POLISH FINANCIAL SUPERVISION AUTHORITY

Annual report R 2013

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

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

for the financial year **2013** comprising the period from **1 January 2013** to **31 December 2013** containing the financial statements according to International Financial Reporting Standards in PLN.

publication date: 28 March 2014

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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

SELECTED FINANCIAL DATA		in M PLN		in M EUR	
		year 2013 period from 1 January 2013 to 31 December 2013	**year 2012** period from 1 January 2012 to 31 December 2012	**year 2013** period from 1 January 2013 to 31 December 2013	**year 2012** period from 1 January 2012 to 31 December 2012
I.	Sales	18 579	20 737	4 412	4 969
II.	Operating profit	4 208	6 426	999	1 540
III.	Profit before income tax	4 196	6 417	996	1 538
IV.	Profit for the period	3 058	4 868	726	1 166
V.	Other comprehensive income	277	(412)	66	(99)
VI.	Total comprehensive income	3 335	4 456	792	1 067
VII.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII.	Earnings per ordinary share (in PLN/EUR)	15.29	24.34	3.63	5.83
IX.	Net cash generated from operating activities	3 790	4 703	900	1 127
X.	Net cash used in investing activities	(2 547)	(11 335)	(605)	(2 716)
XI.	Net cash used in financing activities	(1 824)	(4 619)	(433)	(1 107)
XII.	Total net cash flow	(581)	(11 251)	(138)	(2 696)
		At 31 December 2013	**At 31 December 2012**	**At 31 December 2013**	**At 31 December 2012**
XIII.	Non-current assets	23 535	22 410	5 675	5 482
XIV.	Current assets	5 503	5 767	1 327	1 410
XV.	Total assets	29 038	28 177	7 002	6 892
XVI.	Non-current liabilities	1 989	2 455	480	601
XVII.	Current liabilities	3 751	3 799	904	929
XVIII.	Equity	23 298	21 923	5 618	5 362

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

	31 December 2013	**31 December 2012**
Average exchange rate for the period*	4.2110	4.1736
Exchange rate at the end of the period	4.1472	4.0882

**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.

ANNUAL REPORT R 2013 COMPRISES:

1. **AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE FINANCIAL STATEMENTS**
2. **DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED FINANCIAL STATEMENTS**
3. **DECLARATION BY THE MANAGEMENT BOARD REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS**
4. **PRESIDENT'S LETTER**
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Lubin, March 2014

KGHM POLSKA MIEDŹ S.A.

AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE FINANCIAL STATEMENTS FOR 2013

Lubin, March 2014

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

We have audited the accompanying financial statements of KGHM Polska Miedź Spółka Akcyjna (hereinafter called "the Company"), Marii Sklodowskiej-Curie 48 Street, Lubin, which comprise the statement of financial position as at 31 December 2013, showing total assets and total equity and liabilities of PLN 29.038 mln, the statement of profit of loss for the year from 1 January to 31 December 2013, showing a net profit of PLN 3.058 mln, the statement of comprehensive income for the period from 1 January to 31 December 2013, showing a total comprehensive income of PLN 3.335 mln, the statement of changes in equity, the statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

The Company's Management Board is responsible for preparing the financial statements and Directors' Report in accordance with the applicable regulations, and for the correctness of the accounting records. Members of the Management Board and Members of the Supervisory Board of the Company are obliged to ensure that the financial statements and the Director's Report comply with the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – Journal of Laws of 2013, item 330 as amended).

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

We conducted our audit in accordance with:

a. the provisions of Chapter 7 of the Accounting Act;

b. national standards of auditing issued by the National Council of Registered Auditors.

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

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

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

a. give a fair and clear view of the Company's financial position as at 31 December 2013 and of the financial results for the year from 1 January to 31 December 2013, in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS);

b. comply in terms of form and content with the applicable laws and the Company's Memorandum of Association;

c. have been prepared on the basis of properly maintained books of account, in accordance with the applicable accounting policies.

The information contained in the Directors' Report for the year from 1 January to 31 December 2013 has been presented in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("*the Decree*" – Journal of Laws of 2014, item 133) and is consistent with the information presented in the audited financial statements.

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

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, 24 March 2014

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.

Registered auditor's report on the audit of the financial statements for the year from 1 January to 31 December 2013 to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

This report contains 10 consecutively numbered pages and consists of:

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I. General information about the Company

a. KGHM Polska Miedź Spółka Akcyjna („The Company") was founded as a result of transformation of a state-owned enterprise, Kombinat Górniczo-Hutniczy Miedzi on the basis of art. 5 of the Act dated 13 July 1990 concerning the privatisation of state-owned enterprises (*Journal of Laws* No. 51, item 298, with subsequent amendments). The Notarial Deed was drawn up on 9 September 1991 at the Notary public's Office No. 18 in Warsaw and registered with Rep. no. 8648/91. On 29 June 2001 the District Court Register decided to enter the Company in the Commercial Register with the reference number KRS 0000023302.

b. The Company has its seat in Lubin, Marii Skłodowskiej-Curie 48 street.

c. During the year the Company operated on the basis of a concession granted by the Minister of the Environmental Protection, Natural Resources and Forestry.

d. The Company was assigned a tax identification number (NIP) 692-000-00-13 for the purpose of making tax settlements and a REGON number 390021764 for statistical purposes.

e. As at 31 December 2013 the Company's share registered share capital amounted to PLN 2.000 mln and consisted of 200.000.000 shares, with a nominal value of PLN 10,00 each. Total equity as at 31 December 2013 was positive and amounted to PLN 23.298 mln.

f. As at 31 December 2013 and the date of signing of this report the Company's shareholders were as follows:

Shareholder's name	Number of shares held	Par value of shares held (PLN)	Type of shares held	Votes (%)
The Polish State Tresury	63.589.900	635.899.000	ordinary	31,79
Other shareholders	136.410.100	1.364.101.000	ordinary	68,21
	200.000.000	**2.000.000.000**		**100,00**

g. During the year the Company's operations comprised:

- copper ore and non-ferrous metals mining,
- production of copper, non-ferrous metals, precious metals and salts,
- casting of light metals and non-ferrous metals,
- waste management,
- wholesale trading on the basis of direct payment or contract,
- geological and exploratory activities, research and technical analyses.

I. General information about the Company (cont.)

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

- Herbert Wirth — President,
- Wojciech Kędzia — Vice President (Production),
- Włodzimierz Kiciński — I Vice President (Finance) (till September 2nd 2013),
- Adam Sawicki — Vice President (Corporate) (till September 2nd 2013),
- Dorota Włoch — Vice President (Development) (till September 2nd 2013),
- Jarosław Romanowski — I Vice President (Finance) (since September 2nd 2013),
- Jacek Kardela — Vice President (Development) (since September 2nd 2013),
- Marcin Chmielewski — Vice President (Corporate) (since September 2nd 2013).

i. The Company has the following related entities:

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

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

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

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

k. As the parent company of the KGHM Polska Miedź S.A. Group, the Company has also prepared consolidated financial statements according to IFRS as at March 24th 2014. To better understand the Company's financial position and its results of operations as the Parent Company, the financial statements should be read in conjunction with the consolidated financial statements.

II. Information about the audit

a. The audit of the financial statements for the year from 1 January to 31 December 2013 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Marcin Sawicki (no. 11393).

b. PricewaterhouseCoopers Sp. z o.o. was appointed registered auditor to the Company by the Resolution No. 17/VIII/2013 of the Supervisory Board dated March 27th 2013 in accordance with paragraph 20, point 2 of the Company's Articles of Association.

c. PricewaterhouseCoopers Sp. z o.o. and the key registered auditor conducting the audit are independent of the audited entity within the meaning of art. 56, clauses 2-4 of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws No. 77, item 649, as amended).

d. The audit was conducted in accordance with an agreement dated April 4th 2013, in the following periods:

- interim audit from October 30th to November 13th 2013;
- final audit from January 22nd to March 24th 2014.

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

STATEMENT OF FINANCIAL POSITION
as at 31 December 2013 (selected lines)

	31.12.2013 PLN million	31.12.2012* PLN million	Change PLN million	Change (%)	Structure 31.12.2013 (%)	Structure 31.12.2012* (%)
ASSETS						
Non-current assets	**23.535**	**22.410**	**1.125**	**5,0**	**81,0**	**79,5**
Current assets	**5.503**	**5.767**	**(264)**	**(4,6)**	**19,0**	**20,5**
Total assets	**29.038**	**28.177**	**861**	**3,1**	**100.0**	**100.0**
LIABILITIES AND EQUITY						
Equity	**23.298**	**21.923**	**1.375**	**6,3**	**80,2**	**77,8**
Long-term liabilities	**1.989**	**2.455**	**(466)**	**(19,0)**	**6,9**	**8,7**
Short-term liabilities	**3.751**	**3.799**	**(48)**	**(1,3)**	**12,9**	**13,5**
Total liabilities and equity	**29.038**	**28.177**	**861**	**3,1**	**100,0**	**100,0**

* restated data

STATEMENT OF PROFIT OR LOSS
for the year from 1 January to 31 December 2013 (selected lines)

	2013 PLN million	2012 PLN million	Change PLN million	Change (%)	(%) of revenue 2013 (%)	(%) of revenue 2012 (%)
Revenue	18.579	20.737	(2.158)	(10,4)	100,0	100,0
Cost of sales	(13.173)	(12.786)	(387)	3,0	(70,9)	(61,7)
Gross profit on sales	**5.406**	**7.951**	**(2.545)**	**(32,0)**	**29,1**	**38,3**
Net profit for the year	**3.058**	**4.868**	**(1.810)**	**(37,2)**	**16,5**	**23,5**

STATEMENT OF COMPREHENSIVE INCOME
for the year from 1 January to 31 December 2013 (selected lines)

	2013 PLN million	2012 PLN million	Change PLN million	Change (%)	(%) of revenue 2013 (%)	(%) of revenue 2012 (%)
Net profit	3.058	4.868	(1.810)	(37,2)	16,5	23,5
Other net comprehensive income	277	(412)	689	<(100,0)	1,5	(2,0)
Total net comprehensive income	**3.335**	**4.456**	**(1.121)**	**(25,2)**	**18,0**	**21,5**

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

Selected ratios characterising the Company's financial position and results

The following ratios characterise the Company's operating activities, financial results during the year and its financial position as at the balance sheet date compared with previous years:

	2013	**2012***
Asset ratios		
- receivables turnover	22 days	18 days
- inventory turnover	103 days	106 days
Profitability ratios		
- net profit margin	16%	23%
- gross margin	25%	34%
- return on capital employed	14%	22%
Liability ratios		
- gearing	20%	22%
- payables turnover	34 days	32 days
	31.12.2013	**31.12.2012**
Liquidity ratios		
- current ratio	1,5	1,5
- quick ratio	0,8	0,7
Other ratios		
- effective tax rate	27%	24%

*) for the restated data

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

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

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

The financial statements do not take into account the effects of inflation. The consumer price index (on a December to December basis) amounted to 0.7% in the audited year (2.4% in 2012).

The comparability of the financial statements for 2012 and 2013, and thus the information content of the financial ratios for these years, may be limited due to the impact of the changes in the accounting policy resulted from changed rules of presentation of individual components of equity in the statement of financial position. The changes in the accounting policy have been described in point 2.1.2 of the accounting policies and other explanatory information to the financial statements.

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

- At the end of the financial year, the Company's total assets amounted to PLN 29.038 million. During the year total assets increased by PLN 861 million (i.e. by 3,1 %). This increase was financed mainly by net profit of PLN 3.058 million. At the same time there was a decrease in the income tax liabilities of PLN 340 million. Company paid out dividend of PLN 1.960 million to its shareholders.

- The Company's liability ratios and the structure of debt have changed. The Company's gearing ratio decreased to 20% at the end of audited year (from 22% at the end of the previous year). The liabilities turnover decreased from 32 days to 34 days.

- Total revenues amounted to PLN 18.579 million and decreased by 10,4% when compared to the previous year. The Company's core activities in the current financial year consisted of production and sale of copper, precious metals and smelter by-products. The main factor for the decrease of revenue was average price of copper and silver which decreased by 8% and 24 % respectively when compared to 2012. During that time also occurred the decrease of the average exchange rate of US Dollar compared with the prior year by 3%.

- The amount of deferred and current income tax for the audited period equalled to PLN 1.138 million and decreased by PLN 411 million comparing to 2012 due to lower taxable profit obtained by the Company in 2013. As a result, as at the end of the reporting period the balance of current income tax liabilities amounted to PLN 50 million and decreased by PLN 340 million when compared with the previous accounting period. The increase in the effective tax rate was mainly due to implementation in 2012 the mineral extraction tax that is not deductible for corporate income tax purposes.

- Profitability measured with net profit amounted to 16% and was 7 percentage points lower than in the previous year. The change in the Company's profitability was primarily due to decrease of average price of copper and silver and increase of cost due to mineral extraction tax.

IV. The independent registered auditor's statement

a. The Management Board of the Company provided all the information, explanations, and representations requested in the course of the audit and provided a representation letter confirming the completeness of the data included in the accounting records and the disclosure of all contingent liabilities and post balance-sheet events which occurred up to the date on which that letter was signed.

b. The scope of the audit was not limited.

c. The Company has up-to-date documentation of its accounting policies, approved by the Management Board. The Company's accounting policies were tailored to its needs and ensured the recognition of all events having a material effect on the assessment of its financial position and results, taking into consideration the prudence principle. Changes to accounting policies were properly disclosed in additional notes and explanations to the financial statements.

d. The closing balances as at the end of the previous year were correctly brought forward as the opening balances of the current financial year in all material respects.

e. The stocktaking of assets and liabilities were carried out and reconciled in accordance with the Accounting Act, and the results were included in the accounting records for the audited year.

f. The financial statements of the Company for the year from 1 January to 31 December 2012 were approved by Resolution No. 4/2013 passed by the General Shareholders' Meeting on June 19th 2013 and filed with the National Court Register in Wrocław on June 25th 2013.

g. In accordance with the Resolution No. 5/2013 of the Shareholders's Meeting of June 19th 2013 , the net profit for the prior year of PLN 4.868 million was distributed in the following manner:
   - the amount of PLN 1.960 million for dividend for Company's Shareholders,
   - the amount of PLN 2.908 million for reserve capital of the Company (retained earnings).

h. The financial statements for the previous financial year were audited by PricewaterhouseCoopers Sp. z o. o. The registered auditor issued an unqualified opinion.

i. We have assessed the operation of the accounting system. Our assessment covered in particular:
   - the accuracy of the documentation relating to business transactions;
   - the fairness, accuracy and verifiability of the books of account, including computerised books of account;
   - the methods used for controlling access to data and the computerised data processing system;
   - the safeguarding of the accounting documentation, books of account, and financial statements.

IV. The independent registered auditor's statements (cont.)

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

j. The notes to the financial statements present all significant information required by IFRS.

k. The information in the Directors' Report for the year ended 31 December 2013 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state (Journal of Laws of 2014, item 133) and is consistent with that presented in the financial statements.

V. Final information

This report has been prepared in connection with our audit of the financial statements of KGHM Polska Miedź Spółka Akcyjna, Marii Skłodowskiej-Curie 48 Street, Lubin. The financial statements were signed by the Company's Management Board and the person entrusted with maintaining the books of account on March 24th 2014.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna dated March 24th 2014, concerning the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

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

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, March 24th 2014

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.

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

Lubin, March 2014

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
24 March 2014	Herbert Wirth	President of the Management Board	
24 March 2014	Jarosław Romanowski	I Vice President of the Management Board	
24 March 2014	Marcin Chmielewski	Vice President of the Management Board	
24 March 2014	Jacek Kardela	Vice President of the Management Board	
24 March 2014	Wojciech Kędzia	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
24 March 2014	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

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

Lubin, March 2014

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
24 March 2014	Herbert Wirth	President of the Management Board	
24 March 2014	Jarosław Romanowski	I Vice President of the Management Board	
24 March 2014	Marcin Chmielewski	Vice President of the Management Board	
24 March 2014	Jacek Kardela	Vice President of the Management Board	
24 March 2014	Wojciech Kędzia	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
24 March 2014	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

PRESIDENT'S LETTER

Lubin, March 2014

Dear Stakeholders,

I am pleased to present you with the Annual Report for 2013. This year brought us numerous challenges resulting from unfavourable economic conditions. KGHM Polska Miedź S.A. ended the year with a profit for the period of PLN 3 058 million. I consider the achievement of profit at a level not substantially different than the forecasted amount, given such volatile changes in the situation, to be a great success. My satisfaction is all the greater as it is the result of the efforts and work of all of the Company's employees, whom I wish to thank for their commitment.

The results for 2013 were negatively impacted by the low commodities prices as well as by the unfavourable exchange rate of the Polish zloty versus the USD. Last year the price of silver fell by over 35 percent. This drop was accompanied by the continued fall in copper prices, which during the year amounted to nearly 10 percent. In our opinion this situation is of a temporary nature, as future increased demand, resulting from economic revival, will positively affect the prices of our main products.

Also having a negative impact on our results and cash flow was the high minerals extraction tax. The achievement of a good result given such conditions was thanks to a stable level of production and adherance to rigorous cost discipline. Expenses by nature, excluding purchased copper-bearing materials and the minerals extraction tax, remained at an unchanged level throughout the year. We were also able to generate a high level of ore extraction as well as increased sales of copper products. The Company is also maintaining an excellent level of liquidity, which is especially vital given the unfavourable market conditions. The financial position of KGHM Polska Miedź S.A. allows for the regular sharing of profit with shareholders. Last year the Company allocated PLN 1.96 billion as a shareholder dividend. I wish to stress that the Management Board, honoring the enduring rights of shareholders investing in KGHM's shares, maintains its recommendation to allocate one-third of profit for the period as a dividend.

The year 2013 was also a time of reinvigorated efforts to advance the strategy of KGHM Polska Miedź S.A. We are aware that only continuous development, accomplished through investments in new technology and increases in the resource base, can ensure conditions for building shareholder value. Capital expenditures incurred on regional projects increased versus 2012 by a third. Nearly two-thirds of these expenditures were on mining activities. These activities involved such important areas for the Company as the construction of the SW-4 shaft and commencement of construction of the GG-1 shaft as part of the Głogów Głęboki Przemysłowy (Deep Głogów) project. We have high hopes related to a change in mining technology. The testing of the ore mining complex is showing positive results. We are attempting to increase the scale of mechanisation and automisation both in terms of ore extraction at the working faces as well as in developing drifts during mine development work. We are performing studies on the intelligent mine project.

The process of renewing concessions for extracting copper ore from the existing deposit areas being mined was also completed. The concessions obtained secure the interests of KGHM Polska Miedź S.A. for the next 50 years. We obtained concessions for the exploration for and evaluation of the Retków-Ścinawa and Głogów copper ore deposits and commenced geophysical research in the Gaworzyce-Radwanice area.

In 2013 we also continued the Pyrometallurgy Modernisation Program. Under this program the modernisation of the Głogów II smelter was completed. It is worth pointing out that despite the maintenance and modernisation work the smelter maintained a high level of production and improved its operating parameters. The efficient execution of the modernisation work enables effective operations until the year 2017, when the next maintenance is planned.

An important part of our strategy involves expanding our resource base beyond Poland. Work on the most important and most advanced mining project, Sierra Gorda in Chile, proceeded on schedule. Intensive work was also carried out on projects of significance in the future perspective located in Canada, such as the polymetallic underground Victoria mine project and the open-pit Afton-Ajax project.

The stable functioning and continuous development of KGHM Polska Miedź S.A. in the long term requires the coordination of many projects simultaneously. An important pillar of the Company's long-term plans is the question of energy. The key importance of this area for the Company is reflected in our engagement in the project to build a nuclear power plant in Poland. Together with our partnes from PGE Polska Grupa Energetyczna S.A, TAURON Polska Energia S.A. and ENEA S.A. we are continuing conceptual analysis of this project.

Today KGHM Polska Miedź S.A. is one of the largest Polish companies as well as being an important player on many world markets. We are aware of the responsibilities and possibilities associated with this, which is why we are truly pleased to support the Poland, Go Global! Think Tank which we initiated, whose goal among others is to promote and disperse practical knowledge on the subject of the global expansion of Polish companies. We encourage other companies, including those outside the KGHM Group, to become involved in realising our foreign projects.

I would like to thank the employees of KGHM Polska Miedź S.A. for their enormous engagement in the daily performance of their duties. I believe that our work today will enable us to fully take advantage of the fruits of the expected improvement in conditions on the world's markets.

Herbert Wirth

President of the
Management Board

Lubin, 24 March 2014

KGHM POLSKA MIEDŹ S.A.

FINANCIAL STATEMENTS
FOR 2013

Lubin, March 2014

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

Statement of financial position			**At**	
	Note	**31 December 2013**	**31 December 2012 restated***	**1 January 2012 restated***
ASSETS				
Non-current assets				
Property, plant and equipment	5	9 744	8 445	7 277
Intangible assets	6	273	175	151
Shares and investment certificates in subsidiaries	7	11 744	11 641	2 012
Investments in joint ventures	7	33	33	-
Deferred tax assets	18	98	266	169
Available-for-sale financial assets	8	809	882	992
Financial assets for mine closure and restoration of tailing storage facilities	9	178	141	112
Derivatives	10	342	742	899
Trade and other receivables	11	314	85	84
		23 535	**22 410**	**11 696**
Current assets				
Inventories	12	2 432	2 992	2 356
Trade and other receivables	11	2 475	1 687	1 503
Financial assets for mine closure	9	1	-	2
Derivatives	10	472	381	859
Cash and cash equivalents	13	123	707	12 836
		5 503	**5 767**	**17 556**
TOTAL ASSETS		**29 038**	**28 177**	**29 252**
EQUITY AND LIABILITIES				
Equity				
Share capital	14	2 000	2 000	2 000
Revaluation reserve from measurement of financial instruments	15	512	286	535
Actuarial gains/losses on post-employment benefits	15	(112)	(519)	(356)
Retained earnings	15	20 898	20 156	20 956
TOTAL EQUITY		**23 298**	**21 923**	**23 135**
LIABILITIES				
Non-current liabilities				
Trade and other payables	16	26	36	12
Derivatives	10	17	230	538
Employee benefits liabilities	19	1 423	1 471	1 216
Provisions for other liabilities and charges	20	523	718	484
		1 989	**2 455**	**2 250**
Current liabilities				
Trade and other payables	16	2 431	2 227	1 828
Borrowings	17	1 123	1 013	-
Current corporate tax liabilities		50	390	1 588
Derivatives	10	6	23	330
Employee benefits liabilities	19	110	110	107
Provisions for other liabilities and charges	20	31	36	14
		3 751	**3 799**	**3 867**
TOTAL LIABILITIES		**5 740**	**6 254**	**6 117**
TOTAL EQUITY AND LIABILITIES		**29 038**	**28 177**	**29 252**

* explanation in note 2.1.2

The accounting policies and other explanatory information presented on pages 8 to 103 represent an integral part of these financial statements

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

Statement of profit or loss

	Note	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
Sales	21	18 579	20 737
Cost of sales		(13 173)	(12 786)
Gross profit		**5 406**	**7 951**
Selling costs		(126)	(113)
Administrative expenses		(671)	(703)
Other operating income	24	460	1 400
Other operating costs	25	(861)	(2 109)
Operating profit		**4 208**	**6 426**
Finance costs	26	(12)	(9)
Profit before income tax		**4 196**	**6 417**
Income tax expense	29	(1 138)	(1 549)
Profit for the period		**3 058**	**4 868**
Earnings per share for the annual period (in PLN per share)	30		
- basic		15.29	24.34
- diluted		15.29	24.34

The accounting policies and other explanatory information presented on pages 8 to 103 represent an integral part of these financial statements

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

Statement of comprehensive income

	Note	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
Profit for the period		**3 058**	**4 868**
Other comprehensive income:			
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met			
Other comprehensive income from measurement of financial instruments			
Available-for-sale financial assets		16	48
Income tax related to available-for-sale financial assets		(3)	(9)
Cash flow hedging instruments		263	(355)
Income tax related to cash flow hedging instruments		(50)	67
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met		**226**	**(249)**
Other comprehensive income, which will not be reclassified to profit or loss			
Actuarial gains/(losses)		63	(201)
Income tax related to actuarial gains/(losses)		(12)	38
Total other comprehensive income, which will not be reclassified to profit or loss		**51**	**(163)**
Other comprehensive net income for the financial period	15	**277**	**(412)**
TOTAL COMPREHENSIVE INCOME		**3 335**	**4 456**

The accounting policies and other explanatory information presented on pages 8 to 103 represent an integral part of these financial statements

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

Statement of changes in equity

	Note	Share capital	Revaluation reserve from measurement of financial instruments	Actuarial gains/losses on post-employment benefits	Retained earnings	Total equity
At 1 January 2013 restated*		**2 000**	**286**	**(519)**	**20 156**	**21 923**
Dividends from profit for 2012 – resolved and paid	31	-	-	-	(1 960)	**(1 960)**
Offsetting of profit from prior years with actuarial gains and losses	15	-	-	356	(356)	-
Total comprehensive income		-	226	51	3 058	**3 335**
Profit for the period	15	-	-	-	3 058	**3 058**
Other comprehensive income	15	-	226	51	-	**277**
At 31 December 2013		**2 000**	**512**	**(112)**	**20 898**	**23 298**
At 1 January 2012		**2 000**	**535**	**-**	**20 600**	**23 135**
Change in presentation principles		-	-	(356)	356	-
At 1 January 2012 restated*		**2 000**	**535**	**(356)**	**20 956**	**23 135**
Dividends from profit for 2011 - resolved and paid		-	-	-	(5 668)	**(5 668)**
Total comprehensive income		-	(249)	(163)	4 868	**4 456**
Profit for the period	15	-	-	-	4 868	**4 868**
Other comprehensive income	15	-	(249)	(163)	-	**(412)**
At 31 December 2012 restated*		**2 000**	**286**	**(519)**	**20 156**	**21 923**

* explanation in note 2.1.2

The accounting policies and other explanatory information presented on pages 8 to 103 represent an integral part of these financial statements

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

Statement of cash flows

	Note	For the period from 1 January 2013 to 31 December 2013	from 1 January 2012 to 31 December 2012
Cash flow from operating activities			
Profit for the period	15	3 058	4 868
Total adjustments to profit for the period:		2 106	2 583
Income tax recognised in profit or loss		1 138	1 549
Amortisation/Depreciation		768	772
Losses on sale of property, plant and equipment and intangible assets		34	-
Losses on sale of a subsidiary		2	-
Impairment loss recognised		95	185
Impairment loss reversed		(47)	185
Interest and share in profits (dividends)		(40)	(58)
Foreign exchange losses		3	856
Change in provisions	32	(14)	70
Change in assets/liabilities due to derivatives		791	(2)
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives		(450)	(333)
Other adjustments		-	4
Changes in working capital:		(174)	(460)
Inventories		560	(636)
Trade and other receivables	32	(777)	(180)
Trade and other payables	32	43	356
Income tax paid		(1 374)	(2 748)
Net cash generated from operating activities		**3 790**	**4 703**
Cash flow from investing activities			
Purchase of shares and investment certificates in subsidiaries		(129)	(9 604)
Proceeds from sale and liquidation of shares in subsidiaries		48	-
Purchase of interest in joint ventures		-	(33)
Purchase of property, plant and equipment and intangible assets		(2 174)	(1 647)
Advances granted for purchase of property, plant and equipment and intangible assets		(84)	(93)
Proceeds from sale of property, plant and equipment and intangible assets	32	33	16
Purchase of financial assets from mine closure fund and tailing storage facilities restoration fund		(38)	(27)
Loans granted		(239)	(8)
Repayments of loans granted		13	5
Interest received		2	3
Dividends received		36	57
Other investment expenses		(15)	(4)
Net cash used in investing activities		**(2 547)**	**(11 335)**
Cash flow from financing activities			
Proceeds from bank loans		1 546	1 039
Repayments of bank loans		(1 409)	-
Dividends paid	15	(1 960)	(5 668)
Other financial proceeds/(expenses)		(1)	10
Net cash used in financing activities		**(1 824)**	**(4 619)**
Total net cash flow		**(581)**	**(11 251)**
Exchange losses on cash and cash equivalents		(3)	(878)
Movements in cash and cash equivalents		**(584)**	**(12 129)**
Cash and cash equivalents at beginning of the period	13	**707**	**12 836**
Cash and cash equivalents at end of the period	13	**123**	**707**
including restricted cash and cash equivalents		-	1

The accounting policies and other explanatory information presented on pages 8 to 103 represent an integral part of these financial statements

Accounting policies and other explanatory information

1. General information

Company name, registered office, business activities

KGHM Polska Miedź S.A. (the "Company") with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a joint stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, operating on the territory of the Republic of Poland. The Company was assigned a tax identification number (NIP) 692-000-00-13 and a statistical REGON number 390021764. KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 divisions: 3 mines (Lubin Mine Division, Polkowice-Sieroszowice Mine Division, Rudna Mine Division), 3 metallurgical plants (Głogów Smelter Division, Legnica Smelter Division, the Cedynia Wire Rod Division), the Concentrator Division, the Tailings Division, the Mine-Smelter Emergency Rescue Division and the Data Center Division.
By a resolution of the Management Board of KGHM Polska Miedź S.A., from 1 July 2013 the name „KGHM Polska Miedź S.A. Head Office" was changed to „KGHM Polska Miedź S.A. Central Office".

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

The principal activities of the Company comprise:
- mining of copper and non-ferrous metals ore,
- excavation of gravel and sand,
- production of copper, precious and non-ferrous metals,
- production of salt,
- casting of light and non-ferrous metals,
- forging, pressing, stamping and roll forming of metal - powder metallurgy,
- waste management,
- wholesale based on direct or contractual payments,
- warehousing and storage of merchandise,
- holding management activities,
- geological and exploratory activities,
- general construction activities with respect to mining and production facilities,
- generation and distribution of electricity, steam and hot water, production of gas and distribution of gaseous fuels through a supply network,
- scheduled and non-scheduled air transport, and
- telecommunication and IT services.

Going concern assumption

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

The activities of KGHM Polska Miedź S.A. involving the mining of the copper ore deposit were based on concessions held by the Company which were issued by the Minister of Environmental Protection, Natural Resources and Forestry and the Minister of the Environment in the years 1993-2004, most of which expired by December 2013. The concessions which expired on 31 December 2013 covered the following deposits: „Polkowice", „Sieroszowice", „Lubin-Małomice", „Rudna". The concession covering the „Radwanice-Wschód" deposit would have expired in 2015.
In view of the above, in 2010 the Company commenced the project CONCESSIONS 2013, whose goal was to obtain concessions for the extraction of copper ore from the aforementioned mining areas for the maximum possible period provided for by law, which is 50 years.
On the basis of undertaken action, on 14 August 2013 the Minister of the Environment issued three concession decisions for the extraction of copper ore from the deposits: „Polkowice", „Radwanice-Wschód" and „Rudna". On the same day three agreements were also signed regarding the granting of mining usufruct rights to the concessions in question and a decision was issued terminating the existing concession for the extraction of copper ore from the deposit „Radwanice-Wschód".
Two other concessions – for the deposits „Lubin-Małomice" and „Sieroszowice" – were issued by the Minister of the Environment on 12 September 2013. Also signed were two agreements regarding the granting of mining usufruct rights to these deposits.
In October 2013 Mine Operating Plans for three mines were submitted for approval by the District Mining Office: Polkowice-Sieroszowice, Rudna and Lubin. Within the deadline, i.e. 31 December 2013, the mining supervisory body approved all three Mine Operating Plans.

1. General information (continued)

The Company has continued basic operations based on the new concessions, new mining usufruct agreements and new operating plans. The concessions and mining usufruct agreements for all five deposits are in force to 31 December 2063 and the mining operating plans for three mines are approved for the years from 2014 to 2016 (to 31 December 2016).

Period of operation

KGHM Polska Miedź S.A. has been conducting its business since 12 September 1991. The Company has an unlimited period of operation.
The legal antecedent of KGHM Polska Miedź S.A. was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin transformed into a State-owned joint stock company in accordance with principles set forth in the law dated 13 July 1990 on the privatisation of State-owned enterprises.

Management Board

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

On 2 September 2013 the Supervisory Board dismissed Włodzimierz Kiciński from the function of I Vice President of the Management Board of KGHM Polska Miedź S.A. and Adam Sawicki from the function of Vice President of the Management Board (Corporate Affairs) and accepted the resignation of Dorota Włoch from the function of Vice President of the Management Board (Development).

On 2 September 2013 the Supervisory Board appointed the following persons:

- Jarosław Romanowski to the function of I Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A.
- Marcin Chmielewski to the function of Vice President of the Management Board (Corporate Affairs) of KGHM Polska Miedź S.A.;
- Jacek Kardela to the function of Vice President of the Management Board (Development) of KGHM Polska Miedź S.A.

From 2 September 2013 to 31 December 2013 the composition of the Management Board was as follows:

- Herbert Wirth — President of the Management Board
- Jarosław Romanowski — I Vice President of the Management Board (Finance)
- Marcin Chmielewski — Vice President of the Management Board (Corporate Affairs)
- Jacek Kardela — Vice President of the Management Board (Development)
- Wojciech Kędzia — Vice President of the Management Board (Production)

As at the date of signing these financial statements there were no changes in the composition of the Management Board.

Supervisory Board

As at 1 January 2013 the composition of the 8th-term Supervisory Board was as follows:

- Aleksandra Magaczewska — Chairman
- 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 19 June 2013 the General Meeting resolved to:

- dismiss from the Supervisory Board: Dariusz Krawczyk, Ireneusz Piecuch;
- appoint to the Supervisory Board: Andrzej Kidyba, Marek Panfil and Iwona Zatorska – Pańtak
  On 27 November 2013 the mandate of Supervisory Board member Krzysztof Opawski expired due to force majeure.

1. General information (continued)

As at 31 December 2013 the composition of the Supervisory Board was as follows:

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

as well as the following employee-elected member:

- Bogusław Szarek

As at the date of signing these financial statements there were no changes in the composition of the Supervisory Board.

Authorisation of the annual financial statements (financial statements)

These financial statements were authorised for issue and signed by the Management Board of the Company on 24 March 2014.

Seasonal or cyclical activities

The Company is not affected by seasonal or cyclical activities.

