11. Mine closure financial assets (continued)

As at 30 June 2013, financial assets for mine closure comprised the following:

(a) Parent Entity's deposits accumulated in a separate bank account of the Mine Closure Fund (MCF) based on obligations resulting from the Law on Geology and Mining, dated 9 June 2011 (Journal of Laws No. 11.163.981) to cover future decommissioning costs of mines and other facilities
(balance of the Fund as at 30 June 2013 – PLN 169 million, as at 31 December 2012 – PLN 141 million)

(b) Cash accumulated by KGHM INTERNATIONAL LTD. on a trust account of Royal Gold Inc. pursuant to the terms of purchase agreement of the Robinson mine, in order to cover the costs of restoration of areas degraded by the activities of this mine.
(balance as at 30 June 2013 – PLN 23 million, as at 31 December 2012 – PLN 23 million).

As at 30 June 2013, debt securities in the amount of PLN 332 million represented funds to cover the mine decommissioning costs of the KGHM INTERNATIONAL LTD. Group. In accordance with provisions binding in the USA and Canada, the KGHM INTERANTIONAL LTD. Group is obliged to purchase government environmental bonds in the amount of estimated provision for decommissioning of mines and other facilities (as at 31 December 2012 – PLN 296 million).

12. Derivatives

		At	
	Note	**30 June 2013**	**31 December 2012**
Non-current assets			
Hedging instruments		661	742
Trade and embedded instruments		13	3
Total non-current assets due to derivatives		**674**	**745**
Current assets			
Hedging instruments		492	381
Trade and embedded instruments		18	1
Instruments initially designated as hedging instruments excluded from hedge accounting		126	-
Total current assets due to derivatives		**636**	**382**
Total assets due to derivatives	**32**	**1 310**	**1 127**
Non-current liabilities			
Hedging instruments		108	197
Trade and embedded instruments		31	33
Total non-current liabilities due to derivatives		**139**	**230**
Current liabilities			
Hedging instruments		9	21
Trade and embedded instruments		143	4
Total current liabilities due to derivatives		**152**	**25**
Total liabilities due to derivatives	**32**	**291**	**255**

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

13. Trade and other receivables

	Note	At 30 June 2013	At 31 December 2012
Trade and other non-current receivables			
Deposits of over 12 months		-	1
Loans granted*		2 587	1 470
Other financial receivables		21	20
Total loans and financial receivables, net	**32**	**2 608**	**1 491**
Prepayments		26	25
Total non-financial receivables, net		**26**	**25**
Trade and other non-current receivables, net		**2 634**	**1 516**
Trade and other current receivables			
Trade receivables		1 838	2 248
Receivables due to unsettled derivatives**		47	22
Loans granted		2	1
Deposits of over 3 up to 12 months		9	47
Other financial receivables		130	64
Impairment allowances		(73)	(70)
Total loans and financial receivables, net	**32**	**1 953**	**2 312**
Other non-financial receivables, including:		398	507
- due to taxes and other charges		293	415
- advances granted		91	80
Prepayments		234	53
Impairment allowances		(25)	(26)
Total non-financial receivables, net		**607**	**534**
Trade and other current receivables, net		**2 560**	**2 846**
Total trade and other non-current and current receivables, net		**5 194**	**4 362**

* relates to a loan granted by KGHM INTERNATIONAL LTD. to Sierra Gorda S.C.M. Details presented in note 33.2.4.

** 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.

In Group companies there are long term contracts related to construction services agreements. As at 30 June 2013, the gross amount due from clients due to work based on construction contracts amounted to PLN 86 million (as at 31 December 2012, PLN 165 million). The retained amount due to these contracts as at 30 June 2013, amounted to PLN 55 million (as at 31 December 2012, PLN 31 million).

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

14. Inventories

	Note	At	
		30 June 2013	**31 December 2012**
Materials		694	669
Half-finished products and work in progress		2 365	2 162
Finished goods		686	811
Merchandise		96	127
Total carrying amount of inventories		**3 841**	**3 769**

		For the period	
Write-down of inventories in the financial period		**from 1 January 2013 to 30 June 2013**	**from 1 January 2012 to 30 June 2012**
Write-down of inventories recognised in cost of sales	27	(40)	(1)
Reversal of write-down recognised in cost of sales	27	1	1

15. Cash and cash equivalents

	Note	At	
		30 June 2013	**31 December 2012**
Cash in hand		2	1
Cash at bank		651	562
Other cash		12	28
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		1 758	2 038
Total cash and cash equivalents	**32**	**2 423**	**2 629**

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

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

16. Share capital

As at 30 June 2013, the share capital of the Parent Entity, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Parent Entity has not issued preference shares. Each share gives the right to one vote at the general meeting. The Parent Entity does not have treasury shares.

Subsidiaries and associates, and also other entities accounted for using the equity method in the consolidated financial statements do not have shares of KGHM Polska Miedź S.A.

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

In the first half of 2013 and in 2012 there were no changes in significant packets of shares of KGHM Polska Miedź S.A.

The only shareholder of the Parent Entity, owning as at 30 June 2013 number of shares granting the right to at least 5% of the share capital and total number of votes was the State Treasury.

At 30 June 2013 and at the date of signing of these financial statements, the shareholder structure of the Parent Entity is as follows:

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

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

17. Other equity items attributable to the shareholders of the Parent Entity

	Note	Revaluation reserve from measurement of financial instruments					
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging instruments**	**Total**	**Exchange differences from the translation of foreign operations statements**	**Actuarial gains/losses on post-employment benefits**	**Retained earnings**
At 1 January 2013 restated*		**(51)**	**286**	**235**	**19**	**(543)**	**19 971**
Dividends from profit for 2012 resolved but unpaid		-	-	**-**	-	-	**(1 960)**
Offsetting of profit from prior years with the reserves arising from actuarial gains and losses		-	-	**-**	-	356	(356)
Total comprehensive income		**74**	**318**	**392**	**649**	**(85)**	**1 824**
Profit for the period		-	-	**-**	-	-	1 824
Other comprehensive income		74	318	**392**	649	(85)	-
Fair value gains/losses on available-for-sale financial assets		9	-	**9**	-	-	-
Amount transferred to profit or loss due to impairment of available-for-sale financial assets		68	-	**68**	-	-	-
Impact of effective cash flow hedging transactions	33	-	558	**558**	-	-	-
Amount transferred to profit or loss due to the settlement of hedging instruments	33	-	(166)	**(166)**	-	-	-
Actuarial losses from the measurement of post-employment benefits		-	-	**-**	-	(105)	-
Exchange differences from the translation of foreign operations statements		-	-	**-**	649	-	**-**
Deferred income tax	22	(3)	(74)	**(77)**	-	20	-
Obligation to repurchase of non-controlling interest		-	-	**-**	-	-	14
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	**-**	-	-	4
At 30 June 2013		**23**	**604**	**627**	**668**	**(272)**	**19 497**

* details presented in note 2

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

17. Other equity items attributable to the shareholders of the Parent Entity (continued)

	Note	Revaluation reserve from measurement of financial instruments					
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging instruments**	**Total**	**Exchange differences from the translation of foreign operations statements**	**Actuarial gains/losses on post-employment benefits**	**Retained earnings**
At 1 January 2012 restated*		**(38)**	**574**	**536**	**19**	**-**	**20 547**
Change in presentation principles*		-	-	-	-	(373)	373
At 1 January 2012 restated*		**(38)**	**574**	**536**	**19**	**(373)**	**20 920**
Dividends from profit for 2011 resolved but unpaid		-	-	**-**	-	-	**(5 668)**
Total comprehensive income		**(178)**	**(129)**	**(307)**	**833**	**(23)**	**2 775**
Profit for the period restated*		-	-	**-**	-	-	2 775
Other comprehensive income restated*		(178)	(129)	**(307)**	833	(23)	-
Fair value losses on available-for-sale financial assets		(204)	-	**(204)**	-	-	-
Amount transferred to profit or loss due to impairment of available-for-sale financial assets		(1)	-	**(1)**	-	-	-
Impact of effective cash flow hedging transactions	33	-	(18)	**(18)**	-	-	-
Amount transferred to profit or loss due to the settlement of hedging instruments	33	-	(141)	**(141)**	-	-	-
Actuarial losses from the measurement of post-employment benefits		-	-	**-**	-	(28)	-
Exchange differences from the translation of foreign operations statements		-	-	**-**	833	-	-
Deferred income tax	22	27	30	**57**	-	5	-
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	**-**	11	-	(33)
At 30 June 2012 restated*		**(216)**	**445**	**229**	**863**	**(396)**	**17 994**

* details presented in note 2

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

18. Retained earnings

	At	
	30 June 2013	**31 December 2012 restated***
Undistributed profit/(loss) from prior years	(690)	(169)
including valuation of the employee shares put option	(56)	(70)
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	721	720
Reserve capital created and utilised in accordance with the Statutes of Group entities	17 642	14 686
Profit for the current period	1 824	4 734
Total retained earnings	**19 497**	**19 971**

* details presented in note 2

Based on the Commercial Partnerships and Companies Code, the Group companies are required to create reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
As at 30 June 2013, this statutory reserve capital in the Group entities amounts to PLN 721 million, of which PLN 660 million relates to the Parent Entity.

19. Changes in equity attributable to non-controlling interest

	Note		**For the period**	
		from 1 January 2013 to 30 June 2013	**from 1 January 2012 to 31 December 2012**	**from 1 January 2012 to 30 June 2012**
At beginning of the period		**232**	**289**	**289**
Non-controlling interest in profits of subsidiaries		(2)	1	1
Dividend paid to non-controlling shareholders		-	(1)	(1)
Changes in ownership shares in subsidiaries which do not result in loss of control	19.1	(7)	(53)	(53)
Changes in equity attributable to non-controlling interest due to exchange differences from the translation of foreign operations statements		-	(4)	(1)
At end of the period		**223**	**232**	**235**

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

19. Changes in equity attributable to non-controlling interest (continued)

19.1 Transactions with non-controlling interest

For the period from 1 January 2013 to 30 June 2013	Note	Net assets at the day of obtaining control / change in % held	% of non-controlling interest covered by the change	Net assets attributable to non-controlling interest covered by the change	Transaction value	Impact on equity attributable to non-controlling interest	Impact on equity attributable to the Parent Entity
Changes in ownership shares in subsidiaries which do not result in loss of control	**19**			**30**	**31**	**(7)**	**18**
Purchase of non-controlling shares of Centrozłom Wrocław S.A.		201	8.39%	18	19	(19)	18
Increase in the share capital of KGHM AJAX MINING INC.		364	-	12	12	12	-

For the period from 1 January 2012 to 31 December 2012	Note	Net assets at the day of obtaining control / change in % held	% of non-controlling interest covered by the change	Net assets attributable to non-controlling interest covered by the change	Transaction value	Impact on equity attributable to non-controlling interest	Impact on equity attributable to the Parent Entity
Changes in ownership shares in subsidiaries which do not result in loss of control	**19**			**89**	**111**	**(53)**	**(22)**
Purchase of non-controlling shares of KGHM AJAX MINING INC.		243	29%	71	93	(71)	(22)
Increase in the share capital of KGHM AJAX MINING INC.		92	-	18	18	18	-

Changes in ownership shares in subsidiaries which do not result in loss of control for the period from 1 January to 30 June 2012 are the same as changes for the period from 1 January to 31 December 2012.

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

20. Trade and other payables

	Note	At 30 June 2013	At 31 December 2012 restated*
Trade and other non-current payables			
Trade payables		8	5
including payables due to purchase, construction of property, plant and equipment and intangible assets		2	-
Liabilities due to valuation of employee shares put options		66	85
Other financial liabilities		1	30
Total financial liabilities (scope of IFRS 7)	**32**	**75**	**120**
Deferred income		797	760
including liabilities due to Franco Nevada streaming contract		750	711
Total non-financial liabilities		**797**	**760**
Total trade and other non-current payables		**872**	**880**
Trade and other current payables			
Trade payables		1 241	1 273
including payables due to purchase, construction of property, plant and equipment and intangible assets		209	292
Liabilities due to unsettled derivatives		-	16
Other financial liabilities**		2 087	54
Total financial liabilities (scope of IFRS 7)	**32**	**3 328**	**1 343**
Employee benefits liabilities		108	198
Liabilities due to taxes and social security		573	524
Other non-financial liabilities		40	49
Special funds		185	169
Deferred income		66	79
Accruals		702	646
Total non-financial liabilities		**1 674**	**1 665**
Total trade and other current payables		**5 002**	**3 008**
Total trade and other non-current and current payables		**5 892**	**3 888**

* details presented in note 2

**The most significant item within current liabilities is a provision due to resolved but unpaid Parent Entity shareholders dividend from appropriation of profit for financial year 2012 in the amount of PLN 1 960 million. Details are presented in note 37.

Group companies present in liabilities the gross amount due to clients due to work based on construction contracts, which as at 30 June 2013 was PLN 9 million (as at 31 December 2012, PLN 28 million).

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

20. Trade and other payables (continued)

Details on the valuation of put option liabilities for employee shares are presented in the table below:

Companies, whose employees have the right to receive shares free of charge pursuant to the Act dated 30 August 1996 on the commercialisation and privatisation of companies	Number of employee shares	Share price (PLN)	Amount of liability at	
			30 June 2013	31 December 2012
WPEC w Legnicy S.A.	1 770 000	20.00	32	32
"Uzdrowisko Cieplice" Sp. z o.o.	13 110	256.50	3	3
ZUK S.A.	379 500	40.06	13	13
Uzdrowisko Połczyn S.A.	179 550	16.51	3	3
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	1 881	1 560.30	3	3
CENTROZŁOM WROCŁAW S.A.	636 224	18.87	12	31
Put option liabilities for employee shares			**66**	**85**

21. Borrowings, debt securities and finance lease liabilities

	Note	At	
		30 June 2013	31 December 2012
Bank loans		168	165
Loans		6	8
Finance lease liabilities		45	17
Debt securities*		1 699	1 593
Total non-current borrowings, debt securities and finance lease liabilities		**1 918**	**1 783**
Bank loans**		48	1 057
Loans		3	3
Finance lease liabilities		17	10
Debt securities - interest		5	5
Total current borrowings, debt securities and finance lease liabilities		**73**	**1 075**
Total borrowings, debt securities and finance lease liabilities	**32**	**1 991**	**2 858**

* change mainly due to translation of the statement of the foreign entity KGHM INTERNATIONAL LTD. from the functional to the presentation currency (details in note 33.3).
** a decrease of the amount in comparison to 31 December 2012 due to repayment of borrowings, mainly by the Parent Entity.

Detailed information on the balance of bank loans and debt securities is presented in note 33.3 Market risk management.

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

22. Deferred tax

	Note	At 30 June 2013	At 31 December 2012 restated*	At 30 June 2012 restated*
Net deferred tax assets at the beginning of the period, of which:		**(1 207)**	**143**	**143**
Deferred tax assets at the beginning of the period		**565**	**272**	**272**
Deferred tax liabilities at the beginning of the period		**(1 772)**	**(129)**	**(129)**
(Charged)/Credited to profit	34	17	136	58
(Decrease)/Increase in other comprehensive income	17	(57)	100	62
Deferred tax liabilities at the date of obtaining control of subsidiaries		-	(1 584)	(1 571)
Exchange differences from the translation of deferred tax of foreign operations		(109)	(2)	(132)
Net deferred tax assets/(liabilities) at the end of the period, of which:		**(1 356)**	**(1 207)**	**(1 440)**
Deferred tax assets at the end of the period		**548**	**565**	**767**
Deferred tax liabilities at the end of the period		**(1 904)**	**(1 772)**	**(2 207)**

* details presented in note 2

Deferred tax assets prior to offsetting

	At 30 June 2013	At 31 December 2012 restated*
Short-term accruals for salaries	78	68
Provision for decommissioning of mines and other facilities	151	143
Measurement of forward transactions	419	467
Re-measurement of hedging instruments	-	92
Depreciation/amortisation	152	157
Future employee benefits liabilities	351	331
Unpaid remuneration with surcharges	22	17
Measurement of available-for-sale financial assets	15	14
Other	281	249
Total	**1 469**	**1 538**

* details presented in note 2

As at 30 June 2013, the Group did not recognise a deferred tax asset on unused tax losses and tax allowances, as it is unlikely that a taxable profit would be earned in the future against which the carryforward of unused tax losses and tax allowances can be utilised.

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

22. Deferred tax (continued)

Deferred tax liabilities prior to offsetting

	30 June 2013	31 December 2012 restated*
Measurement of forward transactions	218	253
Re-measurement of hedging instruments	142	160
Depreciation/amortisation	1 392	1 327
Differences between the carrying amount and the tax base of the Sierra Gorda investment measurement	736	688
Other	337	317
Total	**2 825**	**2 745**

* details presented in note 2

The Parent Entity did not recognise a deferred income tax liability on taxable temporary differences related to investments in subsidiaries, associates and shares in joint ventures, as the conditions described in IAS 12.39 were met.

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

23. Employee benefits

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

Change in liabilities due to future employee benefits

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
At 1 January 2013	**1 748**	**348**	**258**	**1 077**	**65**
Total costs recognised in profit or loss:	**62**	**19**	**11**	**30**	**2**
Interest costs	**34**	6	5	22	1
Current service cost	**24**	9	6	8	1
Past service cost	**(1)**	(1)	-	-	-
Actuarial losses recognised in profit or loss	**5**	5	-	-	-
Actuarial losses recognised in other comprehensive income	**105**	-	6	97	2
Benefits paid	**(60)**	(12)	(10)	(38)	-
At 30 June 2013	**1 855**	**355**	**265**	**1 166**	**69**
of which:					
Carrying amount of non-current liabilities	**1 723**	307	229	1 124	63
Carrying amount of current liabilities	**132**	48	36	42	6

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

23. Employee benefits (continued)

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
At 1 January 2012	**1 465**	**314**	**245**	**850**	**56**
Total costs recognised in profit or loss:	**173**	**76**	**25**	**67**	**5**
Interest costs	**86**	16	13	54	3
Current service cost	**50**	23	12	13	2
Past service cost	**1**	1	-	-	-
Actuarial losses recognised in profit or loss	**36**	36	-	-	-
Actuarial losses recognised in other comprehensive income	**210**	-	6	198	6
Benefits paid	**(100)**	(42)	(18)	(38)	(2)
At 31 December 2012	**1 748**	**348**	**258**	**1 077**	**65**
of which:					
Carrying amount of non-current liabilities	**1 615**	301	219	1 036	59
Carrying amount of current liabilities	**133**	47	39	41	6

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
At 1 January 2012	**1 465**	**314**	**245**	**850**	**56**
Total costs recognised in profit or loss:	**82**	**33**	**11**	**35**	**3**
Interest costs	**44**	7	7	28	2
Current service cost	**20**	8	5	6	1
Past service cost	**1**	1	(1)	1	-
Actuarial losses recognised in profit or loss	**17**	17	-	-	-
Actuarial losses recognised in other comprehensive income	**28**	-	3	23	2
Benefits paid	**(63)**	(14)	(12)	(36)	(1)
At 30 June 2012	**1 512**	**333**	**247**	**872**	**60**
of which:					
Carrying amount of non-current liabilities	**1 385**	289	210	831	55
Carrying amount of current liabilities	**127**	44	37	41	5

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

23. Employee benefits (continued)

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.

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

24. 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
Provisions at 1 January 2013	**Note**	**1 079**	**1 021**	**58**
Provisions recognised in other operating costs		10	-	10
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs		(1)	(1)	-
Changes in provisions arising from updating of estimates recognised in fixed assets		57	57	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	31	20	20	-
Utilisation of provisions		(11)	(8)	(3)
Release of provisions and recognition in other operating income		(3)	(1)	(2)
Transfer to Mine Closure Fund		(12)	(12)	-
Exchange differences		20	20	-
Other		(3)	-	(3)
Provisions at 30 June 2013		**1 156**	**1 096**	**60**
of which:				
Non-current provisions		**1 090**	**1 076**	**14**
Current provisions		**66**	**20**	**46**

	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
Provisions at 1 January 2012	**511**	**483**	**28**
Provisions recognised in other operating costs	38	4	34
Provisions transferred due to business combinations	301	261	40
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	272	272	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	38	38	-
Utilisation of provisions	(37)	(10)	(27)
Release of provisions and recognition in other operating income	(15)	(6)	(9)
Transfer to Mine Closure Fund	(25)	(25)	-
Other	(2)	(1)	(1)
Provisions at 31 December 2012	**1 079**	**1 021**	**58**
of which:			
Non-current provisions	**999**	**983**	**16**
Current provisions	**80**	**38**	**42**

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

24. Provisions for other liabilities and charges (continued)

		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
Provisions at 1 January 2012	**Note**	**511**	**483**	**28**
Provisions recognised in other operating costs		12	7	5
Provisions due to business combinations		301	261	40
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs		(8)	(1)	(7)
Changes in provisions arising from updating of estimates recognised in fixed assets		103	103	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	31	19	19	-
Utilisation of provisions		(23)	(1)	(22)
Release of provisions and recognition in other operating income		(4)		(4)
Transfer to Mine Closure Fund		(14)	(14)	-
Other		46	26	20
Provisions at 30 June 2012		**943**	**883**	**60**
of which:				
Non-current provisions		**878**	**871**	**7**
Current provisions		**65**	**12**	**53**

*details presented in note 2

As at 30 June 2013, the largest item of provisions for other liabilities is an estimate for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying amount of PLN 1 091 million (as at 31 December 2012: PLN 1 015 million), calculated in accordance with the methodology resulting from International Financial Reporting Standards.

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

25. Impairment losses

Impairment losses on property, plant and equipment used in the manufacture of goods or in the providing of services were recognised in profit or loss as costs of sales. Impairment losses on other property, plant and equipment were recognised in administrative expenses.

Impairment losses by asset class during the financial period from 1 January to 30 June 2013

	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Mining and metallurgical assets, of which:	**53**	**-**	**-**
Buildings and land	53	-	-
Other assets not related to mining and metallurgical activities, of which:	**1**	**8**	**-**
Buildings and land	-	2	-
Technical equipment and machinery, motor vehicles and other fixed assets	1	6	-
Development costs	-	1	
Total	**54**	**9**	**-**

Impairment losses by business segments during the financial period from 1 January to 30 June 2013

	Impairment loss recognised	Impairment loss reversed	Impairment loss used
KGHM Polska Miedź S.A.	53	-	-
Support of the core business	-	2	-
Other segments	1	7	-
Total consolidated value	**54**	**9**	**-**

Impairment losses by asset class during the financial period from 1 January to 30 June 2012

	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Mining and metallurgical assets, of which:	**2**	**-**	**4**
Buildings and land	2	-	1
Fixed assets under construction	-	-	3
Other intangible assets	-	2	-
Intangible assets not yet available to use	-	-	1
Total	**2**	**2**	**5**

Impairment losses by business segments during the financial period from 1 January to 30 June 2012

	Impairment loss recognised	Impairment loss reversed	Impairment loss used
KGHM Polska Miedź S.A.	2	2	4
Other segments	-	-	1
Total consolidated value	**2**	**2**	**5**

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

26. 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	For the period from 1 January 2012 to 30 June 2012
Copper, precious metals, smelter by-products		10 807	11 271
Salt		58	18
Energy		59	56
Services		691	643
Mining machinery, transport vehicles for mining and other		20	27
Electro-mechanical products		53	-
Merchandise – smelting products		288	362
Other merchandise		77	277
Scrap and materials		96	35
Other goods		369	422
Total	**5**	**12 518**	**13 111**

	For the period from 1 January 2013 to 30 June 2013	For the period from 1 January 2012 to 30 June 2012
Average copper price on LME (USD/t)	7 540	8 096
Average exchange rate (USD/PLN) per NBP	3.18	3.27

Group companies recognise revenues due to realisation of construction contracts. Income due to these contracts are presented below;

	For the period from 1 January 2013 to 30 June 2013	For the period from 1 January 2012 to 30 June 2012
Income due to realisation of contracts	452	195

Income due to realisation of contracts recognised for the period are presented in the item – Services.