2. Main accounting policies

2.1 Basis of preparing financial statements

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

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

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

2.1.1 New standards

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

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

The above changes to the standards have been approved for use by the European Union up to the date of publication of these financial statements. The Company has applied the above standards and changes to standards beginning on 1 January 2013, in accordance with the transition rules included therein, and therefore application of the new and changed standards did not have a significant impact on the financial statements in this scope of disclosure.

The following standards, binding from 1 January 2013, were applied by the Company earlier for purposes of preparing the financial statements for the financial year ending at 31 December 2012:

- Amendments to IAS 12 Income Taxes - Deferred Tax: Recovery of Underlying Assets;,
- Amendments to IAS 1 Presentation of Financial Statements – Presentation of items of Other Comprehensive Income,
- Amended IAS 19 Employee benefits.

2. Main accounting policies (continued)

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

IFRS 10 Consolidated Financial Statements - the new standard supersedes SIC 12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* with regard to consolidated financial statements. The Standard unifies the definition of control and establishes its revised concept as the deciding factor in whether an entity should be consolidated.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014, and its application by the Company will not result in changes in the status of subsidiaries of KGHM Polska Miedź S.A.

IFRS 11 Joint Arrangements - the new standard supersedes IAS 31 *Interests In Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. The new standard describes two types of joint arrangements: joint operations and joint ventures. The type of joint arrangement is determined based on analysis of the rights and obligations of the parties resulting primarily from the structure and legal form of the joint arrangement. If the contractual terms grant the parties the right to the assets of the joint arrangement as well as obligations for the liabilities relating to the arrangement, then we identify the joint arrangement as a joint operation.
If however the terms of the arrangement grant the parties the right to the net assets of the joint arrangement, then we identify the joint arrangement as a joint venture, which the parties account for their respective investment using the equity method.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014. These changes do not cause changes in recognition and measurement of joint arrangements in which the Company is currently a party.

IFRS 12 Disclosure of Interests in Other Entities - this standard concerns the financial statements of entities having interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities.
The new standard combines the disclosure requirements regarding interests in other entities which are currently described in IAS 27, IAS 28 and IAS 31, introducing coherence and completeness in disclosures, and also expanding their scope.

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

IAS 27 Separate Financial Statements - the amended IAS 27 *Separate Financial Statements*, supersedes the existing IAS 27 *Consolidated and Separate Financial Statements* in the part involving separate financial statements. The existing scope of IAS 27 was divided between IFRS 10 *Consolidated Financial Statements* and IAS 27, which will only deal with separate financial statements. Likewise, the requirements regarding separate financial statements set forth in IAS 28 and IAS 31 were transferred to the amended IAS 27.

This standard will be effective in the European Union for annual periods beginning on or after 1 January 2014 and will not affect the financial statements of the Company.

IAS 28 Investments in Associates and Joint Ventures - the amended IAS 28 *Investments in Associates and Joint Ventures*, which superseded the existing IAS 28 *Investments in Associates.* The IASB decided to include accounting for joint ventures within the scope of the amended IAS 28, as the new standard IFRS 11 *Joint Arrangements* will only allow for the measurement of interests in joint ventures using the equity method. Although the amended standard introduces no changes in the methodology of measurement using the equity method, it no longer contains requirements concerning disclosures, as these were included in IFRS 12.

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

2. Main accounting policies (continued)

Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities. – this document is an amendment to IAS 32. The Board supplemented the Application Guidance accompanying the standard with respect to the conditions for offsetting and presenting financial assets and liabilities in a net amount in the statement of financial position

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

Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance – this document is an amendment aimed at easing principles for the full retrospective application of new IFRSs.

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

Investment Entities – changes to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements - the requirement was introduced to IFRS 10 for investment entities to measure their subsidiaries at fair value through profit or loss, instead of through their consolidation. Meanwhile in IAS 27, consequent to the changes in IFRS 10, the possibility of allowing investment entities to decide whether an investment in a particular subsidiary will be measured at cost or at fair value in their separate financial statements was removed.

These amendments will be effective for annual periods beginning on or after 1 January 2014 and will not affect the Company's financial statements.

Amendments to IAS 36 Impairment of Assets expand the scope of disclosures related to impairment. In accordance with these amendments, if during a given reporting period an entity recognises or reverses an impairment allowance, it should additionally disclose the recoverable amount and indicate whether it was set at fair value less selling costs or was based on value in use. If the recoverable amount is equal to fair value, then the entity is required to disclose additional information regarding the levels of fair value hierarchy.
The amendments to IAS 36 will be effective for annual periods beginning on or after 1 January 2014.

Amendments to IAS 39 Financial Instruments: Recognition and Measurement titled Novation of Derivatives and Continuation of Hedge Accounting -the goal of these amendments is to introduce simplification in a situation in which a derivative designated by an entity as a hedging instrument is novated from one counterparty to a central counterparty as a consequence of compliance with the law in force or implementing of new statutory regulations.

The amendments to IAS 39 will be effective for annual periods beginning on or after 1 January 2014 and will not affect the Company's financial statements, as the Company does not foresee the necessity to utilise the possibilities described in IAS 39 involving the novation in whole or part of a transaction to a third entity, known as a settlement counterparty or a central counterparty.

2. Main accounting policies (continued)

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

IFRS 9 Financial instruments (2009)- The new standard supersedes guidelines contained in IAS 39 *Financial Instruments: Recognition and Measurement* regarding the principles for classifying and measuring financial assets. This standard simplifies the principles for classifying financial assets, introducing only two categories: assets measured at fair value, and assets measured at amortised cost. This classification, at initial recognition, should result from the business model adopted by the entity for managing the assets and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets, their reclassification and the recognition of profits and losses arising from these assets.

On 28 October 2010, the International Accounting Standards Board reissued IFRS 9 **Financial Instruments (2010).** To IFRS 9 the Board added requirements regarding the classification and measurement of financial liabilities, the majority of which were transferred to the new standard directly from IAS 39.

The standard requires that any change in fair value, in that part concerning a change in credit risk of a financial liability initially recognised as measured at fair value through profit or loss, be presented in other comprehensive income. The fixed part of profit or loss due to measurement to fair value is recognised in profit or loss of the current period.

On 20 November 2013 the International Accounting Standards Board published for the third time amendments to IFRS 9 *Financial Instruments,* titled *Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39,* as part of the continued project to replace IAS 39 with IFRS 9. In this document, chapter 6 was added regarding hedge accounting and improvements to previously published portions of IFRS 9 and to IFRS 7 and IAS 39 were introduced, updating in them references between standards and adapting the scope of disclosures from IFRS 7 to the amended IFRS 9. In this document the IASB also repealed IFRIC 9 and IFRS 9 in the versions published in 2009 and 2010.

In November 2013 the International Accounting Standards Board, in its published amendments to IFRS 9, eliminated the obligatory date for introducing this standard (i.e. 1 January 2015, published by the IASB on 16 December 2011 in a document titled *Mandatory Effective Date and Transition Disclosures,* as amendments to IFRS 9 and IFRS 7) and declared that an obligatory application date would be set once the completed version of IFRS 9 was published. The IASB also allowed the immediate application of the Standard in the version chosen by an entity, from among the following variants of IFRS 9:

- with respect to own credit risk and in respect to classification and measurement of financial liabilities - IFRS 9 (2010),
- with respect to the classification and measurement of financial assets IFRS 9 (2009), or
- under the full scope of IFRS 9 in the version published in November 2013, i.e. together with hedge accounting, in which case IFRS 9 must be applied retrospectively, and only hedge accounting prospectively.

As at the date of publication of these financial statements the European Union has not approved any part of this standard. There has been no official information as to the future date of approval of IFRS 9 by the EU.

Due to the very broad scope of changes in IFRS 9 versus IAS 39, a cautious and comprehensive approach is required to evaluate the impact of such a decision on the financial statements of the Company. Not without significance to estimate the impact of changes on the financial statements is the intention of the Board to publish subsequent parts of IFRS 9 with respect to impairment and macrohedging, which additionally increases uncertainty in the estimation of the future effects of implementation of IFRS 9

Currently the Company is analysing the impact of the new standard and its amendments on the separate financial statements.

IFRIC 21 Levies. These Interpretations provide guidance as to the moment of arising of the obligation to recognise in the accounts a liability for a levy imposed by a government, other than those currently covered by IFRS, e.g. IAS 12 *Income Taxes*. In certain jurisdictions, regulations regarding specific levies indicate a relationship between the arising of a liability to pay taxes and the occurance of specific events. As these regulations are of a very complex nature, it was not always clear for entities as to the proper moment to recognise the liability in the accounts. According to the new interpretations the obligating event for the recognition of a liability to pay a levy imposed by a government is the activity that directly triggers such an obligation. If for example the obligation to pay a levy depends on gaining revenues in a given period, then the

2. Main accounting policies (continued)

obligating event for recognising the liability is the generation of revenues in the current period. As the Interpretations Committee indicated, an entity is not usually obligated to pay a liability due to its future operations, despite the fact that the entity does not have the real possibility to cease its operations in the future. It was emphasised that the obligation to pay a levy should be recognised progressively, if the obligating event occurs over a period of time.

IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. Beginning from this moment, the Company applies IFRIC 21 in the recognition of fees due to mining usufruct, which were set for a period of 50 years, i.e. from 1 January 2014 to 31 December 2063 with respect to recognition of the fixed and variable parts of remuneration payable to the State Treasury.

According to the terms of the signed agreement, beginning from 1 January 2014 the Company recognises liabilities in the amount of PLN 144 million, at the discounted amount of the fixed fee for the life of the agreement, and simultaneously recognises intangible assets due to the acquired right to extract ore.
Liabilities due to the variable part of the fee will be computed at the amount of 30% of the mining fee and charged to costs of the current period, reflecting the current update of the mining fee respectively to the amount extracted. As the obligating event for recognising the liability due to the variable payment to the State Treasury is actual extraction, the liability will be recognised progressively over subsequent reporting periods. The Company estimates that in 2014 profit will be decreased in this regard in the amount of PLN 30 million. The application of IFRIC 21 will not affect the application of existing principles for recognising other levies.

Annual Improvements to IFRS, 2010-2012 Cycle. As a result of a review of IFRS the following minor amendments were made to 7 standards:
- in IFRS 2 *Share-based Payment* the definitions of „vesting condition” and „market condition” were adjusted and two new definitions were introduced: „performance condition” and „service condition”.
- in IFRS 3 *Business Combinations it* was clarified that recognition of a contingent consideration which meets the definition of a financial liability shall be measured to fair value at the end of the reporting period, and the result of measurement shall be recognised in the Statement of profit or loss,
- IFRS 8 *Operating Segments* introduces among others requirements to disclose the judgements made by management in applying the aggregation criteria to operating segments, as mentioned in para. 12 IFRS 8, along with a brief description of these segments and the measures used to indicate the common economic traits of the segments aggregated on this basis,
- in IFRS 13 *Fair Value Measurement* amendments are introduced to the Basis of Conclusions for IFRS 13, clarifying that the removal of paragraph B5.4.12 from IFRS 9 and AG79 from IAS 39 should not be intrepreted as an intention by the IASB to remove the ability to measure short-term trade receivables and payables measured at their nominal invoiced amounts as is currently the case,
- in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* information is clarified on the manner of adjusting carrying amount and the depreciation of property, plant and equipment measured at the end of subsequent reporting periods,
- in IAS 24 *Related Party Disclosures* a clause was added clarifying the definition of relations between related entities.

These amendments will be effective for annual periods beginning on or after 1 January 2014, and the Company will apply them starting with the annual period beginning on 1 January 2015. The Company believes that the above amendments will have an impact on additional disclosures from IFRS 8 Operating Segments

Annual Improvements to IFRSs, 2011-2013 Cycle. As a result of a review of IFRS the following minor amendments were made to the following standards:
- IFRS 1 *First-time Adoption of International Financial Reporting Standards,*
- IFRS 3 *Business Combinations,*
- IFRS 13 *Fair Value Measurement,*
- IAS 40 *Investment Property*

These amendments will be effective for annual periods beginning on or after 1 July 2014, and the Company will apply them starting with the annual period beginning on 1 January 2015. These amendments will not affect the consolidated financial statements of the Company.

IFRS 14 Regulatory Deferral Accounts. In IFRS 14 the IASB introduced the requirement to present separately in the financial statements amounts arising due to the providing of goods or services by an entity, for which prices or rates are subject to price/rate regulation and to separate deferred recognition.

The new standard will be effective for annual periods beginning on or after 1 January 2016 and will not affect the financial statements of the Company.

2. Main accounting policies (continued)

2.1.2 Changes in accounting policies

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

Changes in the principles of presentation concerned :

1. Changes in the principles of presentation of equity items. Taking into consideration the nature of individual items of equity and the transparency of the financial data presented, the following actions were performed:
   - in the statement of financial position the equity item „Actuarial gains/losses on post-employment benefits" was separated from „Retained earnings",
   - the combination in the statement of financial position of homogenous items of equity, i.e. "Revaluation reserve from the measurement of available-for-sale financial assets" and "Revaluation reserve from the measurement of cash flow hedging instruments", into a single item - "Revaluation reserve from the measurement of financial instruments".
2. In the statement of financial position, under non-current assets, the name of the item „Mine closure financial assets" to „Financial assets for mine closure and restoration of tailings storage facilities". This change was due to to the creation of a Tailings Storage Facilities Restoration Fund by the Company, in accordance with article 137 section 2 of the Waste Act from 14 December 2012 (Journal of laws 2013.21).

2.2 Accounting policies

2.2.1 Property, plant and equipment

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

The most important property, plant and equipment of the Company is property, plant and equipment related to the mining and metallurgical operations, comprised of land, buildings, water and civil engineering structures, mining infrastructure (shafts, wells, galleries, drifts, primary chambers) as well as machines, technical equipment, motor vehicles and other movable fixed assets.
Upon initial recognition, items of property, plant and equipment are measured at cost.

Borrowing costs incurred for the purchase or construction of a qualifying item of the property, plant and equipment are recognised in the cost.

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

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

2. Main accounting policies (continued)

As at the end of the reporting period, items of property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses (detailed description in note 2.2.3).

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

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

The useful lives, and therefore the depreciation rates of fixed assets used in the production of copper, are adapted to the plans for the closure of operations.

For individual groups of fixed assets, the following useful lives have been adopted:
- buildings and civil engineering objects: 25 - 60 years,
- technical equipment and machines: 4 - 15 years,
- motor vehicles: 3 - 14 years,
- other property, plant and equipment, including tools and instruments: 5 – 10 years.

In addition, the Company performs regular reviews of its property, plant and equipment in terms of the adequacy of applied useful lives to current operating conditions. The results of the review performed in 2013 of depreciation rates are presented in this report in note 3 point a.

Depreciation begins when an item of fixed assets is available for use. Depreciation ceases at the earlier of the two dates: when the asset is classified as held for sale (or included as part of a disposal group which is classified as held for sale) in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* or when it is derecognised upon disposal or retirement.

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

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

Specialised spare parts and spare equipment with a significant initial cost and an anticipated useful life of more than 1 year are recognised as an item of property, plant and equipment. Other spare parts and servicing-related equipment with an insignificant cost are recognised as inventories and accounted for in profit or loss at the moment they are used.
A fixed asset is derecognised when it is sold, decommissioned or if no future economic benefits are expected to be derived from its use or disposal.

2.2.2 Intangible assets

Intangible assets include:
- development costs,
- software,
- acquired concessions, licenses, patents,
- other intangible assets (including CO_2 emissions allowances),
- exploration and evaluation assets (intangible assets not yet available for use), and
- other intangible assets not yet available for use (under construction).

On initial recognition, intangible assets are measured at cost.

Any borrowing costs incurred for the purchase or construction of a qualifying item of intangible assets are recognised in the cost.

2. Main accounting policies (continued)

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

Exchange differences which arise from liabilities in a foreign currency which are related to the acquisition or construction of an item of intangible assets are recognised in profit or loss in the period in which they are incurred.
At the end of the reporting period intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (detailed description in note 2.2.3).

Intangible assets are amortised using the straight-line method over their anticipated useful lives, which for individual groups of intangible assets are as follows:
- development costs – 5 – 15 years,
- software – 2 – 5 years,
- concessions, patents, licenses and mining usufruct – 5 -50 years,
- other intangible assets, including rights to geological information – 50 years.

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

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

Exploration and evaluation assets

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

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

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

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

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

The following expenditures are classified as exploration and evaluation assets:
- work on geological projects,
- obtaining environmental decisions,
- obtaining concessions and mining usufruct for geological exploration,
- work related to drilling (drilling; geophysical and hydrogeological research; geological, analytical and geotechnical services; etc.),
- the purchase of government geological information,
- the execution of geological documentation and its confirmation,
- the execution of economic and technical assessments of resources for the purpose of making decisions on the application for mine operating concessions,
- equipment usage costs (property, plant and equipment) used in exploratory work.

For the purpose of impairment testing the Company assigned exploration and evaluation assets to cash generating units, which are single projects realised by the Company.

2. Main accounting policies (continued)

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

2.2.3 Impairment of non-financial assets

Intangible assets not yet available for use, are not amortised, but are tested annually for impairment. Impairment losses on non-current exploration and evaluation assets are recognised prior to reclassification from intangible assets not yet available for use to intangible assets or to property, plant and equipment, depending on the nature of incurred expenditures.
A depreciable non-financial asset is tested for impairment whenever an event or change in circumstances indicates that there is a risk that its carrying amount may not be recoverable. Amongst the fundamental and most important external indications of possible impairment are the continuation over the long term of a situation in which the carrying amount of Company net assets exceeds their market value, as well as unfavourable technical, market and economic changes to the environment in which the Company operates, including on the destination markets for the Company's products. Another possible indication of impairment may be an increase in market interest rates and premiums for risk reflected in calculations of the discount rates used to calculate the value in use of Company assets.

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

For the purpose of impairment assessment, assets are grouped at the lowest level at which they generate cash inflows that are largely independent of those from other assets (cash generating units) however cash-generating units are determined separately each time an impairment test is to be performed.
If an impairment test indicates that the recoverable amount (i.e. the higher of the asset's fair value less costs to sell and its value in use) of a given asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised as the difference between the recoverable amount and the carrying amount of a given asset or cash-generating unit. Any impairment loss is allocated to assets within the cash-generating units proportionally to their share of the carrying amount of the entire unit. If such allocation is made, the carrying amount of the asset may not be lower than the highest of the following amounts: fair value less costs to sell, value in use and zero.

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

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

2.2.4 Investments in subsidiaries and joint ventures

Subsidiaries

In the financial statements, investments in subsidiaries which are not classified as held for sale in accordance with IFRS 5 are recognised at cost, plus any granted non-returnable payments, including for the coverage of losses shown in the financial statements of a subsidiary, less any impairment losses, in accordance with IAS 36, *Impairment of Assets*, where impairment losses are measured by comparing their carrying amount with the higher of the following amounts:
- fair value, less costs to sell, and
- value in use.

2. Main accounting policies (continued)

Joint Ventures

In the Company's financial statements, the interests in the joint venture, which are not classified as available for sale under IFRS 5, are measured at cost plus any granted non-returnable payments, including for the coverage of losses shown in the financial statements of a joint venture less any impairment losses in accordance with IAS 36 *Impairment of Assets,* where impairment losses are measured by comparing their carrying amount with the higher of the following amounts:
- fair value, less costs to sell, and
- value in use.

2.2.5 Acquisition of newly-issued shares in the increased share capital

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

2.2.6 Financial Instruments

2.2.6.1 Classification of financial instruments

Financial instruments are classified into one of the following categories:

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

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

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

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

<u>Financial assets and liabilities measured at fair value through profit or loss</u>

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

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

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

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

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

2. Main accounting policies (continued)

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

Loans and receivables

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

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

Cash and cash equivalents, financial assets for mine closure and restoration of tailings storage facilities are classified as loans and receivables. In the statement of financial position cash and cash equivalents, financial assets for mine closure and restoration of tailings storage facilities are separate items.

Available-for-sale financial assets

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

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

Other financial liabilities

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

Hedging instruments

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

2.2.6.2. Initial measurement and derecognition of financial instruments

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

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

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

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

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

2. Main accounting policies (continued)

Gains and losses on a financial asset which are classified as available-for-sale are recognised in other comprehensive income, except for impairment losses and exchange gains or losses on monetary assets and gains or losses on interest which would be recognised at the measurement of these items using amortised cost and applying the effective interest rate, and which are recognised in profit or loss. When an available-for-sale financial asset is derecognised, the total cumulative gains and losses which had been recognised in other comprehensive income are reclassified to profit or loss as an adjustment from reclassification.
The disposal of investments of the same type but with a different cost basis is accounted for using the FIFO method.

Loans and receivables

Loans and receivables are measured at amortised cost using the effective interest rate method.

Other financial liabilities

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

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition.
- financial guarantee agreements, measured at the higher of two amounts: the amount determined in accordance with note 2.2.14 Provisions, or the amount initially recognised less cumulative amortisation recognised according to IAS 18 Revenue.

2.2.6.4. Fair value

The fair value of an asset or liability is the price at which the asset could be sold or the price which would be paid to transfer the liability (exit price) in an arm's-length transaction between market participants at the measurement date. Fair value is considered to be the purchase price of a financial instrument or, in case of financial liabilities, the sales price of an instrument, unless there are any indicators that a financial instrument was not purchased at fair value.

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

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

2.2.6.5. Impairment of financial assets

At the end of each reporting period an assessment is made of whether there is objective evidence that a financial asset or a group of financial assets is impaired. The following are considered significant objective indicators (evidence of impairment): significant financial difficulty of the debtor, legal action being taken against the debtor, the disappearance of an active market for a given financial instrument, the occurrence of significant

2. Main accounting policies (continued)

unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the continuing substantial decrease or prolonged decrease of the fair value of an equity instrument below its cost.
In the case of equity instruments measured at fair value and classified as available-for-sale financial assets, the Company recognises an impairment loss, if the decrease in the fair value of the financial equity instrument below its cost is prolonged for a period of at least 12 months or if the decrease in the fair value versus the cost of the financial equity instrument amounts to at least 20 percent.
If any such evidence exists, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and reclassified to profit or loss as an adjustment from reclassification.
Impairment losses on equity instruments recognised in profit or loss shall be reversed through other comprehensive income. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.
If evidence of potential impairment of loans and receivables or of held-to-maturity investments measured at amortised cost exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate calculated at the initial recognition for fixed interest rate assets, and the effective interest rate computed at the last revaluation for floating interest rate assets). Any impairment loss is recognised in profit or loss.
Receivables and loans, as well as held–to-maturity investments which are measured at amortised cost, are individually tested for impairment at the end of each reporting period. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets' portfolio). Due to the nature of the sales of KGHM Polska Miedź S.A. and a restrictive policy towards credit risk, the Company analyses receivables primarily on an individual basis (regardless of their significance) in terms of the existence of impairment indicators and recognition of impairment allowances.

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

2.2.6.6. Hedge accounting

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

The Company uses hedge accounting for cash flow hedges.

<u>Derivatives used in cash flow hedges</u>

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

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

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

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

2. Main accounting policies (continued)

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

The designated hedges relate to the future transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Company estimates that the probability of these transactions occurring is very high, as from a historical point of view, sales were always realised at the levels assumed in Sales Plans.
When entering into transactions, the Company documents the relationship between hedging instruments and the hedged items, as well as the objective of entering into a particular transaction. The Company also documents its assessment, both at the date of inception of the hedge as well as on an on-going basis, of whether the hedging instruments are and will be highly effective in offsetting changes in the cash flows of the hedged items.

Discontinuation of hedge accounting

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

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

2.2.7 Inventories

Inventories consist of the following items:

- materials,
- half-finished products and work in progress,
- finished goods, and
- merchandise.

Inventory additions are measured in accordance with the following principles:

- materials and merchandise – at cost,
- finished goods, half-finished products – at actual manufacturing cost,
- work in progress – based on cumulative actual manufacturing costs, including the balance at the beginning of the reporting period

Inventory disposals are measured in accordance with the following principles:

- materials and merchandise – at average cost based on the weighted average cost of a given item,
- finished goods, half-finished products and work in progress – measured through the difference between the the closing balance and the value of any additions, including the balance at the beginning of the reporting period, using the weighted average cost method.

Inventories are measured in accordance with the following principles:

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

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

2.2.8 Trade and other receivables

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

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

2. Main accounting policies (continued)

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

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

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

The following are regarded as receivables:

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

2.2.9 Cash and cash equivalents

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

2.2.10 Equity

Equity in the financial statements of the Company consists of:

- share capital,
- revaluation reserve from measurement of financial instruments, of which:
  - revaluation reserve from measurement of cash flow hedging instruments,
  - revaluation reserve from measurement of available-for-sale financial assets,
- actuarial gains/losses on post employment benefits,
- retained earnings, composed of:
  - undistributed profit or unabsorbed losses from previous years,
  - reserve capital created in accordance with the Commercial Partnerships and Companies Code,
  - reserve capital created and used in accordance with the Statutes,
  - profit or loss for the period.

2.2.11 Liabilities

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

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

Liabilities are measured at amortised cost in accordance with IAS 39.
Current trade payables are recognised in the statement of financial position at their nominal value. The carrying amount of these liabilities is similar to the amount of their amortised cost, calculated using the effective interest rate.
Liabilities not classified as financial liabilities are measured at the amount due.

2.2.12 Accrued expenses

Accrued expenses are due and payable liabilities arising from goods received or services performed, or a formal agreement has been reached with the supplier, including amounts payable to employees, which are to be paid for in future periods.
Accruals include among others:

- remuneration and the related surcharges paid on a one-off basis, relating to annual periods,
- accrued taxes and local fees,
- short-term accruals for unused annual leave,

2. Main accounting policies (continued)

- provisions for costs resulting from the requirement to amortise property rights resulting from certificates of origin of energy from renewable resources and cogeneration, and
- provisions for the costs of redeeming CO_2 emissions allowances

2.2.13 Deferred income

Deferred income includes mainly cash received to finance the purchase or construction of fixed assets under construction or development work, which are recognised in profit and loss on a systematic basis over the useful life of the asset, i.e. in accordance with the depreciation charges of the respective assets financed from these sources.

2.2.14 Provisions

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

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

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

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

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

- decreases due to its utilisation,
- increases due to the passage of time (unwinding of the discount) – recognition in financial costs,
- increases/decreases due to changes in assumptions, including changes in the discount rate, and changes in construction-assembly prices – recognition in the initial value of property, plant and equipment *,
- increases due to the acquisition of new assets under the future decommissioning program,
- decreases due to early, unplanned liquidation of assets under the future decommissioning program,
- increases/decreases due to changes in the time horizon of realising liabilities resulting in a decrease or increase of the number of discount periods, as well as of the present value of the provision.

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

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

2.2.15 Employee benefits

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

The amount of the liability due to these benefits is equal to the present value of the defined benefit obligation at the end of the reporting period, and reflects actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the end of the reporting period by independent actuaries using the Projected Unit Credit Method.

2. Main accounting policies (continued)

The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of the future benefits payments, with maturities similar to those of the liabilities due to be paid. According to IAS 19 *Employee Benefits*, the discount rate should be based on the market yields of highly liquid commercial bonds with low risk. Should there be no developed market for such bonds, and such a situation does exist in Poland, the market yields on government bonds at the end of the reporting period should be applied. Details on the methods of estimating discount rates are discussed in note 3(f).
Actuarial gains and losses from the measurement of specified benefits programs following the period of employment are recognised in other comprehensive income in the period in which they arose. Actuarial gains/losses from other benefits, (for example benefits due to jubilee bonuses) are recognised in profit or loss. Costs of past employment related to defined benefit plans, are recognised in profit or loss once in the period in which they arose.

2.2.16 Income tax

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

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

Deferred tax is determined using tax rates and laws that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.
A deferred tax liability is recognised for taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. This liability is not discounted.
A deferred tax asset is recognised for deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised if it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

Deferred tax assets and deferred tax liabilities are computed regardless of the moment of their settlement.

Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:
- is not a business combination, and
- at the time of the transaction, affects neither the accounting profit nor taxable profit.

Deferred tax is recognised in profit or loss for a given period, unless the deferred tax:
- arises from transactions or events which are directly recognised in other comprehensive income – in which case the deferred tax is also recognised in the appropriate other comprehensive income, or
- arises from a business combination – in which case the deferred tax affects goodwill or gain on a bargain purchase.

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

2.2.17 Contingent liabilities and assets

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or

b) a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
- the amount of the obligation (liability) cannot be measured with sufficient reliability

2. Main accounting policies (continued)

The Company recognises as a contingent asset amounts arising from past events, which with a defined probability may in future have an impact on resources embodying economic benefits, in case of the occurance or non-occurance of uncertain future events which are not wholly within the control of the entity. The Company recognises as contingent assets among others claims being pursued, the amounts of guarantees received and promissory notes receivables.

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

2.2.18 Presentation of income and costs in the reporting period

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

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

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

Consequently, in the group of items which, under other IFRS, will be reclassified to profit or loss when specified conditions are met, the following are recognised:
- gains and losses of the period regarding the fair value measurement of available-for-sale financial assets,
- gains and losses from the fair value measurement of the effective portion of future cash flow hedging instruments, and including the related tax effect.

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

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

2.2.19 Revenues

Revenues from sales are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. In the case of sales for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale. Revenues from sales which are recognised at such an amount are adjusted at the end of each reporting period by any change in the fair value of embedded derivatives, which are separated from the host sales contract in accordance with the description in point 2.2.7.6.

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

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

In addition, revenue for the given reporting period which affects the profit or loss of the period includes: **other operating income,** indirectly associated with the conducted activities, i.e.:
- income and gains from financial investments,
- gains from the measurement and realisation of trading derivatives and the ineffective portion of gains from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,

2. Main accounting policies (continued)

- reversal of impairment losses on held-to–maturity investments, available-for-sale financial assets, and loans and shares in subsidiaries and associates,
- release of unused provisions, previously charged to other operating costs, and
- gains on disposal of property, plant and equipment and intangible assets,

finance income, representing mainly income related to financing of the activities of the Company, including:
- net foreign exchange gains arising exclusively on liabilities from sources of financing of the Company's activities (bank loans, finance leases etc.).

Moment of recognition of revenues
<u>Revenues from the sale of products, merchandise and materials are realised, when:</u>
- the Company has transferred to the buyer the significant risks and rewards of ownership of the merchandise, finished goods and materials,
- the Company neither retains continuing involvement in the management of merchandise, finished goods and materials sold to the extent associated with management function for inventories to which it has ownership rights, nor effective control over those items,
- the amount of revenue can be measured in a reliable manner,
- it is probable that the economic benefits associated with the transaction will flow to the Company, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

<u>Revenues from the sale of services are realised, when:</u>
- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Company,
- the stage of completion of the transaction at the end of the reporting period can be measured reliably, and
- the costs connected with the transaction and the costs to complete the transaction can be measured reliably.

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

<u>Interest income</u> is recognised on an accrual basis, using the effective interest method.
<u>Income from dividends</u> is recognised when the shareholder's right is set.

2.2.20 Costs

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

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals.
In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the end of each reporting period is adjusted by any change in the fair value of embedded derivatives, which are separated from the host purchase contract in accordance with the description in point 2.2.7.6.

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

The total cost of products, merchandise and materials sold comprises:
- the manufacturing cost of products sold,
- the cost of merchandise and materials sold,
- selling costs, and
- administrative expenses.

In addition, costs for the given reporting period which affect profit or loss for the period include:
other operating costs, indirectly connected with performed activities, including in particular:
- costs and losses on financial investments,
- losses from the measurement and realisation of traded derivatives and the ineffective portion of losses arising from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,

2. Main accounting policies (continued)

- impairment losses on held-to–maturity investments, available-for-sale financial assets, loans and on shares in subsidiaries and joint ventures,
- provisions recognised for disputed issues, penalties, compensation and other costs indirectly related to operating activities,
- donations granted,
- losses on disposal of property, plant and equipment and intangible assets, and

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

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

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

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

Transactions and balances

<u>At the moment of initial recognition</u>, foreign currency transactions are translated into the functional currency:

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

<u>At the end of each reporting period:</u>

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

Foreign exchange gains or losses arising on the settlement of a foreign currency transaction, or on the measurement of foreign currency monetary assets and liabilities (other than derivatives), are recognised in the statement of profit or loss. Foreign exchange gains or losses arising on the measurement of foreign currency derivatives, are recognised in the statement of profit or loss as a fair value measurement provided they do not represent the change in the fair value of the effective cash flow hedge. In such a case they are recognised in other comprehensive income, in accordance with hedge accounting principles.
Foreign exchange gains or losses arising on non-monetary items, such as equity instruments, are recognised as an element of changes in fair value, if such instruments are measured at fair value through profit or loss, or in other comprehensive income at fair value, if such equity instruments are classified as available-for-sale financial assets.

2.2.22 Leases

The company recognised an operating lease, where the substantial part of the risks and rewards incidental to ownership of an asset is retained by the lessor. Payments under operating leases are settled using the straight line method over the life of the contract. The Company's liabilities due to operating leases not recognised in the statement of financial position, in particular with regard to payments to the State Treasury and to territorial self-government entities due to perpetual usufruct of land, as well as liabilities due to other operating lease agreements, are presented in notes 6 and 35.

2. Main accounting policies (continued)

2.2.23 Government grants

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

Grants for assets are presented in the statement of financial position as deferred income and recognised systematically as income over the periods necessary to match them with the related costs which they are intended to compensate. They are not credited directly to equity.
A grant that becomes due as compensation for expenses or losses already incurred is recognised as income of the period in which it becomes due.

Grants related to income are presented as income, separately from the related costs which the grants are intended to compensate. Grants are recognised as income regardless of whether they were received in the form of cash or as a decrease of liabilities.
Non-cash grants are accounted for at fair value. Non-cash grants related to emission allowances received free of cost by the Company are settled through the statement of profit or loss in the period they were granted.

2.2.24 Segment reporting

Segment reporting involves the grouping of segments at the level of entity components:
- that engage in business activities from which it may earn revenues and incur expenses,
- whose operating results are reviewed regularly by the entity's chief operating decision maker to use these results to make decisions about resources to be allocated and assess segment results, and
- for which discrete financial information is available.

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

2.2.25 Capital management

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

In accordance with market practice, the effective use of capital is monitored among others based on the following ratios:
1. The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets,
2. The ratio showing the relationship of borrowings and finance lease liabilities to EBITDA. EBITDA is operating profit plus depreciation/amortisation, and
3. The average weighted cost of capital ratio, calculated as the average weighted cost of equity and borrowed capital. Cost of equity is measured based on a Capital Assets Pricing Model (CAPM), which takes into account the estimated rate of return on risk-free assets, a market risk premium and systemic risk typical for the given industry or project.The average weighted cost of capital ratio reflects both the shareholders’ risk as well risk for the creditors financing the company with borrowed capital. The level of the ratio also shows the rate of return that would be possible to achieve if the capital was spent on another, alternative investment with a similar risk and is the basis for evaluating the economic effectiveness of planned investment projects.

In order to maintain financial liquidity and the creditworthiness to obtain external financing at a reasonable cost, the Company assumes that the *equity ratio* shall be maintained at a level of not less than 0.5, and the *ratio of Net Debt/EBITDA* at a level of up to 2.0. The Company assumes that in the current macroeconomic situation and given the assumed debt ratio the nominal level of the WACC ratio will not exceed 12-13 %.

2. Main accounting policies (continued)

2.2.26 Earnings per share

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

2.2.27 Statement of cash flows

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

3. Important estimates and assumptions

In preparing the financial statements, estimates are used which are 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 judgment as to the value of the item which they concern. In certain vital questions the Management Board relies on the opinions of independent experts.
Estimates and assumptions of importance for the financial statements of the Company are presented below.

(a) Useful life of property, plant and equipment

The Management Board of the Company annually reviews the residual value, depreciation methods and useful lives of depreciable property, plant and equipment. At 31 December 2013, a review of the useful lives of property, plant and equipment pursuant to the Deposit Development Project with respect to depreciation rates adopted as at 31 December 2012 caused a decrease in depreciation costs in the amount of PLN 66 million. The main reason for extending the period of use of items of property, plant and equipment was the obtaining of new mining concessions by KGHM Polska Miedź S.A., in force to 2063. The obtaining of the concessions which are valid for a period of 50 years required updating the Deposit Development Plan by applying the periods specified in the concessions, the schedule of decommissioning of mines and technological facilities and by updating the useful lives of fixed assets. The Management Board believes that the useful lives of assets applied by the Company for purposes of depreciation reflect the expected period of future economic benefits from these assets.

(b) Joint ventures (jointly controlled entities)

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

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

On 30 December 2013, an agreement was signed by KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., based on which it was decided to temporarily suspend realisation of the project to build a gas-steam block in the company "Elektrownia Blachownia Nowa" Sp. z o.o. The cause of the suspension is the current situation on the electricity and natural gas market, resulting in increased investment risk and the consequent need to review and optimise the project.
The Parties committed themselves to ensure the continued functioning of the company "Elektrownia Blachownia Nowa" Sp. z o.o. including to secure the results of the Project achieved to date and to continued monitoring of the energy market and the regulatory environment, in terms of the possibility to rapidly re-commence realisation of the project.
The Parties to the agreement resolved that a decision to re-commence realisation of the Project will be made in the form of a separate agreement, which in accordance with the expectations of the Parties to the Agreement should be signed by 31 December 2016.

In the financial statements the shares in the jointly controlled entity were measured at cost (at 31 December 2013, PLN 33 million). At the end of subsequent reporting periods they will be adjusted by any eventual impairment, through profit or loss.

(c) Embedded derivatives

At the end of each reporting period the Company analyses the materiality of the impact of separated embedded derivatives on the financial statements. Following this analysis, the Company determined that separation of these instruments at 31 December 2013 would not have a significant effect on the financial statements.

3. Important estimates and assumptions (continued)

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

As at 31 December 2013, in accordance with existing accounting policy, the Company identified impairment indicators for the investment in Tauron Polska Energia S.A., whose shares are listed on the Warsaw Stock Exchange (classified to the category of available-for-sale assets).

During the current reporting period, significant changes in the share price of Tauron caused the recognition of an impairment loss in the amount of PLN 85 million in other operating costs and a gain on measurement after a prior recognition of an impairment loss in the amount of PLN 16 million, due to an increase in share price during the reporting period compared to the end of the previous reporting period which increased other comprehensive income.

As at 31 December 2013 the carrying amount of the shares of Tauron Polska Energia S.A. was PLN 796 million (as at 31 December 2012, PLN 865 million).

(e) Impairment testing of shares in subsidiaries

In order to determine the recoverable amount of shares, the Management Board prepares an estimate of projected cash flows which are anticipated due to the continuance of investments, and of rates used to discount these cash flows to present value. In determining present value, assumptions are applied in respect of projected company financial results over the next several years, based on future events and circumstances which could differ from amounts actually achieved, and which in future reporting periods could lead to adjustments in the values of shares in subsidiaries. In the current period, due to the identification of impairment indicators, in accordance with IAS 36, the Company tested the investments in subsidiaries for impairment. The measurement was classified to level 2 of the fair value hierarchy under IFRS 13.The tests for impairment performed in the current period were with respect to:

- investment in the subsidiaries KGHM Metraco and KGHM Ecoren S.A. In the current reporting period a change in the business model, i.e. of the plan to combine the two companies, and a negative change in operating cash flows in some important functional areas, formed the basis for performing a test for impairment of the investment in these companies, whose total carrying amount as at 31 December 2013 amounted to PLN 421 million. For purposes of estimating the recoverable amount during this testing fair value measurement of this investment was made, based on the cash flows projections included in the financing plan of KGHM Metraco S.A. making use of the DCF method, i.e. the method of discounted cash flows. Key assumptions used in the measurement:

a) The new entity will continue the activities of the combined companies, in particular:
   - purchase of merchandise to meet the needs of KGHM Polska Miedź S.A. (copper scrap, sulphate liquor and reagents),
   - sale of KGHM Polska Miedź S.A. products (rock salt),
   - providing services for KGHM Polska Miedź S.A (operating the Sulphuric Acid Terminal in Szczecin),
   - management of industrial waste from KGHM Polska Miedź S.A. (processing of industrial acid waste for rhenium products, production and sale of road-building material, processing of smelting furnaces linings).

b) Cash flows assumed on the basis of the approved financial plan of KGHM Metraco S.A. (taking into consideration the combination with KGHM Ecoren S.A.).

c) Period of the cash flows projections assumed in accordance with the approved financial plan of KGHM Metraco S.A.: 2014-2020.

d) Average annual rate of revenues increase during the forecast period: 3.1%; the increase rate reflects the assumed increase in sales for particular business areas of the Company, in particular:
   - an increase in sales of copper scrap to KGHM Polska Miedź S.A., connected with the Scrap Turnover Base Project at the Legnica Smelter,
   - an increase in sales of salt due to an increase in production capacity of the Polkowice-Sieroszowice mine.

e) CAPEX during the forecast period assumed on the basis of the Company's investment budget: PLN 60 million.

f) Rate of increase applied to extrapolate the cash flows projections after the forecasted period: 1%.

g) Discount rate calculated at the level of 7.9% assuming actual macroeconomic and sector parameters for the Company.

h) Value of non-operating assets, including in particular the value of shares of CENTROZŁOM WROCŁAW S.A. and Walcownia Metali Nieżelaznych „ŁABĘDY" S.A. owned by KGHM Metraco S.A., assumed at their fair values close to their carrying amounts.

3. Important estimates and assumptions (continued)

As a result of the impairment testing performed a recoverable amount was set at the level of PLN 834 million, which exceeded the carrying amount of the investment, which did not provide the basis for recognising an impairment loss.

In accordance with International Financial Reporting Standards, analysis was performed on the sensitivity of the recoverable amount of the investment to key parameters which significantly impact the result of measurement, i.e. the discount rate and the rate of increase following the forecast period, tonnage of copper scrap supplied to the Divisions of KGHM Polska Miedź S.A., and the volume and sales price of rock salt.
For purposes of sensitivity analysis each of the above parameters was changed by 1 pp. Assuming a decrease in the rate of increase to 0.0%, the recoverable amount would be lowered to PLN 781 million. An increase in the discount rate to 9% would result in a decrease in the recoverable amount to PLN 749 million. On the other hand, decreasing the tonnage of Cu scrap supplied to the Divisions of KGHM Polska Miedź S.A., the volume or selling price of rock salt results in a decrease in the recoverable amount respectively to PLN 831 million, PLN 832 million and PLN 816 million.
Decreasing the aforementioned parameters by 1% will not result in a significant decrease in the level of EBIT. The sales price of rock salt has the most significant impact on changes in EBIT levels- its decrease by 1% results in an average decrease of EBIT by 3%.

It should be emphasized that fair value remains at a substantially higher level than the carrying amount of the combined companies, and is characterised by a relatively low sensitivity to changes in key parameters.

- investment in the subsidiary Energetyka sp. z o.o. In the current reporting period changes in the business model, which could have a negative impact on operating cash flows through changes in the scope of planned investments, granted the basis for performing a test for impairment of this company's shares, whose carrying amount as at 31 December 2013 amounted to PLN 488 million. For purposes of estimating the recoverable amount during this testing a fair value measurement of the asset was made, based on the cash flows projections included in the financing plan of this company, making use of the DCF method, i.e. the method of discounted cash flows. Key assumptions used in the measurement were as follows:

a) Calculation prepared using fixed (real) prices
b) Realisation of the investment to build a wind farm (CAPEX PLN 320 million),
c) Period of forecasted cash flows - 2014-2020,
d) EBIT rate of increase in the forecasted period 24%,
e) Recoverable amount of investment in the subsidiary WPEC S.A. PLN 201 million (block of 85.2% shares),
f) Rate of increase applied to extrapolate the cash flows projections after the forecasted period (real) – 2%,
g) Discount rate (real) – 4.62%.

The basis for the cash flows projections, comprising realisation of the investment to build a wind farm, was the plan for the years 2014-2020 approved by the Supervisory Board of the company. Taking into consideration the increase in generating potential due to realised investments and market forecasts, a rate of increase was applied to extrapolate cash flows projections. The basis for setting the discount rate were ratios in the power sector.

As a result of the impairment testing performed a recoverable amount was set of PLN 1 115 million, which exceeded the carrying amount of the investment, which did not provide the basis for recognising an impairment loss.

In accordance with International Financial Reporting Standards, analysis was performed on the sensitivity of the recoverable amount of the assets to key parameters.
Not realising the investment to build a wind farm would risk a decrease in the recoverable amount by 37%, but does not entail the risk of a decrease below the carrying amount of the investment.

Assuming a decrease in the rate of increase applied to extrapolate the cash flows projections by 1 percentage point, i.e. to 1%, the recoverable amount decreases by 34%, however by assuming an increase in the discount rate (real) by 1 percentage point i.e. to 5.62%, the recoverable amount decreases by 37%. In both of these events the recoverable amount is still higher than the carrying amount.
The recoverable value of „Energetyka" sp. z o.o. is not sensitive to a change in EBIT or to a change in the recoverable value of the investment in WPEC S.A., assuming that the remaining parameters do not change.

- investment in the subsidiary Zagłębie Lubin S.A. The reason for performing a test for impairment of this investment were losses generated by the subsidiary, which resulted in the higher carrying amount of the investment (PLN 98 million) versus the value of the net assets of Zagłębie Lubin S.A. (PLN 54 million). For purposes of estimating the recoverable amount, in the performed test the fair value of the asset was measured based on the Company's approved financial plan using the asset - based approach, i.e. the measurement method based on adjusted net assets.

During the analysis performed three of the most important assets for the value of the company were identified, which are: the stadium, rights to first league player's cards and the value of the brand.

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

3. Important estimates and assumptions (continued)

The adjusted value of the stadium was measured using the DCF method, i.e. the method of discounted cash flows. Key assumptions used to measure the stadium:
a) Period of cash flows projections – assumed in accordance with the approved financial plan of the company for the years 2014-2020
b) Assumed constant level of income in the period 2015-2020
c) Rate of increase applied to extrapolate the forecasted cash flows: 0%
d) Discount rate: 12%

The adjusted value of the rights to the first league player's cards was set assuming 50% of the value of published estimates according to the transfer website www.transfermarkt.de.

The adjusted value of the brand was estimated using the relief from royalty method.

As a result of the testing performed a recoverable amount was set for shares of Zagłebie Lubin S.A. of PLN 107 million, which exceeded the carrying amount of the investment, which did not provide the basis for recognising an impairment loss.
In accordance with International Financial Reporting Standards, analysis was performed on the sensitivity of the recoverable amount of the assets to key parameters impacting the result of measurement:
a) Stadium,
- an increase in the discount rate from 12% to 13% causes a decrease in the measurement to PLN 103 million,
- a decrease in income by 5% results in a decrease in the measurement to PLN 102 million,

b) Rights to first league player's cards - assuming 40% of the value of published estimates according to the transfer website causes a decrease in the measurement to PLN 104 million,
c) Value of the brand - a decrease in the value of the brand by 10% causes a decrease in the measurement to PLN 106 million.

The above changes, considered separately, do not cause a decrease in the recoverable amount of the Company below the carrying amount.

(f) Future employee benefits

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

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

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

Impact of changes in the indicators on the balance of liabilities

	At	
	31 December 2013	**31 December 2012**
an increase in the discount rate by 1%	(168)	(178)
a decrease in the discount rate by 1%	215	230
an increase in the coal price and salary increase rates by 1%	214	227
a decrease in the coal price and salary increase rates by 1%	(172)	(181)

A change in the actuarial assumptions as at 31 December 2013 versus the assumptions applied as at 31 December 2012 caused a decrease in employee benefits liabilities by PLN 78 million.

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

3. Important estimates and assumptions (continued)

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

These provisions represent the estimated future decommissioning costs of mines and other technological facilities discounted to present value. 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) forecasted discount rate calculated based on the yield on treasury bonds with maturities nearest to the planned financial outflow,
c) mining life in KGHM Polska Miedź S.A. in present concessions areas to 2060.

The yield on treasury bonds and the inflation rate are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year.

At 31 December 2013, these provisions were reassessed, applying a discount rate as in the model for provisions for future employee benefits (note 19).

	At	
	31 December 2013	**31 December 2012**
an increase in the discount rate by 1%	(177)	(171)
a decrease in the discount rate by 1%	265	233

Prolongation of the provision's discount periods as at 31 December 2013 using discount rate assumptions adopted to calculate the provision as at 31 December 2012 led to a decrease in the value of the provision by PLN 96 million.

An increase in the estimated costs of decommissioning technological facilities as at 31 December 2013 by 10% would increase the provision by PLN 66 million, while a decrease in the estimated costs of decommissioning technological facilities by 10% would decrease the estimated provision by PLN 40 million.

An estimated change in the amount of the provision for costs of decommissioning technological facilities as at 31 December 2013 using forecasted discount rate assumptions adopted to calculate the provision as at 31 December 2012 would increase the provision by PLN 69 million.

The program and schedule for decommissioning technological facilities of KGHM Polska Miedź S.A. and the estimation of decommissioning costs of mines and other technological facilities has been developed since 2001 in cooperation with a subsidiary – KGHM CUPRUM sp. z o.o. CBR. In 2013 the estimated costs of decommissioning of other technological facilities were reassessed. The updated program and schedule for decommissioning technological facilities was developed assuming a timeframe for realising production from the mines of KGHM Polska Miedź S.A. in current concessioned areas to the year 2060.

The planned date of decomissioning of mines and technological facilities which was developed in 2011 in cooperation with the subsidiary KGHM Cuprum Sp. z o.o. CBR in 2011, and came into force in 2012, comprised the period from 2036 to 2043, while the present study comprises the years from 2060 to 2063. This significant extension of mining life results in an increase in the amount of discount periods of the estimated provision and will result in its decrease.

(h) Contingent assets

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Such assets arise due to unplanned or unexpected events, which create the possibility of the Company receiving resources embodying economic benefits.
Contingent assets include among others:
- non-cash bid securities and security deposits received in the form of bank and insurance guarantees,
- promissory notes receivables as a security for the execution of a contract,
- claims being pursued in the courts by the Company whose outcome is uncertain.

(i) Contingent and other liabilities not recognised in the statement of financial position

1. Liabilities towards municipalities (gminas) due to signed agreements related to development of the "Żelazny Most" tailings pond which are not recognised in the statement of financial position are presented at their present value.

3. Important estimates and assumptions (continued)

2. Contingent liabilities due to implementation and inventions projects are estimated at the maximum possible payable amounts based on the calculated, anticipated effects of implementation.

3. The value of remaining contingent liabilities are set at their maximum possible payable amount based on the possible risk of the need to realise the liabilities.

(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 assets are realised or the liabilities are settled, based on tax laws that have been enacted or substantively enacted at the end of the reporting period.

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

4. Operating segments

Based on the analysis of the Company's organisational structure, the system of internal reporting and the management model, it was determined that the Company's activity represents a single operating and reporting segment, which may be defined as „Production of copper, precious metals and other smelter products".
The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to concentrators where it is enriched. As a result of this process, copper concentrate is produced, which is then supplied to the smelters. At the smelters, concentrate is smelted and fire refined into copper anodes, which is then subjected to electrolytic refining into copper cathodes. From these cathodes wire rod and round billets are produced. Anode slimes, which arise from the process of copper electrorefining, is a raw material used to produce precious metals. Lead-bearing dust which is generated from the smelting processes is used to produce lead. Nickel sulphate and copper sulphate are recovered from the processing of used electrolyte. Gases generated from the smelting furnaces are used to produce sulphuric acid. Economic use is also made of smelter slags, which are sold as road-building materials.
Settlements between further stages of the production process are at cost, and as a result the internal organisational units (mines, concentrators, smelters) in the production cycle do not show a profit from sales. The financial data which are prepared for management accounting purposes are based on the same accounting policies which are used to prepare the financial statements. The body which performs regular reviews of the internal reports for purposes of making major operational decisions is the Management Board of the Company, as the body responsible for allocating resources and for the financial results of the Company. The internal reports of the Company on its results are prepared on a monthly basis, and do not contain profits/losses on the separate stages of the production process, concentrating on an analysis of costs of their realisation.
The organisational structure of KGHM Polska Miedź S.A. includes eleven Divisions: mines, concentrators, smelters and the Central Office. The Central Office carries out sales of the Company's basic products, i.e. copper cathodes, round billets, wire rod and silver, and support functions, particularly including the management of financial assets, centralisation of finance and accounting, marketing, legal and other services.

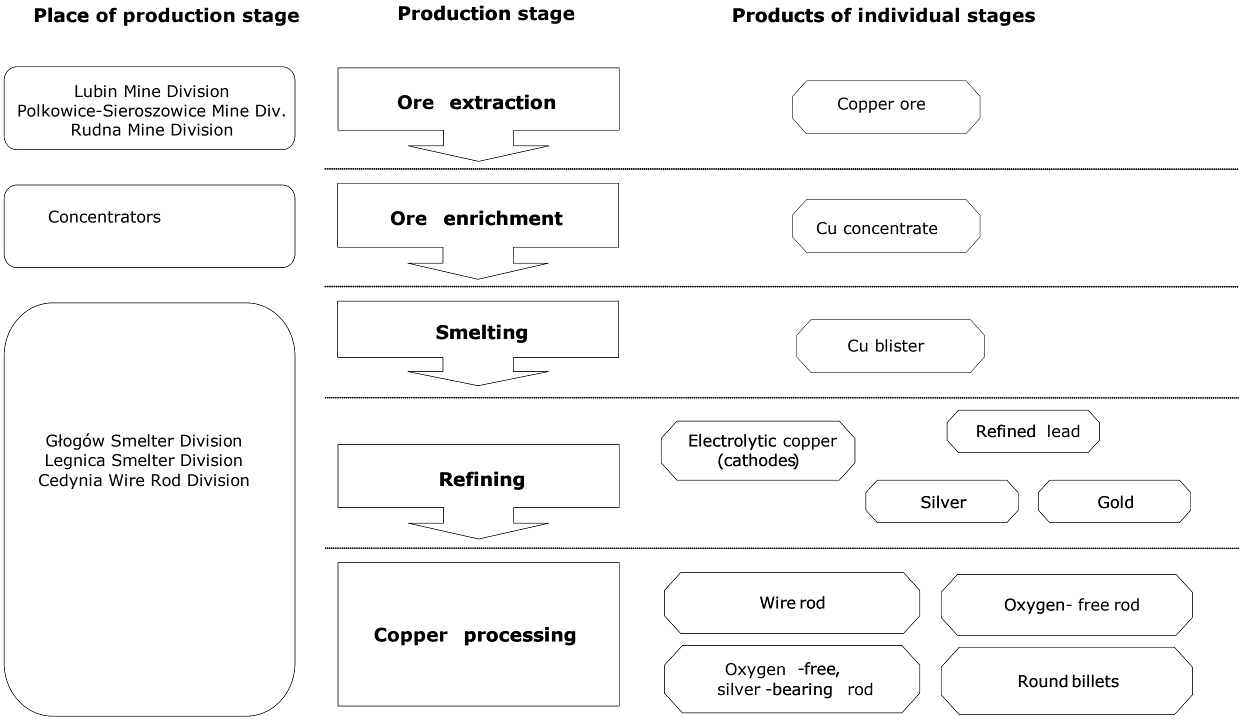
Production of basic products

In 2013 the Company produced 565 thousand tonnes of electrolytic copper and 1 161 tonnes of metallic silver (in 2012, 566 thousand tonnes of electrolytic copper and 1 274 tonnes of metallic silver respectively). The C1 cost (cash cost of payable copper production, reflecting ore mining and processing costs, minerals extraction tax, transport costs, administrative expenses during the mining phase, smelter treatment and refining charges (TC/RC) of concentrate less by-product revenues) amounted respectively: in 2013, 1.78 USD/lb and in 2012, 1.34 USD/lb.

The increase in the C1 cost was mainly due to : the minerals extraction tax +0.11USD/lb and to the lower value of silver in by-products +0.23 USD/lb, whose price in 2013 was 24% lower than in 2012.

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

4. Operating segments (continued)



Assets and liabilities of the segment	**At 31 December 2013**	**31 December 2012**
Assets	29 038	28 177
Liabilities	5 740	6 254

The main assets in the segment are production assets and investments in subsidiaries. Production assets comprise property, plant and equipment with a net carrying amount of PLN 9 744 million as at 31 December 2013 (as at 31 December 2012, PLN 8 445 million), representing 34% of total assets. Accumulated depreciation of property, plant and equipment as at 31 December 2013 amounts to PLN 8 373 million (as at 31 December 2012 PLN 8 158 million). The property, plant and equipment and intangible assets of the segment are all located in Poland (details in notes 5 and 6).

As at 31 December 2013 the value of shares and investment certificates in subsidiaries amounts to PLN 11 744 million (as at 31 December 2012 PLN 11 641 million).

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

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Capital expenditures by type of activity	**2 321**	**1 757**
Mining	1 478	1 292
Metallurgy	671	274
Other activities	172	191
Incomplete capitalised development	**36**	**9**
Total	**2 357**	**1 766**
Capital expenditures by project	**2 321**	**1 757**
Local	1 278	1 010
Central	1 043	740
Study and analysis stage	-	7
Incomplete capitalised development	**36**	**9**
Total	**2 357**	**1 766**

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

4. Operating segments (continued)

For purposes of making decisions on the allocation of resources, reports are prepared for managing purposes on expenditures on property, plant and equipment, which are presented with a breakdown by project: local, central and at a study and analysis stage, and by type of activity: mining, metallurgy and other.

Segment profit or loss

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Sales	**18 579**	**20 737**
Interest income	27	152
Interest cost	(4)	(4)
Amortisation/depreciation	(768)	(772)
Other operating income on measurement and realisation of derivatives	298	1 156
Other operating costs on measurement and realisation of derivatives	(675)	(1 240)
Income tax	1 138	(1 549)
Profit for the period	**3 058**	**4 868**
ROA* - return on assets (%)	11	17
ROE** - return on equity (%)	13	22
EBITDA (operating profit + amortisation/depreciation)	**4 976**	**7 198**

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

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

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

4. Operating segments (continued)

Geographical areas

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

	Note	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
Germany		4 027	4 419
Poland		3 499	3 923
China		2 642	2 148
The United Kingdom		2 563	3 882
The Czech Republic		1 236	1 265
France		812	871
Hungary		729	744
Italy		658	1 207
Turkey		502	214
Switzerland		370	401
Malaysia		343	76
Austria		245	336
Romania		170	137
The United States of America		161	-
Belgium		139	382
Denmark		109	119
Slovakia		92	83
Taiwan		69	5
Other countries		213	525
Total	**21**	**18 579**	**20 737**

Main contractors

In 2013 and 2012 the revenues from no single Company contractor were equal to or exceeded 10% of the revenues of KGHM Polska Miedź S.A.

5. Property, plant and equipment

	At 31 December 2013	At 31 December 2012
Land	18	18
Buildings	3 082	3 074
Technical equipment and machinery	3 654	3 087
Motor vehicles	79	78
Other fixed assets	21	18
Fixed assets under construction	2 890	2 170
Total	**9 744**	**8 445**

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

5. Property, plant and equipment (continued)

Change in property, plant and equipment in the period from 1 January 2013 to 31 December 2013

	Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2013								
Gross carrying amount		18	7 056	7 127	191	67	2 171	**16 630**
Accumulated depreciation		-	(3 966)	(4 030)	(113)	(49)	-	**(8 158)**
Impairment losses		-	(16)	(10)	-	-	(1)	**(27)**
Net carrying amount		**18**	**3 074**	**3 087**	**78**	**18**	**2 170**	**8 445**
Changes in 2013 net								
Settlement of fixed assets under construction		-	330	1 181	15	8	(1 534)	**-**
Purchases		-	-	-	-	-	2 222	**2 222**
Self-constructed items		-	-	-	-	-	34	**34**
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer		-	(17)	(34)	-	-	-	**(51)**
Change in amount of provision for costs of decommissioning mines and tailings storage facilities		-	(171)	-	-	-	-	**(171)**
Depreciation	22	-	(154)	(586)	(14)	(5)	-	**(759)**
Other changes		-	4	(3)	-	-	(2)	**(1)**
Reversal of impairment losses	22	-	16	9	-	-	-	**25**
At 31 December 2013								
Gross carrying amount		18	7 140	7 796	202	72	2 892	**18 120**
Accumulated depreciation		-	(4 058)	(4 141)	(123)	(51)	-	**(8 373)**
Impairment losses		-	-	(1)	-	-	(2)	**(3)**
Net carrying amount		**18**	**3 082**	**3 654**	**79**	**21**	**2 890**	**9 744**

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

5. Property, plant and equipment (continued)

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

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

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

5. Property, plant and equipment (continued)

Depreciation of property, plant and equipment used in production or in providing services was recognised as a manufacturing cost of products sold in the amount of PLN 741 million (for the period from 1 January to 31 December 2012 PLN 740 million), administrative expenses in the amount of PLN 13 million (for the period from 1 January to 31 December 2012, PLN 14 million), and in the value of production inventories in the amount of PLN 5 million (for the period from 1 January to 31 December 2012, PLN 8 million).

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

	At 31 December 2013			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
Land	1	-	-	1
Buildings	114	2	60	54
Technical equipment and machinery	4	-	4	-
Other items of property, plant and equipment	1	-	1	-
Total	**120**	**2**	**65**	**55**

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

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

5. Property, plant and equipment (continued)

Major investment projects recognised under fixed assets under construction

	At	
	31 December 2013	**31 December 2012**
Pyrometallurgy Modernisation Program	609	195
Deep Głogów (Głogów Głęboki – Przemysłowy)	552	419
Construction of the SW-4 shaft	534	438
Construction of gas-steam blocks	269	345
Investments related to mining region infrastructural development in mines	222	189
Power and teletechnical infrastructure	96	47

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

	At	
	31 December 2013	**31 December 2012**
Purchase of property, plant and equipment	4 989	3 931
Purchase of intangible assets	78	46
Total capital commitments	**5 067**	**3 977**

6. Intangible assets

	At	
	31 December 2013	**31 December 2012**
Development costs	3	2
Software	2	2
Acquired concessions, patents, licenses	74	14
Other intangible assets	16	51
Exploration and evaluation assets	111	73
Intangible assets not yet available for use	67	33
Total	**273**	**175**

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

6. Intangible assets (continued)

Change in intangible assets in the period from 1 January 2013 to 31 December 2013

	Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Exploration and evaluation assets	Other intangible assets not yet available for use	Total
At 1 January 2013								
Gross carrying amount		10	21	82	57	73	33	**276**
Accumulated amortisation		(8)	(19)	(68)	(6)	-	-	**(101)**
Impairment losses		-	-	-	-	-	-	**-**
Net carrying amount		**2**	**2**	**14**	**51**	**73**	**33**	**175**
Changes in 2013								
Settlement of intangible assets not yet available for use		2	1	11	10	-	(24)	**-**
Purchases		-	-	-	-	43	48	**91**
Self-constructed		-	-	-	-	-	9	**9**
Amortisation	22	(1)	(1)	(6)	(1)	-	-	**(9)**
Other changes		-	-	55	(44)	(5)	1	**7**
At 31 December 2013								
Gross carrying amount		10	21	156	17	111	67	**382**
Accumulated amortisation		(7)	(19)	(82)	(1)	-	-	**(109)**
Net carrying amount		**3**	**2**	**74**	**16**	**111**	**67**	**273**

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

6. Intangible assets (continued)

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

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

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

6. Intangible assets (continued)

The amortisation of intangible assets used in production or in the providing of services was settled as a manufacturing cost of products sold in the amount of PLN 8 million (for the period from 1 January to 31 December 2012: PLN 10 million), administrative expenses in the amount of PLN 1 million (for the period from 1 January to 31 December 2012 did not occur).

Major items in intangible assets

The most important group in intangible assets is exploration and evaluation assets, whose carrying amount as at 31 December 2013 amounted to PLN 111 million (as at 31 December 2012, PLN 73 million).
Within the exploration and evaluation assets the two most significant projects are:

(a) the project „Exploration and economic assessment of copper mineralisation in the Synklina Grodziecka region", which is aimed at investigating and documenting copper-silver ore resources in the "Wartowice" and "Niecka Grodziecka" area, located within the so-called "Old Copper Belt".
Expenditures incurred as at 31 December 2013 amounts to PLN 70 million, including expenditures incurred in 2013 in the amount of PLN 29 million,

(b) the project „Assessment of the feasibility of exploiting the Radwanice-Gaworzyce deposit. The Company carried out mineralogical-petrographic and hydrogeological research. The geological profile of the deposit, confirmed in the course of this work, led to the necessity of reviewing the scope of further actions and a change in the concession. The Company applied to the Ministry of the Environment for a change in the concession for exploration of the copper ore deposit in the documented region „Gaworzyce" and for exploration of the copper ore deposit in the documented region „Radwanice".
Expenditures incurred as at 31 December 2013 amounts to PLN 25 million, including expenditures incurred in 2013 in the amount of PLN 4 million.

As at 31 December 2013 the balance of liabilities due to exploration and evaluation of mineral resources amounted to PLN 19 million (as at 31 December 2012, PLN 4 million).

Perpetual usufruct rights of land

As at 31 December 2013, the Company's Divisions used land based on perpetual usufruct rights comprising a total area of 5 703 hectares.
The Company obtained these rights free of charge based on laws in force. The land subject to perpetual usufruct is industrial area related to the activities core business, which also includes former protective zones in which environmental quality limits have been exceeded due to the activities carried out by the Company.
Due to the nature of the use of the above-mentioned land, the Company has not determined a fair value for these perpetual usufruct rights as at 31 December 2013.

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

Future payments due to perpetual usufruct of land

	At	
	31 December 2013	**31 December 2012**
Under one year	8	8
From one to five years	34	32
Over five years	397	377
Total value of future minimum payments due to perpetual usufruct of land	**439**	**417**

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Payments due to perpetual usufruct of land recognised in profit or loss	5	8

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

7. Investments in subsidiaries and interest in joint ventures

	Note	Shares and investment certificates in subsidiaries	Joint ventures
At 1 January 2013			
Amount at cost		11 718	33
Discount on receivables due to returnable payments to capital		25	-
Impairment losses		(102)	-
Net carrying amount at 1 January 2013		**11 641**	**33**
Changes in reporting period			
- acquisition of shares		43	-
- acquisition of newly-issued shares		86	-
- reversal of impairment losses	24	21	-
- redemption of investment certificates of KGHM II FIZAN		(49)	-
- discount on receivables due to payments to capital		2	-
At 31 December 2013			
Amount at cost		11 798	33
Discount on receivables due to returnable payments to capital		27	-
Impairment losses		(81)	-
Net carrying amount at 31 December 2013		**11 744**	**33**
At 1 January 2012			
Amount at cost		2 114	-
Impairment losses		(102)	-
Net carrying amount at 1 January 2012		**2 012**	**-**
Changes in reporting period			
- acquisition of shares and certificates		93	-
- acquisition of newly-issued shares		9 511	33
- discount on receivables due to payments to capital		25	-
At 31 December 2012			
Amount at cost		11 718	33
Discount on receivables due to returnable payments to capital		25	-
Impairment losses		(102)	-
Net carrying amount at 31 December 2012		**11 641**	**33**

In 2013 the Company acquired shares of KGHM IV FIZAN in the amount of PLN 1 million and of KGHM V FIZAN in the amount of PLN 42 million, in addition the Company acquired newly–issued shares in the increased share capital of the following companies:
- KGHM KUPFER AG in the amount of PLN 7 million,
- KGHM II FIZAN in the amount of PLN 42 million,
- KGHM I FIZAN in the amount of PLN 29 million,
- KGHM Letia S.A. in the amount of PLN 8 million.

Due to liquidation of KGHM II FIZAN, on 4 October 2013 in accordance with the ruling of the Court the liquidated Company was removed from the court register.

In 2012 newly-issued shares were acquired for cash in the following companies:
- Miedziowe Centrum Zdrowia S.A. in the amount of PLN 17 million,
- KGHM Metraco S.A. in the amount of PLN 5 million,
- "Energetyka" sp. z o.o. in the amount of PLN 68 million.

In addition, in 2012 due to the process of establishing a holding structure in respect of the acquisition of Quadra FNX Mining LTD (currently KGHM INTERNATIONAL LTD.), KGHM Polska Miedź S.A. acquired shares in Fermat 1 S.à r.l. in the amount of PLN 9 422 million. The payment was transferred to the Depositary, Kingsdale Shareholder Services Inc. The funds were used by Fermat 1 S.à r.l. to purchase a controlling interest in KGHM INTERNATIONAL LTD.