Data for contracts being realised at the end of the reporting period

	At 30 June 2013	At 31 December 2012
Total income due to realisation of contracts	501	1 523
Total costs incurred so far due to realisation of contracts	419	1 317
Gains due to realisation of contracts	**82**	**206**

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

27. Expenses by nature

	Note	For the period from 1 January 2013 to 30 June 2013	For the period from 1 January 2012 to 30 June 2012 restated*
Depreciation of property, plant and equipment and amortisation of intangible assets		694	775
Employee benefits expenses	28	2 284	2 188
Materials and energy		4 190	4 144
External services		1 227	1 271
Taxes and charges*		1 276	669
Advertising costs and representation expenses		28	35
Property and personal insurance		17	17
Other costs, of which:		151	64
Impairment losses on property, plant and equipment, intangible assets		54	2
Write-down of inventories	14	40	1
Allowance for impairment of receivables	32	3	1
Reversal of impairment losses on property, plant and equipment, intangible assets		(9)	(2)
Reversal of write-down of inventories	14	(1)	(1)
Reversal of allowance for impairment of receivables	32	-	(6)
Losses from the disposal of financial instruments	32	4	4
Other operating costs		60	65
Total expenses by nature		**9 867**	**9 163**
Cost of merchandise and materials sold (+), of which:		420	408
Allowance for impairment of receivables	32	4	1
Change in inventories of finished goods and work in progress (+/-)		(103)	(126)
Cost of manufacturing products for internal use (-)		(500)	(388)
Total		**9 684**	**9 057**

* details presented in note 2

** A significant item of operating costs in the Parent Entity is the minerals extraction tax. This tax was introduced in accordance with the Act on the minerals extraction tax dated 2 March 2012, which came into force on 18 April 2012.
The amount of the tax, recognised in operating costs in the period from 1 January to 30 June 2013, amounted to PLN 1 021 million (from 1 January 2012 to 30 June 2012, PLN 443 million).

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

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

28. 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		1 687	1 606
Costs of social security		595	563
Costs of future employee benefits paid during the period of employment		2	19
Total		**2 284**	**2 188**

* details presented in note 2

29. Other operating income

	Note	For the period from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012 restated*
Income and gains from financial instruments classified under other operating activities, resulting from:	32	437	924
Measurement and realisation of derivatives		255	736
Interest		124	130
Foreign exchange gains		19	-
Gains on sale		-	1
Dividends received		37	57
Reversal of allowance for impairment of loans and receivables		2	-
Increase in fair value of investment property	8	4	-
Gains on a bargain purchase of KGHM INTERNATIONAL LTD.		-	37
Gains from the sale of intangible assets		-	3
Interest on non-financial receivables		1	1
Reversal of allowance for impairment of other non-financial receivables		1	-
Government grants and other donations received		6	16
Release of unused provisions due to:		4	12
Decommissioning of mines		2	1
Disputed issues, pending court proceedings		1	1
Other		1	10
Surpluses identified in current assets		1	1
Penalties and compensation received		6	6
Management fee for Sierra Gorda S.C.M.**		40	27
Other operating income/gains		22	14
Total		**522**	**1 041**

* details presented in note 2

** KGHM INTERNATIONAL LTD. and Sierra Gorda S.C.M. have signed a contract for providing services, according to which KGHM INTERNATIONAL LTD. supports the process of managing Sierra Gorda S.C.M., in particular with respect to operational and technical support throughout the life of the mine, in exchange for the annual fee specified in the contract.

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

30. 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:	32	624	1 297
Measurement and realisation of derivatives		437	755
Foreign exchange losses		-	541
Losses on measurement of non-current liabilities		1	-
Losses on sale of financial assets		1	-
Allowances for impairment of receivables		2	-
Impairment losses on available-for-sale financial assets		183	1
Losses on the sale of property, plant and equipment, and intangible assets		14	1
Donations granted		17	86
Provisions for:		10	12
Decommissioning of mines		-	7
Disputed issues, pending court proceedings		1	-
Other		9	5
Penalties and compensation		2	3
Contributions to a voluntary organisation		9	6
Other operating costs/losses		9	25
Total other operating costs		**685**	**1 430**

31. Finance costs

	Note	For the period	
		from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012
Interest on:	32	69	51
Bonds		62	43
Bank and other loans		6	7
Finance leases		1	1
Foreign exchange (gains)/losses on borrowings	32	29	(3)
Changes in provision for decommissioning of mines arising from the approach of the maturity date of a liability (unwinding of the discount)	24	20	19
Changes in liabilities due to valuation of put option for employee shares arising from the approach of maturity date of a liability (unwinding of discount effect)		1	3
Changes in other liabilities arising from the approach of the maturity date of liabilities (unwinding of discount effect)	32	5	-
Other finance costs		7	-
Total		**131**	**70**

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

32. Financial instruments

32.1 Carrying amount

At 30 June 2013
Categories of financial instruments

Classes of financial instruments	Note	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total
Debt securities		8	-	332	-	-	-	-	**340**
Available-for-sale financial assets	10	8	-	-	-	-	-	-	**8**
Mine closure financial assets	11	-	-	332	-	-	-	-	**332**
Listed shares	10	940	-	-	-	-	-	-	**940**
Unlisted shares	10	11	-	-	-	-	-	-	**11**
Trade receivables (net)	13	-	-	1 782	-	-	-	-	**1 782**
Cash and cash equivalents and deposits		-	-	2 626	-	-	-	-	**2 626**
Mine closure financial assets	11	-	-	192	-	-	-	-	**192**
Trade and other receivables	13	-	-	11	-	-	-	-	**11**
Cash and cash equivalents	15	-	-	2 423	-	-	-	-	**2 423**
Loans granted	13	-	-	2 587	-	-	-	-	**2 587**
Other financial assets (net)	13	-	-	181	-	-	-	-	**181**
Derivatives – Currency (net)	12	-	2	-	(7)	-	-	280	**275**
Derivatives - Commodity contracts – metals (net)	12	-	137	-	(167)	-	-	756	**726**
Embedded derivatives	12	-	18	-	-	-	-	-	**18**
Trade payables	20	-	-	-	-	(1 249)	-	-	**(1 249)**
Borrowings	21	-	-	-	-	(225)	-	-	**(225)**
Debt securities – issued bonds	21	-	-	-	-	(1 704)	-	-	**(1 704)**
Other financial liabilities		-	-	-	-	(2 154)	(62)	-	**(2 216)**
Trade and other payables	20	-	-	-	-	(2 154)	-	-	**(2 154)**
Borrowings, debt securities and finance lease liabilities	21	-	-	-	-	-	(62)	-	**(62)**
Total		**959**	**157**	**7 508**	**(174)**	**(5 332)**	**(62)**	**1 036**	**4 092**

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.

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

32.1 Financial instrument classes and categories (continued)

At 31 December 2012 restated*

Categories of financial instruments

Classes of financial instruments	Note	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities		Hedging instruments	Total
						Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Debt securities		8	-	296	-	-	-	-	**304**
Available-for-sale financial assets	10	8	-	-	-	-	-	-	**8**
Mine closure financial assets	11	-	-	296	-	-	-	-	**296**
Listed shares	10	1 022	-	-	-	-	-	-	**1 022**
Unlisted shares	10	11	-	-	-	-	-	-	**11**
Trade receivables (net)	13	-	-	2 196	-	-	-	-	**2 196**
Cash and cash equivalents and deposits		-	-	2 841	-	-	-	-	**2 841**
Mine closure financial assets	11	-	-	164	-	-	-	-	**164**
Trade and other receivables	13	-	-	48	-	-	-	-	**48**
Cash and cash equivalents	15	-	-	2 629	-	-	-	-	**2 629**
Loans granted	13	-	-	1 470	-	-	-	-	**1 470**
Other financial assets (net)	13	-	-	89	-	-	-	-	**89**
Derivatives – Currency (net)	12	-	1	-	(17)	-	-	462	**446**
Derivatives - Commodity contracts – metals (net)	12	-	-	-	(18)	-	-	443	**425**
Embedded derivatives	12	-	3	-	(2)	-	-	-	**1**
Trade payables	20	-	-	-	-	(1 278)	-	-	**(1 278)**
Borrowings	21	-	-	-	-	(1 233)	-	-	**(1 233)**
Debt securities – issued bonds	21	-	-	-	-	(1 598)	-	-	**(1 598)**
Other financial liabilities		-	-	-	-	(185)	(27)	-	**(212)**
Trade and other payables	20	-	-	-	-	(185)	-	-	**(185)**
Borrowings, debt securities and finance lease liabilities	21	-	-	-	-	-	(27)	-	**(27)**
Total		**1 041**	**4**	**6 892**	**(37)**	**(4 294)**	**(27)**	**905**	**4 484**

* details presented in note 2

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

32. Financial instruments (continued)

32.2 Items of income, costs, profit 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: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total
Dividends received	29	-	37	-	-	-	-	**37**
Interest income/(costs) recognised in:		**-**	**111**	**13**	**(68)**	**(1)**	**-**	**55**
Other operating income	29	-	111	13	-	-	-	124
Finance costs	31	-	-	-	(68)	(1)	-	(69)
Foreign exchange gains/(losses) recognised in:		**-**	**-**	**86**	**(96)**	**-**	**-**	**(10)**
Other operating income	29	-	-	86	(67)	-	-	19
Finance costs	31	-	-	-	(29)	-	-	(29)
Gains/(Losses) on measurement of non-current liabilities recognised in:		**-**	**-**	**-**	**(6)**	**-**	**-**	**(6)**
Other operating costs	30	-	-	-	(1)	-	-	(1)
Finance costs	31	-	-	-	(5)	-	-	(5)
Impairment allowances recognised in:		**-**	**(183)**	**(9)**	**-**	**-**	**-**	**(192)**
Expenses by nature	27	-	-	(7)	-	-	-	(7)
Other operating costs	30	-	(183)	(2)	-	-	-	(185)
Reversal of impairment losses recognised in:		**-**	**-**	**2**	**-**	**-**	**-**	**2**
Other operating income	29	-	-	2	-	-	-	2
Adjustment to sales due to hedging transactions	33	-	-	-	-	-	166	**166**
Gains/(losses) from disposal of financial instruments recognised in:		**-**	**(1)**	**(4)**	**-**	**-**	**-**	**(5)**
Expenses by nature	27	-	-	(4)	-	-	-	(4)
Other operating costs	30	-	(1)	-	-	-	-	(1)
Gains on measurement and realisation of derivatives recognised in:		**255**	**-**	**-**	**-**	**-**	**-**	**255**
Other operating income	29	255	-	-	-	-	-	255
Losses on measurement and realisation of derivatives recognised in:		**(437)**	**-**	**-**	**-**	**-**	**-**	**(437)**
Other operating costs	30	(437)	-	-	-	-	-	(437)
Total net gain / (loss)		**(182)**	**(36)**	**88**	**(170)**	**(1)**	**166**	**(135)**

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

32. Financial instruments (continued)

For the period from 1 January 2012 to 30 June 2012	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total
Dividends received	29	-	57	-	-	-	-	**57**
Interest income/(costs) recognised in:		**-**	**1**	**129**	**(50)**	**(1)**	**-**	**79**
Other operating income	29	-	1	129	-	-	-	130
Finance costs	31	-	-	-	(50)	(1)	-	(51)
Foreign exchange gains/(losses) recognised in:		**-**	**-**	**(394)**	**(144)**	**-**	**-**	**(538)**
Other operating costs	30	-	-	(394)	(147)	-	-	(541)
Finance costs	31	-	-	-	3	-	-	3
Gains/(Losses) on measurement of non-current liabilities recognised in:		**-**	**-**	**-**	**(3)**	**-**	**-**	**(3)**
Finance costs	31	-	-	-	(3)	-	-	(3)
Impairment allowances recognised in:		**-**	**(1)**	**(2)**	**-**	**-**	**-**	**(3)**
Expenses by nature	27	-	-	(2)	-	-	-	(2)
Other operating costs	30	-	(1)	-	-	-	-	(1)
Reversal of impairment losses recognised in:		**-**	**-**	**6**	**-**	**-**	**-**	**6**
Expenses by nature	27	-	-	6	-	-	-	6
Adjustment to sales due to hedging transactions	33	-	-	-	-	-	141	**141**
Gains/(losses) from disposal of financial instruments recognised in:		**-**	**-**	**(3)**	**-**	**-**	**-**	**(3)**
Expenses by nature	27	-	-	(4)	-	-	-	(4)
Other operating income	29	-	-	1	-	-	-	1
Gains on measurement and realisation of derivatives recognised in:		**736**	**-**	**-**	**-**	**-**	**-**	**736**
Other operating income	29	736	-	-	-	-	-	736
Losses on measurement and realisation of derivatives recognised in:		**(755)**	**-**	**-**	**-**	**-**	**-**	**(755)**
Other operating costs	30	(755)	-	-	-	-	-	(755)
Total net gain / (loss)		**(19)**	**57**	**(264)**	**(197)**	**(1)**	**141**	**(283)**

32. Financial instruments (continued)

32.3 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 32.1) are classified by the Group 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 Group between individual levels of 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.

33. Financial risk management

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

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

The Parent Entity based on the Market Risk Management Principles, the Financial Liquidity Management Policy and the Credit Risk Management Policy, in a conscious and responsible manner, manages the identified types of financial risk. In the KGHM INTERNATIONAL LTD. Group (KGHM INTERNATIONAL LTD.) the financial risk management principles are described in the Investment Policy.

The Parent Entity supervises the process of managing liquidity and acquiring external financing in the Group.

The Group continuously identifies and measures financial risk, and also takes actions aimed at minimising its impact on the financial situation. Understanding those threats deriving from exposure to financial risk, having an appropriate organisational structure and procedures enable better realisation of its tasks.

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

33.1 Market risk

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

33.1.1 Commodity risk

The Parent Entity is exposed to the risk of changes in market prices of copper, silver and gold. Other companies of the Group are additionally exposed to the risk of changes in market prices of nickel, lead, molybdenum, platinum and palladium.

In the Parent Entity and in the KGHM INTERNATIONAL LTD. Group price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange (LME) for copper and other base metals, and from the London Bullion Market (LBMA) for precious metals. The commercial policy of the Parent Entity and KGHM INTERNATIONAL LTD. is to set the price base for physical delivery contracts as the average price of the appropriate future month. As a result they are 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 contractual month.
There are also other formulas in the Group for setting metals sales prices.

The analysis of the Group's exposure to the risk of changes in metal prices should be performed by deducting the volume of metals contained in materials purchased from external sources, from the volume of sales.

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

33. Financial risk management (continued)

Exposure of the Group 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]	481 188	91 116	344 413	97 230
Silver [tonnes]	596	13	645	20

33.1.2 Currency risk

Some Group companies are exposed to the risk of changes in currency rates, as it is generally accepted that physical contracts are either concluded or denominated in USD, although in the companies of the Group costs are also incurred in other base currencies than the USD – mainly the Polish złoty (PLN), the Canadian dollar (CAD) and the Chilean peso (CLP). This leads to the arising of risk related to volatility in the USD/PLN, USD/CAD and USD/CLP exchange rates, from the moment a commercial contract is signed until the moment the exchange rate is set. Additionally, in a situation where a foreign customer pays in local currency for the metal they import, there also arises risk related to volatility in other exchange rates, for example: EUR/PLN and GBP/PLN.

Moreover, Group companies are exposed to the risk of changes in foreign exchange rates due to the fact of drawing loans and incurring other liabilities (for example from the import of goods and services) which are denominated in currencies other than the currencies in which these companies achieve revenues.

33.1.3 Commodity and currency risk management in the Parent Entity

In the Group only the Parent Entity applies hedging strategies, as understood by the hedge accounting. In order to reduce the market risk, related to changes in commodity prices and in foreign exchange rates, the Parent Entity makes use mainly of derivatives.

The nominal of copper price hedging strategies settled in the first half of 2013 represented approx. 25% (in the first half of 2012 36%) of the total[1] 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).

[1] Relates to the sales of products from own concentrates or from purchased copper-bearing materials.

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

33. Financial risk management (continued)

COPPER MARKET

	Instrument	**Volume** [tonnes]	**Option execution price** [2] [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	-
	Total	**61 500**							
TOTAL II half of 2013		**61 500**							
I half of 2014	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	(281)	7 419	9 300	5 000
	Total	**40 500**							
II half of 2014	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	(281)	7 419	9 300	5 000
	Total	**40 500**							
TOTAL 2014		**81 000**							
I half of 2015	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Total	**21 000**							
II half of 2015	Seagull	6 000	10 200	7 700	4 500	(332)	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	(368)	7 432	10 300	4 500
	Total	**21 000**							
TOTAL 2015		**42 000**							

[2] Due to current hedge accounting laws, transactions included in the seagull structure – *purchased put options* and *sold call options* – are shown in the table containing a detailed list of derivative positions - “Hedging instruments”, while *sold put options* of seagull structure are shown in the table “Trade instruments”.

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

33. Financial risk management (continued)

CURRENCY MARKET

	Instrument	**Notional** [million USD]	**Option execution price**[3] [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	240	4.0000	3.1500	2.6000	(0.0230)	3.1270	4.0000	2.6000
	Collar	240	4.2000	3.2000	-	(0.0650)	3.1350	4.2000	-
	Total	**480**							
TOTAL II half of 2013		**480**							
I half of 2014	Collar	180	4.5000	3.5000	-	(0.0641)	3.4359	4.5000	-
	Collar	180	4.5000	3.4000	-	(0.0093)	3.3907	4.5000	-
	Collar	120	4.0000	3.2000	-	(0.0574)	3.1426	4.0000	-
	Total	**480**							
II half of 2014	Seagull	180	4.5000	3.5000	2.7000	(0.0345)	3.4655	4.5000	2.7000
	Collar	180	4.5000	3.4000	-	(0.0093)	3.3907	4.5000	-
	Collar	120	4.0000	3.2000	-	(0.0554)	3.1446	4.0000	-
	Total	**480**							
TOTAL 2014		**960**							
I half of 2015	Collar	180	4.5000	3.4000	-	(0.0080)	3.3920	4.5000	-
	Collar	120	4.0000	3.3000	-	(0.0694)	3.2306	4.0000	-
	Total	**300**							
II half of 2015	Collar	180	4.5000	3.4000	-	(0.0080)	3.3920	4.5000	-
	Collar	120	4.0000	3.3000	-	(0.0694)	3.2306	4.0000	-
	Total	**300**							
TOTAL 2015		**600**							

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 *Revaluation reserve from measurement of financial instruments* in the amount of PLN 95 million, which will increase revenues from sales in the second half of 2013.			
	Total	0							
TOTAL II half of 2013		**0**							

As at 30 June 2013, the Parent Entity 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 Parent Entity does not hold any open hedging transactions on the silver market. With respect to revenues from sales (currency market) it 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 Parent Entity applies natural hedging, which is based on drawing bank loans in those currencies in which revenues are earned.

[3] Due to current hedge accounting laws, transactions included in the seagull structure – *purchased put options* and *sold call options* – are shown in the table containing a detailed list of derivative positions - "Hedging instruments", while *sold put options* of seagull structure are shown in the table "Trade instruments".

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

33. Financial risk management (continued)

33.1.4. Impact of derivatives on the Group's financial statement

The impact of derivatives on the profit or loss items in the current and comparable periods 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
Impact on sales	**166**	**141**
Impact on other operating activities	**(182)**	**(19)**
(Losses) on realisation of derivatives	(45)	(75)
(Losses)/Gains on measurement of derivatives	(137)	56
Total impact of derivatives on profit or loss:	**(16)**	**122**

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

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

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 of the Group and receivables and liabilities due to unsettled derivatives is presented in the table below

	At 30 June 2013		At 31 December 2012	
	Derivatives	Receivables due to unsettled derivatives[4]	Derivatives	Receivables/(liabilities) due to unsettled derivatives[5]
Financial assets	1 310	47	1 127	22
Financial liabilities	(291)	-	(255)	(16)
Fair value	**1 019**	**47**	**872**	**6**

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

[4] Settlement date falls on 2 July 2013.
[5] Settlement date falls on 3 January 2013.

33. Financial risk management (continued)

TRADE INSTRUMENTS

Type of derivative	Volume / Notional Cu [t] Ag ['000 troz] Currency [USD '000] [EUR '000]	Avg. weighted price / ex. rate Cu [USD/t] Ag [USD/troz] Currency [USD/PLN] [EUR/PLN]	At 30 June 2013 [PLN '000] Financial assets Current	Financial assets Non-current	Financial liabilities Current	Financial liabilities Non-current
Derivatives - Metals – Copper:						
Options						
Sold put options	144 000	4 635	-	-	(3 051)	(26 592)
TOTAL:			**-**	**-**	**(3 051)**	**(26 592)**
Derivatives - Metals – Silver:						
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)	-
TOTAL:			**11 144**	**-**	**(137 058)**	**-**
Derivatives – Currency contracts						
Forwards/swaps						
Forwards – sold USD	170	3.2380	-	-	(16)	-
Forwards – sold EUR	10 940	4.2760	-	-	(906)	(292)
Forwards - purchased EUR	2 600	4.1480	509	-	-	-
Options						
Purchased put options USD	180 000	2.7000	1 421	-	-	-
Sold put options USD	600 000	2.6600	-	-	(1 466)	(3 723)
Collars - EUR	7 140	4.2214-4.3990	228	215	(637)	(463)
TOTAL:			**2 158**	**215**	**(3 025)**	**(4 478)**
		TOTAL TRADE INSTRUMENTS	**13 302**	**215**	**(143 134)**	**(31 070)**

EMBEDDED INSTRUMENTS

Type of derivative	At 30 June 2013 [PLN '000] Financial assets Current	Financial assets Non-current	Financial liabilities Current	Financial liabilities Non-current
Embedded financial instruments – based on copper price:				
Long-term contracts for the supply of sulphuric acid	4 265	10 238	-	-
Long-term contracts for the supply of water	903	2 874	-	-
TOTAL *	**5 168**	**13 112**	**-**	**-**
EMBEDDED INSTRUMENTS - TOTAL	**5 168**	**13 112**	**-**	**-**

*relates to KGHM INTERNATIONAL LTD.

33. Financial risk management (continued)

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
Derivatives – Metals- Copper										
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)
TOTAL:							**383 340**	**419 595**	**(4 194)**	**(42 672)**
Derivatives – Metals - Silver										
Options	-	-					-	-	-	-
TOTAL:							**-**	**-**	**-**	**-**
Derivatives – Currency contracts										
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)
TOTAL:							**108 500**	**241 569**	**(4 601)**	**(64 804)**
TOTAL HEDGING INSTRUMENTS							**491 840**	**661 164**	**(8 795)**	**(107 476)**

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
Derivatives – Metals – Silver:										
Options										
Seagull	1 800	40.00-65.00	July-13	Dec-13	Aug-13	Jan-14	125 914	-	-	-
TOTAL							**125 914**	**-**	**-**	**-**
TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING							**125 914**	**-**	**-**	**-**

33.1.5 Price risk related to investments in debt securities

As at 30 June 2013, the Group held government bonds in the amount PLN 340 million. This balance is mainly comprised of the amount of PLN 332 million (USD 100 million) representing environmental bonds denominated in USD (mainly US government bonds) under the mine closure assets of KGHM INTERNATIONAL LTD.

The Group's investments in debt securities are slightly exposed to price risk.

33.1.6 Price risk related to the purchase of shares of listed companies

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

As at 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 940 million.

Impairment loss on available-for-sale financial assets is described in note 3(g).

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

33. Financial risk management (continued)

33.1.7 Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the Group's results. The Group is exposed to this risk due to loans granted, deposits, and borrowing.

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

- loans granted - PLN 2 587 million,
- cash and cash equivalents - PLN 2 423 million, and
- borrowings – PLN 1 991 million.

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

The decrease in interest rates will not impact the income from loans granted because they are based on fixed interest rate.

As at 30 June 2013, the Group made use of borrowing in the form of bank loans, loans and issued bonds.

As at 30 June 2013, the Group financed its current operations using borrowing in the form of both investment and working capital loans, as well as overdraft facility. Open lines of credit are available in PLN, USD and EUR. Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

As at 30 June 2013, the Group's liabilities due to bank loans drawn amounted to PLN 216 million.

BANK LOANS LIABILITIES

Bank loan currency	Balance of bank loan drawn in the currency [million]	Balance of bank loan drawn in PLN [million]	Of which bank loans:	
			Short-term	Long-term
PLN	-	157	44	113
EUR	14	59	4	55
	-	**216**	**48**	**168**

As at 30 June 2013, the Group's liabilities due to long-term loans amounted to PLN 6 million, and liabilities due to short-term loans amounted to PLN 3 million based on fixed interest rates.

As at 30 June 2013, the Group's liabilities due to issued senior notes denominated in USD amounted to PLN 1 704 million (USD 514 million). KGHM INTERNATIONAL LTD. is the issuer of these senior notes, which are based on fixed interest rate of 7.75% with a maturity falling in 2019.

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

The impact of changes in interest rates on the Group's results, in connection with the financial receivables and financial liabilities held, is considered to be immaterial, due to the scale of the Group's operations.

33.2 Credit risk

Credit risk is defined as the risk that counterparties of the Group 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.

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

33. Financial risk management (continued)

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.

33.2.1 Credit risk related to cash and cash equivalents and bank deposits

The Group allocates periodically unallocated cash and cash equivalents in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income.

All entities with which deposit transactions are entered into by the Group operate in the financial sector. These are solely banks with the highest[6], medium-high[7] and medium[8] credit ratings, an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD. credit risk in this regard is continuously monitored through the on-going review of the financial standing and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the level of concentration respectively:
- as at 30 June 2013 of 96%
- as at 31 December 2012 of 92%

of the periodically unallocated cash and cash equivalents, showing the assessed creditworthiness of the financial institutions[9]

	At	
Rating levels	**30 June 2013**	**31 December 2012**
Highest	29%	32%
Medium-high	61%	51%
Medium	10%	17%

As at 30 June 2013, the maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounted to 14% (as at 31 December 2012 – 16%).

33.2.2 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 Group engaged in derivatives transactions, representing an exposure to credit risk[10]

	At	
Rating levels	**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 Group 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%).

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

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

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

9 weighed by amount of deposits

10 weighed by positive fair value of open and unsettled derivatives

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

33. Financial risk management (continued)

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

In order to reduce cash flows as well as credit risk, the Parent Entity carries out net settlement (based on framework agreements entered into with its customers) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty.

33.2.3 Credit risk related to trade and other financial receivables

Group companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade and other receivables. The vast majority of sales go to EU countries.

Geographical concentration of credit risk for trade receivables arising from sales of copper and silver:

	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	28%	40%	32%	19%	53%	28%

The Parent Entity 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 Parent Entity 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 Parent Entity has secured the majority of its receivables by promissory notes[11], frozen funds on bank accounts, registered pledges[12], 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[13].

To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with 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 Parent Entity had secured 90% of its trade receivables.

The total value of the Group’s net trade receivables as at 30 June 2013, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 1 782 million (as at 31 December 2012: PLN 2 196 million).

The concentration of credit risk in the Group results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, as at 30 June 2013 the balance of receivables from 7 of the Group’s largest clients, in terms of trade receivables at the end of the reporting period, represented 51% of the trade receivables balance (as at 31 December 2012: 32%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

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11 In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.

12 At the end of the reporting period, the Parent Entity held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer’s trade accounts.

13 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 Parent Entity transfers the substantial risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

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

33. Financial risk management (continued)

The following Group companies have significant trade receivables: KGHM Polska Miedź S.A. PLN 1 101 million, the KGHM INTERNATIONAL LTD. Group PLN 410 million, CENTROZŁOM WROCŁAW S.A. PLN 85 million, KGHM Metraco S.A. PLN 38 million, NITROERG S.A. PLN 36 million, POL-MIEDŹ TRANS Sp. z o.o. PLN 17 million, Zespół Uzdrowisk Kłodzkich S.A. PLN 16 million, WMN "ŁABĘDY" S.A. PLN 15 million, „MIEDZIOWE CENTRUM ZDROWIA" S.A. PLN 14 million, PHP "MERCUS" sp. z o.o. PLN 13 million, WPEC w Legnicy S.A. PLN 11 million.

Individual Group companies operate in various economic sectors, such as transport, construction, commerce, industrial production and energy, and consequently, in the case of most Group companies, in terms of sectors, there is no concentration of credit risk. KGHM INTERNATIONAL LTD. operates in the same economic sector as the Parent Entity. Despite operating in the same sector, the two companies are different both in terms of their portfolios of products as well as in terms of the geographic location and nature of their customers, and consequently this sector concentration of credit risk is considered to be acceptable.

The companies of the Group, with the exception of the Parent Entity, do not enter into framework agreements of a net settlement in order to reduce exposure to credit risk, although in situations where the given entity recognises both receivables and liabilities with the same client, in practice net settlement is applied, as long as both parties accept such settlement. Due to the extensive volatility in the level of net settlement on particular days ending reporting periods, it is difficult in practice to determine a representative amount of such compensation.

33.2.4 Credit risk related to loans granted

As at 30 June 2013, loans granted by the Group amounted to PLN 2 587 million (USD 780 million).
This item is represented mainly by a long-term loan, whose principal and interest are payable on demand; the loan is based on fixed interest rate. The loan was granted by KGHM INTERNATIONAL LTD. for the financing of a mining project in Chile. Credit risk is dependent on the risk connected with mine project realisation and is considered by the Parent Entity to be moderate.

33.2.5 Credit risk related to investments in debt securities

As at 30 June 2013, the Group held government bonds in the amount PLN 340 million, of which PLN 332 million (USD 100 million) mainly US government bonds. These are environmental bonds denominated in USD representing the mine closure assets of KGHM INTERNATIONAL LTD.

These investments are slightly exposed to credit risk due to the guarantee of solvency of the issuer. The investment policies of the Group restrict the possibility of purchasing this category of asset to investments in government securities and money market funds, depositing financial resources in money market instruments and in government securities whose time remaining to maturity does not exceed one year, or whose interest is set for a period of no longer than one year.

33.2.6 Other information related to credit risk

Aging analysis of financial assets overdue as at the end of the reporting period, for which no impairment loss has been recognised is presented in the table below

	At 30 June 2013					
	Total value	Up to 1 month	From 1 up to 3 months	From 3 up to 6 months	From 6 up to 12 months	Over 1 year
Trade receivables	**127**	63	23	7	13	21

	At 31 December 2012					
	Total value	Up to 1 month	From 1 up to 3 months	From 3 up to 6 months	From 6 up to 12 months	Over 1 year
Trade receivables	**200**	164	15	7	8	6
Other financial receivables	**3**	2	-	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.

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

33. Financial risk management (continued)

33.3 Liquidity risk and capital management

Capital management is aimed at maintaining continuous financial liquidity in every period. The Group actively manages the risk of loss of liquidity to which it is exposed. This risk is understood as a loss of the ability to settle liabilities on time and to obtain financing for operations.

The management of financial liquidity in the Parent Entity is performed in accordance with the „Financial Liquidity Management Policy" adopted by the Management Board. In the KGHM INTERNATIONAL LTD. Group the financial liquidity management principles are described in the Investment Policy. This document describes the process of managing the financial liquidity, including the specific character of the Group companies, guided by best practice in terms of procedures and instruments. The basic principles resulting from 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 Group made use of borrowing in the form of bank and other loans, and issued bonds. This involved the use of both investment and working capital loans, as well as overdraft facility.

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

Type of bank loan	**Bank loan currency**	**Available balance of bank loan [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

The KGHM INTERNATIONAL LTD. Group as at 30 June held an open, corporate facility in the amount of USD 200 million, based on a variable interest rate, set as the total of the reference rate LIBOR and a margin dependant on the ratio net debt/EBITDA.

KGHM INTERNATIONAL LTD. engages in borrowing in the form of issued long-term senior notes in the amount of PLN 1 704 million (USD 514 million) with maturity falling in 2019. These notes, issued in a private placement, give KGHM INTERNATIONAL LTD. the opportunity for early redemption, to 15 June 2014 up to 35% of the issue, and after this date up to 100% of the issue, at their nominal price, plus a premium if redemption is made prior to 15 June 2017.

The Group manages its capital in order to maintain the capacity to continue its operations, including the realisation of planned investments, in a manner enabling it to generate returns for the shareholders and benefits to other stakeholders.

In accordance with market practice, Group companies monitor capital, among others based on the equity ratio and the ratio of Net Debt/EBITDA. The equity ratio is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of Net Debt/EBITDA is calculated as the relation of borrowings and finance lease liabilities minus unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation/amortisation).

In the process of managing financial liquidity the Group makes use of financial indicators which play a supportive role in this process. To monitor the level of liquidity a broad range of liquidity indicators are applied.

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

The following table presents indicators for the Group:

	At	
Ratios	**30 June 2013**	**31 December 2012**
Net Debt/EBITDA	0.00	0.02
Equity ratio	0.57	0.58

In the first half of 2013 and in 2012 there were no external equity requirements imposed on the Parent Entity, including in the credit agreements entered into by the Parent Entity.

In the first half of 2013, the KGHM INTERNATIONAL LTD. Group operated in conformance with the wording of the finance agreement.

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

33. Financial risk management (continued)

KGHM INTERNATIONAL LTD. periodically monitors basic debt ratios and manages liquidity risk by:

- preparing and monitoring current forecasts of undiscounted cash flow at the earliest possible redemption dates,
- managing capital structure and financial leverage in order to ensure appropriate sources for the financing of its operations and development projects.

In the first half of 2013, guarantees granted in the Group amounted to PLN 480 million. This balance is mainly comprised of a guarantee granted by KGHM INTERNATIONAL LTD. in the amount of PLN 456 million, to secure a contract for the supply of electricity to the Sierra Gorda JV, and guarantees granted by the Parent Entity for PLN 11 million. These guarantees represent contingent liabilities which do not have a material impact on liquidity risk in the Group.

In the first half of 2013, the process of including further companies in the cash management services in the KGHM Polska Miedź S.A. Group (zero-balance cash pool) was continued. The funds made available through these services have an interest rate based on variable WIBOR. The available overdraft facility limit as at 30 June 2013 was PLN 246 million, and a net balance of the cash pool amounted to PLN 7 million.

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

As at 30 June 2013, 22 companies and the Parent Entity participated in the cash pool. The Parent Entity is the coordinator of the service. This function is based on establishing the conditions for functioning of the system, particularly including the principles of interest calculation and representation of the entire Group in relations with the bank with respect to services. The Parent Entity also acts as a participant of the cash pool system, in which it deposits its financial surpluses and, in case of need, takes advantage of financing.

34. 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		740	881
Deferred income tax	22	(17)	(58)
Tax adjustments for prior periods		(5)	(4)
Total		**718**	**819**

*details presented in note 2

35. Taxation due to minerals extraction

The table below presents all types of taxation due to minerals extraction with which the KGHM Polska Miedź S.A. Group is charged.

	Area	Tax due to minerals extraction in force in the given country	Amount charged due to the tax for the period from 01.01.13 to 30.06.13	Amount charged due to the tax for the period from 01.01.12 to 30.06.12
1	Poland	Minerals extraction tax:		
		- copper	783	338
		- silver	238	105
2	USA (Nevada)	Nevada Net proceeds tax	7	5
3	Canada (Ontario)	Ontario Mining tax	3	2
		Total	**1 031**	**450**

36. Earnings per share

	For the period	
	from 1 January 2013 to 30 June 2013	from 1 January 2012 to 30 June 2012 restated*
Profit from continued operations attributable to shareholders of the Parent Entity	1 824	2 775
Weighted average number of ordinary shares (million)	200	200
Basic/diluted earnings per share (PLN/share)	9.12	13.88

There are no dilutive potential ordinary shares.

*details presented in note 2

37. Dividend resolved but unpaid

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's profit for financial year 2012, the amount of PLN 1 960 million, representing PLN 9.8 per share, was allocated as a shareholders dividend.
The right to dividend date was set at 12 July 2013.
The dividend payment dates:
- 1st instalment of 4.90 PLN per share: 14 August 2013,
- 2nd instalment of 4.90 PLN per share: 14 November 2013.

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

38. Related party transactions

As the Polish State Treasury has control over KGHM Polska Miedź S.A., the State Treasury companies (in accordance with the list published by the State Treasury) as at 30 June 2013 meet the definition of related entities. Turnover and balances with these entities have been reflected in the information presented in this note, in those items respecting other related entities.

	For the period from 1 January 2013 to 30 June 2013	
Sales to related entities	**Sales of products**	**Other transactions**
- to associates	1	-
- to other related entities	1	13
Total sales to related entities	**2**	**13**

During the period from 1 January to at 30 June 2013, there were no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group, although there was a transaction involving the providing of services with respect to support of the process of management of Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD., with revenues in this regard amounting to PLN 40 million.

	For the period from 1 January 2012 to 30 June 2012	
Sales to related entities	**Sales of products**	**Sales of merchandise and materials**
- to associates	1	-
- to other related entities	-	4
Total sales to related entities	**1**	**4**

During the period from 1 January to 30 June 2012, there were no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group.

	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 purchase transactions**
- from other related entities	22	-	1
Total purchases from related entities	**22**	**-**	**1**

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

38. Related party transactions (continued)

Purchases from related entities	For the period from 1 January 2012 to 30 June 2012 - restated		
	Purchase of services, merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
- from other related entities	13	2	10
Total purchases from related entities	**13**	**2**	**10**

Trade and other receivables from related entities	Note	At 30 June 2013	At 31 December 2012
- from jointly-controlled entity Sierra Gorda S.C.M.	33	2 587	1 471
- from associates		1	-
- from other related entities		11	3
Total receivables from related entities		**2 599**	**1 474**

Trade payables towards related entities	At 30 June 2013	At 31 December 2012
- towards other related entities	10	4
Total liabilities towards related entities	**10**	**4**

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

The remaining transactions, which were collectively significant, between the Group and the government and 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 companies of the Group of materials and services to meet the needs of their current operating activities (fuel, energy, transport services). Turnover from these transactions in the current period amounted to PLN 536 million (for the period from 1 January 2012 to 30 June 2012: PLN 379 million), and the unsettled balance of liabilities from these transactions as at 30 June 2013 amounted to PLN 64 million (at 31 December 2012: PLN 47 million).

38. Related party transactions (continued)

Remuneration of the key management personnel members

(a) Remuneration of the Management Board of the Parent Entity in PLN '000

Remuneration of the Management Board of the Parent Entity	For the period from 1 January 2013 to 30 June 2013	 from 1 January 2012 to 30 June 2012
Salaries and other current employee benefits	3 786	1 966
Benefits due to termination of employment	-	42
Total	3 786	2 008

(b) Remuneration of the Supervisory Board of the Parent Entity in PLN '000

Remuneration of the Supervisory Board of the Parent Entity	For the period from 1 January 2013 to 30 June 2013	 from 1 January 2012 to 30 June 2012
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	515	838

(c) Remuneration of other key management personnel in PLN '000

Remuneration of other key management personnel	For the period from 1 January 2013 to 30 June 2013	 from 1 January 2012 to 31 December 2012
Salaries and other short-term employee benefits	3 237	18 463
Total	**3 237**	**18 463**

As a result of the acquisition of KGHM INTERNATIONAL LTD. and significant changes in the structure of the Group, it was necessary to review the powers of management bodies of the Group. Based on the definition of key management personnel according to IAS 24 and based on an analysis of authority and responsibility of management personnel of the Group arising from corporate documents and from management contracts, the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD. were recognised as other key management personnel of the Group.

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

39. 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**
Contingent assets	**544**	**448**
- disputed State Budget issues	23	29
- guarantees received	294	211
- promissory notes receivables	93	81
- real estate tax on underground workings	87	87
- inventions, implementation of projects	42	40
- other	5	-
Contingent liabilities	**706**	**732**
- guarantees of which:	480	539
guarantees granted under a contract for the supply of electricity within the Sierra Gorda S.C.M. project	456	519
- promissory note liabilities	13	13
- disputed issues, pending court proceedings	44	26
- liabilities due to implementation of projects and inventions	129	128
- real estate tax on underground workings	30	18
- other	10	8
Liabilities not recognised in the statement of financial position		
- liabilities towards local government entities due to expansion of the tailings pond	206	193
- liabilities due to finance leases	131	136

40. Employment structure

	For the period	
	from 1 January 2013 to 30 June 2013	**from 1 January 2012 to 30 June 2012**
White-collar employees (number of persons)	9 782	9 606
Blue-collar employees (number of persons)	24 669	24 501
Total:	**34 451**	**34 107**

41. Subsequent events

Significant agreement with Vale Canada Limited

On 1 August 2013 subsidiaries of KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and FNX Mining Company Inc. entered into an agreement with Vale Canada Limited (wholly-owned subsidiary of Vale S.A.) which provides the framework for 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 1 August 2013 an off-take agreement for all of KGHM International's production from its mines in the Sudbury basin in Ontario, in 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 estimated on the basis of the official LME closing prices and precious

41. Subsequent events (continued)

metals forward curves calculations as of 31 July 2013 (PLN 3.61 billion based on the National Bank of Poland exchange rate from 31 July 2013).

Liquidation of Przedsiębiorstwo Budowlane Katowice S.A.

On 5 August 2013 the Extraordinary General Meeting of Przedsiębiorstwo Budowlane Katowice S.A. with its registered head office in Katowice adopted a resolution to dissolve Przedsiębiorstwo Budowlane Katowice S.A. and commence its liquidation. The Group holds 2 310 105 shares, representing 88.09% of the shares of PB Katowice S.A. and of the votes on the General Meeting. Aleksander Bogdziewicz was chosen as liquidator. The application to open liquidation proceedings was filed on 5 August 2013 at the District Court in Katowice - East with its registered head office in Katowice, Section VIII Economic of the National Court of Registration.

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

On 5 August 2013 the Parent Entity 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 Parent Entity 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.

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

SIGNATURES OF PERSONS REPRESENTING THE COMPANY			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
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	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
28 August 2013	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

GROUP

REPORT ON THE ACTIVITIES

OF THE GROUP

IN THE FIRST HALF OF 2013

Lubin, **August 2013**

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1. Introduction

The Parent Entity of the Group is KGHM Polska Miedź S.A, which has been conducting its business, as a joint stock company, since 12 September 1991. Its legal antecedent was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin, transformed into a State-owned joint stock company in the manner set forth in the law dated 13 July 1990 on the privatisation of State-owned enterprises.

The Parent Entity is an issuer of securities which have been admitted to trading on the Warsaw Stock Exchange. It is a company with great traditions, rich experience and substantial achievements.

KGHM Polska Miedź S.A. is one of the world leaders in the production of refined copper and metallic silver. Apart from copper and silver, also produced are gold, lead, sulphuric acid and rock salt. KGHM Polska Miedź S.A. is one of the largest Polish exporters.

Thanks to the acquisition in 2012 of the Canadian company Quadra FNX Mining Ltd. (currently KGHM INTERNATIONAL LTD.), KGHM Polska Miedź S.A. became a global mining company. The core business of the KGHM INTERNATIONAL LTD. Group is the mine production of metals, including copper, nickel, gold, platinum and palladium. As a result of this transaction, KGHM Polska Miedź S.A. also became the joint owner of the world-class mine development project Sierra Gorda in Chile, one of the largest such projects in the world in terms of the size of the copper ore resources.

Currently the KGHM Polska Miedź S.A. Group holds geographically diversified mining assets located in low-risk countries. The copper ore mines operated by the Parent Entity and its projects in the pre-production stage are located in south-west Poland. Exploration projects (such as Weisswasser in Germany) are also under way in this region. The copper, nickel and precious metals mines belonging to the KGHM INTERNATIONAL LTD. Group are located in the USA, Chile and Canada. In addition, in Chile, Canada and Greenland are mine projects at the pre-production phase at varied stages of development, as well as exploration projects.

The remaining companies of the Group are diversified in terms of types of activity. They mainly offer products and services related to the basic activities and core business of KGHM Polska Miedź S.A., including: exploring for and mining deposits of copper and other metals, mine construction, generation of electricity and heat production, the production of mining machinery and equipment, the production of explosives, and research and development. The remaining activities, unrelated to the core business, include the providing of services in areas such as transportation, tourism, health and cash investing. A significant portion of the domestically-based companies provide services to the Parent Entity.

At the end of June 2013, the Group comprised 86 entities, in which over 34.5 thousand people were employed.

In the first half of 2013, the Group consistently pursued its approved directions of development, including the strategy of developing the resource base aimed at expanding into new deposits in the region and developing new mining projects around the world. In addition, activities begun in 2012 continued with respect to energy projects on a national scale.