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

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

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

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

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

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

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

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

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

Investments in subsidiaries (direct share)

			At					
			31 December 2013			31 December 2012		
Entity	**Head office**	**Subject of activities**	**% of share capital held**	**% of voting power**	**Carrying amount of shares/ investment certificates**	**% of share capital held**	**% of voting power**	**Carrying amount of shares/ investment certificates**
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	13	100	100	13
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	488	100	100	488
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	R&D activities	100	100	13	100	100	13
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100	387	100	100	387
KGHM Kupfer AG	Berlin	copper and other deposits exploring and mining	100	100	62	100	100	55
KGHM I FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	378	100	100	348
KGHM II FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	-	-	-	100	100	7
KGHM III FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	5	100	100	5
KGHM IV FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	1	-	-	-
KGHM V FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	42	-	-	-
KGHM Kupferhandelsges. m.b.H.i.L	Vienna	copper trading	100	100	1	100	100	1
KGHM LETIA S.A	Legnica	promotion of innovation	88.58	88.58	31	85.45	85.45	24
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	33	100	100	33
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	3	100	100	3
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	79	100	100	58
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	84	100	100	84
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	32	100	100	32
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	151	100	100	151
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	98	100	100	98
KGHM ZANAM Sp. Z o.o. (formerly DFM ZANAM - LEGMET Sp. zo.o.)	Polkowice	repair and construction of machinery	100	100	52	100	100	50
INOVA Spółka z o.o.	Lubin	inspection and control of machinery, R&D work	100	100	13	100	100	13
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	trade, intermediation and trade consulting services	100	100	2	100	100	2
BIPROMET S.A.	Katowice	design services, general realisation of construction projects, supply completion	66	66	31	66	66	31
NITROERG S.A.	Bieruń	production and sale of explosives, blasting materials, emulsions, nitrocet	85	85	121	85	85	121
Fermat 1 S.a r.l.	Luxembourg	holding activity	100	100	9 624	100	100	9 624
					11 744			**11 641**

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

8. Available-for-sale financial assets

	Note	At	
		31 December 2013	**31 December 2012**
Shares in unlisted companies		10	9
Shares in listed companies		799	873
Non-current available-for-sale financial assets	**27**	**809**	**882**

Changes in value of available-for-sale financial assets in 2013 are described in note 3 (d).

9. Financial assets for mine closure and restoration of tailings storage facilities

	Note	At	
		31 December 2013	**31 December 2012**
Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund – non-current		178	141
Cash held in the Mine Closure Fund – current		1	-
Total	**27**	**179**	**141**

As at 31 December 2013 and as at 31 December 2012, the balance of financial assets for mine closure and restoration of tailings storage facilities comprise bank deposits.

Details regarding the planned decommissioning of mines are presented in note 3 (g).

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

10. Derivatives

	Note	At 31 December 2013	At 31 December 2012
Non-current assets			
hedging instruments		342	742
Non-current assets due to derivatives, total		**342**	**742**
Current assets			
hedging instruments		472	381
Current assets due to derivatives, total		**472**	**381**
Total assets due to derivatives		**814**	**1 123**
Non-current liabilities			
hedging instruments		15	197
trade instruments		2	33
Non-current liabilities due to derivatives, total		**17**	**230**
Current liabilities			
hedging instruments		2	21
trade instruments		4	2
Current liabilities due to derivatives, total		**6**	**23**
Total liabilities due to derivatives		**23**	**253**
Derivatives net assets/ (liabilities)	**27**	**791**	**870**
including:			
Derivatives – currency contracts - net		536	445
Derivatives- commodity contracts – metals - net		255	425

The value of instruments initially designated as hedging instruments excluded from hedged accounting is immaterial, therefore they are not included in the aforementioned table.

10. Derivatives (continued)

TRADE INSTRUMENTS			**At 31 December 2013 [PLN '000]**				**At 31 December 2012 [PLN '000]**			
	Volume/ Notional	**Avg. weighted price/ex. rate**	**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - Metals - Copper										
Options										
Sold put options	123 000	4 659	-	-	(138)	(1 651)	-	-	(49)	(17 909)
TOTAL			**-**	**-**	**(138)**	**(1 651)**	**-**	**-**	**(49)**	**(17 909)**
Derivatives – Commodity contracts - Metals – Silver										
Options										
Sold put options			-	-	-	-	-	-	(315)	(142)
TOTAL			**-**	**-**	**-**	**-**	**-**	**-**	**(315)**	**(142)**
Derivatives – Currency contracts										
Options USD										
Purchased put options	180 000	2.7000	407	-	-	-	-	-	-	-
Sold put options	360 000	2.7000	-	-	(3 885)	-	-	-	(2 017)	(15 174)
TOTAL			**407**	**-**	**(3 885)**	**-**	**-**	**-**	**(2 017)**	**(15 174)**
TOTAL TRADE INSTRUMENTS			**407**	**-**	**(4 023)**	**(1 651)**	**-**	**-**	**(2 381)**	**(33 225)**

10. Derivatives (continued)

HEDGING INSTRUMENTS							**At 31 December 2013 [PLN '000]**				**At 31 December 2012 [PLN '000]**			
	Volume/ Notional	**Avg. weighted price/ ex. rate**	**Maturity/ settlement period**		**Period of profit/loss impact**		**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	**From**	**Till**	**From**	**Till**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - Metals - Copper														
Options														
Collar	-	-	-	-	-	-	-	-	-	-	108 590	16 008	(12 596)	(3 587)
Seagull	123 000	7 749-9 963	Jan-14	Dec-15	Feb-14	Jan-16	128 863	140 117	(2 129)	(9 343)	47 040	351 772	(6 255)	(170 461)
TOTAL							**128 863**	**140 117**	**(2 129)**	**(9 343)**	**155 630**	**367 780**	**(18 851)**	**(174 048)**
Derivatives – Commodity contracts - Metals - Silver														
Options														
Purchased put options														
Seagull	-	-	-	-	-	-	-	-	-	-	102 955	9 585	(5)	(5)
TOTAL							**-**	**-**	**-**	**-**	**102 955**	**9 585**	**(5)**	**(5)**
Derivatives – Currency contracts														
Options USD														
Collar	1 200 000	3.3400- 4.3000	Jan-14	Dec-15	Jan-14	Dec-15	178 648	202 452	(183)	(5 681)	67 936	229 980	(571)	(19 046)
Collar- seagull	180 000	3.5000-4.5000	Jan-14	Jun-14	Jan-14	Jun-14	83 985	-	-	-	-	-	-	-
Seagull	180 000	3.5000-4.5000	Jul-14	Dec-14	Jul-14	Dec-14	80 057	-	(12)	-	54 503	134 855	(1 479)	(3 877)
TOTAL							**342 690**	**202 452**	**(195)**	**(5 681)**	**122 439**	**364 835**	**(2 050)**	**(22 923)**
TOTAL HEDGING INSTRUMENTS							**471 553**	**342 569**	**(2 324)**	**(15 024)**	**381 024**	**742 200**	**(20 906)**	**(196 976)**

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

11. Trade and other receivables

	Note	At 31 December 2013	At 31 December 2012
Trade and other non-current receivables			
Payments to capital		54	53
Other financial receivables		1	2
Loans granted*		253	30
Total loans and financial receivables, net	**27**	**308**	**85**
Non-financial receivables, net		6	-
Trade and other non-current receivables, net		**314**	**85**
Trade and other current receivables			
Trade receivables		1 616	1 213
Loans granted		6	14
Payments to capital		15	-
Cash pool receivables		145	4
Other financial receivables		25	32
Receivables due to unsettled derivatives		41	22
Impairment allowances		(30)	(33)
Total loans and financial receivables, net	**27**	**1 818**	**1 252**
Non-financial receivables		543	340
Advances granted		124	103
Impairment allowances		(10)	(8)
Total non-financial current receivables, net		**657**	**435**
Total trade and other current receivables, net		**2 475**	**1 687**
Total trade and other current and non-current receivables, net		**2 789**	**1 772**

*Non-current receivables due to loans granted includes a loan granted to the Company Fermat 1 S.à r.l. in the amount of PLN 223 million. The interest on the loan is fixed and amounts to 4.46% yearly. The maturity date is on 28 February 2018.

** Cash pool receivables from subsidiaries after offsetting in the amount of PLN 145 million represent significant items in the current receivables. Details may be found in note 28.3.

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

12. Inventories

	At	
	31 December 2013	**31 December 2012**
Materials	447	409
Half-finished products and work in progress	1 617	1 876
Finished goods	361	702
Merchandise	7	5
Total net carrying amount of inventories	**2 432**	**2 992**

13. Cash and cash equivalents

	At	
	31 December 2013	**31 December 2012**
Cash at bank	21	18
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits	102	689
Total cash and cash equivalents	**123**	**707**

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

14. Share capital

As at 31 December 2013, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All of the shares are bearer shares. The Company has not issued preference shares. Each share gives the right to one vote at the general meeting. The Company does not have treasury shares. Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2013 and 31 December 2012 there were no changes in the registered share capital or in the number of shares.

In 2013 and in 2012 there were no changes in ownership of significant blocks of shares of KGHM Polska Miedź S.A.
The only shareholder of the Company, owning in 2013 and 2012 a number of shares granting the right to at least 5% of the share capital and total number of votes, was the State Treasury.

At 31 December 2013 and at the date of preparation of these financial statements, the shareholder structure of the Company is as follows:

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

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

15. Other equity items

	Note	Revaluation reserve from measurement of financial instruments			Retained earnings		
		Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging financial instruments	Actuarial gains/losses on post-employment benefits	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Statutes	Profit/(loss) from prior years
At 1 January 2013 restated*		**-**	**286**	**(519)**	**660**	**14 272**	**5 224**
Dividends paid		-	-	-	-	-	(1 960)
Transfer of profit for 2012 to reserve capital		-	-	-	-	2 908	(2 908)
Offsetting of profit from prior years with the actuarial gains and losses**		-	-	356	-	-	(356)
Total comprehensive income:		**13**	**213**	**51**	**-**	**-**	**3 058**
Profit for the period		-	-	-	-	-	3 058
Other comprehensive income		**13**	**213**	**51**	**-**	**-**	**-**
Fair value gains after prior impairment		16	-	-	-	-	-
Impact of effective cash flow hedging transactions entered into		-	713	-	-	-	-
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments		-	(450)	-	-	-	-
Actuarial gains/(losses) on post employment benefits		-	-	63	-	-	-
Deferred income tax	18	(3)	(50)	(12)	-	-	-
At 31 December 2013		**13**	**499**	**(112)**	**660**	**17 180**	**3 058**

* details presented in note 2.1.2
** On 19 June 2013 the Ordinary General Meeting of the Company resolved by resolution no. 6/2013 to offset profit from prior years in the amount of PLN 356 million with the negative amount of the reserves arising from actuarial gains and losses in the amount of PLN 356 million which arose due to changes in accounting principles.

Based on the Act of 15 September 2000 Commercial Partnerships and Companies Code, the Company is required to create a reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
As at 31 December 2013 the statutory reserve capital in the Company amounts to PLN 660 million, and is recognised in Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396 in retained earnings.

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

15. Other equity items (continued)

		Revaluation reserve from measurement of financial instruments			Retained earnings restated		
		Revaluation reserve from measurement of available-for-sale financial assets	Revaluation reserve from measurement of cash flow hedging financial instruments	Actuarial gains/losses on post-employment benefits	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Statutes	Profit/(loss) from prior years
At 1 January 2012		**(39)**	**574**	**-**	**660**	**8 605**	**11 335**
Change in presentation principles*		-	-	(356)	-	-	356
At 1 January 2012 restated*		**(39)**	**574**	**(356)**	**660**	**8 605**	**11 691**
Dividend paid		-	-	-	-	-	(5 668)
Transfer to reserve capital		-	-	-	-	5 667	(5 667)
Total comprehensive income:		**39**	**(288)**	**(163)**	**-**	**-**	**4 868**
Profit for the period		-	-	-	-	-	4 868
Other comprehensive income		**39**	**(288)**	**(163)**	**-**	**-**	**-**
Fair value losses on available-for-sale financial assets		(110)	-	-	-	-	-
Amount transferred to profit or loss due to the impairment of available-for-sale financial assets		158	-	-	-	-	-
Impact of effective cash flow hedging transactions entered into		-	(22)	-	-	-	-
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments		-	(333)	-	-	-	-
Actuarial gains/(losses) on post-employment benefits		-	-	(201)	-	-	-
Deferred income tax	18	(9)	67	38	-	-	-
At 31 December 2012 restated*		**-**	**286**	**(519)**	**660**	**14 272**	**5 224**

* details presented in note 2.1.2

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

16. Trade and other payables

		At	
	Note	**31 December 2013**	**31 December 2012**
Trade and other non-current payables			
Trade payables		9	-
of which payables due to purchase, construction of property, plant and equipment and intangible assets		9	-
Other financial liabilities		7	27
Total financial liabilities (scope of IFRS7)	**27**	**16**	**27**
Deferred income		10	9
Total non-financial liabilities		**10**	**9**
Total trade and other non-current payables		**26**	**36**
Trade and other current payables			
Trade payables		1 157	1 044
of which payables due to purchase, construction of property, plant and equipment and intangible assets		582	448
Payables due to unsettled derivatives		19	16
Payables due to cash pool		36	-
Other financial liabilities		62	31
Total financial liabilities (scope of IFRS7)	**27**	**1 274**	**1 091**
Employee benefits liabilities		161	157
Liabilities due to taxes and social security		361	411
Other non-financial liabilities		56	46
Special funds		204	166
Deferred income		1	2
Accruals		374	354
Total non-financial liabilities		**1 157**	**1 136**
Total trade and other current payables		**2 431**	**2 227**
Total trade and other non-current and current payables		**2 457**	**2 263**

As at 31 December 2013, the amount of PLN 264 million in accruals is a provision for future payment due to the annual bonus (as at 31 December 2012, PLN 287 million). The annual bonus is paid after approval of the financial statements in accordance with the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.

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

17. Borrowings

	Note	At 31 December 2013	At 31 December 2012
Bank loans		1 123	1 013
Short term bank loans total	**27**	**1 123**	**1 013**

In 2012 as well as in 2013, the Company made use of borrowing in the form of bank loans, using both an overdraft facility as well as working capital facilities.

As at 31 December 2013, the Company held liabilities due to bank loans drawn in the amount of PLN 1 123 million (i.e. USD 373 million) as follows :

Bank loans liabilities

Type of bank loan	Bank loan currency	Balance of bank loan drawn in the currency [million]	Balance of bank loan drawn in PLN [million]	Expiry date of agreement
Working capital facility	USD	17	51	30.01.2014
Working capital facility	USD	162	488	07.05.2014
Overdraft facility	USD	32	98	30.04.2015
Overdraft facility	USD	120	360	14.10.2015
Overdraft facility	USD	42	126	21.10.2015
Total		**373**	**1 123**	

The bank loans interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

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

Bank loans liabilities

Type of bank loan	Bank loan currency	Balance of bank loan drawn in the currency [million]	Balance of bank loan drawn in PLN [million]	Expiry date of agreement
Working capital facility	USD	90	279	31.08.2013
Overdraft facility	USD	142	441	14.10.2013
Overdraft facility	USD	33	102	25.09.2013
Overdraft facility	EUR	47	191	21.10.2013
Total		**312**	**1 013**	

As at 31 December 2013 the open lines of credit were as follows:

Open lines of credit as at 31 December 2013

Type of bank loan	Bank loan currency	Balance of bank loan in the currency [million]
Working capital facility and overdraft facility	USD	88
Overdraft facility	EUR	50
Working capital facility and overdraft facility	PLN	2 600

The interest is based on variable LIBOR rates plus a margin.
Collateral on the receivables of banks from signed credit agreements is in the form of statements on submitting to the enforcement regime and proxy rights to bank accounts with respect to the agreements entered into on maintaining bank accounts.

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

17. Borrowings (continued)

As at 31 December 2013 the open lines of credit were as follows:

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

18. Deferred tax

	Note	At 31 December 2013	At 31 December 2012
Net deferred tax assets at the beginning of the reporting period, of which:		**266**	**169**
Deferred tax assets at the beginning of the reporting period		1 189	978
Deferred tax liabilities at the beginning of the reporting period		(923)	(809)
Changes during the period			
Credited/(Charged) to profit for the period	29	(103)	1
Increase/(Decrease) in other comprehensive income	15	(65)	96
Net deferred tax assets at the end of the reporting period, of which:		**98**	**266**
Deferred tax assets at the end of the reporting period		**892**	**1 189**
Deferred tax liabilities at the end of the reporting period		**(794)**	**(923)**

Realisation periods of deferred tax assets and deferred tax liabilities

	At 31 December 2013	At 31 December 2012
in the period of over 12 months from the end of the reporting period	(44)	92
in the period of 12 months and less from the end of the reporting period	142	174
Total	**98**	**266**

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

18. Deferred tax (continued)

Deferred tax assets prior to offsetting

	At 1 January 2013 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences	Increase/(Decrease) in other comprehensive income due to change in the balance of temporary differences	**At 31 December 2013 based on the rate of 19%**
Provision for decommissioning of mines and other facilities	143	(37)	-	**106**
Measurement of forward transactions	466	(157)	-	**309**
Re-measurement of hedging instruments	93	-	(93)	**-**
Amortisation/Depreciation	27	8	-	**35**
Future employee benefits liabilities	299	3	(12)	**290**
Measurement of available-for-sale financial assets	32	-	(32)	**-**
Other	129	23	-	**152**
Total	**1 189**	**(160)**	**(137)**	**892**

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

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

18. Deferred tax (continued)

Deferred tax liabilities prior to offsetting

	At 1 January 2013 based on the rate of 19%	(Credited)/Charged to profit for the period due to a change in the balance of temporary differences	(Increase)/Decrease in other comprehensive income due to change in the balance of temporary differences	**At 31 December 2013 based on the rate of 19%**
Interest	-	1	-	1
Measurement of forward transactions	251	(94)	-	157
Re-measurement of hedging instruments	161	-	(43)	118
Amortisation/Depreciation	478	36	-	514
Measurement of available-for-sale financial assets	33	-	(29)	4
Total	**923**	**(57)**	**(72)**	**794**

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

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

19. Employee benefits

A general description of the benefit program was presented in Note 2.2.16.

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

Changes in future employee benefits

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
As at 1 January 2013	**1 581**	**255**	**219**	**1 077**	**30**
Total costs recognised in profit or loss	**107**	**22**	**21**	**62**	**2**
Interest costs	**67**	11	10	45	1
Current service cost	**45**	16	11	17	1
Actuarial gains recognised in profit or loss	**(5)**	(5)	-	-	-
Actuarial gains recognised in other comprehensive income	**(63)**	-	(11)	(49)	(3)
Benefits paid	**(92)**	(36)	(16)	(39)	(1)
As at 31 December 2013	**1 533**	**241**	**213**	**1 051**	**28**
Carrying amount of liabilities in statement of financial position as at 31 December 2013	**1 533**	**241**	**213**	**1 051**	**28**
of which:					
Carrying amount of non-current liabilities	**1 423**	207	182	1 008	26
Carrying amount of current liabilities	**110**	34	31	43	2

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

19. Employee benefits (continued)

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

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

19. Employee benefits (continued)

Present value of future employee benefits

31 December 2013	1 533
31 December 2012	1 581
31 December 2011	1 323
31 December 2010	1 227
31 December 2009	1 199

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

Main actuarial assumptions as at 31 December 2013	**2014**	**2015**	**2016**	**2017**	**2018 and beyond**
- discount rate	4.50%	4.50%	4.50%	4.50%	4.50%
- rate of increase in coal prices	0.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	5.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.40%	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 as 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%

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

20. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
Provisions at 1 January 2013		**754**	**734**	**20**
Provisions recognised in other operating costs		**8**	-	8
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs		**(26)**	(26)	-
Changes in provisions arising from updating of estimates recognised in fixed assets		**(171)**	(171)	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	26	**35**	35	-
Utilisation of provisions		**(12)**	(10)	(2)
Release of provisions recognised in other operating income		**(1)**	-	(1)
Adjustment of contribution to Special Purpose Funds		**(33)**	(33)	-
Provisions at 31 December 2013		**554**	**529**	**25**
of which:				
Non-current provisions		**523**	**520**	**3**
Current provisions		**31**	**9**	**22**

	Note	TOTAL	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
Provisions at 1 January 2012		**498**	**481**	**17**
Provisions recognised in other operating costs		**18**	4	14
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs		**(2)**	5	(7)
Changes in provisions arising from updating of estimates recognised in fixed assets		**243**	243	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	26	**33**	33	-
Utilisation of provisions		**(8)**	(5)	(3)
Release of provisions recognised in other operating income		**(1)**	-	(1)
Adjustment of contribution to Special Purpose Funds		**(27)**	(27)	-
Provisions at 31 December 2012		**754**	**734**	**20**
of which:				
Non-current provisions		**718**	**714**	**4**
Current provisions		**36**	**20**	**16**

20. Provisions for other liabilities and charges (continued)

The decrease in the provision for decommissioning costs of mines of PLN 163 million was due to an extension of mine life as a result of new concessions obtained. The decrease was accounted for as:
- a decrease in profit of PLN 8 million,
- a decrease in fixed assets of PLN 171 million,
- a decrease in the deferred tax asset in the amount of PLN 37 million.

During the reporting period the provision to cover mine decommissioning costs in the amount of PLN 10 million and the contribution to the related purpose funds in the amount of PLN 33 million were used.

The amount of the provision recognised in the statement of financial position is the equivalent of the estimated costs of future decommissioning of individual facilities discounted to their present value, which were estimated assuming the use of existing mine decommissioning technology, applying current prices. The amount of the provision is revalued by the Company at the end of each quarter by applying in the model the discounting ratios described in note 3(g). At the end of the reporting period the amount of the provision was updated, using the discount rate applied in the model for future employee benefit provisions (Note 19), which is near the rate of return on long-term bonds. Risk related to the provision was reflected in forecasts of cash flow through the index of changes in prices in the construction-assembly sector. When planning for long-term financial flows it is not possible to develop financial flows which are risk-free. In estimating anticipated financial flows from the costs of decommissioning technological facilities the principle was adopted that the amount of the provision should be the best estimate of the costs to be incurred in the future. In calculating financial flows risk was considered, applying indicators of the Government Statistical Office (GUS) and other sources of data for such calculations, including average CTO (Catalogue of Tangible Outlays) prices, assessing the correctness of estimates for the largest facilities and assessing the justification for transferring experience gained from the decommissioned facilities to those designated for decommissioning.

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

21. Sales

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

	Note	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
Copper, precious metals, smelter by-products		18 113	20 379
Salt		84	53
Merchandise		227	159
Services		76	67
Scrap and production materials		68	68
Other goods		11	11
Total	**4**	**18 579**	**20 737**

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

	Note	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
domestic		**3 499**	**3 923**
Copper, precious metals, smelter by-products		3 195	3 608
Salt		84	53
Merchandise		65	116
Services		76	67
Scrap and production materials		68	68
Other goods		11	11
foreign		**15 080**	**16 814**
Copper, precious metals, smelter by-products		14 918	16 771
Merchandise		162	43
Total	**4**	**18 579**	**20 737**

	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
Average copper price on LME (USD/t)	7 322	7 950
Average exchange rate (USD/PLN) per NBP	3.1653	3.2581

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

22. Expenses by nature

	Note	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
Depreciation of property, plant and equipment and amortisation of intangible assets: of which :		768	772
Depreciation of property, plant and equipment	5	759	762
Amortisation of intangible assets	6	9	10
Employee benefits expenses	23	2 946	2 988
Materials and energy		5 740	6 821
External services		1 516	1 357
Taxes and charges		2 200	1 917
including the minerals extraction tax*		1 856	1 596
Advertising costs and representation expenses		46	51
Property and personal insurance		23	26
Research and development costs not capitalised in intangible assets		8	9
Other costs, of which:		**7**	**51**
Impairment losses on property, plant and equipment and intangible assets		-	26
Write-down of inventories		7	3
Reversal of impairment losses on property, plant and equipment	5	(25)	-
Losses from the disposal of financial instruments	27	9	9
Business trip expenses		10	10
Other operating costs		6	3
Total expenses by nature		**13 254**	**13 992**
Cost of merchandise and materials sold (+)		288	211
Change in inventories of finished goods and work in progress (+/-)		594	(417)
Cost of manufacturing products for internal use (-)		(166)	(184)
Total cost of sales, selling costs and administrative expenses		**13 970**	**13 602**
of which:		**-**	**-**
Cost of sales		13 173	12 786
Selling costs		126	113
Administrative expenses		671	703

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

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

23. Employee benefits expenses

	Note	For the period	
		from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Remuneration		2 077	2 108
Costs of social security		854	823
Costs of future benefits		15	57
Employee benefits expenses	**22**	**2 946**	**2 988**

24. Other operating income

	Note	For the period	
		from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Income and gains from financial instruments classified under other operating activities, resulting from:	27	326	1 310
Measurement and realisation of derivatives		298	1 156
Interest		27	152
Gains from sale		-	2
Reversal of allowance for other receivables		1	-
Reversal of impairment loss in subsidiary	7	21	-
Dividends received		36	57
Government grants received and other donations		13	-
Release of unused provisions		31	11
Penalties and compensation received		11	7
Other operating income/gains		22	15
Total other operating income		**460**	**1 400**

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

25. Other operating costs

	Note	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
Costs and losses on financial instruments classified under other operating activities, resulting from:	27	767	1 963
Measurement and realisation of derivatives		675	1 240
Interest		1	-
Foreign exchange losses		-	565
Losses due to measurement of non-current liabilities		1	-
Impairment losses on available-for-sale financial assets and allowances for impairment of other receivables		90	158
Losses on the sale of property, plant and equipment and intangible assets		34	1
Impairment losses on intangible assets not yet available for use		5	2
Donations granted		16	92
Interest on overdue non-financial liabilities		-	2
Provisions for liabilities		12	25
Penalties and compensation paid		2	1
Contributions to a voluntary organisation		15	10
Other operating costs/losses		10	13
Total other operating costs		**861**	**2 109**

26. Finance costs

	Note	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
Interest due to drawn bank loans	27	3	2
Foreign exchange losses/(gains) on borrowings	27	(27)	(27)
Changes in provisions for decommissioning of mines arising from the approach of the maturity date of a liability (unwinding of the discount effect)	20	35	33
Losses due to measurement of non-current liabilities	27	-	1
Other finance costs		1	-
Total finance costs		**12**	**9**

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

27. Financial instruments

27.1 Carrying amount

At 31 December 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 financial receivables	Other liabilities: Financial liabilities at fair value through profit or loss	Other liabilities: Financial liabilities measured at amortised cost	Hedging instruments	**Total**
Listed shares	8	799	-	-	-	-	-	**799**
Unlisted shares	8	10	-	-	-	-	-	**10**
Trade receivables (net)	11	-	-	1 594	-	-	-	**1 594**
Cash and cash equivalents and deposits		-	-	302	-	-	-	**302**
Financial assets for mine closure and restoration of tailings storage facilities	9	-	-	179	-	-	-	**179**
Cash and cash equivalents	13	-	-	123	-	-	-	**123**
Other financial assets (net)	11	-	-	532	-	-	-	**532**
Derivatives – Currency (net)	10	-	-	-	(4)	-	540	**536**
Derivatives - Commodity contracts – Metals (net)	10	-	-	-	(2)	-	257	**255**
Trade payables	16	-	-	-	-	(1 166)	-	**(1 166)**
Borrowings	17	-	-	-	-	(1 123)	-	**(1 123)**
Other financial liabilities	16	-	-	-	-	(124)	-	**(124)**
Total		**809**	**-**	**2 428**	**(6)**	**(2 413)**	**797**	**1 615**

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

27. Financial instruments (continued)

At 31 December 2012

Categories of financial instruments

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

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

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

27. Financial instruments (continued)

27.2 Fair value

		At 31 December 2013		At 31 December 2012	
Classes of financial instruments		**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
	Note	**27.1**		**27.1**	
Listed shares	8	799	799	873	873
Unlisted shares	8	10	-	9	-
Trade receivables (net)	11	1 594	1 594	1 190	1 190
Cash and cash equivalents and deposits	9, 13	302	302	848	848
Other financial assets (net)	11	532	532	147	147
Derivatives – Currency, of which:	10	536	536	445	445
Assets		546	546	487	487
Liabilities		(10)	(10)	(42)	(42)
Derivatives - Commodity contracts - Metals, of which:	10	255	255	425	425
Assets		268	268	636	636
Liabilities		(13)	(13)	(211)	(211)
Trade payables	16	(1 166)	(1 166)	(1 044)	(1 044)
Borrowings	17	(1 123)	(1 123)	(1 013)	(1 013)
Other financial liabilities	16	(124)	(124)	(74)	(74)

The methods and assumptions used by the Company for measuring fair value are presented in note 2.2.7.4 Fair value.

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

27. Financial instruments (continued)

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

For the period from 1 January 2013 to 31 December 2013	**Note**	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at amortised cost	Hedging instruments	**Total**
Interest income/(costs) recognised in:		**-**	**-**	**27**	**(4)**	**-**	**23**
Other operating income	24	-	-	27	-	-	27
Other operating costs	25	-	-	-	(1)	-	(1)
Finance costs	26	-	-	-	(3)	-	(3)
Foreign exchange gains recognised in finance costs	26	**-**	**-**	**-**	**27**	**-**	**27**
Losses on measurement of non-current liabilities recognised in other operating costs	25	**-**	**-**	-	(1)	-	**(1)**
Impairment losses recognised in other operating costs	25	**-**	(90)	-	-	-	**(90)**
Reversal of impairment losses recognised in other operating income	24	**-**	**-**	1	-	-	**1**
Adjustment to sales due to hedging transactions	15	-	-	-	-	450	**450**
Losses from disposal of financial instruments recognised in expenses by nature	22	**-**	**-**	(9)	-	-	**(9)**
Gains on measurement and realisation of derivatives	24	298	-	-	-	-	**298**
Losses on measurement and realisation of derivatives	25	(675)	-	-	-	-	**(675)**
Total net gain/(loss)		**(377)**	**(90)**	**19**	**22**	**450**	**24**

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

27. Financial instruments (continued)

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

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

27. Financial instruments (continued)

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

27.4.1 Fair value hierarchy

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

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

	At			
	31 December 2013		**31 December 2012**	
Classes of financial instruments	Level 1	Level 2	Level 1	Level 2
Listed shares	799	-	873	-
Other financial receivables	-	41	-	22
Derivatives - currency, of which:	-	536	-	445
Assets	-	546	-	487
Liabilities	-	(10)	-	(42)
Derivatives – metals, of which:	-	255	-	425
Assets	-	268	-	636
Liabilities	-	(13)	-	(211)
Other financial liabilities	-	(19)	-	(16)

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

Level 3
No financial instruments were measured at fair value which were classified to level 3 in either 2013 or the comparative period in the Company.

Level 2
Other financial receivables
Receivables due to unsettled derivatives at the end of the reporting period. Their date of settlement falls after the last day of the reporting period. These instruments were measured to fair value, based on the reference price for the settlement of these transactions.

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

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

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

27. Financial instruments (continued)

Level 1

Listed shares

The shares listed on the Warsaw Stock Exchange were measured based on the closing price from 31 December 2013 – the last working day in the reporting period. The shares listed on the TSX Venture Exchange were measured applying a share price and the average National Bank of Poland fixing for the Canadian dollar at the valuation date.

28. Financial risk management

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

- market risks:
  - risk of changes in metal prices,
  - risk of changes in foreign exchange rates,
  - price risk related to investments in shares of listed companies,
  - risk of changes in interest rates,
- liquidity risk,
- credit risk.

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

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

28.1 Market risk

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

28.1.1. Principles and techniques of market risk management

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

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

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

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

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

28. Financial risk management (continued)

The Company continuously monitors metal and currency markets, and this analysis is the basis for decisions on implementing hedging strategies.

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

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

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

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

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments). Primarily applied are cash flow hedging instruments meeting the requirements for effectiveness as understood by hedge accounting. The effectiveness of the financial hedging instruments applied by the Company in the reporting period is continually monitored and assessed (details in Note 2.2.7.7 Accounting policies – Hedge accounting).

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

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

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

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

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

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

28.1.2 Commodity risk

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

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

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

28. Financial risk management (continued)

Exposure of the Company to commodity risk is presented below:

	For the period					
	from 1 January 2013 to 31 December 2013			from 1 January 2012 to 31 December 2012		
	Net	**Sales**	**Purchases**	**Net**	**Sales**	**Purchases**
Copper [tonnes]	**442 352**	594 527	152 175	**417 622**	580 330	162 708
Silver [tonnes]	**1 225**	1 266	41	**1 221**	1 267	46

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

28.1.3 Currency risk

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

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

In 2013, the Company made use of borrowing in the form of bank loans denominated in USD and EUR and granted loans denominated in USD and CAD. Because the Company earns revenues from the sale of its products mainly in USD and EUR, the resulting exposure due to bank and other loans in these currencies does not expose the Company to currency risk, from the moment such liabilities/receivables arise to the moment they are repaid/received. The loan granted in CAD and denominated in USD likewise does not increase the Company's currency risk, due to its immaterial amount.

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

28.1.4 Commodity and currency risk management

The nominal amount of copper price hedging strategies settled in 2013 represented approx. 23% (in 2012 35%) of the total[1] sales of this metal realised by the Company. With respect to silver sales this figure amounted to approx. 9% (in 2012 27%). In the case of the currency market, hedged revenues from sales represented approx. 18% (in 2012 16%) of total revenues from sales of metals realised by the Company.

In 2013 the Company did not implement copper and silver price hedging strategies. However, in the second quarter of 2013 there was a restructuring of a hedging position on the silver market by repurchasing a seagull option structure for the second half of 2013, with the exercise prices of the options at 20-40-65 USD/troz with a total nominal amount of 1.8 million troz. The closure of the hedging position on the silver market with profitable prices guaranteed the Company increased revenues from sales in the second half of 2013 by PLN 95 million.

In the case of the forward currency market, in 2013 the Company implemented revenues hedging transactions with a total nominal amount of USD 480 million and a time horizon falling in the years 2014-2015. Additionally, in the reporting period the Company performed a restructure of the seagull option strategy for the first half of 2014 of a total nominal amount of USD 180 million through the repurchase 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.

As at 31 December 2013 the Company remained hedged for a portion of the planned copper sales in 2014 (81 kt) and for 2015 (42 kt). The Company does not have open hedging transactions on the silver market. However in terms of revenues from sales (currency market) the Company has a hedging position for 2014 (USD 960 million) and for 2015 (USD 600 million).