1. Introduction (continued)

Following is a list of the major events which occurred in the Group in the first half of 2013.

Table 1. *Major events in the Group in the first half of 2013**

MAJOR EVENTS IN THE FIRST HALF OF 2013		page
21.01.2013	Signing by KGHM Polska Miedź S.A. with HSBC Bank USA, London Branch of a significant contract for silver sales in 2013	101
28.01.2013	Signing by KGHM Polska Miedź S.A. with MKM Mansfelder Kupfer und Messing GmbH of a significant contract for copper cathode sales in 2013	
31.01.2013	Signing by KGHM Polska Miedź S.A. with Prysmian Metals Limited of a significant contract for copper wire rod sales in the years 2013-2014	
11.02.2013	Publication by KGHM Polska Miedź S.A. of a report on its mineral resources and operations, prepared by Micon International Limited: *„Technical Report on the Copper-Silver Production Operations of KGHM Polska Miedź S.A. in the Legnica-Głogów Copper Belt Area of Southwestern Poland”*	-
14.02.2013	Approval by the Supervisory Board of the Budget of KGHM Polska Miedź S.A. for 2013 *(revenues from sales PLN 18 930 million, profit for the period PLN 3 204 million)*	125
21.02.2013	Signing of Annex no. 2 to the Framework Agreement on the Joint Exploration for and Extraction of Shale Gas – change in dates regarding cooperation (details in current report no. 7/2013)	-
01.03.2013	Sierra Gorda CAPEX definitive cost estimate – an increase in total estimated capital expenditure to commence the project from USD 2.9 billion to USD 3.9 billion	111
14.03.2013	Elections by employees of persons to the Supervisory Board of KGHM Polska Miedź S.A.: Józef Czyczerski, Leszek Hajdacki	-
27.03.2013	Selection by the Supervisory Board of KGHM Polska Miedź S.A. of PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw as the entity which will review and audit the separate and consolidated financial statements of the Parent Entity for the years 2013-2015	-
02.04.2013	Adoption by the Ordinary General Shareholders Meeting of Ecoren DKE Sp. z o.o. (a direct subsidiary of KGHM Ecoren S.A.) of a resolution to dissolve the company and open liquidation proceedings	87
18.06.2013	Adoption by the General Meeting of KGHM II FIZAN of a resolution on dissolving the Fund	88
19.06.2013	Adoption by the General Meeting of KGHM Polska Miedź S.A. of a resolution on the payment of a dividend for 2012 (PLN 1 960 million, i.e. 9.8 PLN/share) in two instalments: – I instalment - 14 August 2013 (4.9 PLN/share), – II instalment - 14 November 2013 (4.9 PLN/share)	-
14.08.2013	Payment by KGHM Polska Miedź S.A. of first instalment on the dividend for 2012 in the amount of 4.90 PLN/share	127
19.06.2013	Submission by Paweł Białek, a member of the Supervisory Board of KGHM Polska Miedź S.A., of his resignation from the function	90
19.06.2013	Ordinary General Meeting of KGHM Polska Miedź S.A. – changes in composition of the Supervisory Board	90
05.08.2013	Submission by two shareholders of the Parent Entity, Ryszard Zbrzyzny and Waldemar Brus, of a suit on the repeal of resolutions of the General Meeting of KGHM Polska Miedź S.A., 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.	127
25.06.2013	Signing by KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., Tauron Polska Energia S.A. and ENEA S.A. of an understanding to continue work related to the development of a draft agreement for the acquisition of shares in a special purpose company to build and operate a nuclear power plant.	126
02.08.2013	Signing by KGHM Polska Miedź S.A., KGHM INTERNATIONAL LTD. and FNX Mining Company Inc., a Vale Canada Limited, of a significant agreement providing the framework for KGHM INTERNATIONAL LTD. to develop the Victoria copper-nickel-PGM project in Sudbury, Canada.	127
05.08.2013	Adoption by the Extraordinary General Meeting of Przedsiębiorstwo Budowlane Katowice S.A. of a resolution to dissolve the company and open liquidation proceedings	127

** reflecting events to the date of preparation of the report*

2. Organisation of the KGHM Polska Miedź S.A. Group

2.1. Composition of the Group

The diagram below shows the composition of the Group as at 30 June 2013. The percentage ownership shown represents the total share of the Group in the share capital of the given company. In each of the Group's companies, the share capital owned is equal to the share of the total number of votes.

Diagram 1. *KGHM Polska Miedź S.A. Group structure as at 30 June 2013*

1/ unconsolidated entities
2/ name changed - formerly ZANAM-LEGMET Sp. z o.o.
3/ name changed - formerly Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.
4/ name changed - formerly ZUK S.A.
5/ name changed - formerly Uzdrowisko Połczyn S.A.
6/ name changed - formerly „Uzdrowisko Cieplice" sp. z o.o.
7/ name changed - formerly Uzdrowisko „Świeradów-Czerniawa" sp. z o.o.
8/ actual Group share

2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

2.1. Composition of the Group (continued)

Diagram 2. *KGHM INTERNATIONAL LTD. Group structure as at 30 June 2013*

1/ unconsolidated entity

2/ name changed - formerly Mineria y Exploraciones Quadra FNX SpA

2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

2.1. Composition of the Group (continued)

As at 30 June 2013, the Group was composed of KGHM Polska Miedź S.A. - the Parent Entity, and 85 subsidiaries (including five closed-end non-public investment funds). Some of these subsidiaries formed their own groups. The largest of these was KGHM INTERNATIONAL LTD., which comprised 33 subsidiaries. At the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in two associates and in three joint ventures. Considering management, efficiency and taxation aspects, actions are planned aimed at optimising the structure of the Group.
During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of the Group, consolidated 83 subsidiaries, and used the equity method to account for the shares of an associate, BAZALT-NITRON Sp. z o.o., as well as three co-jointly-controlled entities: „Elektrownia Blachownia Nowa" sp. z o.o., Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.
Two subsidiaries – TUW-CUPRUM and „Mercus Software" sp. z o.o. – were not consolidated, and the shares of one associate – PHU „Mercus Bis" Sp. z o.o. – were not accounted for using the equity method, as the assets, revenues and financial results of these entities do not materially impact the consolidated statement of financial position and the consolidated statement of comprehensive income.

2.2. Management principles of the Group

In the first half of 2013, management of the Group was based on principles adopted in 2012, related to the significant change in the Group's structure which occurred at that time as a result of the acquisition of the KGHM INTERNATIONAL LTD. Group. Five main business segments were identified which are subject to detailed analysis by management bodies. The identified business segments are also reporting segments.

KGHM Polska Miedź S.A.
- segment comprised of KGHM Polska Miedź S.A.,

The KGHM INTERNATIONAL LTD. Group
- segment comprised of companies of the KGHM INTERNATIONAL LTD. Group,

The Sierra Gorda Project
- segment comprised of the joint venture Sierra Gorda S.C.M.,

Development of the resource base
- segment comprised of companies involved in the exploration for and evaluation of mineral resources, whose purpose is to conduct mining operations,

Support of the core business
- segment comprised of companies related to the core business of the Parent Entity,

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

Detailed information on business segments may be found in point 5.1 of this report.

2.3. Changes in Group structure, other equity investments

Changes in the structure of the Group in the first half of 2013 are presented in table below.

Table 2. *Changes in the structure of the Group in the first half of 2013*

Event	Description
Opening of proceedings to liquidate Ecoren DKE Sp. z o.o.	On 2 April 2013 the Ordinary General Shareholders Meeting of Ecoren DKE Sp. z o.o resolved to dissolve the company, to put the company into liquidation and to choose a liquidator, the previous President of the Management Board of this company. An application for the liquidation was submitted to the court on 4 April 2013. KGHM Ecoren S.A. (a direct subsidiary of KGHM Polska Miedź S.A.) owns of 100 % of the shares of Ecoren DKE Sp. z o.o.
Founding of KGHM IV FIZAN	On 23 May 2013, court registration was made of an investment fund founded in November 2012, KGHM IV FIZAN, which is managed by KGHM TFI S.A. (a direct subsidiary of KGHM Polska Miedź S.A.). KGHM Polska Miedź S.A. acquired Investment Certificates of the Fund in the total issue amount of PLN 1 million. The company is the only participant in this Fund. The funds acquired from issuance of the above Certificates were invested in accordance with the investment decision of the General Meeting. The objective of KGHM IV FIZAN is to realise commercial property-type projects.

2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

2.3. Changes in Group structure, other equity investments (continued)

Event	Description
Founding of KGHM V FIZAN	On 14 May 2013, the investment fund KGHM V FIZAN was founded, which is managed by KGHM TFI S.A. (a direct subsidiary of KGHM Polska Miedź S.A.). On 28 May 2013, the fund was registered. KGHM Polska Miedź S.A. acquired Investment Certificates of the KGHM V FIZAN in the total issue amount of PLN 42 million, and is the only participant in this Fund. The funds obtained from issuance of the above Certificates will be invested in accordance with the investment decision of the General Meeting. The objective of KGHM V FIZAN is to invest in energy projects.
Opening of proceedings to liquidate KGHM II FIZAN	On 18 June 2013, the General Meeting of KGHM II FIZAN adopted a resolution to dissolve the Fund. The liquidator of the Fund is KGHM TFI S.A. (a direct subsidiary of KGHM Polska Miedź S.A.). The application to open liquidation proceedings was filed in court on 19 June 2013. The only participant in this Fund is KGHM Polska Miedź S.A. As a result of the liquidation of KGHM II FIZAN, its investments were transferred to other funds managed by KGHM TFI S.A.

Other equity investments in the Group

Apart from those investments which caused a change in the structure of the Group (presented in Table 2 above), in the first half of 2013 the following equity investments were carried out:

Increase in the share capital of the subsidiary KGHM Kupfer AG

On 28 February 2013, the Extraordinary General Meeting of KGHM Kupfer AG resolved to increase the share capital of the company from EUR 0.8 million (PLN 3.3 million per the average exchange rate of the NBP as at 27 February 2013) to EUR 2.4 million (PLN 10 million per the average exchange rate of the NBP as at 27 February 2013). This capital increase was court registered on 2 May 2013. KGHM Polska Miedź S.A. (the only shareholder of the company) acquired all of the shares in the increased share capital of the company and paid for them in cash in the amount of EUR 1.6 million (PLN 6.7 million per the average exchange rate of the NBP as at 27 February 2013). The funds obtained from this capital increase were used to finance the first phase of research under stage II of the Weisswasser project, comprising the exploration for and investigation of copper deposits on the German side of the Nysa Łużycka river, in the vicinity of the town of Weisswasser (Saxony, Germany).

Increase in the share capital of the indirect subsidiary 0929260 B.C. Unlimited Liability Company

On 4 April 2013, the company Fermat 2 S.à r.l. acquired 4 million shares in the increased share capital of the company 0929260 B.C. Unlimited Liability Company and paid for them in cash in the amount of CAD 4 million (PLN 12.9 million per the average exchange rate of the NBP as at 4 April 2013). Next on 15 May 2013, Fermat 2 S.à r.l. acquired 10.8 million shares in the increased share capital of the company 0929260 B.C. Unlimited Liability Company and paid for them in cash in the amount of CAD 10.8 million (PLN 34.2 million per the average exchange rate of the NBP as at 15 May 2013). The funds obtained from this capital increase were used to increase the capital of KGHM AJAX MINING INC. Fermat 2 S.à r.l. is the only shareholder of 0929260 B.C. Unlimited Liability Company.

Increase in the share capital of the indirect subsidiary KGHM AJAX MINING INC.

On 4 April 2013, the company 0929260 B.C. Unlimited Liability Company acquired 400 shares in the increased share capital of the company KGHM AJAX MINING INC. and paid for them in cash in the amount of CAD 4 million (PLN 12.9 million per the average exchange rate of the NBP as at 4 April 2013). Next on 15 May 2013, 0929260 B.C. Unlimited Liability Company acquired a further 1 080 shares in the increased share capital of KGHM AJAX MINING INC. and paid for them in cash in the amount of CAD 10.8 million (PLN 34.2 million per the average exchange rate of the NBP as at 15 May 2013). The company 0929260 B.C. Unlimited Liability Company holds 80% of the share capital of KGHM AJAX MINING INC. The remaining 20% belong to Abacus Mining & Exploration Corporation.

The above payments to capital are the result of execution of the Joint Venture Agreement, entered into in 2010 by the partners in the company KGHM AJAX MINING INC., who committed to making, proportionally to their interests in the share capital of the company and according to the agreed schedule, quarterly payments to the capital to be used to carry out the company Program and Budget as approved by the Board of Directors of KGHM AJAX MINING INC.

Acquisition of Investment Certificates of the Fund KGHM II FIZAN

On 19 April 2013, KGHM Polska Miedź S.A. acquired Investment Certificates of the Fund KGHM II FIZAN with a total issuance price of PLN 42 million. The Company is the only participant in this Fund. The funds acquired from issuance of the above Certificates were designated to be invested in accordance with the investment decision of the General Meeting, which as a result of the liquidation of the Fund (as mentioned in the above table) were transferred to other funds managed by KGHM TFI S.A.

2. Organisation of the KGHM Polska Miedź S.A. Group (continued)

2.3. Changes in Group structure, other equity investments (continued)

Acquisition of shares in NANO CARBON Sp. z o.o

On 24 April 2013, KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych – an indirect subsidiary of KGHM Polska Miedź S.A. - acquired 49% of the shares of NANO CARBON Sp. z o.o. covering them with cash in the amount of PLN 1 960 thousand.
The subject of activities of NANO CARBON Sp. z o.o. is the development and commercialisation of technology and products based on graphene (a form of carbon). This investment conforms to the investment directions of the Fund, which assumes investing of assets in enterprises related to modern technology.

Increase of shares in CENTROZŁOM WROCŁAW S.A.

On 28 May 2013, KGHM Ecoren S.A. acquired from the remaining shareholders of CENTROZŁOM WROCŁAW S.A. shares representing 6.6% of the share capital for the total amount of PLN 13.7 million, thereby increasing its share in the company from 85% to 91.6%. Next, on 27 June 2013 a further 2.6% of the company's shares were acquired from shareholders for the total amount of PLN 5.4 million, increasing its share to 94.2%.
Following the end of the first half of 2013, on 1 and 30 July 2013, KGHM Ecoren S.A. acquired further shares of CENTROZŁOM WROCŁAW S.A. – respectively for PLN 0.2 million and PLN 4.5 million – increasing its share in the share capital of this entity by a total of 2.2%, i.e. to 96.4%.
These transactions represent an execution of obligations arising from the privatisation agreement providing for the purchase by KGHM Ecoren S.A. of the shares of CENTROZŁOM WROCŁAW S.A. from the State Treasury.

In addition, there was also a decrease in share capital in one of the subsidiaries of KGHM INTERNATIONAL LTD.

Decrease in the share capital of Quadra FNX Holdings Partnership

On 20 May 2013, the partners of Quadra FNX Holdings Partnership resolved to decrease the share capital of the company by USD 12 million. The allocation of funds between the partners was as follows: for FNX Mining Company Inc. – USD 11 999 880 (99.999%), 0899196 B.C. Ltd. - USD 120 (0.001%). The funds obtained from this decrease in capital were allocated to finance the Sierra Gorda project prior to the signing of the revolving corporate facility. The share capital of Quadra FNX Holdings Partnership as at 30 June 2013 amounted to USD 9.7 million.

3. Parent Entity

3.1. Composition of Parent Entity bodies

Management Board

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. In the first half of 2013 and to the date of signing this report, the composition of the 8th-term Management Board of the Parent Entity did not change, and 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).

The Supervisory Board segregated the duties of individual members of the Management Board as follows:

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.
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 Sevices Center, as well as sales and logistics.
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.
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.

3. Parent Entity (continued)

3.1. Composition of Parent Entity bodies (continued)

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.

Supervisory Board

Under the company's Statutes of KGHM Polska Miedź S.A., the Members of the Supervisory Board are appointed and dismissed by the General Meeting. The composition of the Supervisory Board changed during the first half of 2013.

As at 1 January 2013, the composition of the 8th-term Supervisory Board of KGHM Polska Miedź S.A. 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.

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

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

as well as the following employee-elected member:

- Bogusław Szarek.

3.2. Share capital and ownership structure of the Parent Entity

As at 30 June 2013, the share capital of KGHM Polska Miedź S.A., in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 000 and was divided into 200 000 000 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 and in 2012, 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 signing 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 Parent Entity and the same number of votes at the General Meeting. The remaining shareholders of the Parent Entity, 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 and in 2012, 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 Parent Entity's Supervisory Board, as at 30 June 2013 as well as at the date of signing 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.

3. Parent Entity (continued)

3.2 Share capital and ownership structure of the Parent Entity (continued)

The Members of the Parent Entity'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, at the date of signing of this report, and in 2012 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 Parent Entity'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 Parent Entity is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

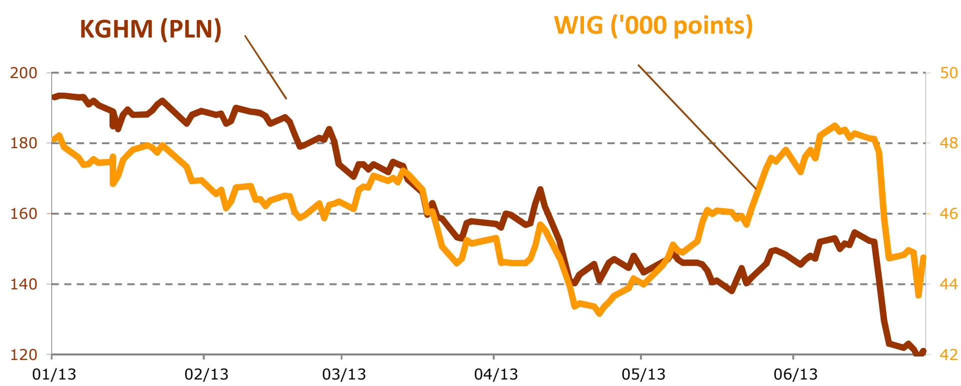
In the first half of 2013, KGHM Polska Miedź S.A. did not have an employee share incentive program.

3.3. Quotations of the Parent Entity on the stock exchange

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Parent Entity 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 Parent Entity'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 price of KGHM Polska Miedź S.A. shares amounted to PLN 121 and was 36.32% lower than at the close of the last trading session of the prior year.

Chart 1. *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 on the Warsaw Stock Exchange. The Parent Entity'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. 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 3. *Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange S.A.*

	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	PLN 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

3. Parent Entity (continued)

3.4. Capital market ratios

The activities of KGHM Polska Miedź S.A. are described by the following ratios:

Table 4. *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; PLN 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 KGHM Polska Miedź S.A. and by the fall in the share price of the company from PLN 145.00 at the end of June 2012 to PLN 121.00 at the end of June 2013.

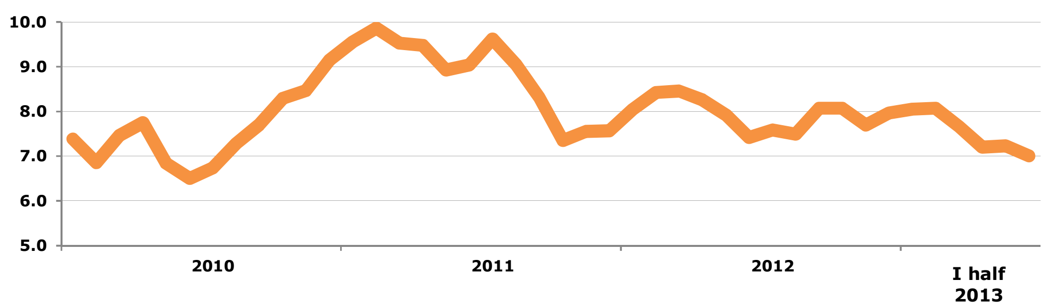
3.5. Macroeconomic sales conditions

Copper prices in the first half of 2013 ranged between 6 600–8 300 USD/t, with the falling trend mainly due to the global economic slowdown and the partial withdrawal of money by investors. 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 2013 on the London Metal Exchange (LME) amounted to 7 540 USD/t and was 6.9% lower than in the first half of 2012, when it reached 8 097 USD/t.

Chart 2. *Copper prices on the LME ('000 USD/t)*

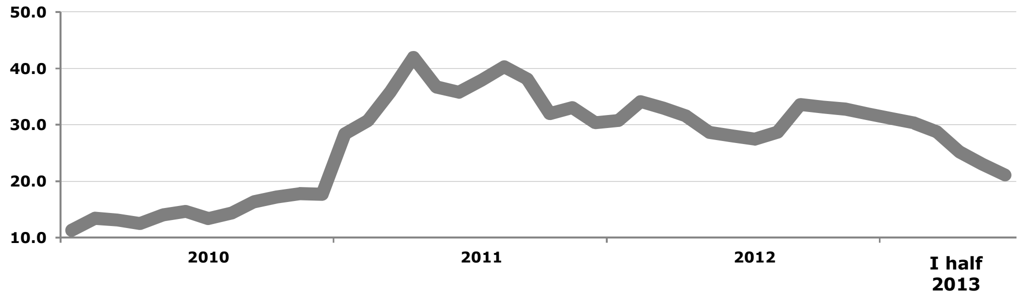


The average silver price according the London Bullion Market (LBMA) in the first half 2013 amounted to 26.63 USD/troz (856 USD/kg), meaning a decrease by 14% versus the average price in the first half of 2012 – 31.06 USD/troz (999 USD/kg).

3. Parent Entity (continued)

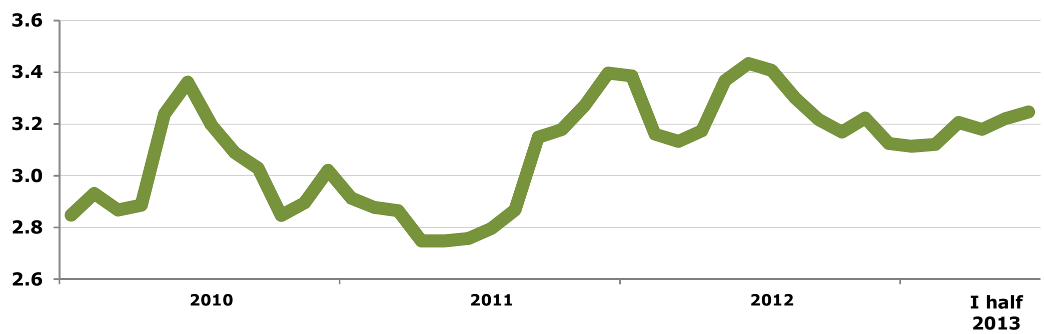
3.5. Macroeconomic sales conditions (continued)

Chart 3. *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 in the range of 3.05 – 3.33. A stronger reaction on the PLN market was seen from the start of May 2013, 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 2012 by 3% (3.27 USD/PLN).

Chart 4. *USD/PLN exchange rate per the NBP*



The macroeconomic factors of greatest importance for the operations of KGHM Polska Miedź S.A. are presented in the following table.