1 Relates to the sales of metal products from own concentrates and from purchased copper-bearing materials.

28. Financial risk management (continued)

Condensed table of open transactions in derivatives[2]

COPPER MARKET

	Instrument	Volume [tonnes]	Option execution price [USD/t]			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t]	
			Sold call option	Purchased put option	Sold put option[3]			Participation limited to	Hedge limited to
I half of 2014	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	-281	7 419	9 300	5 000
	Total	**40 500**							
II half of 2014	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	-281	7 419	9 300	5 000
	Total	**40 500**							
TOTAL 2014		**81 000**							
I half of 2015	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Total	**21 000**							
II half of 2015	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Total	**21 000**							
TOTAL 2015		**42 000**							

CURRENCY MARKET

	Instrument	Notional [mln USD]	Option execution price [USD/PLN]			Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Limitations [USD/PLN]	
			Sold call option	Purchased put option	Sold put option[3]			Participation limited to	Hedge limited to
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**							

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

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[2] With the classification by type of assets hedged and type of instruments used as at 31 December 2013; hedged notional/volume in the presented periods is allocated monthly, on a systematic basis.

[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)

28. Financial risk management (continued)

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

Impact of derivatives on the profit or loss items in the current and comparable periods.

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Impact on sales	**450**	**333**
Impact on other operating activities	**(377)**	**(84)**
Losses from realisation of derivatives	(185)	(287)
(Losses)/Gains from measurement of derivatives	(192)	203
Total impact of derivatives on profit	**73**	**249**

Impact of derivatives on the revaluation reserve from measurement of cash flow hedging instruments

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
As at the beginning of the period (excluding the deferred tax effects)	**354**	**709**
Amount recognised in the reporting period due to cash flow hedging transactions	713	(22)
Amount transferred to revenues from sale – reclassification adjustment	(450)	(333)
As at the end of the period (excluding the deferred tax effects)	**617**	**354**

The fair value of derivatives and receivables/liabilities due to unsettled derivatives is presented in the table below.

	As at 31 December 2013		As at 31 December 2012	
	Derivatives	**Receivables / (liabilities) due to unsettled derivatives**[4]	**Derivatives**	**Receivables /(liabilities) due to unsettled derivatives**[5]
Financial assets	814	41	1 123	22
Financial liabilities	(23)	(19)	(253)	(16)
Fair value	**791**	**22**	**870**	**6**

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

[4] Settlement date is 3 January 2014.
[5] Settlement date is 3 January 2013.

28. Financial risk management (continued)

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

Sensitivity analysis for significant types of market risk to which the Company is exposed presents the estimated impact of potential changes in individual risk factors (at the end of the reporting period) on profit or loss and on other comprehensive income. Possible changes in prices and exchange rates have been presented in percentage terms to the prices and exchange rates used to measure financial instruments to fair value at the end of the reporting period:[6]

Potential price/exchange rates changes

	As at 31 December 2013					As at 31 December 2012				
	SPOT / FIX	UP 95%		DOWN 95%		SPOT / FIX	UP 95%		DOWN 95%	
Copper [USD/tonnes]	7 376	9 510	*29%*	5 336	*-28%*	7 907	10 435	*32%*	5 570	*-30%*
Silver [USD/troz]	19.50	28.30	*45%*	12.69	*-35%*	29.95	43.44	*45%*	18.72	*-37%*
USD/PLN	3.0120	3.5829	*19%*	2.5358	*-16%*	3.0996	3.7349	*20%*	2.5687	*-17%*
EUR/PLN	4.1472	4.6570	*12%*	3.7519	*-10%*	4.0882	4.6345	*13%*	3.6603	*-10%*
GBP/PLN	4.9828	5.7616	*16%*	4.3527	*-13%*	5.0119	5.6764	*13%*	4.4796	*-11%*

Currency structure of financial instruments exposed to market risk

Financial instruments	VALUE AT RISK as at 31 December 2013				VALUE AT RISK as at 31 December 2012			
	Total PLN million	USD million	EUR million	GBP million	Total PLN million	USD million	EUR million	GBP million
Trade receivables (net)	**1 351**	358	59	5	**986**	182	93	8
Cash and cash equivalents and deposits	**79**	1	18	-	**410**	83	36	1
Other financial assets (net)	**269**	89	-	-	**37**	8	2	-
Derivatives – Currency	**536**	-	-	-	**445**	-	-	-
Derivatives – Metals	**255**	85	-	-	**425**	137	-	-
Trade payables	**(145)**	(27)	(16)	-	**(138)**	(26)	(14)	-
Borrowings	**(1 123)**	(373)	-	-	**(1 013)**	(265)	(47)	-
Other financial liabilities	**(21)**	(6)	(1)	-	**(27)**	(8)	(1)	-

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

28. Financial risk management (continued)

SENSITIVITY ANALYSIS OF KGHM Polska Miedź S.A. FOR CURRENCY RISK as at 31 December 2013

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK [PLN million]	31.12.13 CARRYING AMOUNT [PLN million]	USD/PLN				EUR/PLN				GBP/PLN			
			3.58		2.54		4.66		3.75		5.76		4.35	
			+19%		-16%		+12%		-10%		+16%		-13%	
			profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income
Trade receivables (net)	**1 351**	**1 594**	166	-	(138)	-	24	-	(19)	-	3	-	(3)	-
Cash and cash equivalents and deposits	**79**	**302**	1	-	-	-	7	-	(6)	-	-	-	-	-
Other financial assets (net)	**269**	**532**	41	-	(34)	-	-	-	-	-	-	-	-	-
Derivatives- Currency contracts	**536**	**536**	(40)	(455)	(105)	741	-	-	-	-	-	-	-	-
Derivatives-Commodity contracts- Metals	**255**	**255**	18	31	(15)	(25)	-	-	-	-	-	-	-	-
Trade payables	**(145)**	**(1 166)**	(12)	-	10	-	(6)	-	5	-	-	-	-	-
Borrowings	**(1 123)**	**(1 123)**	(172)	-	144	-	-	-	-	-	-	-	-	-
Other financial liabilities	**(21)**	**(124)**	(3)	-	2	-	-	-	-	-	-	-	-	-
IMPACT ON PROFIT OR (LOSS)			**(1)**		**(136)**		**25**		**(20)**		**3**		**(3)**	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(424)**		**716**		**-**		**-**		**-**		**-**

SENSITIVITY ANALYSIS OF KGHM POLSKA MIEDŹ S.A. FOR RISK OF CHANGES IN METAL PRICES as at 31 December 2013

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK [PLN million]	31.12.13 CARRYING AMOUNT [PLN million]	COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			9 510		5 336		28.30		12.69	
			+29%		-28%		+45%		-35%	
			profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income
Derivatives- Commodity contracts- Metals	**255**	**255**	(189)	(180)	(132)	745	-	-	-	-
IMPACT ON PROFIT OR (LOSS)			(189)		(132)		**-**		**-**	
IMPACT ON OTHER COMPREHENSIVE INCOME				(180)		745		**-**		**-**

28. Financial risk management (continued)

SENSITIVITY ANALYSIS OF KGHM Polska Miedź S.A. FOR CURRENCY RISK as at 31 December 2012

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK [PLN million]	31.12.12 CARRYING AMOUNT [PLN million]	USD/PLN				EUR/PLN				GBP/PLN			
			3.73		2.57		4.63		3.66		5.68		4.48	
			+20%		-17%		+13%		-10%		+13%		-11%	
			profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income
Trade receivables (net)	**986**	**1 190**	94	-	(78)	-	41	-	(32)	-	4	-	(4)	-
Cash and cash equivalents and deposits	**410**	**848**	42	-	(35)	-	16	-	(13)	-	1	-	(1)	-
Other financial assets (net)	**37**	**147**	4	-	(3)	-	1	-	(1)	-	-	-	-	-
Derivatives- Currency contracts	**445**	**445**	(330)	(191)	(318)	1 064	-	-	-	-	-	-	-	-
Derivatives-Commodity contracts- Metals	**425**	**425**	54	33	(45)	(28)	-	-	-	-	-	-	-	-
Trade payables	**(138)**	**(1 044)**	(13)	-	11	-	(6)	-	5	-	-	-	-	-
Borrowings	**(1 013)**	**(1 013)**	(136)	-	114	-	(21)	-	16	-	-	-	-	-
Other financial liabilities	**(27)**	**(74)**	(4)	-	3	-	-	-	-	-	-	-	-	-
IMPACT ON PROFIT OR (LOSS)			**(289)**		**(351)**		**31**		**(25)**		**5**		**(5)**	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(158)**		**1 036**		-		-		-		-

SENSITIVITY ANALYSIS OF KGHM POLSKA MIEDŹ S.A. FOR RISK OF CHANGES IN METAL PRICES as at 31 December 2012

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK [PLN million]	31.12.12 CARRYING AMOUNT [PLN million]	COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			10 435		5 570		43.44		18.72	
			+32%		-30%		+45%		-37%	
			Profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income
Derivatives- Commodity contracts- Metals	**425**	**425**	(677)	(461)	(314)	1 654	12	(110)	(11)	112
IMPACT ON PROFIT OR (LOSS)			**(677)**		**(314)**		**12**		**(11)**	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(461)**		**1 654**		**(110)**		**112**

28. Financial risk management (continued)

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

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

As at 31 December 2013, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 799 million.

Sensitivity analysis of listed companies shares to price changes as at 31 December 2013

	31 December 2013 CARRYING AMOUNT [PLN million]	Percentage change of share price		31 December 2012 CARRYING AMOUNT [PLN million]	Percentage change of share price	
		23%	-11%		13%	-17%
		OTHER COMPREH. INCOME	PROFIT OR (LOSS)		OTHER COMPREH. INCOME	PROFIT OR (LOSS)
Listed shares	**799**	184	(88)	**873**	113	(148)

28.1.8 Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the Company's results. In 2013 the Company was exposed to this risk due to loans granted, investing unallocated cash and participating in zero-balance cash-pool services and borrowing.

As at 31 December 2013 the balances of the aforementioned positions were as follows:
- loans granted: PLN 257 million,
- bank deposits: PLN 308 million, including deposits of Social Fund, Mine Closure Fund and Tailings Storage Facility Restoration Fund,
- Receivables due to participation in cash pool service: PLN 203 million[7],
- Liabilities due to participation in cash pool service: PLN 94 million[7],
- Liabilities due to bank loans: PLN 1 123 million (i.e. USD 373 million).

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

The increase in market interest rates will result in an increase in the interest on liabilities due to bank loans.

As at 31 December 2013, the Company held liabilities due to bank loans drawn in the amount of PLN 1 123 million (i.e. USD 373 million), which are as follows:

BANK LOANS LIABILITIES

Type of bank loan	Bank loan currency	Balance of bank loan drawn in original currency	Balance of bank loan drawn in PLN	Repayment date
Working capital facility	USD	17	51	30.01.2014
Working capital facility	USD	162	488	07.05.2014
Overdraft facility	USD	32	98	30.04.2015
Overdraft facility	USD	120	360	14.10.2015
Overdraft facility	USD	42	126	21.10.2015
Total		**373**	**1 123**	

[7] Cash pool balances presented in their gross amount.

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

28. Financial risk management (continued)

Bank loans' interest is based on variable LIBOR rates plus margin.

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

The impact of changes in interest rates on the Company's results, due to financial receivables and financial liabilities considered to be immaterial because of the scale of the Company's operations.

28.2 Credit risk

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

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

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

- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- loans granted,
- guaranties granted.

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

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

All entities with which deposit transactions are entered into by the Company, both in terms of the Company's monetary resources as well as resources accumulated in the Mine Closure Fund and the Social Fund, operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest[8], medium-high[9] and medium[10] credit ratings, an appropriate level of equity and a strong, stable market position. Credit risk in this regard is continuously monitored through the on-going review of the financial condition and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the level of concentration of periodically unallocated cash and cash equivalents, showing the assessed creditworthiness of the financial institutions[11]

	At	
Rating levels	**31 December 2013**	**31 December 2012**
Highest	-	15%
Medium-high	67%	37%
Medium	33%	48%

[8] 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.
[9] 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.
[10] 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.
[11] weighed by amount of deposits

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

28. Financial risk management (continued)

28.2.2 Credit risk related to derivative transactions

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

The following table presents the structure of ratings of the financial institutions with whom the Company engaged in derivatives transactions, representing an exposure to credit risk[12].

	At	
Rating levels	**31 December 2013**	**31 December 2012**
Highest	16%	12%
Medium-high	79%	82%
Medium	5%	6%

Taking into consideration the fair value of open derivative transactions entered into by the Company and unsettled derivatives, as at 31 December 2013, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 22% (as at 31 December 2012: 17%).

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

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

The fair value of open derivatives of the Company and receivables and liabilities due to unsettled derivatives by counterparty are presented in the table below.

	As at 31 December 2013			As at 31 December 2012		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Counterparty 1	185	(9)	**176**	232	(88)	**144**
Counterparty 2	140	(6)	**134**	136	(55)	**81**
Counterparty 3	131	(1)	**130**	116	(11)	**105**
Counterparty 4	98	(2)	**96**	111	(18)	**93**
Counterparty 5	81	(2)	**79**	101	(32)	**69**
Counterparty 6	75	(15)	**60**	197	(45)	**152**
Counterparty 7	44	-	**44**	37	(1)	**36**
Counterparty 8	26	-	**26**	20	(1)	**19**
Other	75	(7)	**68**	195	(18)	**177**
Total	**855**	**(42)**	**813**	**1 145**	**(269)**	**876**
Open derivatives	814	(23)	**791**	1 123	(253)	**870**
Unsettled derivatives	41	(19)	**22**	22	(16)	**6**

[12] weighed by positive fair value of open and unsettled derivatives

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

28. Financial risk management (continued)

28.2.3 Credit risk related to trade and other financial receivables

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

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

	At					
	31 December 2013			31 December 2012		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	18%	38%	44%	22%	61%	17%

The Company limits its exposure to credit risk related to trade and other receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Company is the on-going monitoring of receivables and the internal reporting system.

Buyer’s credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments. The Company has secured the majority of its receivables by promissory notes[13], frozen funds on bank accounts, registered pledges[14], bank guarantees, corporate guarantees, mortgages and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain[15].

To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer’s credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2013 the Company had secured 74% of its trade receivables.

The total value of the Company’s net trade receivables as at 31 December 2013, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 1 594 million (as at 31 December 2012: PLN 1 190 million).

The concentration of credit risk in the Company results from the fact that key clients are allowed extended terms of payment. Consequently, as at 31 December 2013 the balance of receivables from 7 of the Company’s largest clients, in terms of trade receivables at the end of the reporting period, represented 64% of the trade receivables balance (as at 31 December 2012: 66%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to security used, the level of credit risk is low.

28.2.4 Credit risk related to loans granted

As at 31 December 2013 the carrying amount of loans granted by KGHM Polska Miedź S.A. amounted to PLN 257 million, of which PLN 253 million represented the long-term loans, and PLN 4 million – short-term loans.

Loans were granted to companies of the KGHM Polska Miedź S.A. Group. To reduce the risk due to loans granted, the Company continuously monitors the assets and financial results of the borrowers.
The Company considers the credit risk due to loans granted as immaterial.

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

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

15 A confirmed notarial clause which is applied in trade contracts means that rights to ownership of merchandise are transferred to the buyer only after payment is received despite physical delivery. Application of this clause is aimed solely at hedging credit risk and simplifying any eventual legal claims with regard to deliveries. The Company transfers the substantial risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

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

28. Financial risk management (continued)

28.2.5 Other information related to credit risk

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

	As at 31 December 2013		
	Value	**up to 1 month**	**1-3 months**
Trade receivables	**40**[16]	38	2
Other financial receivables	**1**	1	-

	As at 31 December 2012		
	Value	**up to 1 month**	**1-3 months**
Trade receivables	**115**	115	-
Other financial receivables	**1**	1	-

Except for trade receivables and other financial receivables, no other classes of financial instruments were identified as overdue but not impaired at the end of the reporting period.

Allowances for impairment of financial assets in category loans and receivables were insignificant either in the reporting period or in the comparable period.

28.3 Liquidity risk and capital management

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

Contractual maturities for financial liabilities as at 31 December 2013

Financial liabilities	**Contractual maturities from the end of the reporting period**					**Total (without discounting)**	**Carrying amount**
	Up to 3 months	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**		
Trade payables	1 157	-	1	1	7	**1 166**	**1 166**
Borrowings	1 123	-	-	-	-	**1 123**	**1 123**
Derivatives – Currency contracts	-	-	-	-	-	**-**	**10**
Derivatives – Commodity contracts - metals	-	-	-	-	-	**-**	**13**
Other financial liabilities	155	21	3	3	1	**183**	**124**
Total financial liabilities by maturity	**2 435**	**21**	**4**	**4**	**8**	**2 472**	

Contractual maturities for financial liabilities as at 31 December 2012

Financial liabilities	**Contractual maturities from the end of the reporting period**					**Total (without discounting)**	**Carrying amount**
	Up to 3 months	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**		
Trade liabilities	1 044	-	-	-	-	**1 044**	**1 044**
Borrowings	1	1 016	-	-	-	**1 017**	**1 013**
Derivatives – Currency contracts	-	-	-	-	-	**-**	**42**
Derivatives – Commodity contracts - metals	-	-	-	-	-	**-**	**211**
Other financial liabilities	95	21	18	4	-	**138**	**75**
Total financial liabilities by maturity	**1 140**	**1 037**	**18**	**4**	**-**	**2 199**	

16 During the period from the end of the reporting period to the publication date of these financial statements, payment was made on overdue trade receivables.

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

28. Financial risk management (continued)

Financial liabilities arising from derivatives are calculated as their intrinsic values, excluding the effects of discounting.

As at 31 December 2013, the Company held guarantees which amounted to PLN 10 million with a maturity to March 2015. This guarantee represents a contingent liability, which does not materially affect the liquidity risk of the Company.

The management of financial liquidity is performed in accordance with the „Financial Liquidity Management Policy" adopted by the Management Board. This document describes in a comprehensive way the process of managing the Company's financial liquidity, guided by best practice in terms of procedures and instruments. The basic principles resulting from this document are:

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

In order to minimise risk associated with loss of liquidity, in 2013 the Company made use of borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility. Open lines of credit are available in PLN, USD and EUR.

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

Open Credit lines as at 31 December 2013

Type of bank loan	Bank loan currency	Balance of available bank loan in original currency [million]
Working capital facility and overdraft facility	USD	88
Overdraft facility	EUR	50
Working capital facility and overdraft facility	PLN	2 600

Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

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

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

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

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

The indicators for KGHM Polska Miedź S.A are presented in the table below:

	As at	
Indicator	**31 December 2013**	**31 December 2012**
Net debt/EBITDA	0.20	0.04
Equity ratio	0.79	0.77

In 2013 and 2012 there were no external equity requirements imposed on the Company, including in the credit agreements entered into by the Company.

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

28. Financial risk management (continued)

The Company continues to add additional companies to the cash management service of the KGHM Polska Miedź S.A. Group (zero-balance cash pool). The funds available under this service bear an interest rate based on variable WIBOR. The credit limit available in the account as at 31 December 2013 was PLN 431 million. This service enables optimisation of costs and effective management of current cash liquidity in the KGHM Polska Miedź S.A Group.

KGHM Polska Miedź S.A. is the coordinator of this service. This function is based on establishing the conditions for functioning of the system, particularly rules of calculating interest rate and representation of the entire Group in relations with the bank with respect to the service. KGHM Polska Miedź S.A. also acts as a participant of the cash pool system, which deposits its unallocated cash and, in case of need, takes advantage of financing.

As at 31 December 2013 the Company held net receivables of PLN 109 million due to participation in the management services in the Group.

29. Income tax

		For the period	
Income tax	**Note**	**from 1 January 2013 to 31 December 2013**	**from 1 January 2012 to 31 December 2012**
Current income tax		1 036	1 558
Deferred income tax	18	103	(1)
Adjustments to income tax from prior periods		(1)	(8)
Total		**1 138**	**1 549**

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Profit before taxation	4 196	6 417
Tax calculated at tax rates in force	797	1 219
Tax effect of non-taxable income	(47)	(72)
Tax effect of expenses not deductible for tax purposes *	389	410
Adjustments to income tax from prior periods	(1)	(8)
Income tax expense	**1 138**	**1 549**

***** tax effect of expenses not deductible for tax purposes in 2013 and 2012 mainly related to the introduction of minerals extraction tax from April 2012.

The rate applied to the taxation of income in accordance with corporate income tax law in force amounted to 19% (for 2012: 19%). The effective tax rate was 27.12% (for 2012: 24,14%). The increase in the effective tax rate in 2013 compared to 2012 was mainly due to accounting for the minerals extraction tax.

30. Earnings per share

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Profit for the period	3 058	4 868
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	15.29	24.34

There are no dilutive ordinary shares.

31. Dividend paid

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

The right to dividend date was set at 12 July 2013.
The dividend payment date was set as follows:
- 1st instalment on 14 August 2013- in the amount of PLN 4.90 per share,
- 2nd instalment on 14 November 2013- in the amount of PLN 4.90 per share.

All shares of the Company are ordinary shares.

32. Explanations to the statement of cash flows

Change in provisions

	Note	For the period	
		from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Change in provisions for other liabilities and employee benefits from the statement of financial position		**(248)**	**514**
Adjustment:			
Provisions for decommissioning costs of mines and restoration of tailings storage facilities recognised in property, plant and equipment	5	171	(243)
Provisions for employee benefits recognised in other comprehensive income	19	63	(201)
Change in provisions recognised in the statement of cash flows		**(14)**	**70**

Change in receivables

	Note	For the period	
		from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Change in trade and other receivables from the statement of financial position	**11**	**(1 017)**	**(185)**
Adjustment:			
Long-term loans granted		222	(5)
Short-term loans granted		(8)	7
Advances granted for purchase of property, plant and equipment and intangible assets		29	27
Other		(3)	(24)
Change in receivables recognised in the statement of cash flows		**(777)**	**(180)**

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

32. Explanations to the statement of cash flows (continued)

Change in payables

	Note	For the period	
		from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Change in trade and other payables from the statement of financial position	**16**	**194**	**423**
Adjustment:			
Payables due to purchase of property, plant and equipment and intangible assets		(138)	(56)
Non-cash subsidies to intangible assets related to CO_2 emission allowances		(11)	-
Cash subsidies to be used for the purchase of property, plant and equipment and intangible assets		(2)	(11)
Change in payables recognised in the statement of cash flows		**43**	**356**

Change in cash and cash equivalents

	Note	For the period	
		from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Change in cash and cash equivalents from the statement of financial position	**13**	**(584)**	**(12 129)**
Adjustment:			
Exchange differences from the measurement		3	878
Change in cash and cash equivalents recognised in the statement of cash flows		**(581)**	**(11 251)**

Proceeds from the sales of property, plant and equipment and intangible assets

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	67	17
Losses on sales of property, plant and equipment and intangible assets	(34)	(1)
Proceeds from sales of property, plant and equipment and intangible assets	**33**	**16**

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

32. Explanations to the statement of cash flows (continued)

Expenditures on exploration for and evaluation of mineral resources recognised in operating activities

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Purchase recognised in profit or loss	(3)	(3)
(Negative)/Positive change in liabilities recognised in operating activities due to exploration for and evaluation of mineral resources	(1)	(4)
Total	**(4)**	**(7)**

Expenditures on exploration for and evaluation of mineral resources recognised in investing activities

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
Purchase	(43)	(19)
Positive change in liabilities due to exploration for and evaluation of mineral resources	15	(1)
Total	**(28)**	**(20)**

33. Related party transactions

	For the period from 1 January 2013 to 31 December 2013		
Sales	**Sales of products**	**Sales of merchandise and materials**	**Other transactions**
- to subsidiaries	203	75	49
Total sales to related entities	**203**	**75**	**49**

	For the period from 1 January 2012 to 31 December 2012		
Sales	**Sales of products**	**Sales of merchandise and materials**	**Other transactions**
- to subsidiaries	554	72	17
Total sales to related entities	**554**	**72**	**17**

During the period from 1 January 2013 to 31 December 2013, KGHM Polska Miedź S.A. did not receive dividends from subsidiaries. In the comparable period proceeds from dividends from a subsidiary amounted to PLN 1 million.

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

33. Related party transactions (continued)

During the period from 1 January 2013 to 31 December 2013, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Company were reported.

	For the period from 1 January 2013 to 31 December 2013		
Purchases from related entities	**Purchase of services, merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other transactions**
- from subsidiaries	4 356	927	7
Total purchases from related entities	**4 356**	**927**	**7**

	For the period from 1 January 2012 to 31 December 2012		
Purchases from related entities	**Purchase of services, merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other transactions**
- from subsidiaries	5 070	818	6
Total purchases from related entities	**5 070**	**818**	**6**

	At	
Receivables from related entities due to sales of products, services, merchandise, materials, non-current assets, cash pooling and loans	**31 December 2013**	**31 December 2012**
- from subsidiaries	545	224
Total receivables from related entities	**545**	**224**

	At	
Trade and other payables towards related entities due to purchase of products, services, merchandise, materials, and non-current assets	**31 December 2013**	**31 December 2012**
- towards subsidiaries	495	460
Total payables towards related entities	**495**	**460**

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

33. Related party transactions (continued)

The remaining transactions, which were collectively significant, between the Company and the Polish Government and entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions involved the purchase of materials and services to meet the needs of its current operating activities (fuel, energy, transport services). Turnover from these transactions in the period from 1 January 2013 to 31 December 2013 amounted to PLN 665 million (for the period from 1 January 2012 to 31 December 2012: PLN 765 million), the unsettled balance of liabilities from these transactions as at 31 December 2013 amounted to PLN 30 million (as at 31 December 2012: PLN 41 million), and the unsettled balance of receivables as at 31 December 2013 amounted to PLN 5 million (as at 31 December 2012: PLN 4 million). Revenues from sales from State Treasury companies during the period from 1 January 2013 to 31 December 2013 amounted to PLN 46 million (for the period from 1 January 2012 to 31 December 2012: PLN 55 million).

33. Related party transactions (continued)
Remuneration of members of key management personnel:
(a) Remuneration of the Management Board in PLN '000

	Period when function served in 2013	Fixed part of remuneration	Variable part of remuneration**	Earnings from subsidiaries	Other benefits and earnings****	Total earnings in 2013
Members of the Management Board serving function as at 31 December 2013						
Herbert Wirth	01.01-31.12.2013	1 393	363	-	243	**1 999**
Jarosław Romanowski	02.09-31.12.2013	419	-	-	61	**480**
Wojciech Kędzia	01.01-31.12.2013	1 117	295	-	171	**1 583**
Jacek Kardela	02.09-31.12.2013	372	-	210	53	**635**
Marcin Chmielewski	02.09-31.12.2013	372	-	-	39	**411**
Other Members of the Management Board *						**-**
Włodzimierz Kiciński	01.01-02.09.2013	1 255	261	-	218	**1 734**
Adam Sawicki	01.01-02.09.2013	1 112	175	-	216	**1 503**
Dorota Włoch	01.01-02.09.2013	1 109	230	-	193	**1 532**
Maciej Tybura	-	-	88	-	-	**88**
		7 149	**1 412**	**210**	**1 194**	**9 965**

	Period when function served in 2012	Fixed part of remuneration	Variable part of remuneration***	Earnings from subsidiaries	Benefits due to termination of employment relationship	Other benefits and earnings****	Total earnings in 2012
Members of the Management Board serving function as at 31 December 2012							
Herbert Wirth	01.01-31.12.2012	1 148	398	48	-	169	**1 763**
Włodzimierz Kiciński	28.06-31.12.2012	621	75	-	-	54	**750**
Wojciech Kędzia	01.01-31.12.2012	918	319	83	-	67	**1 387**
Adam Sawicki	01.09-31.12.2012	362	22	-	-	54	**438**
Dorota Włoch	28.06-31.12.2012	552	66	81	-	60	**759**
Other Members of the Management Board *							
Maciej Tybura	01.01-28.06.2012	406	254	31	42	116	**849**
		4 007	**1 134**	**243**	**42**	**520**	**5 946**

*The amounts in the " Fixed part of remuneration" and " Variable part of remuneration" columns include remuneration during the period of employment termination.
**" Variable part of remuneration" includes:
- settlement of the variable part of remuneration for 2012,
- prepayments on variable part of remuneration (in quarterly periods) for 2013.
***"Variable part of remuneration" includes:
- settlement of the variable part of remuneration for 2011,
- prepayments on variable part of remuneration (in quarterly periods) for 2012.
**** Amounts in the column „Other benefits and earnings" include additional monetary benefits, including life insurance, contributions to the Employee Retirement Fund and financing of non-monetary benefits

33. Related party transactions (continued)

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

	Period when function served in 2013	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts*	Other benefits**	Total earnings in 2013
Krzysztof Kaczmarczyk	01.01-31.12.2013	102	-	3	**105**
Aleksandra Magaczewska	01.01-31.12.2013	116	-	4	**120**
Jacek Poświata	01.01-31.12.2013	93	-	34	**127**
Bogusław Szarek	01.01-31.12.2013	93	161	10	**264**
Andrzej Kidyba	19.06-31.12.2013	49	78	9	**136**
Iwona Zatorska-Pańtak	19.06-31.12.2013	48	-	3	**51**
Marek Panfil	19.06-31.12.2013	48	16	52	**116**
Paweł Białek	01.01-19.06.2013	45	-	32	**77**
Dariusz Krawczyk	01.01-19.06.2013	45	-	2	**47**
Ireneusz Piecuch	01.01-19.06.2013	45	-	2	**47**
Krzysztof Opawski	01.01-27.11.2013	85	-	-	**85**
		769	**255**	**151**	**1 175**

	Period when function served in 2012	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts *	Other benefits**	Total earnings in 2012
Marcin Dyl	01.01-19.01.2012	5	-	-	**5**
Arkadiusz Kawecki	01.01-19.01.2012	5	-	2	**7**
Marzenna Weresa	01.01-19.01.2012	5	-	-	**5**
Jan Rymarczyk	01.01-19.01.2012	5	-	2	**7**
Franciszek Adamczyk	01.01-19.01.2012	5	-	1	**6**
Jacek Kuciński	01.01-25.04.2012	38	-	13	**51**
Marek Panfil	01.01-25.04.2012	32	-	6	**38**
Lech Jaroń	01.01-28.06.2012	46	84	17	**147**
Maciej Łaganowski	01.01-28.06.2012	46	73	19	**138**
Paweł Markowski	01.01-28.06.2012	46	107	16	**169**
Mariusz Kolwas	19.01-24.04.2012	25	-	4	**29**
Krzysztof Kaczmarczyk	19.01-31.12.2012	91	-	9	**100**
Aleksandra Magaczewska	19.01-31.12.2012	101	-	10	**111**
Robert Oliwa	19.01-30.09.2012	58	-	6	**64**
Jacek Poświata	19.01-31.12.2012	86	-	13	**99**
Paweł Białek	25.04-31.12.2012	61	-	6	**67**
Dariusz Krawczyk	25.04-31.12.2012	61	-	4	**65**
Ireneusz Piecuch	25.04-31.12.2012	61	-	3	**64**
Krzysztof Opawski	03.09-31.12.2012	29	-	5	**34**
Bogusław Szarek	21.11-31.12.2012	10	17	-	**27**
		816	**281**	**136**	**1 233**

*Amounts in the column „Earnings from other contracts" include remuneration due to labour contracts in the Divisions of KGHM Polska Miedź S.A. and remuneration due to serving on the supervisory bodies of Group subsidiaries
**Amounts in the column „Other benefits" include travel costs and financing of non-monetary benefits

34. Remuneration of entity entitled to audit the financial statements and of entities related to it (in PLN '000)

	For the period	
	from 1 January 2013 to 31 December 2013	**from 1 January 2012 to 31 December 2012**
PricewaterhouseCoopers Sp. z o.o.	**1 715**	**2 536**
From contract for the review and audit of financial statements	1 115	1 704
- audit of annual financial statements of the Company and of annual consolidated financial statements of the Group	775	1 402
- review of interim financial statements of the Company and of interim consolidated financial statements of the Group	340	302
From other contracts	600	832
Other companies of the PricewaterhouseCoopers Group in Poland	**2**	**872**
From other contracts	2	872

35. Contingent assets and liabilities, and liabilities not recognised in the statement of financial position

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

	At	
	31 December 2013	**31 December 2012**
Contingent assets	**464**	**414**
- disputed State Budget issues	-	7
- guarantees received (1)	213	182
- promissory notes receivables	120	98
- real estate tax on mining facilities (2)	87	87
- inventions, implementation of projects	44	40
Contingent liabilities	**191**	**178**
- guarantees	10	5
- disputed issues, pending court proceedings	16	15
- liabilities due to implementation of projects and inventions (3)	123	126
- real estate tax on mining facilities	42	18
- other	-	14
Liabilities not recognised in the statement of financial position		
- liabilities towards local government entities due to expansion of the tailings pond (4)	187	193
- liabilities due to finance leases	19	11

1) Collateral to cover potential claims by the Company due to the non-execution or improper execution of agreements by contractors.

(2) Claims for the return of overpaid property tax due to exclusion by the Company from the taxable base of the value of underground mines, following the issuance by the Constitutional Tribunal of a judgment dated 13 September 2011. On 23 January 2014, the first judgment in this case was issued by the Supreme Administrative Court. The SAC confirmed the validity of the manner of proceeding adopted by the Company, and revoked both the judgment of the Regional Administrative Court in Wrocław as well as the decisions of tax bodies in both instances questioning the formal manner of proceeding by KGHM Polska Miedź S.A.and therefore disallowing a substantive hearing on the request. The Court at this stage did not address the issue of a return of the overpayment, but called for further proceedings to be held, in which the tax bodies were ordered to prepare a substantive assessment of the request submitted by the Company for the return of the overpayment.

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

35. Contingent assets and liabilities, and liabilities not recognised in the statement of financial position (continued)

(3) Liabilities due to disputed issues against the Company concerning unpaid royalties for inventors, deemed baseless and undue by the Company.

(4) Liability due to compensation for the economic activity of the Company in some surrounding municipialities. Based on signed agreements the Company is commited to the payment of funds to these municipialities for the purposes and under the conditions stipulated in the agreements.