Table 5. *Macroeconomic factors of importance for the operations of KGHM Polska Miedź S.A.*

	Unit	2012	I-VI 2012	I-VI 2013	Change I-VI'2012=100
Average copper prices on the LME	USD/t	7 950	8 097	7 540	93.1
Average silver price on the LBM	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

4. Activities of the KGHM Polska Miedź S.A. Group

4.1. Scope of activities of Group companies

While the scope of activities of the Group is quite broad, the dominant ones are those of the Parent Entity and the KGHM INTERNATIONAL LTD. Group, i.e. the production of mined metal, mainly copper. This is the main source of the sales generated.

The detailed scope of individual Group companies is presented in the following table.

Table 6. *Scope of activities of Group companies*

Entity	Head Office Country	Activities
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka" sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy, water-sewage management; this company secures part of the energy supply for KGHM Polska Miedź S.A.
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction; this company is the main performer of mining work for KGHM Polska Miedź S.A.
KGHM ZANAM Sp. zo.o. *(formerly ZANAM-LEGMET Sp. z o.o.)*	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; execution of steel constructions; this company is a significant supplier and service provider for KGHM Polska Miedź S.A., and also provides production maintenance services in selected areas
KGHM CUPRUM sp. z o.o. - CBR	Poland	design and scientific research; this company performs a substantial part of the design-related work for KGHM Polska Miedź S.A.
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research; this company mainly provides industrial research services for KGHM Polska Miedź S.A.
INOVA Spółka z o.o.	Poland	design and production – innovative solutions in electronics, automated and communication systems; certification and attestation of machinery and equipment; this company is a supplier and service provider for the underground radio communication system for the mines of KGHM Polska Miedź S.A.
KGHM Metraco S.A.	Poland	wholesale of scrap and waste, lead, non-ferrous metals, chemicals and salt; this company secures supplies of copper scrap for KGHM Polska Miedź S.A., and sells to external markets the by-products of the Parent Entity's core business production
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport, passenger and cargo road transport; trade in fuels; this company is a leading railway and roadway carrier and supplier of fuels to KGHM Polska Miedź S.A.
NITROERG S.A.	Poland	production of explosives and Nitrocet 50, production of detonation agents; this company supplies most of the explosives needed by the mines of KGHM Polska Miedź S.A.
PHP „MERCUS" sp. z o.o.	Poland	trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables; this company serves to coordinate supplies for the core business of KGHM Polska Miedź S.A. in materials and spare parts
KGHM Ecoren S.A.	Poland	processing of industrial acid waste for rhenium products (metallic rhenium and ammonium perrhenate), production of road-building material; the processing and recovery of metals and the processing of electrical/electronic waste; this company manages and processes the industrial waste of KGHM Polska Miedź S.A.
CENTROZŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminium and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
WFP Hefra SA	Poland	production and sale of rust-proof, silver-plated and silver table settings
Ecoren DKE sp. z o.o. in liquidation	Poland	utilisation of used batteries and small-scale storage cells; the collection and processing of used electrical and electronic equipment

4. Activities of the KGHM Polska Miedź S.A. Group (continued)

4.1. Scope of activities of Group companies (continued)

Entity	Head Office Country	Activities
PHU „Lubinpex" Sp. z o.o.	Poland	gastronomic, commercial, vending and catering services
PMT Linie Kolejowe Sp. z o.o.	Poland	management of railway infrastructure, maintenance of railway infrastructure, repair services
KGHM TFI S.A.	Poland	creation and management of investment funds; the company manages closed-end investment funds, in which KGHM Polska Miedź S.A. participates
INTERFERIE S.A.	Poland	sale of tourism services, including tourism-recreation, healing and hotel services
Interferie Medical SPA Sp. z o.o.	Poland	services respecting hotels, recreation, rehabilitation, health tourism and wellness
„BIOWIND" sp. z o.o.	Poland	generation, transmission and distribution of electricity
WPEC w Legnicy S.A.	Poland	production of heat from its own sources, transmission and distribution of heat, servicing
Uzdrowiska Kłodzkie S.A. – Grupa PGU *(formerly ZUK S.A.)*	Poland	spa-healing, sanatorium and tourism-recreation services; these companies are participating in the project to build a Polish Spa Group, realised by KGHM I FIZAN
Uzdrowisko Połczyn Grupa PGU S.A. *(formerly Uzdrowisko Połczyn S.A.)*	Poland	
Uzdrowisko Cieplice sp. z o.o. – Grupa PGU *(formerly „Uzdrowisko Cieplice" sp. z o.o.)*	Poland	
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU *(formerly* Uzdrowisko „Świeradów-Czerniawa" sp. z o.o.)	Poland	
Fundusz Hotele 01 Sp. z o.o.	Poland	varied scope of activities, including: acting as holding companies, management of special purpose companies, whose subject of activities is the providing of holiday, sanatorium and spa services as well as others related to improving fitness; these companies operate within the structures of KGHM I FIZAN
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Poland	
Polska Grupa Uzdrowisk Sp. z o.o.	Poland	
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A. *(formerly Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.)*	Poland	
KGHM I FIZAN	Poland	cash depositing; these funds are aimed at diversifying the investment risk of KGHM Polska Miedź S.A.
KGHM II FIZAN in liquidation	Poland	
KGHM III FIZAN	Poland	
KGHM IV FIZAN	Poland	
KGHM V FIZAN	Poland	
„MCZ" S.A.	Poland	hospital services; physician practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events
KGHM LETIA S.A.	Poland	operation of a technology park; promotion of scientific achievement; technology transfer; property sale and leasing
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work; general realisation of investments; company executes technical documentation for the pyrometallurgy modernisation program of KGHM Polska Miedź S.A.
Przedsiębiorstwo Budowlane Katowice S.A. (in liquidation since 5 August 2013)	Poland	comprehensive construction work, incl. specialist

4. Activities of the KGHM Polska Miedź S.A. Group (continued)

4.1. Scope of activities of Group companies (continued)

Entity	Head Office Country	Activities
Bipromet Ecosystem Sp. z o.o.	Poland	production, design, servicing and commercial activities; R&D and popularisation respecting heating, water-plumbing and other installations
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	China	commercial activities involving copper/silicon merchandise, mine products (copper/silicon) etc., and related services; this company is a commercial intermediary for KGHM Polska Miedź S.A. on the Chinese market
KGHM Kupferhandelsges. m.b.H.i.L	Austria	copper trade company in liquidation
KGHM Kupfer AG	Germany	exploration for and evaluation of deposits of copper and other metals; this company is realising a resource project – exploring/assessing the Weisswasser copper deposit in Germany
Fermat 1 S.à r.l.	Luxembourg	holding structure companies, founded in order to acquire the shares of KGHM INTERNATIONAL LTD.
Fermat 2 S.à r.l.		
Fermat 3 S.à r.l.		
KGHM AJAX MINING INC.	Canada	the exploration for and evaluation of mineral deposits; this company is realising the Afton-Ajax copper and gold resource project in British Columbia, Canada
0929260 B.C. U.L.C.	Canada	the management or control of other companies
Sugarloaf Ranches Ltd.	Canada	this company owns assets in the form of land designated for future mining activities related to the Afton – Ajax project
KGHM INTERNATIONAL LTD. Group		
KGHM INTERNATIONAL LTD.	Canada	the founding, development, management or control of other companies
FNX Mining Company Inc.	Canada	mining of copper and nickel ore, production and sale of copper and nickel, development of the Victoria project this company owns underground mines: Levack/Morrison and McCreedy West in Ontario, Canada
DMC Mining Services Ltd.	Canada	contract mining activities
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 BC Ltd.	Canada	the management and control of other companies
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Minera Carrizalillo Limitada	Chile	the management and control of other companies
Mineria y Exploraciones KGHM International SpA	Chile	the management and control of other companies, exploration services for the Sierra Gorda project
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper; this company owns the open pit mine Franke in Chile
Robinson Holdings (USA) Ltd	USA	technical and management services – for subsidiaries in the USA
Wendover Bulk Transhipment Company	USA	shipment services this company provides shipping services for the Robinson mines
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper, this company owns the open pit mine Robinson in Nevada
Robinson Nevada Railroad Company	USA	railway transport services this company provides railway transport services for the Robinson
Carlota Holdings Company	USA	the management and control of other companies
Carlota Copper Company	USA	copper ore leaching, production and sale of copper this company owns the open pit mine Carlota in Arizona
FNX Mining Company USA Inc.	USA	the management and control of other companies; this company is realising the Victoria project

4. Activities of the KGHM Polska Miedź S.A. Group (continued)

4.1. Scope of activities of Group companies (continued)

Entity	Head Office Country	Activities
DMC Mining Services Corporation	USA	contract mining activities
Quadra FNX Moly Holdings (Barbados) Ltd.	Barbados	the management and control of other companies
Quadra FNX Intermoly Holdings Limited	Barbados	the management and control of other companies
Quadra FNX Holdings (Barbados) Ltd.	Barbados	the management and control of other companies
Quadra FNX Chile (Barbados) Ltd	Barbados	the management and control of other companies
Quadra FNX SG (Barbados) Ltd.	Barbados	the management and control of other companies
Quadra FNX Water Holdings (Barbados) Ltd.	Barbados	the management and control of other companies
Quadra FNX FFI Ltd.	Barbados	finance services
Raise Boring Mining Services S.A. de C.V	Mexico	mine drilling services
Centenario Holdings Ltd.	British Virgin Islands	the management and control of other companies
Pan de Azucar (BVI) Ltd.	British Virgin Islands	the management and control of other companies
Volcanes (BVI) Ltd.	British Virgin Islands	the management and control of other companies
Frankie (BVI) Ltd.	British Virgin Islands	the management and control of other companies
Centenario Copper (BVI) Ltd.	British Virgin Islands	finance services
Malmbjerg Molybdenum A/S	Greenland	operation and development of the Malmbjerg project involving molybdenum extraction (the company holds permits and a mining concession for the project)
International Molybdenum Plc	United Kingdom	finance activities

4.2. Employment in the Group

The level and structure of employment in the KGHM Polska Miedź S.A. Group is presented below.

Table 7. *Average employment by period (positions)*

Description	I-VI 2012	2012	I-VI 2013	Change 2012=100
White collar employees	9 606	9 768	9 782	100.1
Blue collar employees	24 501	24 277	24 669	101.6
Total	**34 107**	**34 045**	**34 451**	**101.2**

The highest employment is in the Parent Entity. In the first half of 2013, the average level of employment was 18 569 positions. Among the remaining Group companies the highest average number of employees in the first half of 2013 was recorded in the following entities (in positions):

- the KGHM INTERNATIONAL LTD. Group 2 587,
- KGHM ZANAM Sp. z o.o. 2 389,
- PeBeKa S.A. 1 713,
- POL–MIEDŹ TRANS Sp. z o.o. 1 033,
- NITROERG S.A. 999.

In the first half of 2013, average employment in the KGHM Polska Miedź S.A. Group increased in comparison to 2012 by 406 positions, mainly due to an increase in employment in the KGHM INTERNATIONAL LTD. Group (217 positions), in KGHM ZANAM Sp. z o.o. (126 positions), and in PeBeKa S.A. (102 positions).

4. Activities of the KGHM Polska Miedź S.A. Group (continued)

4.2. Employment in the Group (continued)

Relations with the trade unions in the Group

KGHM Polska Miedź S.A.

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.

KGHM INTERNATIONAL LTD. Group

In the first quarter of 2013, a second trade union appeared in the Franke mine in Chile. In May 2013 a strike began over pay, which ended after 18 days with the signing of an agreement.

PeBeKa S.A.

Since March 2010, PeBeKa S.A. remains in a collective dispute with the trade union Związek Zawodowy Pracowników Dołowych, which is demanding an increase in wage categories for employees, the payment of a one-off bonus and an increase in contributions to the Social Fund. Since 12 August 2010 this dispute has been suspended for an indefinite time.

NITROERG S.A.

In the first half of 2013, the company remained in a collective dispute with the trade unions:

- dispute begun in 2010 – lack of agreement on the demand regarding an increase in salaries,
- dispute begun in 2012 related to the taking of a decision by the Management Board of the company to concentrate the production of dynamite and fuses in certain locations – negotiations are continuing regarding these demands.

Uzdrowiska Kłodzkie S.A. – Grupa PGU

In the first half of 2013, the company remained in a collective dispute with the trade unions which began in 2012, the subject of which is an increase in remuneration for all company employees.

4.3. Basic products

The largest share in the sales of the KGHM Polska Miedź S.A. Group (86%) is from sales of the basic products produced (see table 8) by the Parent Entity and companies of the KGHM INTERNATIONAL LTD. Group.

The value and volume of the sales of the basic products of the KGHM Polska Miedź S.A. Group are presented in the following table.

4. Activities of the KGHM Polska Miedź S.A. Group (continued)

4.3. Basic products (continued)

Table 8. *Revenues from sales of the basic products of the KGHM Polska Miedź S.A. Group (PLN million)*

	2012	I-VI 2012	I-VI 2013	Change I-VI'2012=100
KGHM Polska Miedź S.A.				
Copper and copper products *	15 525	7 811	7 395	94.7
Silver	4 301	2 187	1 704	77.9
Gold	156	78	60	76.9
Total	**19 982**	**10 076**	**9 159**	**90.9**
KGHM INTERNATIONAL LTD. Group **				
Copper ***	3 056	1 396	1 252	89.7
Nickel	261	129	106	82.2
Precious metals (gold, platinum, palladium)	350	153	208	135.9
treatment-refining charges (TC/RC)	(243)	(115)	(113)	98.3
Total	**3 424**	**1 563**	**1 453**	**93.0**

* *copper in the form of copper cathodes, copper products: wire rod, OFE and CuAg rod, round billets*

** *This company joined the KGHM Polska Miedź S.A. Group on 5 March 2012, financial data for the first half of 2012 and for 2012 are for the full period in order to maintain the comparability of data*

*** *copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore*

Table 9. *Volume of sales of the basic products of the KGHM Polska Miedź S.A. Group*

	Unit	2012	I-VI 2012	I-VI 2013	Change I-VI'2012=100
KGHM Polska Miedź S.A.					
Copper and copper products *	kt	580.3	287.1	297.8	103.7
Silver	t	1 267	644	596	92.5
Gold	kg	908	461	405	87.9
KGHM INTERNATIONAL LTD. Group **					
Copper ***	kt	118.6	53.9	53.9	100.0
Nickel	kt	4.6	2.4	2.3	95.8
Precious metals (gold, platinum, palladium)	k troz	92.5	45.4	53.1	117.0

* *copper in the form of copper cathodes, copper products: wire rod, OFE and CuAg rod, round billets*

** *This company joined the KGHM Polska Miedź S.A. Group on 5 March 2012, financial data for the first half of 2012 and for 2012 are for the full period in order to maintain the comparability of data*

*** *copper in the form of copper cathodes, payable copper in concentrate, payable copper in ore*

In the first half of 2013, versus the first half of 2012, the Parent Entity recorded an increase in the volume of sales of copper products by 4% (10.7 kt). There was a change in the sales structure, i.e. a decrease in the volume of sales of copper wire rod, OFE rod and round billets by 3% (4.5 kt) alongside an increase in cathode sales by 10% (15.3 kt).

The volume of precious metals sales was lower versus the comparable prior year period and decreased for silver by 7% (48.2 t) and for gold by 12% (56 kg).

Revenues from sales of the products of KGHM Polska Miedź S.A. in the first half of 2013 were lower than revenues earned in the comparable period of 2012, mainly due to a decrease in metals prices: copper on the London Metal Exchange (LME) and silver on the London Bullion Market (LBMA).

Revenues from the sale of copper and copper products were lower by 5%. Revenues from sales of silver versus their level in the comparable period of 2012 were lower by 22%, while revenues from gold sales were lower by 23%.

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 prior year PLN 141 million).

Revenues from the sales of basic products of companies belonging to the KGHM INTERNATIONAL LTD. Group, such as copper, nickel, precious metals (gold, platinum, palladium), represent 13.5% of the metals sales revenues of the KGHM Polska Miedź S.A. Group.

4. Activities of the KGHM Polska Miedź S.A. Group (continued)

4.3. Basic products (continued)

The decrease in revenues from metals sales of the KGHM INTERNATIONAL LTD. Group by 7% versus the comparable prior year period was mainly due to the decrease in copper prices.

The KGHM INTERNATIONAL LTD. Group also earns revenues from the sale of mining services. The amount of these sales for the first half of 2013 amounted to PLN 432.7 million (for the first half of 2012, PLN 542.9 million).

A large portion of the remaining domestic Group companies provide services and supply products, merchandise and materials to the Parent Entity. The largest sales outside the Group in the first half of 2013 were earned by CENTROZŁOM WROCŁAW S.A. (4.3% of Group sales) and KGHM Metraco S.A. (1.2% of Group sales). A large portion of the merchandise sold by KGHM Metraco S.A. were by-products of the core business of KGHM Polska Miedź S.A.

4.4. Sales markets

55.06% of the non-current assets of the Group are located in Poland. The remaining 44.94% of the non-current assets are located in the following countries: Chile – 21.98%, Canada – 18.24%, United States – 4.15%, other countries – 0.57%.

Geographical structure of sales markets

The largest part, i.e. 19.3%, of the revenues from sales earned by the Group in the first half of 2013 was from the domestic market. The largest foreign recipients of the products, merchandise and services offered by Group companies were Germany (18.7%), the United Kingdom (11.1%) and China (11.2%).

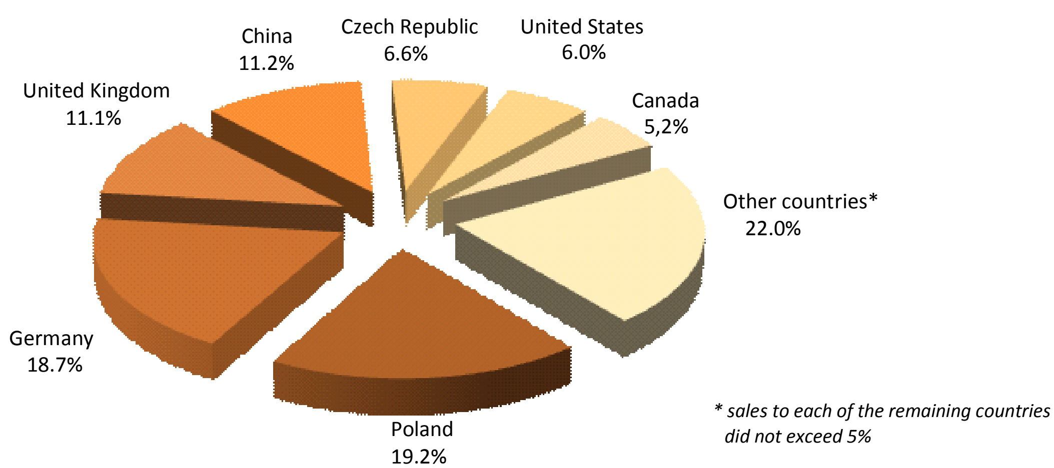
Revenues from sales of the Group to external customers by geographic region are presented in the following table.

Table 10. *Group revenues from sales by market (PLN million)*

	2012	I-VI 2012*	I-VI 2013	Change I-VI'2012=100
Poland	5 309	2 776	2410	86.8
Germany	4 564	2 395	2 340	97.7
United Kingdom	3 950	1 969	1 387	70.4
China	3 047	1 233	1 399	113.5
Czech Republic	1 604	811	830	102.3
United States	758	220	757	x3.4
Canada	1 431	688	647	94.0
Other countries	6 042	3 019	2 749	91.1
Total	**26 705**	**13 111**	**12 518**	**95.5**

** comprised data of KGHM INTERNATIONAL LTD. for the period when control was exercised (15 March 2012 -30 June 2012)*

Chart 5. *Structure of revenues by sales market in the first half of 2013*



Translation from the original Polish version

4. Activities of the KGHM Polska Miedź S.A. Group (continued)

4.4. Sales markets (continued)

Sales on the Polish market

Around 64% of revenues from Group sales in the first half of 2013 on the Polish market were realised by the Parent Entity. The sales volume of copper and copper products by KGHM Polska Miedź S.A. on the Polish market accounted for 19% of total copper sales. Silver sales on the Polish market accounted for 2% of the total volume of silver sales.

Revenues of the following remaining companies were significant in the revenues of the KGHM Polska Miedź S.A. Group on the domestic market:

– CENTROZŁOM WROCŁAW S.A. (share around 9.4%) – trade in scrap and smelter products,
– KGHM Metraco S.A. (share around 4.0%) – trade in merchandise and materials.

Sales to other countries

Around 76.7% of revenues from sales of the KGHM Polska Miedź S.A. Group to other countries in the first half of 2013 were realised by the Parent Entity. The sales volume of copper and copper products accounted for 81% of total copper sales. During the analysed period, the largest recipients of the copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic, France, Hungary and Italy. Silver sales accounted for 98% of the total volume of silver sales. The largest recipients of the silver produced by KGHM Polska Miedź S.A. were the United Kingdom, Switzerland and Belgium.

Companies belonging to the KGHM INTERNATIONAL LTD. Group realised altogether approx. 18.7% of revenues from sales of the KGHM Polska Miedź S.A. Group to other countries. The main recipients of the products produced by these entities were the USA, Canada, China and Japan.

4.5. Significant contracts for the Group

In the first half of 2013, only the Parent Entity entered into significant contracts whose value exceeds 10% of the equity of KGHM Polska Miedź S.A.

Table 11. *Significant contracts for the Group's activities entered into in the first half of 2013*

Date	Amount	Description of contract
21 January 2013	PLN 1 672 million	A contract for silver sales in 2013 entered into between KGHM Polska Miedź S.A. and HSBC Bank USA N.A. London Branch. 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.
28 January 2013	PLN 1 524 million	A contract for the sale of copper cathodes in 2013, entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmBH. 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.
31 January 2013	from PLN 2 382 million to PLN 2 865 million*	A contract for the sale of copper wire rod in the years 2013-2014, entered into between KGHM Polska Miedź S.A. and Prysmian Metals The contract with Prysmian Metals Limited provides for the relocation of materials between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH.

* - *depending on the amount of tonnage under option and on the relocation of tonnage between Prysmian Metals Limited and Prysmian Kabel Und Systeme GmbH*

Information on significant transactions entered into between related entities, under other than arm's length conditions

In the first half of 2013, neither the Parent Entity nor its subsidiaries entered into transactions between related entities under other than arm's length conditions. In the comparable prior year period there was one significant transaction entered into between related entities under other than arm's length conditions. This was an interest-free loan agreement entered into between Fermat 1 S.à r.l. as lender and Fermat 3 S.à r.l. as borrower (a company 100% owned by Fermat 1 S.à r.l.) for the amount of USD 1 873 100 thousand (PLN 5 873 105 thousand – value estimated based on the exchange rate from the date the agreement was signed).