Liabilities due to operating leases - total value of future minimum payments due to leases

	At	
	31 December 2013	**31 December 2012**
Up to one year	5	3
From one to five years	13	8
Total:	**18**	**11**

	For the period	
	from 01.01.13 to 31.12.13	**from 01.01.12 to 31.12.12**
Rental and lease payments recognised in profit or loss	6	5

Total value of future minimum payments due to perpetual usufruct of land was presented in note 6.

36. Social Fund assets and liabilities

KGHM Polska Miedź S.A., in accordance with the obligation resulting from the Social Fund Act dated 4 March 1994, creates a Social Fund. The Fund's purpose is to subsidise the Company's social activity, housing loans to employees and other social expenditures.

The Company has netted the assets of the Fund with the liabilities towards the Fund, as these assets are not subject to control of the Company and do not meet the definition of an asset. Accordingly, the net balance (liability towards the Fund) as at 31 December 2013 amounts to PLN 2 million, and the net balance (liability towards the Fund) as at 31 December 2012 amounted to PLN 2 million.

Details on assets, liabilities and costs related to the Social Fund are presented in the tables below.

	At	
Social Fund assets and liabilities	**31 December 2013**	**31 December 2012**
Housing loans granted to employees	125	120
Cash and cash equivalents	26	24
Liabilities towards Social Fund	(153)	(146)
Net balance	**(2)**	**(2)**
Charged on operating costs of the financial period due to contributions to the Social Fund	113	109

37. Government grants

The balance of government grants in deferred income at 31 December 2012 is PLN 10 million. In terms of financing from the National Fund for Environmental Protection KGHM Polska Miedź S.A. signed an agreement in 2010 with subsequent appendices for financing of the project „Limiting the amount of waste – construction of a Doerschel furnace" – balance as at 31 December 2013: PLN 8 million (as at 31 December 2012: PLN 9 million). Also in 2010, the Company signed an agreement with subsequent appendices with the Polish Agency for Enterprise Development on „Development of mining technology using the ACT mining complex", under the operational program Innovative Economy 2007-2013 within which KGHM Polska Miedź receives financing with respect to the implementation of research and development – balance as at 31 December 2013: PLN 1 million (as at 31 December 2012: did not occur).

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

38. Employment structure

	For the period from 1 January 2013 to 31 December 2013	For the period from 1 January 2012 to 31 December 2012
White-collar employees (persons)	4 703	4 625
Blue-collar employees (persons)	13 862	13 941
Total:	**18 565**	**18 566**

39. Subsequent events

Agreements on setting mining usufruct rights for the extraction of copper ore in force from 1 January 2014
On 1 January 2014, liabilities were recognised in the amount of PLN 144 million as a discounted amount of the fixed part of payments due to agreements entered into setting mining usufruct rights for the extraction of copper ore. The fixed part of these payments were activated as intangible assets. The variable part of these payments (depending on the value of production) increased costs and liabilities to be settled at the maturity date.

Issuance of a letter of credit to secure liabilities of KGHM International Ltd.
On 8 January 2014, at the request of KGHM Polska Miedź S.A., HSBC Bank plc issued a letter of credit in the amount of USD 137.5 million (PLN 414 million at the exchange rate of PLN 3.0120 announced by the NBP dated 31 December 2013), securing liabilities of KGHM International Ltd. towards the beneficiary Empresa Eléctrica Cochrane S.A. due to a contract for the purchase of electricity entered into between Sierra Gorda SCM and Empresa Eléctrica Cochrane S.A. According to the contract the sponsors of the Sierra Gorda project are obliged to secure the transaction in the form of a guarantee or letter of credit. As at 8 January 2014, KGHM Polska Miedź S.A. assumed from KGHM International Ltd. the obligation to meet this requirement.

Exploration for, evaluation and extraction of deposits
On 10 January 2014, KGHM Polska Miedź S.A. signed an Agreement with Gdańskie Zakłady Nawozów Fosforowych FOSFORY Sp. z o.o. and Grupa Azoty Zakłady Azotowe „Puławy” S.A. regarding exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals.

Signing of a Letter of Intent with the company Grupa Azoty S.A.
On 16 January 2014, KGHM Polska Miedź S.A. signed a Letter of Intent with the company Grupa Azoty S.A. with its registered head office in Tarnów, setting forth the general principles for the eventual undertaking of joint business activities in the following areas: processing of phosphogypsum, exploration for potassium salt deposits abroad, gaining access to sources of natural gas, construction of a polygeneration power plant, and exploration for and extraction of phosphorite. The Parties determined that eventual realisation of joint projects in individual areas would be realised based on detailed agreements or through the establishment of joint venture companies.

Concessions received
On 21 January 2014, KGHM Polska Miedź S.A. received a concession for exploration and assessment of the “Konrad” copper ore deposit. This area is directly adjacent to the Synklina Grodziecka concession.

Refusal to grant concessions
On 28 January 2014, the Minister of the Environment issued a decision declining to grant a concession to KGHM Polska Miedź S.A. for the exploration and assessment of the „Bytom Odrzański” copper ore deposit and a decision granting to KGHM Polska Miedź S.A. concession no. 5/2014/p for the exploration of the „Kulów–Luboszyce” copper ore deposit, in that part covered by the Company’s request from 2012. These decisions are not legally binding, and KGHM Polska Miedź S.A. has submitted appeals of them to the Minister of the Environment.

Borrowing agreements entered into by the Parent Entity
On 29 January 2014 an agreement was signed for an overdraft facility in the following amounts:

- USD 100 million, available in the period from 31 January 2014 to 29 January 2017.
- USD 30 million, available in the period from 31 January 2014 to 29 January 2015.

Interest on the amounts drawn will be calculated based on EURIBOR, LIBOR plus a bank margin.

39. Subsequent events (continued)

Change in a significant contract with Polskie Górnictwo Naftowe i Gazownictwo SA

On 30 January 2014, an annex was signed by KGHM Polska Miedź S.A. to the comprehensive contract for the purchase of fuel gas („the Contract"), entered into on 30 July 2010 with Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG), which involves the purchase of natural gas for power generation purposes – to supply two Gas-Steam Blocks, each of approx. 45 MWe, and is valid to 30 June 2033. Based on the annex, the annual volume to be supplied was reduced from 266 million m3 to 41.5 million m3. This change is due to the limitation by KGHM Polska Miedź S.A. in the generation of electricity in association with heat production due to changes in the system of support for cogeneration in 2013 as well as to low electricity prices. The estimated value of this Contract after signing the annex is approx. PLN 830 million. The parties do not preclude a return to the initial volume of supply following improvements in the regulatory environment and in macroeconomic conditions. Also, annexes were signed for three other contracts for the purchase of fuel gas from PGNiG, in which the only change involved the contract's period of validity, which was changed from being undefined to 30 June 2033. The estimated value of the three contracts during their period of validity is approx. PLN 2.8 billion. This change secures long term cooperation with the main supplier of fuel gas, i.e. PGNiG with respect to the purchase of nitrogen-rich natural gas.

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
24 March 2014	Herbert Wirth	President of the Management Board	
24 March 2014	Jarosław Romanowski	I Vice President of the Management Board	
24 March 2014	Marcin Chmielewski	Vice President of the Management Board	
24 March 2014	Jacek Kardela	Vice President of the Management Board	
24 March 2014	Wojciech Kędzia	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
24 March 2014	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

REPORT OF THE MANAGEMENT BOARD ON THE COMPANY'S ACTIVITIES IN 2013

Lubin, March 2014

Table of Contents to the Report of the Management Board on the Company's Activities

Table 1. Aggregated data regarding KGHM Polska Miedź S.A. in the years 1997-2013

KGHM POLSKA MIEDŹ S.A. 1997-2013

(data for the years 1997-2011 per published annual reports, for 2012 per report for 2013)

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	Change 2012=100	CAGR (%) ****
Statement of comprehensive income																				
Sales	M PLN	4 089	3 642	4 113	4 983	4 218	4 488	4 741	6 158	8 000	11 670	12 183	11 303	11 061	15 945	20 097	20 737	18 579	89.6	9.9
Profit on sales	M PLN	905	240	348	941	173	152	431	1 445	2 707	4 139	4 880	3 392	3 197	6 657	9 364	7 135	4 609	64.6	10.7
EBITDA*	M PLN	1 212	631	319	1 198	144	753	956	1 761	2 937	4 784	5 101	4 078	3 646	6 254	14 360	7 198	4 976	69.1	9.2
Profit before income tax	M PLN	914	310	-58	795	-147	310	569	1 446	2 635	4 380	4 656	3 554	3 067	5 606	13 654	6 417	4 196	65.4	10.0
Profit for the period	M PLN	502	179	-170	618	-190	255	412	1 397	2 289	3 605	3 799	2 920	2 540	4 569	11 335	4 868	3 058	62.8	12.0
Statement of financial position																				
Total assets	M PLN	4 937	4 975	4 884	5 757	7 557	8 155	8 695	8 948	10 977	12 251	12 424	13 901	13 953	19 829	29 253	28 177	29 038	103.1	11.7
Non-current assets	M PLN	3 558	3 698	3 579	4 177	4 735	6 440	6 621	6 552	7 079	7 017	7 431	8 704	9 509	12 125	11 697	22 410	23 535	105.0	12.5
Current assets	M PLN	1 364	1 242	1 250	1 381	2 657	1 715	2 074	2 397	3 899	5 234	4 992	5 174	4 444	7 704	17 556	5 767	5 503	95.4	9.1
Equity	M PLN	4 021	4 096	3 470	4 067	3 696	4 011	4 007	5 337	6 214	8 116	8 966	10 591	10 404	14 456	23 136	21 923	23 298	106.3	11.6
Liabilities and provisions	M PLN	846	775	1 187	1 380	3 634	4 144	4 689	3 612	4 763	4 136	3 458	3 309	3 549	5 373	6 118	6 254	5 740	91.8	12.7
Financial ratios																				
Earnings per share (EPS)	PLN	2.51	0.89	-0.85	3.09	-0.95	1.27	2.06	6.99	11.45	18.02	18.99	14.60	12.70	22.84	56.67	24.34	15.29	62.8	12.0
Dividend per share (DPS) **	PLN	0.25	0.10	-	1.00	-	-	-	2.00	10.00	16.97	9.00	11.68	3.00	14.90	28.34	9.80	x	x	x
Price per share / Earnings per share (P/E)	x	5.4	14.0	-30.8	8.3	-13.7	10.6	12.7	4.5	5.5	4.9	5.6	1.9	8.3	7.6	2.0	7.8	7.7	98.7	2.2
Current liquidity	x	2.2	2.3	2.6	2.3	1.0	1.2	1.2	1.2	1.4	1.9	2.5	3.1	2.4	2.6	4.5	1.5	1.5	100.0	-2.4
Quick liquidity	x	1.0	0.9	1.0	0.9	0.7	0.6	0.7	0.8	1.0	1.3	1.7	2.2	1.4	1.9	3.9	0.7	0.8	114.3	-1.4
Return on assets (ROA)	%	10.2	3.6	-3.5	10.7	-2.5	3.1	4.7	15.6	20.9	29.4	30.6	21.0	18.2	23.0	38.7	17.3	10.5	60.7	0.2
Return on equity (ROE)	%	12.5	4.4	-4.9	15.2	-5.1	6.3	10.3	26.2	36.8	44.4	42.4	27.6	24.4	31.6	49.0	22.2	13.1	59.0	0.3
Debt ratio	%	14.2	13.5	14.3	15.9	38.2	34.2	38.8	24.0	28.2	33.8	27.8	23.8	25.4	27.1	20.9	22.2	19.8	89.2	2.1
Durability of financing structure	%	86.1	87.1	85.7	84.1	63.4	79.0	76.8	75.0	70.6	77.0	83.8	88.0	86.8	84.9	86.8	86.5	87.1	100.7	0.1
Production results																				
Electrolytic copper production	kt	440.6	446.8	470.5	486.0	498.5	508.7	529.6	550.1	560.3	556.6	533.0	526.8	502.5	547.1	571.0	565.8	565.2	99.9	1.6
Metallic silver production	t	1 029	1 098	1 093	1 119	1 163	1 192	1 358	1 344	1 244	1 242	1 215	1 193	1 203	1 161	1 260	1 274	1 161	91.1	0.8
Macroeconomic data (average annual)																				
Copper prices on LME	USD/t	2 276	1 653	1 574	1 814	1 578	1 558	1 780	2 868	3 684	6 731	7 126	6 952	5 164	7 539	8 811	7 950	7 322	92.1	7.6
Silver prices on LBM	USD/troz	4.88	5.54	5.23	4.95	4.37	4.60	4.88	6.66	7.31	11.55	13.38	14.99	14.67	20.19	35.12	31.15	23.79	76.4	10.4
Exchange rate	USD/PLN	3.28	3.49	3.96	4.35	4.10	4.08	3.89	3.65	3.23	3.10	2.77	2.41	3.12	3.02	2.96	3.26	3.17	97.2	-0.2
Other data																				
Market capitalisation, end of period	PLN/share	13.50	12.50	26.20	25.80	13.00	13.50	26.20	31.30	62.50	89.00	105.80	28.12	106.00	173.00	110.60	190.00	118.00	62.1	14.5
Capital expenditure	M PLN	649	487	379	584	433	360	424	616	651	709	828	1 140	1 070	1 263	1 514	1 766	2 357	133.5	8.4
Equity investments ***	M PLN	493	200	229	468	271	105	146	707	613	24	155	793	170	1 321	643	9 637	87	0.9	-10.3
Electrolytic copper production cost	PLN/t	5 527	5 556	5 836	6 156	6 328	6 305	6 237	6 660	7 723	10 497	11 160	11 736	11 170	12 983	13 566	17 496	18 140	103.7	7.7
Electrolytic copper production cost	USD/t	1 685	1 590	1 472	1 417	1 544	1 545	1 603	1 825	2 388	3 381	4 031	4 878	3 582	4 302	4 578	5 370	5 731	106.7	8.0
Concentrate production cost – C1	USD/lb	-	-	-	-	-	-	-	-	-	0.83	1.13	1.58	1.12	1.07	0.63	1.34	1.78	132.8	10.0

** operating profit (in the years 1997-2006 profit before extraordinary items and taxation adjusted by interest cost) + depreciation/amortisation*
*** dividend for financial year*
**** purchase/acquisition of shares and investment certificates*
***** CAGR (Compound Annual Growth Rate), t0=1997, for C1 cost t0=2006*

1. Company profile

KGHM Polska Miedź S.A. is the Parent Entity of a Group which is a world-class producer of copper and silver with over half a century of experience. The KGHM Polska Miedź S.A. Group belongs to the group of large global copper producers and is aiming to increase its production to around 700 thousand tonnes of copper annually while simultaneously respecting business ethics, environmental protection and social responsibility.

KGHM Polska Miedź S.A. owns one of the largest deposits of copper ore in the world, guaranteeing continuity of copper production in Poland for the next 40 years. The Group owns development projects in Poland, Canada, Chile and in Greenland. Thanks to the friendly takeover of the Canadian company Quadra FNX Ltd., today KGHM INTERNATIONAL LTD., the KGHM Group has become a global company, whose brand is recognised around the world.

The beginnings of mining by KGHM in the region reach back to the 1950s, when three old copper mines were reactivated (currently inactive), and, to process the ore extracted from them, the HM Legnica smelter was built, which has been in operation since 1953. Next, as a result of the discovery by Jan Wyżykowski in 1957 in the vicinity of Lubin and Polkowice of a vast deposit of copper ore, construction began of the ZG Lubin mine (1960), the oldest of KGHM's existing mines. In the years 1962-1980 two more mines were built – ZG Polkowice-Sieroszowice and ZG Rudna, as well as concentrator plants and two additional metallurgical plants and a wire rod facility.

1.1. Production

Description of production technology

Production in KGHM Polska Miedź S.A. is a fully integrated production process, in which the end product of one phase is the starting material (half-finished product) used in the next stage. Mining in KGHM is performed by three mining divisions: ZG Lubin, ZG Rudna and ZG Polkowice-Sieroszowice; the Concentrators Division, which prepares concentrate for the smelters, and the Tailings Division, responsible for storing and managing the tailings generated by the production process. The organisational structure of KGHM includes three metallurgical plants: the HM Legnica smelter and refinery, the HM Głogów smelter and refinery and the HM Cedynia copper wire rod plant.

Mining

The technology of mining the copper ore in all 3 mines is based on the room-and-pillar system with the use of blasting for ore extraction. This involves the excavation of a drift network on all four sides of the site to be mined, cutting of the unmined rock mass with rooms and drifts separating a number of operating pillars, as well as extracting of the ore followed by the transport of the ore to underground dumping stations. Here the large rocks are crushed and sifted through a grate, and then the crushed ore is transported to the storage areas near the shafts, from which it is transported to the surface by skip hoisting shafts.

The mining of the copper ore is done in a 4-shift system. It is fully mechanized, with the use of self-propelled mining machines, with most of them equipped with air-conditioned cabins and systems supporting the work of the operators. Mining is conducted in the following cycle: drilling the blasting holes with the support of self-propelled drilling rigs, loading of blasting material to drilled holes by drilling rigs, group blasting of the ore, followed by the ventilation of the areas blasted (from 30 min. to 2 hours; in seismic areas this time is longer). The next stage involves the loading of the ore using self-propelled loaders into haulage vehicles, and its transport to dumping stations and protection of the exposed face by anchor bolts using bolting rigs. The crushed ore is transported by conveyor belts or mine rail trolleys to the storage sites by the shafts, and is then hoisted to the surface. After the ore is unloaded at the shaft top, it is transported by conveyor belts or railway to the ore concentrators located at each of the three mines.

The operations and processes applied at each of the three concentrators are similar. However, due to the varied lithological and mineralogical composition of the ore from individual mines, the production layout of each facility differs. The enrichment technologies applied include the following individual operations: screening and crushing, milling and classification, flotation and drying of the concentrate.

The flotation process results in concentrate with an average copper content of approx. 22-23%, and flotation waste. The Rudna mine concentrator produces the highest copper content concentrate (approx. 26%), while the lowest is at the Lubin mine concentrator (approx. 14%). The Polkowice mine concentrator produces concentrate of approx. 24% copper content.

The dried concentrate of approx. 8.5% water content is transported by rail to the three smelters: Legnica, Głogów I and Głogów II (Głogów I and Głogów II comprising one large facility).

The tailings, in the form of slime, are transported through pipelines to the Żelazny Most tailings pond, where the sedimentation of the solid particles takes place and waste water is collected and redirected to the enrichment facilities. The storage site also serves as a retention-dosage reservoir for excess mine water. The excess water is periodically discharged to the Odra River.

Metallurgy

The copper smelters produce electrolytic copper from own concentrates and purchased copper-bearing material (concentrates, copper scrap, copper blister).

The Legnica and Głogów I smelters use a multi-stage process, whose main stages are: preparation of the charge material for smelting, its smelting in the shaft furnace to the form of matte copper, followed by conversion to the form of raw copper of approx. 98.5% Cu content, fire refining in an anode furnace to produce anodes of 99.2% Cu content, and electrorefining. The final product are refined electrolytic copper cathodes of 99.99% Cu content.

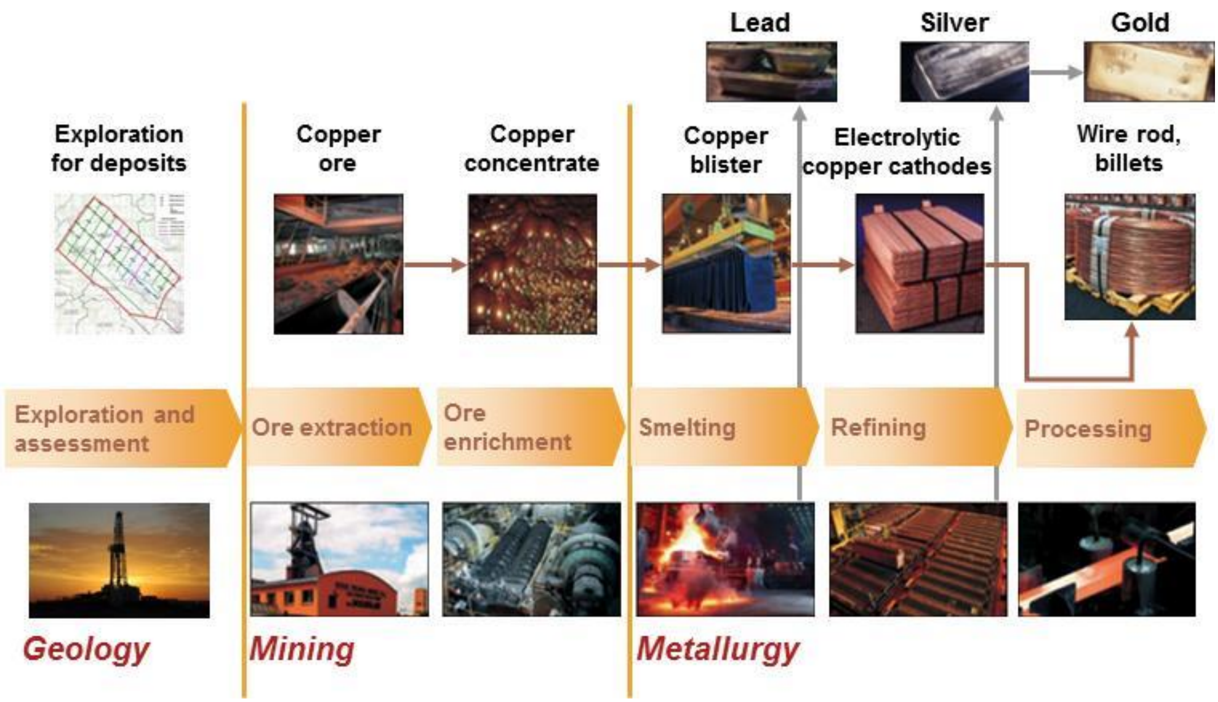
The Głogów II smelter applies flash furnace technology based on a modified license from the Finnish company Outokumpu. This technology combines three stages: drying of the concentrate, smelting of the matte copper and converting, into one. The dried concentrate is smelted in a flash furnace into blister copper containing around 99% Cu, which is refined in anode furnace. The slag, which still contains on average 14% copper, is sent to the electric furnace, where the copper is removed while the alloy received is sent to the convertors, from which copper is sent for refining in anode furncaces. Copper anodes are sent for electrorefining. The end product are copper cathodes containing 99.99% Cu.

Approx. 40% of the refined copper produced by all three smelters (mainly from the Głogów smelters) is transported to the Cedynia Copper Rolling Mill Division in Orsk, where copper wire rod is produced by the continuous smelting, casting and rolling process as well as oxygen-free copper rod (Cu-OFE) and oxygen-free, silver-bearing copper rod based on UPCAST technology.

The anode slime produced as a by-product of the electrorefining process at all three smelters contains precious metals. The anode slime is further processed at the Precious Metals Plant at the Głogów Smelter to obtain refined silver, gold, palladium-platinum concentrate and selenium. The remaining electrolyte, once the copper is removed, is used to produce crude nickel sulphate.

The dust and slimes originating from the removal of dust from technological exhaust gases at the smelters are mainly smelted in Dörschel furnaces at the Lead Section of the Głogów smelter into crude lead. The crude lead is refined at the Legnica smelter to obtain the final product - refined lead.

Diagram 1. Integrated geological, mining and metallurgical operations in the Company



Production in 2013

The main objectives set forth by the Management Board with respect to production in 2013 were:

- optimal utilisation of the resource base and of the production capacity of the Company,
- optimisation of the copper content in ore and concentrate, and
- maximum utilisation of the production capacity of the metallurgical divisions.

The objectives set forth required fulfilment of the following tasks:

with respect to **mining**:

- improving the ore selection system, extraction efficiency and workplace safety, through:
  - adapting the geometry of the mining systems to local geological-mining conditions,
  - improving the efficiency of technological and active methods of limiting the threat of rock bursts and of other associated natural threats,
  - optimising utilisation of barren rock within the mining areas (selective mining, siting of rock, mechanical mining of the ore);
- increasing the scope of externally-performed drift work from a level of 45.7 km 2012 to 52.5 km in 2013 to prepare new working areas in the mines and improve knowledge of the deposit,
- establishing a ventilation connection with the SW-4 from the underground workings,
- performing an increased scope of work related to gathering information on gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract this threat;

with respect to **ore processing**:

- adapting the production capacity of specific areas of the concentrators to the amount and quality of ore supplied,
- improving concentration parameters through the successive replacement of flotation equipment in specific areas of the concentrators, increasing copper recovery from flotation from 88.9% in 2012 to 89.3% in 2013,
- maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters,
- continuation at the Rudna concentrator of dividing concentrate production into concentrate with varied organic carbon content. Concentrate with organic carbon content of above 8% is sent to the shaft furnaces, while concentrate with organic carbon content of below 8% is processed by the flash furnace. The separation of concentrate increases the efficiency of the flash furnace and decreases consumption of energy-generating materials in the shaft furnaces.

with respect to **smelting**:

- continued modernisation of technology at the Głogów I Smelter as part of the Pyrometallurgy Modernisation Program,
- the peformance of smelter maintenance at HM Głogów II (an 82 day shutdown of the flash furnace and a 99 day shutdown of the electric furnace). This operation was an enormous technical and organisational challenge. The preparations alone lasted two years. Seventy companies were engaged in the maintenance and modernisation work for a period of three months. This was one of the elements of the Pyrometallurgy Modernisation Program in KGHM Polska Miedź S.A. The goal of modernisation of HM Głogów II was to increase its efficiency and reliability, optimise costs, prepare for the smelting of concentrate with increased carbon content, and to modernise the infrastructure of the electric furnace and sulphuric acid plant. As a result, the blister copper production line gained the ability to smelt copper concentrate at a level of approx. 863 kt per year. Among the most important tasks performed during the shutdown were the total replacement of the electric furnace (for the first time in 17 years of operation), the recovery boiler and the contact aparatus in the Sulphuric Acid Plant, and
- maintenance of the main Contirod line at HM Cedynia in Orsk,

Mine production

The extraction of ore (dry weight) in 2013 was higher by 0.5 Mt than in 2012 and amounted to 30.6 Mt. The increase in extraction in 2013 was due to an increase in daily extraction on working days, and to intensified work on statutorily free days.

Average copper content in extracted ore amounted to 1.57% and was lower than that achieved in 2012 (1.59%). This decrease in copper content in ore was due to work being performed in areas of lower copper content. The amount of copper in extracted ore amounted to 481.8 kt and was higher by 2.5 kt.

The production of concentrate (dry weight) remained at the 2012 level and amounted to 1 856.3 kt, while the amount of copper in concentrate reached the level of 428.9 kt. Copper content in concentrate improved from 22.95% in 2012 to 23.10% in 2013. The amount of silver in concentrate increased from 1 149 t to 1 199 t and was higher than that achieved in 2012 by 4.4%.

Table 2. Mine production

	Unit	2011	2012	2013	Change 2012=100
Copper ore (dry weight)	Mt	29.7	30.2	30.6	101.3
Copper content in ore	%	1.61	1.59	1.57	98.7
Copper content in ore	kt	479.3	479.3	481.8	100.5
Silver content in ore	t	1 356	1 342	1 393	103.8
Copper concentrate (dry weight)	kt	1 875	1 861	1 856	99.7
Copper content in concentrate	kt	426.7	427.1	428.9	100.4
Silver content in concentrate	t	1 167	1 149	1 199	104.4

Smelter production

The production of electrolytic copper versus 2012 was slightly lower (0.6 kt, i.e. 0.1%) and was the third-highest result in the history of KGHM Polska Miedź S.A., i.e. 565.2 kt. This high smelter production was achieved despite the smelter production line maintenance shutdown at HM Głogów II. The modernisation tasks performed improved operating parameters and will allow efficient operation of the line until the next maintenance in 2017. Assisting in maintaining the level of production was the higher processing of own concentrate and the share of purchased copper-bearing materials in the form of scrap, blister copper and imported concentrate. Supplementing own concentrates with purchased copper-bearing materials enabled the efficient utilisation of existing technological and production capacity.

The production of other smelter products (silver, wire rod, OFE rod and round billets) depends on the level of electrolytic copper production, the type of raw materials used and on market demand.

In relation to 2012, the production of metallic silver decreased by 113 t, with a result achieved for the year of 1 161 t, while the production of metallic gold increased by 150 kg, i.e. 16.4%, and achieved the level of 1 066 kg.

Table 3. Smelter production

	Unit	2011	2012	2013	Change 2012=100
Electrolytic copper, of which:	kt	571.0	565.8	565.2	99.9
- from purchased copper-bearing materials	kt	124.6	146.7	134.8	91.9
- from own concentrates	kt	446.4	419.1	430.4	102.7
Wire rod, OFE and CuAg rod	kt	242.7	242.9	243.7	100.3
Round billets	kt	20.3	18.0	17.0	94.4
Metallic silver	t	1 260	1 274	1 161	91.1
Metallic gold	kg	704	916	1 066	116.4
Refined lead	kt	25.2	27.5	26.6	96.7

Chart 1. Electrolytic copper production (kt)

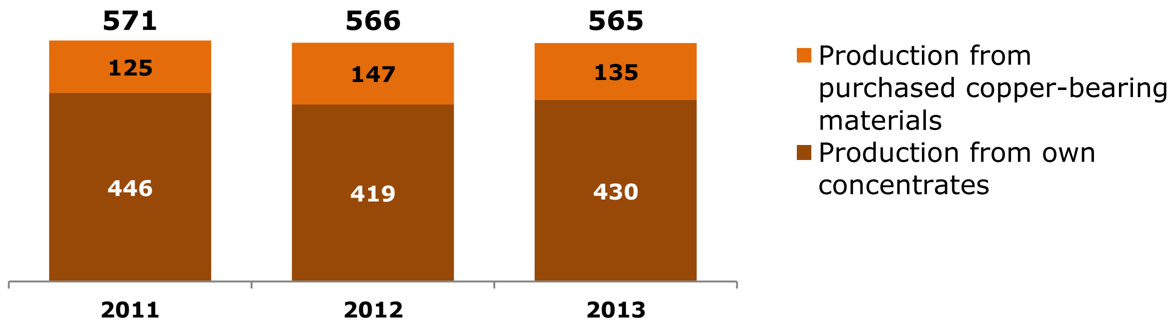
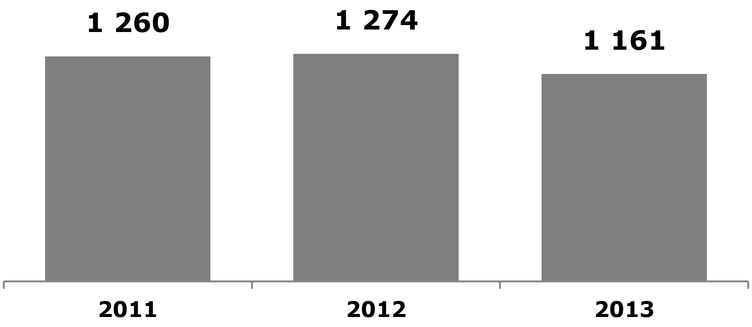


Chart 2. Metallic silver production (t)



Main directions in production

The main production goals set out by the Management Board for 2014 are a continuation of the goals from 2013, i.e.:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of the copper content in ore and concentrate.

With respect to mining, the key goals for 2014 are:

- continuation of access and preparatory work to intersect the ore at the level of 1 200 meters and below in the Rudna mine in the direction of the Deep Głogów area and continuation of work aimed at achieving a ventilation connection between the F and E declines in the Polkowice-Sieroszowice mine,
- expansion of the scope of applying drift development technology using drift combines,
- continued work related to gathering information on gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract these threats, and
- limiting dilution in extracted ore.

With respect to ore processing, the key goals for 2014 are:

- modernisation of classifier units, testing of new types of flotation machinery,
- improved energy performance of the machinery park at the concentrators,
- optimisation of the concentration process in terms of decreasing the impact of reduced quantity-quality parameters by applying the FloVis system at all flotation stages, including cleaning flotation, tests and the application of new flotation mixture reagents,
- continued separation of concentrate produced into two products with varied calorific values at the Rudna concentrator and the commencement of research into the separation of organic carbon at the rougher flotation stage (prefloatation),
- increased liberation of sulphide minerals through changes in the milling units, such as optimising the work of the mills and the application of grinding mediums with a high chromium content.

With respect to metallurgy, the key goals for 2014 are:

- continued modernisation of technology at the Głogów I Smelter as part of the Pyrometallurgy Modernisation Program,
- modernisation/revitalisation of the Tanks Hall at the Głogów I Smelter,
- shaft furnace maintenance at the Legnica Smelter.

Workplace safety

Continuous improvement of the workplace safety and hygiene management system in the Divisions of KGHM Polska Miedź S.A. enabled the receipt once again of the Safety Management Certificate in accordance with PN-N 18001, and was responsible to a large extent for the decrease in the number of accidents in recent years.

Actions with respect to workplace safety and hygiene management in 2014 comprise the following areas:

- implementation of a unified WSH policy for KGHM Polska Miedź S.A.
- realisation of comprehensive research into the workplace safety culture in KGHM Polska Miedź S.A. and the introduction as a standard the use of leading indicators to evaluate units,
- implementation of a unified program to improve WSH in the areas of technology, management, paying particular attention to employee motivation and to utilisation of the achievements of programs carried out in the Divisions,
- maintenance of the shaft furnace complex at the Legnica smelter,

- implementation of the program „zero tolerance" for dangerous behaviors – setting clear principles for encouraging and discouraging particular behaviors and incurring responsibility for breaking rules,
- training employees on safe behaviors and the meaning of responsibility for one's own safety and that of one's colleagues.

Process of obtaining concessions for existing mining areas

The activities of KGHM Polska Miedź S.A. involving the mining of the copper ore deposit over the last 20 years were based on concessions held by the Company which were issued by the Minister of Environmental Protection, Natural Resources and Forestry and the Minister of the Environment in the years 1993-2004, most of which expired by December 2013. The concessions which expired on 31 December 2013 covered the following deposit areas: „Polkowice", „Sieroszowice", „Lubin-Małomice" and „Rudna". The concession covering the „Radwanice-Wschód" deposit would have expired in 2015.

In view of the above, in 2010 the Company commenced the project CONCESSIONS 2013, whose aim was to gain concessions to extract copper ore from the aforementioned mining areas for the maximum possible period provided for by law, which is 50 years.

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

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

In October 2013, Mine Operating Plans for three mines (Polkowice-Sieroszowice, Rudna and Lubin) were submitted for approval to the District Mining Office. Within the established deadline, i.e. 31 December 2013, the mining authority approved all three Mine Operating Plans.