4. Activities of the KGHM Polska Miedź S.A. Group (continued)

4.6. Capital expenditure

In the first half of 2013, capital expenditures in the Group amounted to PLN 1 287 million, and were higher by PLN 287 million (by 29%) than those incurred in the comparable prior year period. The largest increase in capital expenditures was in the Parent Entity and amounted to PLN 219 million (33%).
During the first six months of 2013, the KGHM INTERNATIONAL LTD. Group incurred capital expenditures in the total amount of PLN 191 million (expenditures incurred by subsidiaries) and were higher by PLN 39 million, i.e. 26% than those incurred in the comparable prior year period. However, the most important project realised by the Group was the Sierra Gorda project in Chile, developed as a joint venture between KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group (45%). The share of KGHM INTERNATIONAL LTD. in the capital expenditures incurred on this project in the first half of 2013 amounted to PLN 1 479 million. The 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 project is in an advanced stage of development with respect to construction and assembly work. At the end of the first half of 2013, advancement of the project had reached 51%. Detailed information on the realisation of this project may be found in point 5.1. of this report.

The following table shows those Group subsidiaries which incurred the highest capital expenditures in the first half of 2013.

Table 12. *Highest capital expenditures in KGHM Polska Miedź S.A. Group in first half 2013 (PLN million)*

Company	expenditures	task/facility
KGHM Polska Miedź S.A.	893	– Construction of Gas-Steam Blocks at the power plants in Głogów and Polkowice, – Głogów Głęboki–Przemysłowy (Deep Głogów), – Construction of the SW 4 shaft, – Concessions 2013, – Exploration and documentation of the Synklina Grodziecka area, – Development and implementation in the mining conditions of KGHM Polska Miedź S.A. of technology for the mechanical mining of ore (combine technology), – Modernisation and replacement of the machinery park in the mines, – Development of the infrastructure of the mining sections, – Pyrometallurgy Modernisation Program, – Intensification of Processing at the Głogów II smelter, – Replacement of floatation machinery, – Modernisation of classification units, – Development of the Żelazny Most mining tailings treatment pond (to ensure the ability to store floatation tailings after 2016), – Realisation of facilities related to improving and maintaining the operational safety of the Żelazny Most mining tailings treatment pond and to eliminating its environmental impact, – Investments aimed at achieving rock salt production of 1 million tonnes/year,
KGHM INTERNATIONAL LTD. Group	191	– Robinson mine – stripping of overburden to access ore and dewatering, – Development of lower areas of Morrison deposit in the Levack/Morrison mine in Canada – access work, building of ramp to 4520 foot level, development from the Craig shaft down to 5000 feet and drilling, – Victoria project – project to explore an orebody of copper, nickel and precious metals in the Sudbury Basin in Canada, being realised by FNX Mining Company Inc. *(Description of project in point 5.1. of this report),*
PeBeKa S.A.	88	– purchase of drift combines, machinery and shaft equipment, heavy and auxiliary mine machinery,
KGHM AJAX MINING INC.	51	– Afton-Ajax project – project to mine a copper and gold deposit in Canada. *(Description of project in point 5.1. of this report).*

4. Activities of the KGHM Polska Miedź S.A. Group (continued)

4.6. Capital expenditure (continued)

Capital commitments entered into during the reporting period, but not yet recognised in statement of financial position

As at 30 June 2013, total capital commitments amounted to PLN 9 589 million, including a 55% share by the Group in the investment liabilities of the Sierra Gorda Joint Venture in the amount of PLN 6 782 million.

5. Review of assets and financial position

5.1. Business segments

The acquisition in 2012 of the shares of KGHM INTERNATIONAL LTD. caused a significant change in the assets structure and in the generation of revenues by the KGHM Polska Miedź S.A. Group.

As a result of a change in the structure of the KGHM Polska Miedź S.A. Group and the new way of looking at areas of activities by bodies making operating decisions, new solutions were introduced in the way the Group is managed.

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

KGHM Polska Miedź S.A.

- segment comprised of KGHM Polska Miedź S.A.,

the Group KGHM INTERNATIONAL LTD.

- segment comprised of companies of the KGHM INTERNATIONAL LTD. Group,

Sierra Gorda Project

- segment comprised of Sierra Gorda S.C.M. joint venture,

Development of the resource base

- segment comprised of companies involved in the exploration for and evaluation of mineral resources, whose purpose is to conduct mining operations,

Support of the core business

- segment comprised of companies directly related to the core business of the Parent Entity;

  KGHM Metraco S.A. was classified to this segment in the reporting period due to its significant share in securing supplies of copper scrap for KGHM Polska Miedź S.A. (comparable data restated respectively to presentation in the current period),

The remaining segments were recognised under the item "Other segments". These are Group companies which are unrelated to the mining industry.

The most important role in the structure of assets and the generation of revenues in the KGHM Polska Miedź S.A. Group is played by the Parent Entity and the KGHM INTERNATIONAL LTD. Group.

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

Table 13. *Results of business segments for the first half of 2013 (PLN million)*

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda Project ***	Resource base development	Support of core business	Other segments	Adjustment restating to measurement/ principles under IFRS	Consolidation adjustments	Total
Sales	**9 503**	**1 886**	**-**	**-**	**2 696**	**1 443**	**-**	**(3 010)**	**12 518**
Inter-segment sales	138	-	-	-	2 336	523	-	(2 997)	-
External sales	9 365	1 886	-	-	360	920	-	(13)	12 518
Operating costs	(6 925)	(1 680)	-	(3)	(2 663)	(1 422)	(117)	3 126	(9 684)
Depreciation/amortisation	(418)	(221)	-	-	(66)	(39)	(140)	190	(694)
Operating profit/(loss)	**2 391**	**209***	**-**	**(2)**	**56***	**20***	**(117)**	**114**	**2 671**
Profit/(loss) before tax	2 346	136	-	(2)	43	12	(117)	122	2 540
Income tax	(621)	(83)	-	-	(11)	(5)	40	(38)	(718)
Profit/(loss) for the period	**1 725***	**53***	**-**	**(2)**	**32**	**7***	**(77)**	**84**	**1 822**
Segment assets	**29 147**	**12 265**	**6 509**	**435**	**2 448**	**2 460**	**(3 425)**	**(13 836)**	**36 003**
Liabilities	**7 222**	**3 852**	**4 799**	**12**	**1 044**	**645**	**(3 608)**	**(706)**	**13 260**
Other information									
Investments accounted for using the equity method	33	1 736**	-	-	-	2	2 420	-	4 191
Capital expenditure	893	191	1 479	51	124	36	(1 479)	(7)	1 287
EBITDA *(operating profit plus depreciation/amortisation)*	2 809	430			122				
% of sales to KGHM Polska Miedź S.A.					79%				

* *results analysed in given segment*
** *Sierra Gorda S.C.M. accounted for using the equity method*
*** *55% share of Group in Sierra Gorda S.C.M.*

„Adjustment restating to measurement/principles under IFRS" – respecting adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level and including accumulated adjustments from the acquisition date to 30 June 2013.

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

Table 14. *Results of business segments for the first half of 2012 – restated (PLN million)*

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD. (data from date control obtained)	Sierra Gorda Project ***	Resource base development	Support of core business	Other segments	Adjustment restating to measurement / principles under IFRS	Consolidation adjustments	Total continued activities
Sales	**10 504**	**1 465**	**-**	**-**	**3 056**	**1 373**	**-**	**(3 287)**	**13 111**
Inter-segment sales	322	-	-	-	2 500	459	-	(3 281)	-
External sales	10 182	1 465	-	-	556	914	-	(6)	13 111
Operating costs	(6 289)	(1 474)	-	(4)	(3 020)	(1 353)	(16)	3 099	(9 057)
Depreciation/amortisation	(391)	(163)	-	-	(55)	(37)	(104)	(25)	(775)
Operating profit/(loss)	**3 781**	**(17)**	**-**	**(5)**	**58***	**44***	**21**	**(217)**	**3 665**
Profit/(loss) before tax	3 764	(63)	-	(5)	52	43	21	(217)	3 595
Income tax	(795)	(41)	-	-	(12)	(7)	26	10	(819)
Profit/(loss) for the period	**2 969***	**(104)***	**-**	**(5)**	**40**	**36***	**34**	**(194)**	**2 776**
Segment assets	**28 177**	**11 416**	**4 689**	**375**	**2 341**	**2 290**	**(1 476)**	**(13 850)**	**33 962**
Liabilities	**6 254**	**3 674**	**3 092**	**17**	**1 080**	**628**	**(1 995)**	**(702)**	**12 048**
Other information									
Investments accounted for using the equity method	-	1 766**	-	-	-	-	2 145	-	3 911
Capital expenditure	673	152	2 371	49	84	60	(2 371)	(18)	1 000
EBITDA *(operating profit plus depreciation/amortisation)*	4 172	146			113				
% of sales to KGHM Polska Miedź S.A.					78%				

* *results analysed in given segment*
** *Sierra Gorda S.C.M. accounted for using the equity method*
*** *55% share of Group in Sierra Gorda S.C.M.*

„Adjustment restating to measurement/principles under IFRS" – respecting adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level and including accumulated adjustments from the acquisition date to 30 June 2012.

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

KGHM POLSKA MIEDŹ S.A.

The Parent Entity represents the most important production segment in the Group. As at 30 June 2013, the assets of KGHM Polska Miedź S.A. represented 81% of the assets of the Group.

The mining assets of KGHM Polska Miedź S.A. are comprised of underground mines currently engaged in extracting copper ore: "Lubin", "Polkowice-Sieroszowice" and "Rudna", as well as a pre-production project: Deep Głogów, and exploration projects: Radwanice–Gaworzyce (copper ore), Synklina Grodziecka (copper ore) and Szklary (nickel ore). The production of refined copper, silver and other copper products takes place at two metallurgical facilities: Głogów and Legnica, and at the Cedynia Wire Rod Division.

The Segment KGHM Polska Miedź S.A. generates the highest results in the Group.

The production results of the Parent Entity are presented in the following table.

Table 15. *Production results (metallurgical production) of KGHM Polska Miedź S.A.*

	Unit	2012	I-VI 2012	I-VI 2013	Change I-VI' 2012=100
Payable copper	kt	565.8	272.9	286.0	104.8
- incl. 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
	M troz	41.0	21.0	17.5	83.3
Metallic Gold	kg	916	445	353	79.3
	k troz	29.45	14.31	11.35	79.3

In the first half of 2013, versus the comparable prior year period, refined copper production increased by 13 thousand tonnes (4.8%) and was due to higher processing of own concentrate and to a large share of 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 lower silver content in processed concentrate and to the maintenance in the Precious Metals Plant.

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

The volume of copper products produced – 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.

Of decisive impact on the operating costs of the Parent Entity are the costs of producing refined copper whose share amounts to around 90%.

Table 16. *Cash cost of copper production in KGHM Polska Miedź S.A.*

	Unit	2012	I-VI 2012	I-VI 2013	Change I-VI' 2012=100
Cash cost of copper production – C1*	USD/lb	1.34	1.02	1.73	169.6
Production of payable copper in concentrate	kt	427.1	215.3	216.6	100.6

** 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*

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.

Revenues from sales in KGHM Polska Miedź S.A. in the first half of 2013 were lower than those achieved in the comparable prior year period of 2012 by PLN 1 001 million (10%), mainly due to a decrease in metals prices: copper on the London Metal Exchange (LME) and silver on the London Bullion Market (LBMA).

In the first half of 2013, KGHM Polska Miedź S.A. achieved a profit of PLN 1 725 million, meaning a decrease by PLN 1 244 million (by 42%) versus that achieved in the first half of 2012.

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

The following factors had the main impact on a decrease in the financial result of the Parent Entity:

- a decrease in the copper price by 7%, silver by 14% and gold by 8% (a decrease in revenues by PLN 778 million),
- an increase in the total unit cost of refined copper production in PLN/t by 15%, mainly due to an increase in the impact of the minerals extraction tax (a decrease in the result by PLN 636 million),
- a change in the exchange rate from 3.27 USD/PLN to 3.18 USD/PLN – strengthening of the PLN by 3% (a decrease in revenues by PLN 288 million),
- impact of hedging transactions – a change in the result due to the measurement and realisation of derivatives (PLN (161) million) and a change in the amount of the adjustment of sales due to hedging (+PLN 25 million) (a decrease in the result by PLN 136 million),
- a decrease in sales of merchandise - in the first half of 2012 the company sold 3.5 thousand tonnes of purchased wire rod. In 2013, there were no sales of wire rod as merchandise (a decrease in revenues by PLN 92 million),
- impairment loss on available-for-sale financial assets – in the first half of 2013, an impairment loss was recognised on the following investments: TAURON Polska Energia S.A. – PLN 86 million, Abacus Mining & Exploration Corp. – PLN 3 million. In the first half of 2012, the company did not record an impairment loss on available-for-sale financial assets (a decrease in the result by PLN 89 million).

The following factors had the main impact on the increase in the financial result of the Parent Entity:

- exchange differences - 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 (an increase in the result by PLN 543 million),
- lower income tax – due to the lower tax base (an increase in the result by PLN 174 million),
- change in volume of sales of basic products (Cu, Ag, Au) - 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 (an increase in the result by PLN 124 million).

Process of obtaining concessions for mining areas currently in use by KGHM Polska Miedź S.A.

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

In view of the above, in 2010 KGHM Polska Miedź S.A. 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 Parent Entity 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 Concessioning Body (the Ministry of the Environment) on 4 December 2012. The Concessioning 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 DDPs, corrected in accordance with the suggestions of the reviewers, were sent to the MRC on 12 March 2013. In March 2013, the Concessioning 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 Concessioning 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 concessioning body.

On 4 June 2013, the Concessioning 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 Concessioning Body sent to KGHM Polska Miedź S.A. draft 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 Parent Entity, were sent to the Ministry of the Environment on 30 July 2013. In letters dated 17 and 18 July 2013 the Concessioning 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 Concessioning Body (April 2013) on the need to purchase this right in connection

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

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 Concessioning 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 Concessioning Body was signed by the Management Board of the Parent Entity 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 Parent Entity 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 Concessioning 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.

KGHM INTERNATIONAL LTD. GROUP

This segment comprises the company KGHM INTERNATIONAL LTD. and 32 subsidiaries (presented in diagram 2 of this report). In this group, apart from companies fulfilling an operational role, are also companies created to optimise functionality.

The KGHM INTERNATIONAL LTD. Group represents the second-largest, after KGHM Polska Miedź S.A., production segment in the Group. It also owns the second-largest asset in the Group in terms of value.

This segment comprises the operation of functioning mines extracting copper (and other metals) located in Canada (McCreedy West, Levack – with the Morrison deposit), in the USA (Robinson and Carlota) and in Chile (Franke), pre-operational mining projects at various stages of development (Victoria in Canada and Malmbjerg in Greenland) as well as exploration projects (Kirkwood, Falconbridge and Foy in the Sudbury region of Canada).
Under the segment KGHM INTERNATIONAL LTD., as an investment accounted for using the equity method, the share of the Group (55%) in the Sierra Gorda project was shown. This project, due to its importance, represents a separate business segment.

Entities of this segment of significance in terms of production:

- Robinson Nevada Mining Company – this company owns the open pit mine Robinson in the state of Nevada in the USA,
- Sociedad Contractual Minera Franke – this company owns the open pit mine Franke in Chile,
- FNX Mining Company Inc. – this company owns underground mines: Levack/Morrison, McCreedy West and the Podolsky mine which was closed in the first quarter of 2013, in Ontario, Canada.

The following group of companies generates income due to the providing of mining services under the brand DMC Mining Services:

- FNX Mining Company Inc.,
- Raise Boring Mining Services S.A. de C.V.,
- DMC Mining Services Corporation.

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

Table 17. *Production results of KGHM INTERNATIONAL LTD.*

	Unit	2012*	I-VI 2012*	I-VI 2013	Change I-VI'2012=100
Robinson mine					
Payable copper	kt	54.2	24.9	30.5	122.5
Precious metals	k oz	37.9	17.0	30.4	178.8
Carlota mine					
Payable copper	kt	10.4	5.0	5.2	104.0
Franke mine					
Payable copper	kt	17.9	8.3	8.8	106.0
Levack/Morrison mine					
Payable copper	kt	18.5	8.4	7.8	92.9
Nickel	kt	2.8	1.3	1.2	92.3
Precious metals	k oz	37.3	17.9	15.7	87.7
McCreedy mine					
Payable copper	kt	1.3	0.5	0.9	180.0
Nickel	kt	1.6	0.9	1.0	111.1
Precious metals	k oz	2.0	0.2	2.7	x13.5
Podolsky mine					
Payable copper	kt	8.3	5.0	1.9	38.0
Nickel	kt	0.4	0.2	0.1	50.0
Precious metals	k oz	18.0	10.3	4.2	40.8
Total mines					
Payable copper	kt	110.6	52.1	55.1	105.8
Nickel	kt	4.8	2.4	2.3	95.8
Precious metals	k oz	95.2	45.4	53.0	116.7

** full period production results (control of company obtained from 5 March 2012)*

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 23% and 79% versus the comparable prior year period, thanks to a significant increase in metals recovery during floatation and to a significant increase in milling capacity by the processing plant.

Table 18. *Cash cost of copper production of KGHM INTERNATIONAL LTD.*

	Unit	2012	I-VI 2012	I-VI 2013	Change I-VI'2012=100
Cash cost of copper production - C1*	USD/lb	2.43	2.66	2.13	80.1
Production of payable copper sold	kt	118.6	53.9	53.9	100.0

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

The unit cash cost (C1) in the KGHM INTERNATIONAL LTD. Group achieved in the first half of 2013 was lower by 20% than in the first half or 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 aforementioned decrease was impacted by cost cutting initiatives undertaken at the Robinson mine, which produced 57% of total copper sold in the first half of 2013 by KGHM INTERNATIONAL LTD., and a more than 50% increase in revenues from precious metals mainly due to the high recovery of this mine's processing plant.

Table 13 - Results of business segments for the first half of 2012 – presented the results for the KGHM INTERNATIONAL LTD. Group segment for the period in which control of the company was exercised, i.e. from 5 March 2012 to 30 June 2012. However, analysis of the results for the first half of 2013 versus the results for the entire first half of 2012 permits the following assertions to be made:

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

- there was a decrease in sales by PLN 220 million, i.e. by 10% (1H2012 – PLN 2 106 million, 1H2013 - PLN 1 886 million) due to a significant decrease in metals prices,
- despite the lower sales prices, the profit for the period achieved was higher by PLN 37 million, which means a tripling of profit (1H2012 – PLN 16 million, 1H2013 - PLN 53 million), which was impacted by lower production costs; the profit for the first half of 2013 also reflects higher interest income from the loan granted to Sierra Gorda and the financial effects of one-off events, including among others: impairment losses, foreign exchange losses and an increase in the real income tax rate, versus the lack of analogous events in the comparable prior year period.

The most important producing assets of the KGHM INTERNATIONAL LTD. Group are the Robinson, Levack/Morrison and Franke mines, which supply over 85% of copper production.

Robinson mine

The Robinson mine is an open pit mine extracting copper ore from a porphyry/skarn-type deposit located near the city of Ely, Nevada, United States. The ore extracted is concentrated through floatation. The end product is a concentrate of copper and gold.

Metals production by the mine in the first half of 2013, versus the comparable prior year period, increased by 23% in terms of copper and by 79% in terms of gold, mainly due to high rates of recovery by the processing plant (increased recovery of both copper and gold).

C1 cash cost in the first half of 2013 amounted to 1.71 USD/lb, i.e. 37% lower than in the first half of 2012, mainly due to a decrease in production costs due amongst others to realisation of efforts to reduce costs and to increase the amount of copper sold in concentrate. Capital expenditures incurred in the first half of 2013 by the Robinson mine amounted to USD 33 million (PLN 109.5 million per the average exchange rate of the NBP at the end of June 2013), which were mainly related to stripping of the overburden to access ore and to dewatering of the workings.

Levack/Morrison mine

The Levack/Morrison mine is located at the edge of the town of Sudbury, in Ontario, Canada. It is linked on the east with the McCreedy West mine. This is an underground mine, whose end product is copper and nickel ore. Associated metals are gold, platinum and palladium. Since 2012 the mine's operations have been based on infrastructure leased from the neighbouring Craig mine belonging to Xstrata Nickel.

Production in the first half of 2013 was lower than in the first half of 2012, due to lower average metals content in ore and to remediation work in the Craig shaft, as well as to a seismic event in June 2013 which delayed the extraction of high grade ore.

The cash cost of production in the first half of 2013 amounted to 1.84 USD/lb i.e. 56% higher than in the first half of 2012. This increase was caused by higher operating costs (mainly due to the remediation work in the Craig shaft) and to a lower amount of payable copper, as well as to lower by-product revenues due to lower metals prices and to lower metals content in ore.

Capital expenditures incurred in the amount of USD 15.9 million (PLN 52.7 million per the average exchange rate of the NBP at the end of June 2013) were mainly on access work, construction of a ramp to the 4520 foot level, development from the Craig shaft to the 5000 foot level and on drilling to increase knowledge of the lower parts of the Morrison orebody.

Franke mine

The Franke mine is located in the city of TalTal, Region II in Chile. Extraction from the Franke mine is by conventional open pit methods in two deposits: China and Franke. Ore processing, due to the ore's nature, is by the heap leach, solvent extraction and electrowinning (SX-EW) process. The end product is copper cathode.

In the first half of 2013, copper production increased versus the comparable prior year period by 6%, i.e. to 8.8 kt, due to higher leach recovery from the mixing of ore from the China and Franke deposits in the ratio 1:1.

The cash cost of production in the first half of 2013 amounted to 3.96 USD/lb, i.e. 1% more than in the first half of 2012.

Due to the decrease in the copper price, the decision was taken to hold capital expenditures to a minimum level while continuing the plan to increase production capacity.

Other operating assets of this segment:

- Carlota mine - located near the town of Miami, in Arizona, USA; mine scheduled for closure. Since 2012 the mine has been implementing a closure plan,

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

- McCreedy West mine - The McCreedy West mine is located on the northern edge of the Sudbury basin, in Ontario, Canada,
- Podolsky (inactive) - the mine is located near the town of Sudbury, in the northern part of the Sudbury basin, in Ontario, Canada. Operations at the mine ceased in the first quarter of 2013,
- DMC – mining services - Under the DMC Mining Services brand, companies in this segment provide services in shaft sinking, development work, surface and underground mine facilities, drilling, civil underground construction, and feasibility analyses and design work.

FNX Mining Company Inc., a company belonging to the KGHM INTERNATIONAL LTD. Group, is advancing the Victoria exploration project.

The Victoria Project is located in the Sudbury Basin (Ontario, Canada). Estimated project resources: 14.5 million t of ore with average grades of 2.5% Cu and 2.5% Ni. In addition, the ore is also rich in precious metals (gold, platinum), whose grade is estimated at 7.6 g/t. Planned mine type - underground. The project is at the stage of developing a feasibility study.

The Victoria Project is the most important exploration project being advanced by the KGHM INTERNATIONAL LTD. Group (100% of the shares of the project are owned by the subsidiary FNX Mining Company Inc.). 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.

SIERRA GORDA PROJECT, CHILE

Sierra Gorda is a joint venture (under the company Sierra Gorda S.C.M.) 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 2013 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 of 2013 there was significant progress on constructing the foundations of the processing facilities. Work continued on the assembly of mining machinery and other equipment.

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. The project is in an advanced stage of realising construction and assembly work. At the end of the first half of 2013, 51% of the project was completed.

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 per the average exchange rate of the NBP at the end of June 2013) versus USD 2.9 billion (PLN 9.6 billion per the average exchange rate of the NBP at the end of June 2013) 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, inflation and appreciation of the Chilean 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.

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

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

As at 30 June 2013, in respect of the Sierra Gorda project a total of USD 3.5 billion (PLN 11.6 billion per the average exchange rate of the NBP at the end of June 2013) in contracts had been signed (87% of the updated budget) among others on the purchase of mine equipment and outfitting of the processing plant, the purchase of materials and construction services, of which approximately USD 2.4 billion (PLN 8 billion per the average exchange rate of the NBP at the end of June 2013) has been incurred.

The share of the segment KGHM INTERNATIONAL LTD. in capital expenditure incurred on realisation of the project in the first half of 2013 amounted to PLN 1 479 million.

The Sierra Gorda project is financed from three sources – by the investors (KGHM INTERNATIONAL LTD. and companies of the Sumitomo Group) and through borrowing. A USD 1 000 million bank loan (PLN 3 317.5 million per the average exchange rate of the NBP at the end of June 2013) was granted for a period of 9.5 years by a consortium of financial institutions: Japan Bank for International Cooperation and 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 bank loan without recourse to KGHM INTERNATIONAL LTD. As at 30 June 2013, USD 920 million (PLN 3 052.1 million per the average exchange rate of the NBP at the end of June 2013) of the loan had been drawn. At the end of the reporting period the JV had cash of USD 667 million (PLN 2 212.8 million per the average exchange rate of the NBP at the end of June 2013).

Due to the arising in the reporting period of indications of the impairment of the Sierra Gorda joint venture (macro-and microeconomic changes, as a result of which a definitive estimate of the costs of realising this project was made, as mentioned above), the Parent Entity tested this joint venture for impairment. The carrying amount of Sierra Gorda as at 30 June 2013 amounted to USD 1 251 million (PLN 4 157 million). Based on the performed impairment test on Sierra Gorda, the fair value less cost to sell has been determined in amount of USD 1 367.7 million (PLN 4 537 million, based on the average exchange rate of the NBP of 28 June 2013), which exceeds the carrying amount of the investment and therefore no impairment losses have been recognised. Detailed information regarding this testing may be found in note no. 3 of the consolidated financial statements.

DEVELOPMENT OF THE RESOURCE BASE

This segment comprises companies engaged in exploration-evaluation activities, i.e.:

- KGHM AJAX MINING INC. – this company is advancing the Afton-Ajax copper and gold resource project in British Columbia, Canada,
- KGHM Kupfer AG – this company is advancing a resource project – assessment of a copper deposit in Weisswasser in Germany,
- Sugarloaf Ranches Ltd. – this company owns land designated for future mining activities related to the Afton–Ajax project.

Due to the current phase of work by the aforementioned projects, this segment does not generate operating profits, and the companies are of a cost-generating nature.

Capital expenditure on the realisation of the projects in this segment in the first half of 2013 amounted to PLN 51 million, and were in respect of advancement of the Afton-Ajax project.

The Afton–Ajax Project is located in Kamloops (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. Planned mine type: 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.

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^2. Ownership structure of the project: 100% KGHM Kupfer AG. Planned mine type: underground mine.

5. Review of assets and financial position (continued)

5.1. Business segments (continued)

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.

SUPPORT OF THE CORE BUSINESS

This segment is comprised of companies related directly to the core business of KGHM Polska Miedź S.A., i.e.:

– KGHM Metraco S.A.	– this company secures supplies of copper scrap for KGHM Polska Miedź S.A., and sells to external markets the by-products of the Parent Entity's core business production,
– POL-MIEDŹ TRANS Sp. z o.o.	– this company is a leading railway and roadway carrier and supplier of fuels to KGHM Polska Miedź S.A.,
– PeBeKa S.A.	– this company is the main performer of mining work for KGHM Polska Miedź S.A.,
– ZANAM-LEGMET Sp. z o.o.	– this company is a significant supplier and service provider for the mining machinery and equipment of KGHM Polska Miedź S.A., and also provides production maintenance services in selected areas,
– KGHM CUPRUM sp. z o.o. - CBR	– this company performs a substantial part of the design-related work for KGHM Polska Miedź S.A.,
– INOVA Spółka z o.o.	– this company is a supplier and service provider for the underground radio communication system for the mines of KGHM Polska Miedź S.A.,
– BIPROMET S.A.	– this company executes technical documentation for the pyrometallurgy modernisation program of KGHM Polska Miedź S.A.,
– CBJ sp. z o.o.	– this company mainly provides industrial research services for KGHM Polska Miedź S.A.,
– „Energetyka” sp. z o.o., and subsidiaries: WPEC w Legnicy S.A., „BIOWIND” sp. z o.o.	– this company secures part of the energy supply for KGHM Polska Miedź S.A.

The above companies are mainly aimed at ensuring uninterrupted production by the Parent Entity. These companies maintain their resources at levels required to accomplish the tasks assigned to them.

The assets of this segment at the end of the first half of 2013 amounted to PLN 2 448 million, and increased versus the prior year by PLN 107 million, i.e. by approx. 5%. This increase in assets was impacted by investments realised in the first half of 2013.

Capital expenditures in this segment amounted to PLN 124 million. The highest capital expenditure was incurred by PeBeKa S.A. – PLN 88 million (mainly the purchase of mining machinery).

Average employment in this segment in the first half of 2013 amounted to 7.5 thousand positions, representing 22% of total Group employment. Most were employed by the company KGHM ZANAM Sp. z o.o. (approx. 2.4 thousand).

Segment revenues from sales for the first half of 2013 amounted to PLN 2 696 million, and were lower versus the comparable prior year period by PLN 360 million, i.e. 12 % (mainly due to the decrease in sales by KGHM Metraco S.A. of copper scrap to KGHM Polska Miedź S.A.). In the first half of 2013, 79% of segment revenues were from sales to the Parent Entity (in the first half of 2012, 78%). A total of around 87% of segment revenues for the first half of 2013 relates to sales to other segments of the Group. Consequently they do not have a material impact on the consolidated results of the KGHM Polska Miedź S.A. Group.

In this segment, the largest sales outside the Group in the first half of 2013 were earned by KGHM Metraco S.A. (sales of merchandise and materials), although they only represent 1.2% of the Group's sales.

5. Review of assets and financial position (continued)

OTHER SEGMENTS

This segment is comprised of all other companies of the KGHM Polska Miedź S.A. Group (33 entities), unrelated to the mining industry. This group of entities are very diversified in their operations. Among others they are of an equity investment nature, as well as fulfilling corporate social responsibility. This group includes among others closed-end investment funds and their portfolio companies (including those forming the Polish Spa Group).

A large part of the assets of this segment are significant from the point of view of possible benefits to be gained at the moment of exit from these investments.

5.2. Assets

As at 30 June 2013, total assets in the consolidated statement of financial position increased versus the end of 2012 by PLN 2 041 million (i.e. by 6%).

Table 19. *Assets (PLN million)*

	30.06.2012 restated	31.12.2012 restated	30.06.2013	Structure %	Change 31.12.12=100
Non-current assets	**23 759**	**24 108**	**26 327**	**73.1**	**109.2**
Property plant and equipment	13 676	13 971	14 689	40.8	105.1
Intangible assets	2 104	1 989	2 202	6.1	110.7
Investment property	60	59	65	0.2	110.2
Investments accounted for using the equity method	4 239	3 911	4 191	11.6	107.2
Deferred tax asset	767	565	548	1.5	97.0
Available-for-sale financial assets	861	892	801	2.2	89.8
Mine closure financial assets	485	460	523	1.5	113.7
Derivatives	1 041	745	674	1.9	90.5
Trade and other receivables	526	1 516	2 634	7.3	173.7
Current assets	**14 667**	**9 854**	**9 676**	**26.9**	**98.2**
Inventories	3 809	3 769	3 841	10.7	101.9
Trade and other receivables	3 189	2 846	2 560	7.1	90.0
Current corporate tax receivables	130	77	48	0.1	62.3
Available-for-sale financial assets	151	149	158	0.5	106.0
Mine closure financial assets	1	-	1	-	-
Derivatives	601	382	636	1.8	166.5
Cash and cash equivalents	6 783	2 629	2 423	6.7	92.2
Non-current assets held for sale	3	2	9	0.0	x4.5
TOTAL ASSETS	**38 426**	**33 962**	**36 003**	**100.0**	**106.0**

The most important changes in the value of assets as at 30 June 2013 versus 31 December 2012 were in respect of the following items:

- non-current receivables – an increase by PLN 1 118 million, mainly in respect of a loan granted by KGHM INTERNATIONAL LTD. to finance the Sierra Gorda project, at the end of the first half of 2013 the carrying amount of receivables due to this granted loan amounted to PLN 2 587 million;
- property, plant and equipment – an increase by PLN 718 million, mainly in respect of realisation of investments – expenditures in this regard amounted to PLN 1 170 million, of which the highest expenditures, in the amount of PLN 839 million, were incurred by the Parent Entity (detailed information in point. 4.6 of this report);
- investments accounted for using the equity method – an increase by PLN 280 million, respecting measurement of the share of the Sierra Gorda S.C.M. joint venture, carrying amount at the end of June 2013: PLN 4 157 million;
- intangible assets – an increase by PLN 213 million, of which PLN 211 million was in respect of an increase in exploration and evaluation assets;
- derivatives (current and non-current) – an increase by PLN 183 million in the Parent Entity, 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;

5. Review of assets and financial position (continued)

5.2. Assets (continued)

- current trade and other receivables – a decrease by PLN 286 million, mainly due to a decrease in trade receivables in KGHM INTERNATIONAL LTD.
- cash and cash equivalents – a decrease by PLN 206 million, mainly due to a decrease in cash resources in the KGHM INTERNATIONAL LTD. Group as a result of an increase in the amount of the loan granted to Sierra Gorda S.C.M.,
- available-for-sale financial assets (non-current and current) – a decrease by PLN 82 million, mainly due to impairment losses on shares of listed companies recognised by the Parent Entity and the KGHM INTERNATIOLAN LTD. Group.

Table 20. *Assets effectiveness ratios **

	2012 restated	I-VI 2012 restated	I-VI 2013
Assets turnover ratio	0.8	0.4	0.3
Non-current assets turnover ratio	1.1	0.6	0.5
Current assets turnover ratio	2.7	0.9	1.3
Liquid assets turnover ratio	4.8	1.3	2.5

**Ratios calculated based on end-of-year balances, pursuant to methodology described in Appendix A*

The increase in the current assets and liquid assets turnover ratios for the first half of 2013 versus the comparable prior year period was due to the lower level of cash. The remaining assets effectiveness ratios did not change significantly.

5.3. Equity and liabilities

At the end of the first half of 2013, equity accounted for 63.2% of total equity and liabilities. Equity increased versus the end of 2012 by PLN 829 million (3.8%).

Table 21. *Equity and liabilities (PLN million)*

	30.06.2012 restated	31.12.2012 restated	30.06.2013	Structure %	Change 31.12.12=100
EQUITY	**20 925**	**21 914**	**22 743**	**63.2**	**103.8**
Share capital	2 000	2 000	2 000	5,6	100.0
Revaluation reserve from measurement of financial instruments	229	235	627	1.7	266.8
Exchange differences from the translation of foreign operations	863	19	668	1.9	x35
Actuarial gains/losses on post-employment benefits	(396)	(543)	(272)	(0.8)	50.1
Retained earnings	17 994	19 971	19 497	54.2	97.6
Equity attributable to shareholders of the Parent Entity	**20 690**	**21 682**	**22 520**	**62.6**	**103.9**
Non-controlling interest	**235**	**232**	**223**	**0.6**	**96.1**
Non-current liabilities	**7 901**	**7 279**	**7 646**	**21.2**	**105.0**
Trade and other payables	991	880	872	2.4	99.1
Borrowings, debt securities and finance lease liabilities	1 930	1 783	1 918	5.3	107.6
Derivatives	511	230	139	0.4	60.4
Deferred tax liabilities	2 207	1 772	1 904	5.3	107.4
Employee benefits liabilities	1 385	1 615	1 723	4.8	106.7
Provisions for other liabilities and charges	877	999	1 090	3.0	109.1
Current liabilities	**9 600**	**4 769**	**5 614**	**15.6**	**117.7**
Trade and other payables	8 832	3 008	5 002	13.9	166.3
Borrowings, debt securities and finance lease liabilities	81	1 075	73	0.2	x14.7
Current corporate tax liability	327	448	189	0.5	42.2
Derivatives	167	25	152	0.4	608.0
Employee benefits liabilities	128	133	132	0,4	99.2
Provisions for other liabilities and charges	65	80	66	0.2	82.5
TOTAL LIABILITIES	**17 501**	**12 048**	**13 260**	**36.8**	**110.1**
TOTAL EQUITY AND LIABILITIES	**38 426**	**33 962**	**36 003**	**100.0**	**106.0**

5. Review of assets and financial position (continued)

5.3. Equity and liabilities (continued)

There were significant changes in the carrying amounts of the following items of equity and liabilities as at 30 June 2013 versus 31 December 2012:

- exchange differences from the translation of foreign operations – an increase by PLN 649 million,
- revaluation reserve from measurement of financial instruments– an increase by PLN 392 million,
- retained earnings – a decrease by PLN 474 million, including PLN 138 million due to the resolved dividend from profit for 2012 in an amount higher than profit for the first half of 2013 (the remaining PLN 356 million is due to the offsetting of profit from prior years with actuarial gains/losses on post-employment benefits),
- Trade and other payables (current and non-current) – an increase by PLN 1 986 million, mainly due to the Parent Entity's shareholder dividend (PLN 1 960 million), which pursuant to the decision of the General Meeting will be paid in the second half of 2013 (PLN 980 million each on 14 August and 14 November);
- borrowings, debt securities and finance lease liabilities (current and non-current) – a decrease by PLN 867 million, mainly due to the repayment by the Parent Entity of all debt, whose carrying amount at the end of 2012 amounted to PLN 1 013 million;
- current corporate tax liability – a decrease by PLN 259 million, due to the payment by KGHM Polska Miedź S.A. 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);
- derivatives (current and non-current) - an increase by PLN 36 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 2013 and the opening of new transactions by the Parent Entity 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.

Table 22. *Assets financing ratios**

	2012 restated	I-VI 2012 restated	I-VI 2013
Coverage of assets by equity	0.6	0.5	0.6
Coverage of non-current assets by equity	0.9	0.9	0.9
Coverage of non-current assets by long-term capital	1.2	1.2	1.2
Coverage of current assets by current liabilities	0.5	0.7	0.6

** ratios calculated based on year-end balances, in accordance with methodology described in Appendix A*

5.4. Borrowings and debt securities

Total debt of the Group due to borrowings and debt securities at the end of the first half of 2013 amounted to PLN 1 929 million, and decreased versus the end of 2012 by 32%. This decrease was mainly due to the repayment by the Parent Entity in the first quarter of 2013 of all debt (PLN 1 013 million). As at 30 June 2013, KGHM Polska Miedź S.A. did not hold debt due to borrowings.

Table 23. *Borrowings in the Group (PLN million)*

	30.06.2012 restated	31.12.2012 restated	30.06.2013	Change 31.12.2012=100
Non-current borrowings	**1 916**	**1 766**	**1 873**	**106.1**
of which:				
– bank loans	175	165	168	101.8
– other loans	2	8	6	75.0
– debt securities	1 739	1 593	1 699	106.7
Current borrowings	**72**	**1 065**	**56**	**5.3**
of which:				
– bank loans	62	1 057	48	4.5
– other loans	5	3	3	100.0
– debt securities (interest)	5	5	5	100.0
Total	**1 988**	**2 831**	**1 929**	**68.1**

5. Review of assets and financial position (continued)

5.4. Borrowings and debt securities (continued)

The item debt securities refers to the senior notes issued by KGHM INTERNATIONAL LTD. with maturity in 2019.

The following table presents those companies in the Group which at the end of June 2013 held significant debt balances (over PLN 10 million).

Table 24. *Borrowings in the Group as at 30 June 2013*

Company	Loan currency	Type of bank/other loan	Maturity	Balance as at 30.06.2013
Interferie Medical SPA Sp. z o.o.	EUR	Investment bank loan	31.12.2021	EUR 14 million (PLN 59 million)
„Energetyka" sp. z o.o.	PLN	Investment bank loan	31.08.2018	PLN 32 million
KGHM LETIA S.A.	PLN	Investment bank loan	30.06.2026	PLN 14 million
KGHM CUPRUM sp. z o.o. - CBR	PLN	Investment bank loan	30.09.2021	PLN 16 million
Uzdrowiska Kłodzkie S.A. – Grupa PGU	PLN	Investment bank loan	25.12.2019	PLN 10 million
	PLN	Investment bank loan	28.12.2018	PLN 3 million
KGHM Ecoren S.A.	PLN	loan from NFOŚiGW	31.03.2016	PLN 8 million
	PLN	Investment bank loan	30.09.2014	PLN 7 million
	PLN	Investment bank loan	18.10.2016	PLN 7 million
INTERFERIE S.A.	EUR	Investment bank loan	30.11.2021	EUR 3 million (PLN 12 million)
	EUR	Investment bank loan	04.06.2018	EUR 0.5 million (PLN 2 million)
	EUR	Investment bank loan	28.12.2017	EUR 0.6 million (PLN 3 million)
POL-MIEDŹ TRANS Sp. z o.o.	PLN	Investment bank loan	31.07.2021	PLN 16 million
	PLN	Overdraft facility	25.10.2013	PLN 1 million
	PLN	loan from WFOŚiGW	16.11.2014	PLN 0.1 million

On 19 June 2013, KGHM INTERNATIONAL LTD. entered into a USD 200 million (PLN 663.5 million per the average exchange rate of the NBP as at 30 June 2013) corporate facility. The facility was used to secure a liability of USD 137.5 million (PLN 456.2 million per the average exchange rate of the NBP as at 30 June 2013) in connection with an agreement for the supply of electricity to the Sierra Gorda project in the form of letter of credit.

Guarantees granted

In the first half of 2013, the companies of the KGHM Polska Miedź S.A. Group did not grant any guarantees on bank and other loans, and did not grant any guarantees to a single entity or to a subsidiary of said entity, whose total amount would represent at least 10% of the equity of KGHM Polska Miedź S.A.

5.5. Contingent assets and liabilities

As at 30 June 2013, contingent assets amounted to PLN 544 million and related mainly to guarantees received (in the amount of PLN 294 million), representing security against potential claims involving the execution of agreements. Other contingent assets primarily involve promissory note receivables (PLN 93 million) and overpayment of the tax on underground mines (PLN 87 million).

Contingent liabilities at the end of June 2013 amounted to PLN 691 million. The highest value item is guarantees granted (PLN 480 million), including guarantees granted in respect of the contract for the supply of electricity to the Sierra Gorda project (PLN 456 million). The second most significant item in contingent liabilities is due to projects and inventions (PLN 129 million).

5. Review of assets and financial position (continued)

5.5 Contingent assets and liabilities (continued)

In addition, as at 30 June 2013, the Group held liabilities which were not recognised in the statement of financial position in the amount of PLN 337 million, including PLN 206 million towards local government units due to development of the tailings treatment pond.

5.6. Statement of profit or loss

Table 25. *Consolidated statement of profit or loss (PLN million)*

	31.12.2012 restated	30.06.2012 restated	30.06.2013	Change 30.06.12=100
Sales	26 705	13 111	12 518	95.5
Cost of sales	(18 079)	(8 339)	(8 987)	107.8
Gross profit	**8 626**	**4 772**	**3 531**	**74.0**
Selling costs	(402)	(191)	(227)	118.8
Administrative expenses	(1 082)	(527)	(470)	89.2
Other operating income	1 706	1 041	522	50.1
Other operating costs	(2 217)	(1 430)	(685)	47.9
Operating profit	**6 631**	**3 665**	**2 671**	**72.9**
Finance costs	(146)	(70)	(131)	**187.1**
Profit before income tax	**6 485**	**3 595**	**2 540**	**70.7**
Income tax expense	(1 576)	(819)	(718)	87.7
Profit for the period	**4 909**	**2 776**	**1 822**	**65.6**

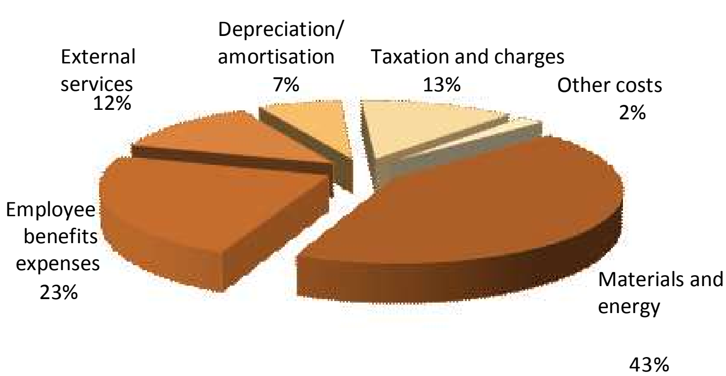
The most important factors impacting the change in profit for the first half of 2013 versus the first half of 2012:

- a decrease in revenues – by PLN 593 million, mainly due to the decrease in metals prices,
- an increase in basic operating costs - by PLN 648 million, mainly due to an increase in copper production costs in the Parent Entity due to an increased impact by the minerals extraction tax (in the first half of 2012 - PLN 443 million, in the first half of 2013, PLN 1 021 million),

  The mineral extraction tax is calculated from the amount of copper and silver contained in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate.
- a decrease in the loss on other operating activities – by PLN 226 million, of which the largest impact was from the result on exchange differences (in the first half of 2012 a loss of PLN 541 million, in the first half of 2013 a gain of PLN 19 million);

  in the first half of 2013 the loss on other operating activities amounted to PLN 163 million, impacted by the loss due to the measurement and realisation of derivatives in the amount of PLN 182 million, the impairment loss on available-for-sale financial assets in the amount of PLN 183 million, and interest income in the amount of 124 million,
- an increase in finance costs – by PLN 61 million, including due to exchange differences arising from borrowings, PLN 32 million,
- higher income tax (percentage share) – mainly due to introduction of the minerals extraction tax; this tax increases the manufacturing cost and is not deductible for corporate tax purposes.