Consequently, since 1 January 2014 the Company has continued its core operations based on new concessions and new mining usufruct agreements valid to 31 December 2063, as well as on new mine operating plans approved for the years 2014-2016 (i.e. to 31 December 2016).

1.2. Product sales structure

In 2013, versus the prior year, the Company increased the volume of copper sales by 7.2 kt (1%). In addition approx. 25.3 kt dry weight (7.0 kt Cu) of copper concentrate was sold. Silver sales amounted to 1 250 t and were lower by 1% (16 t), while gold sales amounted to 1 057 kg and were higher by 16% (149 kg).

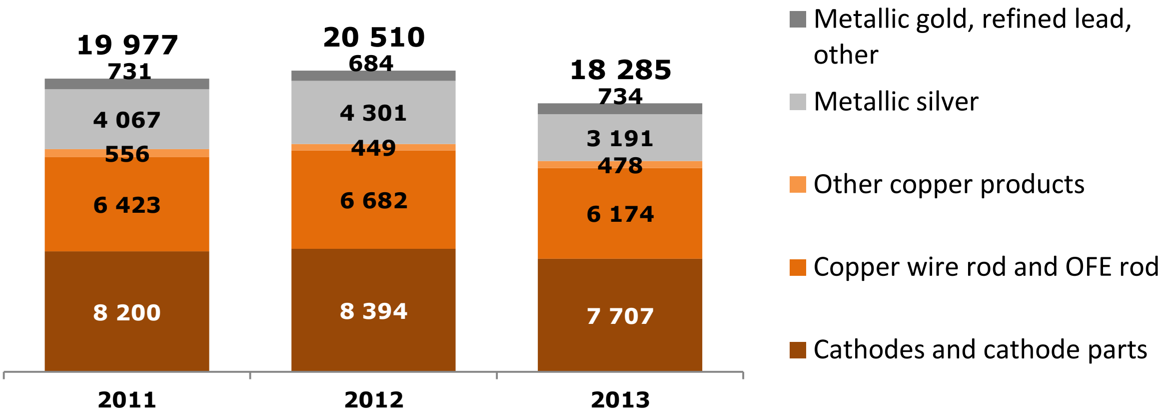
Table 4. Sales volume for basic products

	Unit	2011	2012	2013	Change 2012=100
Cathodes and cathode parts	kt	308.9	317.3	323.2	101.9
Copper wire rod and OFE rod	kt	237.2	246.3	250.7	101.8
Other copper products	kt	20.8	16.7	20.6	123.4
Total copper and copper products	**kt**	**566.9**	**580.3**	**594.5**	**102.4**
Metallic silver	t	1 179.4	1 266.8	1 250.4	98.7
Metallic gold	kg	660.2	907.6	1 057.0	116.5
Refined lead	kt	25.3	27.1	26.7	98.5

Table 5. Revenues from the sale of products (M PLN)

	2011	2012	2013	Change 2012=100
Cathodes and cathode parts	8 200	8 394	7 707	91.8
Copper wire rod and OFE rod	6 423	6 682	6 174	92.4
Other copper products	556	449	478	106.5
Total copper and copper products	**15 179**	**15 525**	**14 360**	**92.5**
Metallic silver	4 067	4 301	3 191	74.2
Metallic gold	112	156	144	92.3
Refined lead	188	188	194	103.2
Oher goods and services	431	340	395	116.2
Total revenues from the sale of products	**19 977**	**20 510**	**18 285**	**89.2**

Chart 3. Structure of sales of basic Company products in 2013



Total revenues from the sale of KGHM Polska Miedź S.A. products in 2013 amounted to PLN 18 285 million, and were lower by 11% than revenues achieved in 2012, mainly as a result of lower metals prices: copper on the London Metal Exchange (LME) and silver on the London Bullion Market (LBM) as well as to a decrease in the USD/PLN exchange rate. Revenues from the sale of copper and copper products were lower by 8%. Revenues from silver and gold sales versus their level in 2012 were lower respectively by 26% and 8%.

The value of revenues from sales in 2013 reflect the positive result from the settlement of hedging instruments in the amount of PLN 450 million (in the prior year PLN 333 million).

Geographical structure of product sales

In 2013 the volume of domestic sales of copper and copper products represented 20% of total copper sales, with export and European Union sales accounting for 80%. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and France. During 2013 domestic silver sales amounted to 2% of the total volume of silver sales, while export and sales to the EU accounted for 98%. The largest foreign customers for silver were Great Britain, Belgium and the USA.

Information on the main products

The basic products of the Company are electrolytic copper cathodes with a minimum copper content of 99.99%. These cathodes meet the highest demands for quality and are registered as Grade „A" on the London Metal Exchange (LME) under three brands: HMG-S, HMG-B and HML and on the Futures Contracts Exchange in Shanghai. The main customers for the cathodes are producers of wire rod, other rods, flat bars, pipes, sheets and belts.

The second-most important copper product in terms of volume is 8 mm copper wire rod manufactured through the Contirod® continuous process of melting, casting and drawing. The charge materials for the production of wire rod are copper cathodes, mainly those produced by the Company. Depending on the needs of the customer, wire rod is produced in various classes of quality. The main customers for wire rod are the cable, electrical goods and electrotechnical industries.

Photo 1. Copper cathodes

Photo 2. Copper wire rod

Other copper products are rod and round billets. Two types of rod are produced: Cu-OFE oxygen-free rod and CuAg(OF) oxygen-free, silver-bearing rod. Rod is produced using UPCAST® technology, in diameters from 8 mm to 25 mm (8 mm, 12.7 mm, 16 mm, 20 mm, 22 mm, 24 mm and 25 mm). Customers for this product are in the cable industry, with application in the form of thin wires, enameled wires and fire-resistant cables, as well as cables for transmitting audio and video sygnals. In addition, oxygen-free, silver-bearing rod is used in the manufacture of trolleys and commutators.

Round copper billets produced from copper cathodes cast in the classification Cu-ETP1 and Cu-ETP, and from oxygen-free phosphorus-containing copper in the classification Cu-HCP, Cu-PHC, Cu-DLP, Cu-DHP, are used in the construction industry (to manufacture pipes) and the electrotechnical industry (to manufacture belts, rods and profiles).

Photo 3. Oxygen-free, silver-bearing rod

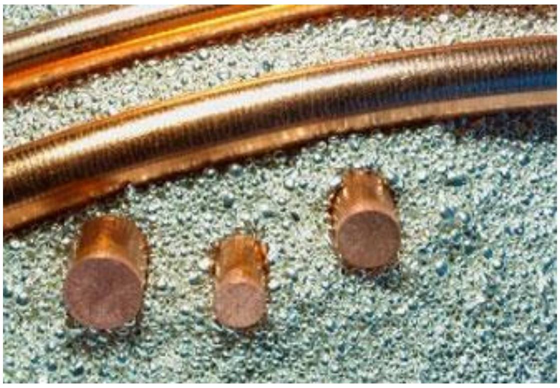


Photo 4. Round copper billets

Electrolytic silver is produced in the form of cast metal (bars, billets) and grains containing 99.99% silver. Silver bars (weighing approx. 32 kg) hold certificates registered on NYMEX in New York as well as Good Delivery certificates issued by the London Bullion Market Association and by the Dubai Multi Commodities Centre. Granule silver is packed in bags weighing 25 kg or 500 kg. The main customers for silver are banks, investment funds, the jewelery industry, photographic industry, and the electronics and electrical industries as well as producers of coins and medallions.

Photo 5. Silver billets

Photo 6. Granule silver

Gold in the form of bars weighing 0.5 kg, 1 kg, 4 kg, 6 kg and 12 kg containing 99.99% gold are used in the jewelery industry, by banks and in the electrical industry.

Photo 7. Gold bars

Macroeconomic sales conditions

In 2013 the global economy developed at a somewhat slower pace than in previous years. According to estimates by the International Monetary Fund, global growth was at the level of 3.0 percent, but many of the key developed economies had to face serious problems. China, of such importance for the metals markets, continued to transform its economy by attempting to increase domestic consumer consumption, which raised substantial fears about the possibility of maintaining existing GDP. In Europe many countries, led by Italy and Spain, experienced recessions and thanks only to the good condition of the German economy, the Eurozone shrank in the past year only by 0.4 percent y/y. In the United States the economic situation improved systematically month to month, although investors' fear continued as to when the Federal Reserve would begin to cut back on its policy of quantitative easing, which would have a negative impact on the financial markets. While the year 2013 was marked by significant challenges and fears, the global economy, in particular in the second half of the year, managed to do fairly well. This resulted in an increase in global refined copper consumption of over 3% y/y.

Copper prices at the start of the year oscillated around 8 000 USD/t, but after two months the red metal began to depreciate in value. This was due to the continuing economic slowdown and to the partial withdrawal of investors from the commodities markets. The price of copper until the end of the year remained within the range 6 500 – 7 500 USD/t, ending the year nearer the higher end of the range. The increase in the copper price in December was due to the flow of better macroeconomic data from the US and Germany as well as to greater consumer optimism. In addition, after decreases in the copper price in the first half of the year, in the third and fourth quarters problems appeared with the availability of scrap. This supply window was not able to offset the growing amount of mine production from existing mines and from new mining projects coming into production. Official exchange inventories of copper in the second half of the year fell by over 400 kt. The metal was mainly stored in three locations: Johor, Nowy Orleans and Vlissingen, generating fears that, in the case of a sudden increase in demand for copper, there would be a problem with removing the metal from the warehouses. According to unofficial information, copper continued to find its way to non-exchange warehouses in Asia, where it was used to conduct transactions on the financial market.

Last year it became evident that there was a change occurring among mined copper producers with the trend shifting towards intensification of activities aimed at delivering new mining projects in accordance with set schedules and optimising output, with strong pressure being brought to bear to control costs.

The silver market in 2013 witnessed extremely volatile changes. The price of the metal in the first half of the year lost around 30% of its value, and until the end of the year remained within the range 20-25 USD/oz, systematically approaching the lower end of the range. The drop in the silver price was primarily caused by the announcement by the Federal Reserve of a gradual withdrawal from the program of quantitative easing involving buying back assets from the financial market, and to the possibility of higher interest rates, the direct result of which was an easing of fears of high, uncontrolled inflation.

The average annual price of copper on the London Metal Exchange (LME) in 2013 was 7 322 USD/t, meaning a nearly 8 % decrease versus the prior year (7 950 USD/t). The price of silver on the London Bullion Market (LBM) recorded a nearly 24% decrease versus 2012 with its average annual price at 23.79 USD/oz (31.15 USD/oz in 2012).

Chart 4. Copper prices on the LME ('000 USD/t)

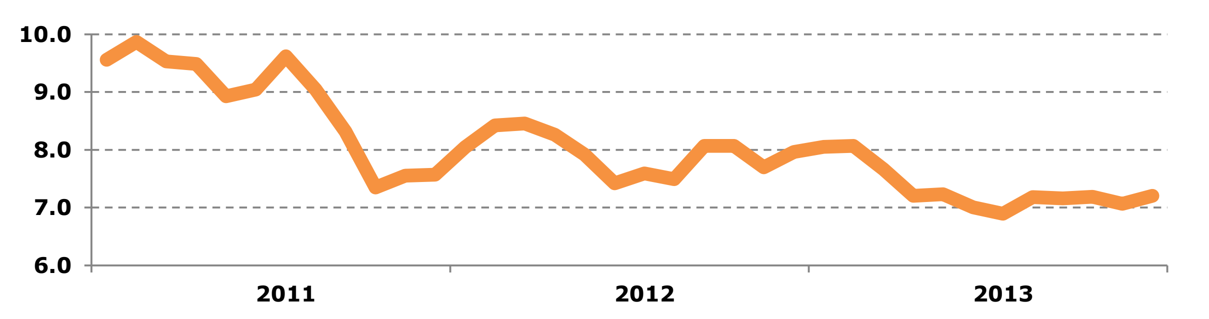
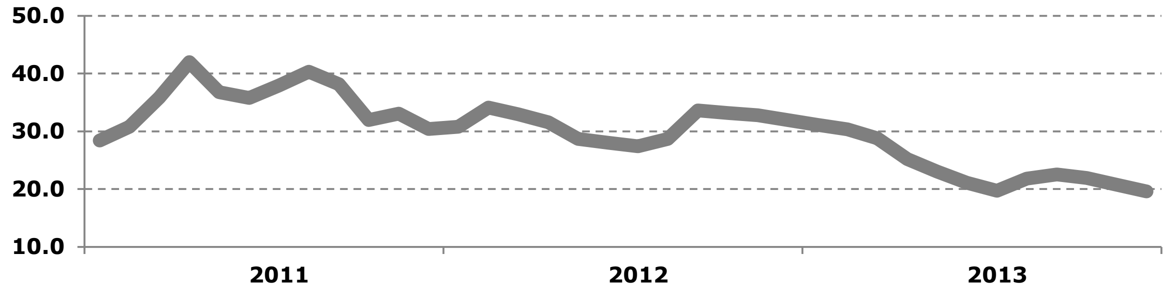


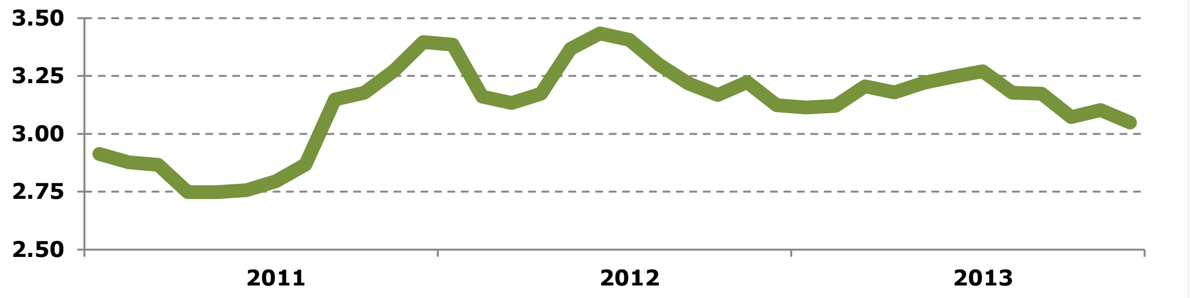
Chart 5. Silver prices on the LBM (USD/troz)



On the currency market, in the first half of the year a gradual strengthening of the USD versus the Euro was observed, resulting from the better economic situation in the US than in Europe, and the first declarations of withdrawal from the program of quantitative easing by the Fed. The strengthening of the USD had an obvious effect on the PLN, and at the start of the second quarter the USD/PLN exchange rate approached 3.40. However, during subsequent quarters the situation reversed. The Polish economy began to show signs of improvement, including based on the improvement in the situation in western Europe. This led to a gradual appreciation of the PLN versus the USD, reaching the level of 3.00 at year's end.

The average annual USD/PLN exchange rate (per the NBP) in 2013 amounted to 3.17 USD/PLN and was lower versus the prior year by nearly 3% (3.26 USD/PLN). In 2013 the minimum USD/PLN exchange rate was recorded at the end of December at the level of 3.0105 USD/PLN, while the maximum level was recorded at the start of July – 3.3724 USD/PLN.

Chart 6. USD/PLN exchange rate per the NBP



The macroeconomic factors of greatest importance for the Company's operations are presented in Table 6.

Table 6. Macroeconomic factors of importance for the Company's operations

	Unit	2011	2012	2013	Change 2012=100
Average copper prices on the LME	USD/t	8 811	7 950	7 322	92.1
Average silver prices on the LBM	USD/troz	35.12	31.15	23.79	76.4
Average USD/PLN exchange rate per the NBP	PLN/USD	2.96	3.26	3.17	97.2

Position of the Company in the sector

According to preliminary estimates by CRU International, global copper mine production in 2013 amounted to 17 745 kt. During this same period KGHM produced 428.9 kt of copper in concentrate, representing 2.4% of global production. Global production of refined copper, according to preliminary estimates by CRU, amounted to 20 608 kt. Production of refined copper in the Company amounted to 565.1 kt, representing 2.7% of global production.

In 2013, global mine production of silver amounted to 815 million ounces (estimated data from CRU International). KGHM during this period produced 37.3 million ounces of silver in concentrate, representing 4.6% of the global production of this metal.

1.3. Contracts significant for the activities of the Company

In 2013 the Company entered into three contracts of significance for the activities of the Company, as presented in Table 7.

Table 7. Contracts significant for the activities of the Company entered into in 2013

Date	Value of contract	Description of contract
21 January 2013	PLN 1 672 million *	Sale of silver in 2013 entered into with HSBC Bank the USA N.A. London Branch
28 January 2013	PLN 1 524 million *	Sale of copper cathodes in 2013 entered into with MKM Mansfelder Kupfer und Messing GmBH
31 January 2013	from PLN 2 382 million to PLN 2 865 million *	Sale of copper wire rod in the years 2013-2014 entered into with Prysmian Metals Ltd.

** Estimated value per exchange rate at date of contract signing or from the next day. The contracts met the criteria for significant contracts together with other contracts from the last 12 months preceding their signing.*

In 2013 there was no instance of dependence on a single or multiple customers or suppliers. Similarly as in 2012, the share of no customer exceeded 10% of the revenues from sales of the Company.

The only supplier whose share of supply exceeded 10% of the revenues from sales of KGHM Polska Miedź S.A. is the subsidiary KGHM Metraco S.A. in Legnica, whose sales to KGHM Polska Miedź S.A. amounted to PLN 2 826 million, representing 15% of the revenues from sales of the Company.

The high level of supplies from this company is related to the operating model of the Group, based on which a business goal of KGHM Metraco S.A. is the comprehensive servicing of KGHM Polska Miedź S.A., with respect to specific raw materials and products ensuring continuity of the production line of KGHM Polska Miedź S.A., based on its own logistical and expediting operations.

1.4. Information on contracts for the auditing or review of the separate or consolidated financial statements

The entity entitled to audit the separate financial statements of the Company and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, Al. Armii Ludowej 14, 00-638 Warsaw.

The contract which was signed on 4 April 2013 is in force for review of the half-year financial statements and for the audit of the annual financial statements for the years 2013, 2014 and 2015.

Detailed information on the amount of remuneration of the entity entitled to audit the financial statements for the review and audit of the financial statements, and remuneration for other purposes is shown in Note 34 of the financial statements.

1.5. Disputed issues

As at 31 December 2013, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. amounted to PLN 257 million, including receivables of PLN 58 million and liabilities of PLN 199 million. The total value of the above disputed issues does not exceed 10% of the equity of the Company.

The largest proceedings involving the liabilities and receivables of KGHM Polska Miedź S.A. are presented in Table 8.

Table 8. Largest proceedings involving the liabilities and receivables of KGHM Polska Miedź S.A.

Relating to liabilities due to:	
Setting additional royalties for the extraction of copper ore for the period from the start of 2006 to the end of the 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 the Company lowered the amount of royalties paid on extracted non-balance copper ore in the total amount of PLN 90 million, including that portion payable to the municipalities in the amount of PLN 54 million, with the remainder representing payments to the National Fund for Environmental Protection and Water Management. The Minister of the Environment, in decisions dated 11 April 2012, discontinued the proceedings on the grounds that they were groundless. The municipalities submitted appeals dated 26 April 2012 to the Minister of the Environment to reopen these proceedings. By decisions dated 11 August 2012, the Minister of the Environment upheld the appealed decisions. The municipalities submitted claims against the decisions of the Minister of the Environment to the Regional Administrative Court, which in judgments dated 31 January 2013 dismissed the charges of the municipalities. In April 2013 the municipalities Polkowice, Jerzmanowa, Lubin and the City of Lubin submitted cassation appeals to the judgments to the Supreme Administrative Court. A hearing date for the cassation appeals has not been set. The judgment of the Regional Administrative Court dated 31 January 2013, dismissing the claims by the municipality of Radwanice, became legally binding on 12 April 2013. In the Company's opinion the cassation appeals of the four municipalities should not be considered, and consequently should not have a financial impact on KGHM Polska Miedź S.A.
Royalties for use of invention project no. 1/97/KGHM	Value of amount under dispute: PLN 42 million. The claim was filed with the Regional Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. on 14 January 2008 received information 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 the 8th year, being the basis for setting potential royalties. As the Company questioned the opinion, the Court expert prepared a supplementary opinion. The court ordered the Company to respond to the opinion by 22 January 2014, which the Company did prior to the deadline set. In the Company's opinion the royalties being pursued by the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project.
Return of costs of protecting against mining damage	Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the Regional Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of work to protect against mine damages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA" in Lubin. The Regional Court, by a judgment dated 26 February 2013, ordered KGHM Polska Miedź S.A. to pay the amount of PLN 307 thousand. Both parties filed appeals: the defendant in the amount of PLN 305 thousand, and the plaintiff in the amount of PLN 16 million. The Appeals Court appointed a government court expert. At present correspondence is ongoing presenting the positions of the parties in respect of the issued opinion of the court-appointed expert and the supplementary opinion. In the Company's opinion the claim is unfounded and should be dismissed. However, due to the complex nature of the matter and the decision taken by the Regional Court, it is difficult to foresee the final resolution. Proceedings are in progress.
Relating to receivables due to:	
Return of undue royalties for use of invention project no. 1/97/KGHM	In January 2008 the Company filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 million for use of invention project no. 1/97/KGHM in the 6th and 7th periods (calendar years 2004 – 2005). The court has combined both these matters: the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, with the claims of the Company for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 million, for joint hearing. Proceedings are in progress. In the Company's opinion the payment of royalties to the project's authors was unfounded.

1.6. Company organisation

During the period from 1 January to 30 June 2013 the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised a Central Office and 10 Divisions.

Beginning on 1 July 2013 the name „Head Office of KGHM Polska Miedź S.A." was changed to „KGHM Polska Miedź S.A. Central Office".

Diagram 2. Organisational structure of the Company as at 31 December 2013

Divisions of KGHM Polska Miedź S.A.

Mining		Metallurgy	Other
Lubin Mine Division	Concentrators Division	Głogów Smelter Division	KGHM Polska Miedź S.A. CENTRAL OFFICE
Polkowice-Sieroszowice Mine Division	Tailings Division	Legnica Smelter Division	Mine-Smelter Emergency Rescue Division
Rudna Mine Division		Cedynia Wire Rod Division	Data Center Division

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

Management Board of the Company

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Management Board are appointed and dismissed by the Supervisory Board. The composition of the 8th-term Management Board of KGHM Polska Miedź S.A. at 1 January 2013 was as follows:

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

Table 9. Decisions of Company bodies on the composition of the Management Board in 2013

Date	Description of event
2 September 2013	Effective from 2 September 2013, Dorota Włoch submitted her resignation from the function of Vice President of the Management Board (Development) The Supervisory Board of KGHM Polska Miedź S.A. dismissed: Włodzimierz Kiciński from the function of I Vice President of the Management Board of KGHM Polska Miedź S.A and Adam Sawicki from the function of Vice President of the Management Board (Corporate Affairs). The Supervisory Board appointed Jarosław Romanowski to the function of I Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A., Marcin Chmielewski to the function of Vice President of the Management Board (Corporate Affairs) of KGHM Polska Miedź S.A. and Jacek Kardela to the function of Vice President of the Management Board (Development) of KGHM Polska Miedź S.A.

From 2 September 2013 to the date of preparation of this report, the Management Board of the Company was as follows:

- Herbert Wirth – President of the Management Board
- Jarosław Romanowski – I Vice President of the Management Board (Finance)
- Wojciech Kędzia – Vice President of the Management Board (Production)
- Jacek Kardela – Vice President of the Management Board (Development)
- Marcin Chmielewski – Vice President of the Management Board (Corporate Affairs)

Information on Management Board Members

Herbert Wirth – President of the Management Board KGHM Polska Miedź S.A. – coordinates the work of the Management Board and directs activities with respect to shaping the Company's personnel policy. Also amongst the duties of the President of the Management Board are the initiation and direct supervision of the process of developing and updating the Company Strategy, the supervision of designing, planning and conducting strategic studies in the current and future areas of Company activities, as well as supervision of activities with respect to comprehensive risk management at the corporate level. The President of the Management Board also supervises activities with respect to building relations with institutions of public administration, government departments and business partners, directs the conduct of community communication programs and supervises activities with respect to developing the Company's resource base.

A graduate of the AGH University of Science and Technology in Kraków. Obtained the title of doctor habilitatus in 2012. He completed among others postgraduate studies at the George Washington University School of Business and Public Management, obtaining a Master's Certificate in Project Management.

Since 1998 involved with the KGHM Polska Miedź S.A. Group, initially with the research company Centrum Badawczo – Projektowe Miedzi „CUPRUM" (today KGHM CUPRUM sp. z o.o. – CBR) in Wrocław, since 2002 with the Parent Entity of the Group, with a one-year break when he served as Vice President of KGHM CUPRUM sp. z o.o. – CBR.

Since 2011 a foreign member of the The Royal Swedish Academy of Engineering Sciences (IVA) and a member of the advisory team to the Polish Academy of Sciences.

He is also a member among others of the Honorary Conventions of AGH University of Science and Technology in Kraków, Wrocław University of Technology, Wrocław University of Environmental and Life Sciences and Wrocław University of Economics, and serves as Vice President of the Pracodawcy Rzeczypospolitej Polskiej (Employers of Poland).

Jarosław Romanowski – Vice President of the Management Board (Finance) – manages financial operations, including among others financial risk, financial controlling, activities with respect to supervising realisation of the function of Executive Director, Accounting Services Center – Chief Accountant, as well as commerce and logistics.

A graduate of Poznań University of Economics with a specialization in International Business. He has completed many prestigious courses in the field of international finance, risk management and valuation of companies.

Involved with KGHM Polska Miedź S.A. since 1996. He has participated in a number of strategic projects, including the creation from scratch of the market risk management department, organizing the refinancing of a syndicated loan (PLN 2.3 billion), contributing to the company's commercial policy, and leadership of the mergers and acquisitions team responsible for the acquisition of Quadra FNX Ltd.

He has held a variety of positions, among others: Director of Market Strategy from 1998, Executive Director for Finance from 2003, General Director of Trade and Hedging from 2006, and Vice President of KGHM INTERNATIONAL LTD. (Canada) from 2012. From 2003 - 2006 he served as Vice President, Chief Financial Officer for Tele-Fonika Kable S.A.

Marcin Chmielewski – Vice President of the Management Board (Corporate Affairs) – manages business relations and tasks related with creating and managing the Group with respect to implementation of and adherance to corporate governance principles and best business practices, of which determining the manner of organisation of the Group and its legal forms, manages or coordinates activities related with establishing appropriate relations with the Company's external business environment.

A graduate of Opole University of Technology, Faculty of Civil Engineering. Completed postgraduate studies in Banking and Finance at the University of Warsaw and Managing Company Value at the Warsaw School of Economics.

In the years 2011–2013 he was President of the Management Board of KGHM TFI SA. Previously, from 1992 - 2011 he worked in corporate banking, among others Bank Pekao SA, Dresdner Bank, DZ Bank, Bank BGŻ SA, from the positions of customer advisor to Regional Director. While working as Managing Director of the Bank KBL Luxembourg he completed a series of courses in Luxembourg in the field of asset management of investment funds. He also completed a two-month internship in a Branch Office of Pekao Bank in Toronto, Canada, and took part in a seminar on credit risk, DePaul University, Chicago, USA.

Jacek Kardela – Vice President of the Management Board (Development) – responsible for coordinating activities with respect to implementing the Strategy in all areas of the Group's operations, manages the Company's capital investments as approved in the Company's Budget as well as R&D work.

A graduate of the University of Wrocław, Faculty of Social Sciences. Currently involved in Executive Doctoral Business Administration studies at the Institute of Economics (PAN) in Warsaw. Mr. Kardela completed his MBA at the Warsaw School of Economics and postgraduate studies in Business Management at Wrocław University of Economics, and Production Management at the AGH University of Science and Technology.

Associated with the KGHM Polska Miedź S.A. Group since 1998. He has held the position of President of the Management Board at various companies, including CBJ Sp. z o.o., KGHM ZANAM Sp. z o.o. and Zaglębie Lubin. He has also had experience in municipal companies.

Wojciech Kędzia – Vice President of the Management Board (Production) – manages activities with respect to production of the Company's products and services and supervises production operations in the Group's subsidiaries, of which mainly mining and metallurgical production, as well as with respect to acquiring, building and maintaining in readiness the production assets, in particular with respect to the tasks of workplace safety and control of environmental risk

A graduate of Wrocław University of Technology, the Mining Faculty, and a Doctor of Economics. Completed post-graduate studies in hydrometallurgy at the Chemistry Faculty of Wrocław University of Technology and Postgraduate Management Studies in the area of organisation and management in market economy at Wrocław University of Economics.

Involved with KGHM since 1992. Mr. Kędzia climbed the entire career ladder, from the position of head miner, through director of a department for analyses and monitoring of production, to Vice-President of the Management Board.

Information on the employment contracts and remuneration of Members of the Management Board of KGHM Polska Miedź S.A.

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, composed of the basic monthly salary and variable salary. The basic monthly salary is set as a multiple of the average monthly remuneration in the industrial sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Chief Statistical Office. Payment of the variable salary is contingent on the fulfilment of criteria (tasks) set by the Supervisory Board, and is contingent upon realisation by the Members of the Management Board of key performance indicators (KPI) and amounts to up to 40% of the annual basic salary.

The employment contracts with Management Board Members also regulate the following matters:

- coverage by the Company of costs required for the proper performance of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred pursuant to the budget),
- the use of business cars and rental of a flat for Management Board Members (the costs associated with the use of a business car and flat are defined in a separate contract),
- medical benefits (in each calendar year of the life of the contract the Company purchases a medical packet for Management Board members worth up to PLN 10 thousand),
- life insurance premiums (once every year the Company covers or reimburses the amount of the premiums to an amount up to one monthly basic salary).

Additionally, the Supervisory Board, based on assessment of the work of the Management Board, may grant the Members of the Management Board up to 10% of the annual basic salary.

Remuneration of the Management Board in 2013 is presented in the table below:

Table 10. Remuneration of the Management Board in 2013* (in PLN '000)

	Period when function served in 2013	Fixed part of remuneration	Variable part of remuneration**	Earnings from subsidiaries	Other benefits and earnings***
Members of the Management Board serving function as at 31 December 2013					
Herbert Wirth	1.01-31.12.2013	1 393	363	-	243
Jarosław Romanowski	2.09-31.12.2013	419	-	-	61
Wojciech Kędzia	1.01-31.12.2013	1 117	295	-	171
Jacek Kardela	2.09-31.12.2013	372	-	210	53
Marcin Chmielewski	2.09-31.12.2013	372	-	-	39
Other Members of the Management Board *					
Włodzimierz Kiciński	1.01-2.09.2013	1 255	261	-	218
Adam Sawicki	1.01-2.09.2013	1 112	175	-	216
Dorota Włoch	1.01-2.09.2013	1 109	230	-	193
Maciej Tybura	-	-	88	-	-
Total		**7 149**	**1 412**	**210**	**1 194**

**The amounts in the " Fixed part of remuneration" and " Variable part of remuneration" columns include remuneration during the period of employment termination.*

***" Variable part of remuneration" includes: settlement of the variable part of remuneration for 2012 and prepayments on variable part of remuneration (in quarterly periods) for 2013.*

**** Amounts in the column „Other benefits and earnings" include additional monetary benefits, including life insurance, contributions to the Employee Retirement Fund and financing of non-monetary benefits.*

Potentially-due remuneration due to the variable part of remuneration is presented in Table 11.

Table 11. Potentially-due remuneration for Members of the Management Board for 2013*

Name	Position	Potentially-due remuneration for 2013 ('000 PLN)
Herbert Wirth	Member of the Management Board - President of the Management Board	590
Jarosław Romanowski	Member of the Management Board - I Vice President of the Management Board	209
Wojciech Kędzia	Member of the Management Board - Vice President of the Management Board	476
Jacek Kardela	Member of the Management Board - Vice President of the Management Board	186
Marcin Chmielewski	Member of the Management Board - Vice President of the Management Board	186
Włodzimierz Kiciński	Member of the Management Board - I Vice President of the Management Board	334
Sawicki Adam	Member of the Management Board - Vice President of the Management Board	309
Dorota Włoch	Member of the Management Board - Vice President of the Management Board	297

** Less prepayments on variable remuneration for 2013*

The contracts entered into with Members of the Management Board forbidding any activities which would be competitive towards KGHM stipulate that, for adherence to such contracts, within a period of 12 months from the date of termination of employment in KGHM – regardless of the cause of termination – the Company shall pay the Management Board Member, for each month during this period, compensation in the amount of 40% of the basic salary resulting from the employment contract.
A Management Board Member who violates the stipulations of the aforementioned contract shall be obligated to return the full amount of compensation received.

Information on the principles for granting bonuses to management staff

In 2013, a system was introduced in KGHM Polska Miedź S.A. for granting bonuses to management staff based on the realisation of short- and long-term tasks resulting from priorities set by the Management Board for 2014 and assumptions of the Company's strategy based on two pillars:

- STIP – Short-Term Incentive Plan – principles for setting and granting annual bonuses for executive directors of the Divisions and for directors assigned to specific matters in the Divisions, as well as for executive directors and directors of departments in the KGHM Polska Miedź S.A. Central Office STIP System, comprising an 85 person management group in the Company.
- LTIP – Long-Term Incentive Plan – long-term motivational program for senior management in KGHM for the years 2013-2016.

The main assumption of the program is to directly link the main long-term strategic goal of increasing the Company's value with the system of remunerating key management directors. This concept assumes setting target amounts under the market indicator TRS (Total Return to Shareholders) and individual indicators related to long-term strategic goals.

The aforementioned bonus systems are included in the newly-created process of Management by Results, which will gradually encompass all employee groups, creating in this way a dialogue between Management and managing staff and being a tool for allocating resources.