Chart 6. *Structure of expenses by nature in the Group in the first half of 2013*



5. Review of assets and financial position (continued)

5.6. Statement of profit or loss (continued)

The change in the structure of costs in the first half of 2013 versus the comparable prior year period was mainly in respect of the item taxation and charges (in the first half of 2012 - 7%, in 2013 - 13%) and was due to the introduction in 2012 of the minerals extraction tax.

Table 26. *Structure of the profit for the period (PLN million)*

Description	Profit for the first half of 2013
KGHM Polska Miedź S.A.	**1 725**
Subsidiaries	**(54)**
of which:	
KGHM INTERNATIONAL LTD. Group	53
Other companies of the KGHM Polska Miedź S.A. Group	(107)
Total profits of Group entities	**1 671**
Consolidation adjustment	153
Group profit attributable to shareholders of the Parent Entity	**1 824**
Profit attributable to non-controlling interest	(2)
Total profit for the period	**1 822**

In the first quarter of 2013 final accounting was made for the acquisition on 5 March 2012 of the Quadra FNX Mining Ltd. Group (currently KGHM INTERNATIONAL LTD.). The total impact of the KGHM INTERNATIONAL LTD. Group on the financial results of the KGHM Polska Miedź S.A. Group, including after accounting for the acquisition price, in the first half of 2013 amounted to PLN (23) million. Respectively, for the period from the acquisition date to 30 June 2012 PLN (192) million.

Table 27. *Economic activities ratios**

	2012 restated	I-VI'2012 restated	I-VI'2013
Current liquidity	2.1	1.5	1.7
Quick liquidity	1.3	1.1	1.0
ROA - return on assets (%)	14.5	7.2	5.1
ROE - return on equity (%)	22.4	13.2	8.0
Debt ratio (%)	35.5	45.5	36.8
Durability of financing structure (%)	86.0	75.0	84.4

** Ratios calculated according to methodology in Appendix A*

The decrease in profit in the first half of 2013 versus the first half of 2012 caused a deterioration in the ratios describing the return on assets (ROA) and the return on equity (ROE).

The decrease in liabilities due to the resolution by the General Meeting of the Parent Entity of a lower dividend for 2012 versus the dividend for 2011 had an impact on the decrease in the debt ratio.

5.7. Risk management

The Group continuously identifies and measures financial risk, and also takes actions aimed at minimising its impact on the financial situation. Understanding those threats deriving from exposure to financial risk, having an appropriate organisational structure and adopted procedures enables better realisation of its tasks.

In the first half of 2013, the Group was exposed to many types of financial risk, and in particular to:

- market risks (risk of changes in metal prices, exchange rates, price risk related to investments in debt securities and the purchase of shares of listed companies, and to the risk of changes in interest rates),
- credit risk,
- liquidity risk.

5. Review of assets and financial position (continued)

5.7. Risk management (continued)

Market risk

Risk of changes in metals prices, currency risk

The Parent Entity is exposed to the risk of changes in the prices of copper, silver and gold. The remaining Group companies are additionally exposed to the risk of volatility in the prices of nickel, lead, molybdenum, platinum and palladium. Market risk related to changes in metals prices arises from the price formulas used in physical metals sales contracts, mainly based on average monthly market quotations from the respective future month.

Of major significance for the Parent Entity is the risk of changes in exchange rates, in particular the USD/PLN. To limit market risk, the Parent Entity, to the extent possible, uses natural hedging (incurring costs in USD), however the basic technique in market risk management involves hedging strategies utilising derivatives.

Some Group companies, due to their incurring costs in base currencies other than the USD, are exposed to the risk of changes in exchange rates – mainly in respect of the USD/PLN, USD/CAD and USD/CLP rates. Additionally, in a situation where a foreign customer pays in local currency for the metal they import, there also arises risk related to volatility in other exchange rates, for example: EUR/PLN and GBP/PLN.

Group companies are also exposed to the risk of changes in exchange rates whose sources are loans and other liabilities (e.g. arising from the import of goods and services) denominated in currencies other than currencies in which these companies achieve revenues.

Amongst the companies of the Group only the Parent Entity applies hedging strategies (under hedge accounting). To limit market risk related to changes in metals prices and currency rates, the Parent Entity mainly utilises derivatives. In accordance with hedge policy, in the first half of 2013 the Parent Entity 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 Parent Entity 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 in the Group was PLN 16 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 137 million, while the loss on the realisation of derivatives amounted to PLN 45 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, changes in the time value of options are not recognised in accumulated other comprehensive income.

The fair value of open positions in derivatives as at 30 June 2013 amounted to PLN 1 019 million, while PLN 746 million was transferred to the revaluation reserve from the measurement of financial instruments.

Price risk related to investments in debt securities and the purchase of shares of listed companies

As at 30 June 2013, the Group held government bonds in the amount PLN 340 million. This balance is mainly comprised of the amount of PLN 332 million (USD 100 million), representing environmental bonds, mainly of the USA, denominated in USD under the mine closure assets of KGHM INTERNATIONAL LTD.

Price risk related to shares of listed companies held by the Group, is understood as a change in their fair value due to a change in their share price.

The carrying amount of the shares of companies held by the Group which are listed on the Warsaw Stock Exchange and on the TSX Venture Exchange as at 30 June 2013 amounted to PLN 940 million.

Risk of changes in interest rates

Interest rate risk is the danger of the negative impact of changes in interest rates on the results of the Group. The Group is exposed to this risk due to loans granted, cash deposits, and borrowing.

5. Review of assets and financial position (continued)

5.7. Risk management (continued)

As at 30 June 2013, the balance of loans granted by the Group amounted to PLN 2 587 million, in respect of which decreases in interest rates do not affect income on loans granted as interest on them is based on a fixed interest rate.

As at 30 June 2013, the balance of cash deposits amounted to PLN 2 423 million. A decrease in market interest rates causes a decrease in expected interest income on periodically unallocated cash invested.

As at 30 June 2013 the balance of external debt amounted to PLN 1 991 million.

As at 30 June 2013, the Group held liabilities due to issued senior notes denominated in USD in the amount of PLN 1 704 million (USD 514 million). The issuer of the senior notes is KGHM INTERNATIONAL LTD.; they are based on a fixed interest rate of 7.75% with a maturity falling in 2019.

During the reporting period the Group did not use interest rate risk hedging instruments.

Credit risk

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. In the first half of 2013, the Group was exposed to this type of risk mainly in areas related to:

— trade receivables,
— derivative transactions,
— cash and cash equivalents and bank deposits,
— loans granted, and
— debt securities.

Credit risk related to trade receivables

Group companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade and other receivables. The vast majority of sales go to EU countries.

The Parent Entity limits its exposure to credit risk related to trade and other receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Parent Entity is the on-going monitoring of receivables and the internal reporting system. Credit limits is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments. The Parent Entity has secured the majority of its receivables by promissory notes, 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 a credit limits contain an ownership rights reservation clause confirmed by a date certain.

To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with 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 Parent Entity had secured 90% of its trade receivables.

The concentration of credit risk in the Group results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, as at 30 June 2013 the balance of receivables from 7 of the Group's largest clients, in terms of trade receivables at the end of the reporting period, represented 51% of the trade receivables balance (as at 31 December 2012: 32%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with clients, as well as to the hedging used, the level of credit risk is low.

Individual Group companies operate in various economic sectors, such as transport, construction, commerce, industrial production and energy, and consequently, in the case of most Group companies, in terms of sectors, there is no concentration of credit risk. KGHM INTERNATIONAL LTD. operates in the same economic sector as the Parent Entity. Despite operating in the same sector, the two companies are different both in terms of their portfolios of products as well as in terms of the geographic location and nature of their customers, and consequently this sector concentration of credit risk is considered to be acceptable.

5. Review of assets and financial position (continued)

5.7. Risk management (continued)

Credit risk related to derivative transactions

All entities with whom the Group enters into derivative transactions operate in the financial sector. These are financial institutions (mainly banks), with the highest and medium-high ratings. Based on fair value, as at 30 June 2013, the maximum exposure to a single entity with respect to credit risk arising from open derivative transactions entered into by the Group and to 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 account the fair value of assets and liabilities related to derivative transactions, the Group is not materially exposed to credit risk arising from derivative transactions entered into.

Credit risk related to cash and cash equivalents and bank deposits

The Group allocates periodically unallocated cash and cash equivalents in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income.

All entities with which deposit transactions are entered into by the Group operate in the financial sector. These are solely banks with the highest, medium-high and medium credit ratings, an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD. credit risk in this regard is continuously monitored through the on-going review of the financial condition and by maintaining an appropriately low level of concentration in individual financial institutions.

As at 30 June 2013, the maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounted to 14% (as at 31 December 2012 – 16%).

Credit risk related to loans granted

As at 30 June 2013, the carrying amount of loans granted by the Group amounted to PLN 2 587 million. This item is represented by a long term loan whose principal and interest are payable on demand, based on a fixed interest rate. The loan was granted by KGHM INTERNATIONAL LTD. for the financing of a mining project in Chile. Credit risk related to the loan granted is dependent on the risk connected with mine project realisation, and is judged by the Parent Entity to be moderate.

Credit risk related to investments in debt securities

As at 30 June 2013, the Group held government bonds with a carrying amount of PLN 340 million, mainly comprised of bonds of the USA in amount of PLN 332 million (USD 100 million). These are environmental bonds denominated in USD representing the mine closure assets of KGHM INTERNATIONAL LTD.

These investments classified as available-for-sale financial assets are only slightly exposed to credit risk due to the guarantee of solvency of the issuer. The investment policies of the Group restrict the possibility of purchasing this category of asset to investments in government securities and money market funds, depositing financial resources in money market instruments and in government securities whose time remaining to maturity does not exceed one year, or whose interest is set for a period of no longer than one year.

Liquidity risk and capital management

Capital management is aimed at maintaining continuous financial liquidity in every period. The Group actively manages the risk of loss of liquidity to which it is exposed. This risk is understood as a loss of the ability to settle liabilities on time and to obtain financing for operations.

The management of financial liquidity in the Parent Entity is performed in accordance with the „Financial Liquidity Management Policy" adopted by the Management Board. In the KGHM INTERNATIONAL LTD. Group the financial liquidity management principles are described in the Investment Policy. These documents describe the process of managing financial liquidity, including the specific character of the Group companies, guided by best practice in terms of procedures and instruments. The basic principles resulting from these documents are:

- the depositing of financial surpluses in liquid instruments,
- limits for individual financial investment categories,
- concentration limits on monetary resources for financial institutions, and
- assuring the appropriate quality and diversification of available financial sources.

In the first half of 2013, the Group made use of borrowing in the form of bank and other loans, and issued bonds. This involved the use of both investment and working capital loans, as well as overdraft facilities.

As at 30 June 2013, the Parent Entity held open lines of credit, whose balances were as follows: USD 178 million, EUR 50 million and PLN 2 300 million.

5. Review of assets and financial position (continued)

5.7. Risk management (continued)

As at 30 June 2013, the KGHM INTERNATIONAL LTD. Group held an open line of credit in the amount of USD 200 million, with interest based on a variable interest rate, set as the sum of the reference rate LIBOR and a margin depending on the ratio net debt/EBITDA.

KGHM INTERNATIONAL LTD. engages in borrowing in the form of issued long-term senior notes in the amount of PLN 1 704 million (USD 514 million) with maturity falling in 2019. These notes, issued in a private placement, give KGHM INTERNATIONAL LTD. the opportunity for early redemption, to 15 June 2014 up to 35% of the issue, and after this date up to 100% of the issue, at their nominal price, plus a premium if redemption is made prior to 15 June 2017.

The Group manages its capital in order to maintain the capacity to continue its operations, including the realisation of planned investments, in a manner enabling it to generate returns for the shareholders and benefits to other stakeholders.

In accordance with market practice, Group companies monitor capital, among others based on the equity ratio and the ratio of net debt/EBITDA. The equity ratio is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of net debt/EBITDA is calculated as the relation of borrowings and finance lease liabilities minus unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation/amortisation).

In order to maintain financial liquidity and the creditworthiness to acquire external financing at an optimum cost, the Group assumes that the *equity ratio* shall be maintained at a level of not less than 0.5, and the *ratio of net debt/EBITDA* at a level of up to 2.0.

In the first half of 2013, the Group held guarantees granted in the amount of PLN 480 million. This balance is mainly comprised of a guarantee granted by KGHM INTERNATIONAL LTD. in the amount of PLN 456 million to secure a contract for the supply of electricity for the Sierra Gorda JV and a guarantee granted by the Parent Entity in the amount of PLN 11 million. These guarantees represent contingent liabilities, which do not materially impact liquidity risk in the Group.

5.8. Disputed issues

As at 30 June 2013, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and subsidiaries amounted to PLN 398 million, including receivables of PLN 143 million and liabilities of PLN 255 million. The above amount did not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables in the first half of 2013:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 59 million,
- proceedings by subsidiaries amounted to PLN 84 million.

Value of proceedings involving liabilities in the first half of 2013:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 193 million,
- proceedings against subsidiaries amounted to PLN 62 million.

The largest on-going proceedings involving the receivables and liabilities of KGHM Polska Miedź S.A. and subsidiaries are presented in the following table.

Table 28. *Largest on-going proceedings by and against KGHM Polska Miedź S.A. and its subsidiaries at the end of the first half of 2013*

Proceedings involving liabilities
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 The municipalities (Gminas) of Polkowice, Lubin, the City of Lubin, Radwanice and Jerzmanowa submitted requests to the Minister of the Environment to open administrative proceedings to set royalties for the extraction by KGHM Polska Miedź S.A., for the period from the start of 2006 to the end of the 3rd quarter of 2011, of copper ore from deposits located in these municipalities and to allow them to participate as parties in these proceedings. The municipalities have charged that KGHM Polska Miedź S.A. lowered the amount of royalties paid on extracted non-balance copper ore in the total amount of PLN 90 million, including that portion payable to the municipalities in the amount of PLN 54 million, with the remainder representing payments to the National Fund for Environmental Protection and Water Management. The Minister of the Environment, in decisions dated 11 April 2012, discontinued the proceedings declaring that they were groundless. The municipalities submitted appeals dated 26 April 2012 to the Minister of the Environment to reopen these proceedings. In decisions taken in 2012 the Minister of the Environment upheld the appealed decisions. The municipalities submitted claims to the decisions of the Minister of the Environment to the Voivodeship Administrative Court, which in judgment dated 31 January 2013 dismissed the claims of the municipalities. In April 2013 the municipalities of Polkowice, Jerzmanowa, Lubin and of the City of Lubin filed cassation appeals to the Supreme Administrative Court against the judgement. A date for the cassation appeals has not been set.

5. Review of assets and financial position (continued)

5.8. Disputed issues (continued)

The judgement of the Voivodeship Administrative Court dated 31 January 2013, dismissing the claims of the municipality of Radwanice, became legally valid on 12 April 2013.

In the Parent Entity's opinion the claims of the four municipalities are unfounded, and therefore will not have a financial impact on KGHM Polska Miedź S.A.

Proceedings involving liabilities

Royalties for use of invention project no. 1/97/KGHM

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).
In accordance with a judgment 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 Parent Entity questioned the opinion, and requested that a supplementary opinion be prepared.
At a hearing on 13 November 2012, the court admitted evidence from the supplementary opinion, which was submitted in April 2013. In May 2013 the Parent Entity requested that an expert provide supplementary explanations regarding the opinion.
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.

Payment of remuneration or contractual penalties

Amount under dispute: PLN 20 million. In a claim from April 2012, filed against „Energetyka" sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.), liquidation receiver Gross-Pol Sp. z o. o. is demanding payment of remuneration or contractual penalties due to the execution of five contracts entered into in the years 2007, 2008 and 2009. „Energetyka" sp. z o. o., in a response to the claim dated 10 September 2012, requested the dismissal of the claim in its entirety, citing their position and evidence that the claim is unfounded. The parties requested the admission of evidence in the form of testimony by witnesses and the introduction of evidence from the opinions of several court experts in various fields. The date for the subsequent hearing was set for September 2013.
In the company's opinion the probability that the claim will be considered as founded is low.

Payment of contractual penalties

Amount under dispute: PLN 19 million. The Capital City Warsaw, in a suit filed 12 March 2013, is seeking the payment of contractual penalties from Przedsiębiorstwo Robót Górniczych „Metro" Sp. z o. o. and from Przedsiębiorstwo Budowy Kopalń PeBeKa S.A. (a subsidiary of KGHM Polska Miedź S.A.) – as leader of the consortium due to failure to perform remediation work during construction of a Metro station on time.
PeBeKa S.A. has charged that the Capital City Warsaw cannot act as plaintiff in the suit as the entity Metro Warszawskie is the actual investor, and has requested the court to order the company BEM Brudniccy z o. o. (subcontractors) to take part in the proceedings, as it was this company which performed the remediation work.
In the opinion of PeBeKa S.A. it is possible that the imposition of contractual penalties may be waived due to the lack of possibility remediating defects caused by unfavourable atmospheric conditions, or that contractual penalties may be imposed in an amount up to PLN 0.5 million, representing 10% of the value of the faulty work. The date for a hearing at the Regional Court was set as 12 November 2013.

Return of costs of protecting against mining damage

Amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the Regional Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of work to protect against mine damages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA" in Lubin.
The Regional Court, by a judgement dated 26 February 2013, ordered KGHM Polska Miedź S.A. to pay the amount of PLN 307 thousand. Both parties submitted appeals: the defendant in the amount of PLN 305 thousand, and the plaintiff in the amount of PLN 16 million. The Appeals Court has not set a date for a hearing.
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.
Proceedings are in progress.

Return of excise tax

Amount under dispute: PLN 13 million. POL-MIEDŹ TRANS Sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Voivodeship Administrative Court against a decision of the Director of the Customs Office setting excise taxation for individual months from March to December 2003.
The Voivodeship Administrative Court, in judgments from April, May and June 2011, dismissed the claims. POL-MIEDŹ TRANS Sp. z o. o. filed cassation appeals against the judgments to the Supreme Administrative Court. Proceedings are in progress.

5. Review of assets and financial position (continued)

5.8. Disputed issues (continued)

Proceedings involving receivables

Return of undue royalties for use of invention project no. 1/97/KGHM

In January 2008 KGHM Polska Miedź S.A. 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 both these matters – the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, with the claims of KGHM Polska Miedź S.A. for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 million, for joint hearing. Proceedings are in progress.
In the Parent Entity's opinion the payment of royalties to the project's authors was unfounded.

Return of excise tax

Value of amount under dispute: PLN 18 million. „Energetyka" sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Voivodeship Administrative Court against a decision of the Director of the Customs Office setting excise taxation from January 2006 to February 2009. The Voivodeship Administrative Court, in a judgment from October 2011, reversed the decision appeled by the subsidiary, and ordered compensation to be paid to the subsidiary in the amount of PLN 107 thousand.
The Director of the Customs Office and „Energetyka" sp. z o. o. in December 2011 filed cassation appeals to the Supreme Administrative Court.
„Energetyka" Sp. z o. o. took subsequent actions aimed at transferring the matter from Section I of the Economic Council of the SAC to the Financial Council of the SAC.
Proceedings are in progress.

5.9. Realisation of projected financial results for 2013

Forecasts of the consolidated results of the KGHM Polska Miedź S.A. Group are not prepared. Each company prepares its own projections of its results.

The Parent Entity publishes its projections of results. In a current report dated 15 February 2013, the company published its forecast of results for 2013, based on the Budget accepted by the Supervisory Board. The bases for preparation of the Budget were the results of 2012 and the assumptions of individual operating plans. The scope of basic Budget assumptions for 2013 are presented in the following table.

Table 29. *Realisation of projected financial results of KGHM Polska Miedź S.A. for 2013*

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

6. Intentions as regards equity investments

Resource base development

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 exploring and documenting areas immediately adjacent to or in the vicinity of the mining areas 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 June 2013, concessions were obtained 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 of 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 the Canadian company Quadra FNX (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.

In 2012, 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 Tępcz 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.

6. Intentions as regards equity investments (continued)

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 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.

Possibility of realising investment intentions in terms of the amount of funds possessed, reflecting potential changes in the structure of financing these activities

The cash held by the Parent Entity at the present moment and the external financing obtained guarantee the possibility of realisation of its investment intentions, both in terms of equity investments as well as expenditures on the purchase and construction of property, plant and equipment.

7. Significant subsequent events

Agreement with Vale Canada Limited

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 1 August 2013 an off-take agreement for all of KGHM INTERNATIONAL's production from its mines in the Sudbury basin in Ontario, Canada. Vale will purchase polymetallic ore from KGHM INTERNATIONAL LTD. and process it at Vale's Clarabelle mill in Sudbury. The contract is valid for the full life of all KGHM INTERNATIONAL's Sudbury mines, including future production from Victoria. 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 (using estimated future metals prices based on official LME closing prices and estimated forward curves for precious metals as at 31 July 2013), i.e. PLN 3.61 billion (per the average exchange rate of the NBP as at 31 July 2013).

Liquidation of Przedsiębiorstwo Budowlane Katowice S.A.

On 5 August 2013, the Extraordinary General Meeting of Przedsiębiorstwo Budowlane Katowice S.A. with its registered head office in Katowice resolved to dissolve the company Przedsiębiorstwo Budowlane Katowice S.A. and to commence its liquidation. The owner of 88.09 % of the shares of the company, representing the same number of votes, is BIPROMET S.A. (a direct subsidiary of KGHM Polska Miedź S.A.). The application to commence liquidation proceedings was filed with the District Court in Katowice - East with its registered head office in Katowice, Section VIII Economic of the National Court of Registration on 5 August 2013.

Filing of suits requesting that resolutions of the General Meeting of KGHM Polska Miedź S.A. be repealed

On 5 August 2013 the Parent Entity 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 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 Parent Entity 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.

APPENDIX A: Methodology of calculating ratios used in the report

Assets effectiveness ratios

$$\text{Assets turnover ratio} = \frac{\text{sales}}{\text{total assets}}$$

$$\text{Non-current assets turnover ratio} = \frac{\text{sales}}{\text{non-current assets}}$$

$$\text{Current assets turnover ratio} = \frac{\text{sales}}{\text{current assets}}$$

$$\text{Liquid assets turnover ratio} = \frac{\text{sales}}{\text{current receivables + cash and cash equivalents}}$$

Assets financing ratios

$$\text{Coverage of assets by equity} = \frac{\text{equity}}{\text{total assets}}$$

$$\text{Coverage of non-current assets by equity} = \frac{\text{equity}}{\text{non-current assets}}$$

$$\text{Coverage of non-current assets by long-term capital} = \frac{\text{equity + non-current liabilities}}{\text{non-current assets}}$$

$$\text{Coverage of current assets by current liabilities} = \frac{\text{current liabilities}}{\text{current assets}}$$

Economic activity ratios

$$\text{Current liquidity} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{current assets - inventories}}{\text{current liabilities}}$$

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

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

$$\text{Debt ratio} = \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{equity + non-current liabilities}}{\text{equity and liabilities}} \times 100$$

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SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last name**	**Position/Function**	**Signature**
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	