Supervisory Board of the Company

Under the Company's Statutes, the Members of the Supervisory Board are appointed and dismissed by the General Meeting. The composition of the 8th-term Supervisory Board of KGHM Polska Miedź S.A. at 1 January 2013 was as follows:

- Aleksandra Magaczewska – Chairman
- 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

Table 12. Decisions by Company bodies regarding the composition of the Supervisory Board in 2013

Date	Event
19.06.2013	Paweł Białek resigned from the function of Member of the Supervisory Board The General Meeting resolved to: – dismiss from the Supervisory Board: Dariusz Krawczyk and Ireneusz Piecuch, – appoint to the Supervisory Board: Andrzej Kidyba, Marek Panfil and Iwona Zatorska-Pańtak.
27.11.2013	expiry of the mandate of Member of the Supervisory Board Krzysztof Opawski (due to his death)

As at 31 December 2013 and at the date of preparation of this report, the composition of the Supervisory Board was as follows:

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

as well as the following employee-elected member:

- Bogusław Szarek

The question of remuneration of members of the Supervisory Board is regulated by Resolution No. 15/2003 regarding: changes in principles of remuneration of members of the Supervisory Board, adopted by the Ordinary General Meeting on 29 May 2003. The amount of monthly remuneration of individual members of the Supervisory Board depends on the function served and is set as a multiple of the gross average monthly remuneration in the industrial sector excluding payments from profit, for the last month of the previous quarter.

The Company also covers or reimburses costs related to participation in the work of the Supervisory Board, and in particular to travel costs from the place of residence to the site of Supervisory Board meetings and back, as well as room and board.

Remuneration of the Supervisory Board in 2013 is presented in the table below:

Table 13. Remuneration of the Supervisory Board in 2013 (in PLN '000)

	Period when function served in 2013	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts*	Other benefits**	Total earnings in 2013
Krzysztof Kaczmarczyk	1.01-31.12.2013	102	-	3	**105**
Aleksandra Magaczewska	1.01-31.12.2013	116	-	4	**120**
Jacek Poświata	1.01-31.12.2013	93	-	34	**127**
Bogusław Szarek	1.01-31.12.2013	93	161	10	**264**
Andrzej Kidyba	19.06-31.12.2013	49	78	9	**136**
Iwona Zatorska-Pańtak	19.06-31.12.2013	48	-	3	**51**
Marek Panfil	19.06-31.12.2013	48	16	52	**116**
Paweł Białek	1.01-19.06.2013	45	-	32	**77**
Dariusz Krawczyk	1.01-19.06.2013	45	-	2	**47**
Ireneusz Piecuch	1.01-19.06.2013	45	-	2	**47**
Krzysztof Opawski	1.01-27.11.2013	85	-	-	**85**
		769	**255**	**151**	**1 175**

**Amounts in the column „Earnings from other contracts" include remuneration due to labour contracts in the Divisions of KGHM Polska Miedź S.A. and remuneration due to serving on the supervisory bodies of Group subsidiaries*

***Amounts in the column „Other benefits" include travel costs and financing of non-monetary benefits*

1.7. Employment and remuneration

Employment and structure

Table 14. End-of-period employment

	2011	2012	2013	Change 2012=100
Mines	12 604	12 618	12 636	100.1
Metallurgical plants	3 810	3 775	3 663	97.0
Other divisions	2 201	2 236	2 271	101.6
Total	**18 615**	**18 629**	**18 570**	**99.7**

Employment in KGHM Polska Miedź S.A. at the end of 2013 was at a similar level to that of prior years.

Remuneration in the Company

Table 15. Total remuneration (M PLN)

	2011	2012	2013	Change 2012=100
Total remuneration, of which:	2 012	2 108	2 078	98.6
- annual bonus	384	402	341	84.8

The level of remuneration in 2013 decreased by 1.4%, due to a decrease in the amount of the advance on the annual bonus from 24% to 20%. The increase in other elements of remuneration by 1.8% was due to the following factors:

- an increase in the table of basic wages for categories 1 to 9,
- an increase by 5.2% of the coal equivalent payment,
- individual promotions and changes in basic wages categories for 7% of employees.

Table 16. Total average monthly remuneration (PLN/person)

	2011	2012	2013	Change 2012=100
Mines	9 371	9 794	9 735	99.4
Metallurgical plants	7 429	7 764	7 742	99.7
Total	**8 980**	**9 396**	**9 380**	**99.8**
of which excluding annual bonus	7 296	7 637	7 768	101.7

In 2013 average remuneration, excluding the annual bonus for profit earned, amounted to PLN 7 768, meaning a statistical increase by 1.7% versus 2012.

In July 2013 the Polish Financial Supervision Authority registered a change to the divisional agreements with respect to the contribution to the Employee Retirement Program. From that moment the basic contribution to the ERP amounts to 7% of employee remuneration.

Relations with the trade unions

Based on an Agreement dated 11 February 2013 between KGHM Polska Miedź S.A. and the trade unions, employee remuneration and benefits were set for 2013, i.e.:

- an increase in average remuneration in the Company, excluding the annual bonus, by 2.5%;
- the allocation of the 2.5 percent increase in the contribution to the Social Fund to assist in financing the costs incurred by employees for day care, pre-school and other forms of pre-school care;
- an increase in the basic contribution to the Employee Retirement Program to 7%.

In the month of October the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego announced the following wage demands: payment of a one-off bonus for all employees in the amount of 100% of monthly remuneration, an additional contribution to the Social Fund in the amount of PLN 500 per employee, setting the salary increase factor at a min. 5% level and reconstruction of the table of basic wages. Due to the lack of an agreement in this regard, the trade union in the month of November initiated a collective dispute, with respect to which negotiations are being held. Independently of the above, a dialogue is being pursued with the trade union being a party to the Collective Labour Agreement regarding remuneration and employee benefits in 2014.

In January 2014, Additional Protocol no. 15 to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. was signed by all of the signataries and forwarded for registration by the Regional Labour Inspector. The scope of the aforementioned Protocol comprises the implementation as at 1 January 2014 of a new table of basic wages, a change in the principles for paying the annual bonus representing annex no. 11 to the CLA and increased additional contributions to divisional social funds in 2014.

1.8. Projects in the area of Human Resources (HR)

With respect to building a unified HR function, the year 2013 was dedicated to the transformation of HR to enable implementation of a new business strategy for the years 2014-2020. As a result of this transformation, HR will also be a Partner for Business as well as an essential agent for change (in terms of organisational culture) inspiring the organisation to build its competitive advantage in the area of human capital. In addition, a variety of initiatives were realised aimed both at the employees of KGHM as well as at potential job candidates.

Transformation of HR

The goal of the project is to transform the HR function into one performing an effective role in supporting the strategic ambitions of the organisation, strengthened by a change in organisational culture. The goal of the project is to alter the HR function from an administrative one to one which is supportive and acts as a partner and advisor. It will encompass all of the employees of KGHM Polska Miedź S.A. Key HR processes have been identified for which at present concepts are being developed for their implementation and management through:

- management by results,
- learning and development,
- strategic planning of human resources,
- recruitment,
- managing talent, and
- acting as a HR Business Partner.

Executive Academy – Development program for senior management staff.

The KGHM Executive Academy is a global, international program of development, created for senior management staff as well as for selected successors and top experts in their functional areas. This is an MBA-type program adapted to the needs of KGHM, aimed at promoting a global vision and cooperation, as well as supplying additional skills and abilities, to meet global challenges. The program comprises a comprehensive, interactive learning format in English and comprises three main modules: business management, mine management, leadership. The classes are held in English.

Discussions regarding cooperation were conducted with the world's top business and mining schools. Two prestigious institutions of learning were selected to execite this task: in mining and business.

The academy consists of six weekly sessions. The first group left in October 2013, while the second module was held in February 2014.

TOP100 conference

The TOP100 conference is an annual meeting of the leaders and top managers of selected companies of the KGHM Polska Miedź S.A. Group, whose activities are related to the core business of KGHM Polska Miedź S.A.

The goal of this meeting is to integrate the employees of the Group and above all to exchange knowledge, related to various substantive areas of the Company (organisation, technology, etc.). The goal of TOP100 is to create platforms for discussions and to share the knowledge and experiences of the leaders and top managers of our Group. The participants discuss the Company's plans, achievements and problems during plenary sessions. The platform for sharing knowledge is in the form of knowledge fairs, at which, in accordance with the established rules of these fairs, are presented the best solutions proposed by the employees of KGHM. External experts are also invited to these plenary sessions.

Go Global Internships – Program of Student Internships

This is a program of student internships financed by KGHM, aimed at reaching out for future management staff to realise the Company's strategic goals. The target group of this program is students from three Polish institutions of higher learning: AGH University of Science and Technology in Kraków, Silesian University of Technology and Wrocław University of Technology.

In 2013, 53 students were selected through a recruitment process. As a result of this recruitment 12 persons were selected who in the period August-September performed internships in Chile, Canada and the USA.

Staff Forge IV

Staff Forge IV is a development project of the Wrocław University of Economics conducted in partnership with KGHM Polska Miedź S.A.

The main goal is to support students and graduates of the Wrocław University of Economics and to enhance the development potential of this academic institution by better application of the educational offer and to prepare students and graduates to meet the needs of the workplace, to tighten cooperation with employers and to enable persons with disabilities to fully take advantage of the educational offer. The project also enables KGHM Polska Miedź S.A. to acquire good staff from the best graduates of this academic institution holding trainee positions in the Divisions of KGHM Polska Miedź S.A.

Talents Mine

The program of the „Talents Mine" project is aimed at developing the skills of a select group of employees amongst young students and graduates with high potential, to raise the attractiveness of KGHM as an employer and to take a long-term and comprehensive approach to investment in the development of young talents within the organisation. The Company appreciates the need to develop its Top Talent – a select group of persons with a specified plan of succession.

2. Realisation of Company Strategy

2.1. Company Strategy

The Strategy of KGHM Polska Miedź S.A. for the years 2009-2018, currently in force and being pursued, was approved by the Company's Management Board, and subsequently confirmed by the Company's Supervisory Board on 23 February 2009. This vision of strategic development of the Company is the result of the approved mission, calling for an increase in the Company's value through the optimum utilisation of natural resources. By realising the Strategy, KGHM Polska Miedź S.A. has joined the group of large global copper producers and is aiming to increase production by the KGHM Group to around 700 kt of copper annually. Total expenditure on realisation of strategic initiatives was estimated at approx. PLN 20 billion over 10 years.

Due to the sale of the Company's telecom assets (100% of the shares of Telefonia DIALOG S.A. and 24.4% of the shares of Polkomtel S.A.) the Supervisory Board of the Company, on 10 October 2011, approved the updated Strategy of KGHM Polska Miedź S.A. for the years 2009-2018 with respect to Pillar III – Diversification of revenue sources and independence from energy prices – by removing the strategic goal „Continued investment in the telecommunications sector". The strategic assumptions for the remaining pillars of the Strategy remained unchanged.

The Strategy of KGHM Polska Miedź S.A. for the years 2009-2018 is based on five pillars, describing the main strategic initiatives:

Pillar I - Improving productivity, aimed at reversing/halting the trend of rising unit production costs through:

- Investments in new technology,
- Modernisation of infrastructure, and
- Optimisation of production procedures and organisation.

Pillar II - Developing the resource base, aimed at increasing the production of mined copper to 700 thousand tonnes annually, through:

- Developing the system for mining deep ore,
- Mining new regional ore deposits,
- Acquisitions in the mining sector, and
- Intensifying the processing of scrap.

Pillar III - Diversifying sources of revenues and gaining independence from energy prices

- Strategy in this area is being reviewed – the Company will concentrate on ensuring continuity of energy supply at an optimum price.

Pillar IV - Regional support - cooperation with local communities and support of social initiatives in regions where the KGHM Group is active, through:

- creating new jobs,
- supporting regional sport, protecting health, developing education, the arts and sciences,
- protecting the environment and restoring ex-mining terrain.

Pillar V - Developing organisational know-how and capabilities through:

- Management through goals,
- Transparent information and data,
- Company staff development, and
- Building a holding structure.

Realisation of the Strategy

In the years 2009-2013 KGHM Polska Miedź S.A. consistently implemented the approved Strategy. The process of implementing the Company Strategy was executed by investing in an initially defined and continuously updated portfolio of strategic projects fulfilling the intended goals at the level of each pillar's strategic initiatives. Of fundamental importance for building the value of KGHM Polska Miedź S.A. over the long term was the continuation of activities in the copper sector as the basic source of its revenues.

A watershed stage in the Company's development is the realisation of non-organic expansion (through acquisitions). In 2010, as a result of the purchase of a 51% interest in KGHM Ajax-Mining Incorporated, a special purpose company created in cooperation with the Canadian company Abacus Mining & Explotation Corporation to advance the Afton-Ajax copper and gold project located in British Columbia, Canada, the Company took its first step towards realisation of its vision of becoming a global copper producer. Following the publication of a Bankable Feasibility Study for the Afton–Ajax deposit in 2012, the Company took advantage of the option to purchase an additional 29% interest in KGHM Ajax-Mining Incorporated. The friendly takeover of 100% of the shares of the Canadian mining company Quadra FNX (today KGHM INTERNATIONAL LTD.) in 2012 was another step which enabled KGHM Polska Miedź S.A. to join the group of leading companies in the mining sector and to come closer to achieving the target set in the Strategy of 700 kt of copper production annually.

This global expansion enabled an expansion of the resource base of KGHM Polska Miedź S.A. by over 8 million tonnes (28%), placing the Company in 4th place in this regard in the global ranking. As a result of this takeover, KGHM became the owner of mine assets located mainly in Chile, the USA and Canada, rich in copper, silver, nickel, molybdenum and other precious metals:

- a world class deposit and active copper mines located in the Sudbury region of Canada (Levack/Morrison), the USA (Robinson) and Chile (Franke).
- mining projects at the pre-operational stage at various stages of development such as Sierra Gorda in Chile – the most important development project, being realised on one of the largest deposits of copper and molybdenum in the world, as well as Victoria in Canada,
- exploration projects, including among others Kirkwood in the Sudbury region of Canada and Malmbjerg in Greenland.

Consequently in 2012 copper production in the KGHM Group increased by 22%, thereby assuring KGHM of an advance from 10th to 8th place in terms of global copper production. Copper production will increase further following the commissioning of the Sierra Gorda mine in Chile.

Taking into consideration the achievements to date in realisation of the approved Strategy of KGHM Polska Miedź S.A., mobilisation of the internal resource potential, as well as the macroeconomic conditions facing the global mining sector, in the years 2012-2013 the Company commenced work on a broad strategic analysis of the potential for the further development and building of the value of the KGHM Polska Miedź S.A. Group. The conclusions reached following this analysis will form the basis for determining the foundations for building a new Company vision and for preparation of the draft updated Strategy of the KGHM Polska Miedź S.A. Group.

Until the new strategic directions of KGHM Polska Miedź S.A. are defined, for which there exist sufficient causes to do so, the Company's strategic priorities will be concentrated on:

- commencing production at the Sierra Gorda project in Chile,
- building skills and relations in terms of new commodities,
- ensuring high, stable cash flow,
- creating a global organisation,
- further improvement in skills,
- continuing the path of growth.

Pillar I - Improving productivity

With respect to Pillar I, realisation was continued in 2013 of key strategic investments in new technology and of modernisation and sustainment projects aimed improving productivity in the core production business.

Investments in new technology:

- **research into the use of mechanical mining in the conditions prevalent in the mines of KGHM Polska Miedź S.A.** in terms of developing and implementing technology being an alternative to the currently used room-and-pillar systems, in which mining is conducted through blasting. In 2013, in terms of projects initiated in this regard, production tests were commenced aimed at assessing the possibilities of applying this new mining technology using the ACT mining complex and of drift development technology using a team of three combines. From the technical point of view, expectations with respect to the mechanical mining technology are associated with achieving higher productivity, accelerating advancement of work on the orebody, reducing employment and increasing workplace safety. In economic terms, it is expected that extraction costs will be lower and that realisation of the Company's production plans will be facilitated.

- **pyrometallurgy modernisation program at the Głogów Smelter**, as a result of which a functionally integrated, cost effective and environmentally friendly smelting structure for KGHM Polska Miedź S.A. will be created. In 2013 realisation was continued of this investment with respect to constructing a flash smelter complex at Głogów I and the first stage of modernisation of the main technological units was realised, aimed at intensifying smelting at Głogów II. In addition, work was realised on installation design, an important element of which is optimisation of smelting assets in terms of their best possible adaptation to the geological conditions of the deposits mined by KGHM Polska Miedź S.A.

It is expected that long-term economic benefits will be achieved in KGHM Polska Miedź S.A. due to realisation of this program, including among others a decrease in the total unit processing cost and increased revenues from the sale of additional amounts of silver, rhenium and refined lead. In addition, there will be a clear decrease in the smelter's environmental impact, and therefore an improvement in the Company's international competitive position.

Other strategic investments aimed at maintaining continuity, and improving organisation and management, of production processes:

- **„Ore Extraction IT Management System"** aimed at unifying and improving business processes in the mining operations of KGHM Polska Miedź S.A., both in terms of the main production-related processes as well as in management processes and their efficient and effective support with the aid of a flexible IT system.
- **„Construction of the SW-4 shaft"** for accessing ore below 1 000 m in the Polkowice-Sieroszowice mine, assuming balanced extraction of the ore resources,
- Continued implementation of IT systems enabling improved efficiency and improved machinery operating safety, including among others a **„System for the operation and servicing of underground machinery"** and a **„System for locating machinery in the mining areas",**
- long-term programs involving the **automation and modernisation of the ore concentration process** involving the replacement of flotation equipment and milling power units, modernisation of classifiers and a program to improve the energy efficiency of the existing machinery park, as well as implementation of a comprehensive production maintenance program in the Concentrator Division,
- **Reorganisation of the procurement process in the KGHM Group** – a Central Procurement Office was opened (2009) and a unified procurement policy was instituted for the Divisions and for the KGHM Group, thanks to which the Company gained substantial added value and savings in the area of procurement, mainly investments.

A detailed desription of the progress on the most important strategic investment projects in the core production business may be found in Section 2.3.

Pillar II – Developing the resource base

To achieve an increase in copper production to 700 thousand tonnes and to improve the Company's competitiveness amongst the world's copper and silver producers, actions were taken to secure access to the resource base, by:

- gaining new mining concessions for the deposit areas currently active,
- developing the regional resource base, and
- developing the mining assets outside Poland.

In 2013, KGHM Polska Miedź S.A. received new concessions for the extraction of copper ore from areas of the deposit currently active in the Company - „Polkowice", "Sieroszowice", "Lubin-Małomice", "Rudna" and „Radwanice-Wschód'', which are valid from January 2014 to December 2063. The Company is continuing its core operations based on the new concessions, new mining usufruct agreements and new operating plans. A detailed desription of the process of obtaining mining concessions may be found in Section 1.1.

In terms of mining expansion, actions were continued aimed at developing the regional resource base, i.e. in south-west Poland and in the area of Lusatia (Saxony in Germany) and developing the mining assets outside Poland. Such an approach gives the Company the posibility to geographically diversify its core operations, and in the long term perspective it will enable increased production of copper and other metals at lower unit costs.

The main resource projects being pursued in the region are:

- Accessing the concession area **Deep Głogów** continued since 2006, work on which includes construction of the GG-1 shaft and the execution of primary drifts to access the Deep Głogów area along with development of technical infrastructure.
- Exploration and documentation of resources in the **Gaworzyce-Radwanice** deposit, which borders on the west of the areas currently being worked by the Polkowice-Sieroszowice mine. In 2013, work was carried out to determine the possibility of mining the copper ore deposit from this area. The geological work performed based on the concessions held was aimed at defining the size of the ore resources, improving data on their geological occurance and orebody continuity, determining the extent of mineralisation of copper and associated metals and supplying information on geological-engineering and hydrogeological conditions and the occurance of gas. Based on a request submitted by the Company to alter the concessions, in August 2013 the Minister of the Environment issued a decision altering the concessions held. This change mainly involved the scope of work and extension of the period of validity of the concessions to January 2015. The scope of work set forth in the aforementioned decisions comprises the performance of surface-based geophysical research, hydrogeological measurements, geodesic measurements and documentation work comprising interpretation of the results of geophysical measurements, supplements to the geological documentation and geological documentation for this deposit area. To accomplish this work the Company entered into an agreement with the following Consortium: KGHM Cuprum Sp. z o.o. Centrum Badawczo-Rozwojowe, Geophysik GGD with its registered head office in Lipsk, and Geopartner Sp. z

o.o. with its registered head office in Kraków. In October 2013 realisation commenced of geophysical research on this terrain. Completion of this work is planned to the end of 2014. Realisation of design work will enable prolongation of the working life of the Polkowice-Sieroszowice mine.

- With respect to realisation of work aimed at assessing the concessioned area **Synklina Grodziecka** located within the so-called Old Copper Belt near Bolesławiec, in the second quarter of 2013 the Company commenced the second stage of exploratory work comprising 9 drillholes. In 2013 4 drillholes were completed, in respect of which work continues on hydrogeological measurements and observations. Drilling of a further 5 drillholes is planned for 2014. The goal of the exploratory work on this terrain is to document additional copper resources and to make existing documentation more precise. It is estimated that, apart from the copper ore deposit of the current Legnica-Głogów Copper Belt, this is the most promising region in the country.
- Based on a request submitted in 2013, in January 2014 the Company received a concession for exploration and assessment of the **Konrad** copper ore deposit. This concessioned area is directly adjacent to the Synklina Grodziecka concession and comprises the mining area of the old Konrad mine. Work on this area is enabling a comprehensive assessment of hydrogeological conditions for the project of de-watering the deposit and determining geological-mining conditions for future mining.
- In 2013 the Ministry of the Environment granted KGHM Polska Miedź S.A. a concession for exploration and assessment of the **Retków-Ścinawa** copper ore deposit, and a concession for exploration and assessment of the **Głogów** copper ore deposit. These areas are directly adjacent to the areas currently being mined by the Company. Commencement of exploratory work in these areas is planned in 2014.
- With respect to requests submitted in 2012 by KGHM Polska Miedź S.A. for the granting of concessions for the exploration and assessment of the **Bytom Odrzański** and **Kulów – Luboszyce** areas, in January 2014 the Minister of the Environment issued the following decisions:
  - declining to grant a concession for the exploration and assessment of the Bytom Odrzański copper ore deposit,
  - granting concession no. 5/2014/p for the exploration of the Kulów–Luboszyce copper ore deposit, in that part covered by the Company's request from 2012. The granted concession comprises the Kulów-Luboszyce area of 689.75 km^2 (950.89 km^2 were applied for)

These decisions are not legally binding, and KGHM Polska Miedź S.A. has submitted appeals of them to the Minister of the Environment.

- In the first quarter of 2013, it was decided to commence the first phase of stage II of work on the **Weisswasser** project, located in Saxony in Germany. Consequently, in 2013 the company KGHM Kupfer AG – a 100% subsidiary of KGHM Polska Miedź S.A. realising the aforementioned project on behalf of KGHM Polska Miedź S.A. – initiated administrative procedures at the Saxon Mining Office (SOBA) to prolong the existing concession for this area. In October 2013, SOBA issued a decision to prolong the existing concession for the Weisswasser area to the end of 2016. Simultaneously, based on a request submitted by KGHM Kupfer AG, in June 2013, SOBA issued a decision permitting exploratory work to be conducted by KGHM Kupfer AG on the **Weisswasser II** area, representing an extension of the Weisswasser area towards the south–east to the border with Poland. At present the total surface area of the areas for which the Company has concessions is approx. 550 km^2. In 2013 a plan was developed for geophysical exploration in these areas, which was confirmed by SOBA in November 2013. In 2014 work will be conducted related to seismic and geophysical measurements.
- In July 2013, KGHM Polska Miedź S.A. submitted a request to the Minister of the Environment for the exploration and assessment of the **Stojanów** copper ore deposit. In geological terms the area for which the concession is being sought is an extension of the Weisswasser II area into Poland. Exploration in the areas of Weisswasser, Weisswasser II and the Stojanów area for which a concession is being sought may be treated as a single, cross-border exploration project, resulting from the continuity of the same geological structure on both sides of the border. The Company expects that concessions will be granted for this area as part of the administrative proceedings currently in progress.
- Taking into account the fact that assessment of the results of an economic analysis of the **Szklary** nickel ore deposit project show that the project does not meet internal criteria, among others due to macroeconomic conditions, as well as due to other priorities with respect to realisation of resource projects, in the third quarter of 2013 the decision was made to cease furthur work on this concessioned area. Geological documentation for the „Szklary 1" nickel ore deposit in cat. C1 was prepared together with supplements to the documentation. This documentation was submitted to the concession authority on 20 December 2013. Approval of the geological documentation by the Commission for Mineral Resources is expected in the first half of 2014.
- In the third quarter of 2013, KGHM Polska Miedź S.A. submitted a request for the granting of concessions for the exploration and assessment of a potassium-magnesium salt deposit with associated minerals, i.e. copper ore and rock salt, in the **Zatoka Pucka** region. Due to the existing

competition between the Company and third parties for the concessioned area, administrative proceedings are currently in progress regarding the granting of concessions. In August 2013, KGHM Polska Miedź S.A. signed a letter of intent with the company Gdańskie Zakłady Nawozów Fosforowych FOSFORY Sp. z o.o. regarding future cooperation in the case that concessions are granted, and the subsequent commencement of mining of the potassium-magnesium salt deposit. Subsequent to the aforementioned letter of intent, in January 2014 the Company signed an Agreement with Gdańskie Zakłady Nawozów Fosforowych FOSFORY Sp. z o.o. and the company Grupa Azoty Zakłady Azotowe „Puławy" S.A. regarding assumptions for cooperation with respect to exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals.

- On 16 January 2014, KGHM Polska Miedź S.A. signed a letter of intent with the company Group Azoty S.A. with its registered head office in Tarnów, setting forth the general principles for the eventual undertaking of joint business activities in the following areas: processing of phosphogypsum, exploration for potassium salt deposits abroad, gaining access to sources of natural gas, construction of a polygeneration power plant, and exploration for and extraction of phosphorite. The Parties decided that any eventual realisation of joint projects in specific areas would be realised based on detailed agreements or through the creation of joint venture companies.
- In the Polkowice-Sieroszowice mine **rock salt mining commenced** using skips. It is expected that salt production by KGHM Polska Miedź S.A. will increase from 425kt to 1 Mt/year. The Company is simultaneously analysing the possibility of placing tailings waste from the Company's smelters in the worked-out areas of the salt deposit, as well as the production of evaporated salt.

With respect to the acquisition and development of mining assets outside Poland, in 2013 KGHM Polska Miedź S.A. continued key mining projects, realised through KGHM INTERNATIONAL LTD. (formerly Quadra FNX):

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

In 2013 work continued related to construction of an open-pit mine on one of the world's largest deposits of copper, molybdenum and gold: Sierra Gorda, located in northern Chile. Planned, target average annual production is 220 kt of copper, 11 kt of molybdenum and 2 tonnes of gold. Mine operating life is over 20 years. Commencement of extraction at Sierra Gorda is planned in mid-2014.

In 2013 the Sierra Gorda project's final capital expenditure estimate was updated. Total initial capital expenditure amounts to approx. USD 4 billion versus USD 2.9 billion forecast in February 2011. The main factors responsible for increasing expenditure are beyond the investor's control: rising costs of labour, services and materials in mining in Chile, inflation, appreciation of the peso, altered legal requirements regarding buildings and environmental protection and changes in the project's scope. The amount of the updated capital expenditure does not include potential savings, including hedge policy applied and the possibility of implementing a program of leasing mining equipment for the project.

The first stage of the Sierra Gorda project is at an advanced stage of realisation of construction and assembly work. Realisation of the project is on time, with 86% completed at the end of 2013. In December 2013 the total number of persons working on construction of the mine amounted to over 9 thousand.

As part of the first stage of investment, with respect to construction of the mine's technical infrastructure, major work was completed related to construction of basic infrastructure, including social buildings and fresh water supplies, design work was completed as well as construction of the 220kV and 110kV power networks together with primary and sub-stations. With respect to construction of the mine's production-related facilities, work continued on assembling the installations, machinery and equipment of the production line.

In addition, work continued on stripping of the overburden (including oxide ore) needed to access the actual ore deposit. By the end of December 2013, 158.8 million tonnes of rock had been removed, i.e. around 81% of the target amount.

The oxide ore is at present being stored in separate heaps, and tests are being performed on its processing potential. Design work was performed aimed at preparing assumptions for starting up the metals recovery installation using SX/EW technology.

With respect to preparing the second investment stage aimed at increasing the capacity of the processing plant from 110 kt to 190 kt of ore per day, design work was performed related to development of the processing plant infrastructure.

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

This project is described in section 2.2 Equity Investments. In August 2013, KGHM Polska Miedź S.A. – through its subsidiaries KGHM INTERNATIONAL LTD. and FNX Mining Company Inc. – based on an agreement signed with Vale Canada Ltd., became the owner of 100% of the project. As a result of negotiations, Vale Canada Ltd. agreed to hand over its share of the project in exchange for the payment of a Net Smelter Return royalty of 2.25% for the life of the mine, and also committed to take off all of the ore output of the Victoria mine and to process it in their Clarabelle facility in Sudbury.

By the end of 2013, applications were made for all of the requisite environmental permits, and a mine closure plan was developed whose chief aim is to set forth the principles for recultivation of the terrain once mining ends. During the year engineering work was carried out with respect to building aboveground infrastructure, orders were placed for lifting machinery, and preparations are currently underway for sinking of the first shaft. Talks were also held with the First Nations who live in the area.

In the fourth quarter of 2013 work began on levelling the terrain to prepare for construction of the future aboveground mine infrastructure.

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

The Afton-Ajax project is located south of the town of Kamloops (British Columbia) in Canada, and assumes the construction and operation of an open-pit copper and gold mine and an ore concentrating plant, with associated infrastructure. The project is currently at the stage of gaining necessary environmental and mining permits. Independently of this, detailed engineering work is being performed on preparations for construction of the mine. In 2013, a variety of geological work was performed across the project area, which indicated significant potential for copper mineralisation. Additional geological work, including an additional campaign of exploratory drilling and geophysical research, which will provide more precise knowledge of the identified ore potential, is planned in 2014. The decision was simultaneously taken to prepare an alternative mine plan, one which will both maximise the value of the Afton-Ajax project as well as reduce its impact on the environment.

Another important initiative aimed at increasing copper production by the Company is the **intensification of scrap processing**. In 2013, analyses and optimisations were begun of the technical-technological solutions adopted in the Design Concept for individual production units comprising the investment to build a new production line for the processing of secondary copper-bearing materials.

Pillar III – Diversifying sources of revenues and gaining independence from energy prices

The purpose of diversifying revenues and gaining independence from energy prices, crucial from the point of view of business opportunities for KGHM Polska Miedź S.A., were **investments in the energy sector, mainly in the energy generation segment (Pillar III).** From the point of view of KGHM Polska Miedź S.A., power generation is one of the most attractive sectors, as it is not correlated with conditions on the metals markets and is a more stable source of revenues.

In respect to increasing energy production to meet the Company's own energy needs, projects were continued whose realisation will ensure approx. 30% of the energy needs of KGHM Polska Miedź S.A. (at present, energy production by the subsidiary Energetyka Sp. z o.o. represents 10% - approx. 250 GWh of the Company's total energy needs - approx. 2 600 GWh) and will also lead to diversification of the energy generation portfolio and significantly reduce the Company's exposure to climate policy risk, and to changes in fuel and electricity prices.

The most important projects in this regard are:

- „**Construction of gas-steam blocks at the Głogów and Polkowice power plants**" with installed capacity of 90 MWe and planned power generation of 560 000 MWh, all of which will be used to meet the Company's power needs. In the years 2010-2013 work was performed on the construction and assembly of equipment and installations for the gas-steam blocks in both locations. In 2013, final acceptance procedures were conducted and start-up tests of the gas-steam blocks were performed. On 5 November 2013, the gas-steam block in Polkowice was handed over for operation. Handover of the the gas-steam block in Głogów will take place at the beginning of the second quarter of 2014.
- **„Construction of a research installation for the underground gasification of brown coal in the Legnica-Głogów Copper Belt"**. With respect to the concession obtained in 2012 for exploration of the brown coal deposit in the Głogów region, in a selected area located in the Legnica-Głogów Copper Belt, in 2013 a program of geological work continued (in 2013 9 holes were drilled) along with specialised geological research aimed at exploring and evaluating the brown coal resources. Positive results from this geological work will enable a decision to be taken on whether to apply for a concession for mining of this deposit using an underground brown coal gasification research installation.

In 2013, KGHM Polska Miedź S.A. continued to participate in the realisation of the most important energy projects of a national scope. Participation in these projects will provide assurance of energy supplies to the Company at an optimum price.

The main initiatives in this regard are:

„Construction of a power generation source based on the utilisation of natural gas as the raw material for its generation, on the grounds of the existing Blachownia Power Plant".

With respect to realisation of the agreement entered into on 20 January 2010 with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., and on the basis of the permission received on 23 July 2012 of the European Commission (the applicable antimonopoly body) with respect to concentration, on 5 September 2012, KGHM Polska Miedź S.A. founded a special purpose company with TAURON Wytwarzanie S.A. called „Elektrownia Blachownia Nowa sp. z o.o." KGHM Polska Miedź S.A. acquired 50% of the shares in the share capital of the special purpose company. The share capital of this company is PLN 65 million.

Together with the founding of this company, a Shareholders Agreement was signed describing the detailed principles of cooperation between the parties regarding realisation of the enterprise, comprising the preparation, construction and operation of the approx. 850 MW gas–steam block on the grounds of the Blachownia power plant in Kędzierzyn-Koźle belonging to the TAURON Group. In accordance with the Shareholders Agreement, total estimated expenditure on this investment in the years 2012-2017 will amount to around PLN 3.5 billion. The project assumes use of the project finance formula – at least 50% of its budget will be financed from outside sources.

In 2013, the special purpose company performed analyses of the competitiveness of the planned power plant under various market scenarios and technological variants. On 30 December 2013, KGHM Polska Miedź S.A. together with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. (a subsidiary of TAURON) signed an Agreement, based on which it was decided to temporarily suspend realisation of the project to build a gas-steam block in the company "Elektrownia Blachownia Nowa" Sp. z o.o. The cause of the suspension is the current situation on the electricity and natural gas market, resulting in increased investment risk and the consequent need to review and optimise the project.

Expressing their desire to continue the project to jointly build a gas-steam block through the company „Elektrownia Blachownia Nowa" Sp. z o.o., the parties committed themselves to ensure the continued functioning of the company "Elektrownia Blachownia Nowa" Sp. z o.o. and to secure the results of the Project achieved to date, in particular to ensure that the documentation held is kept up to date, and additionally committed themselves to continued monitoring of the energy market and the regulatory environment, in terms of the possibility to rapidly re-commence realisation of the Project.

The Parties to the Agreement resolved that a decision to re-commence realisation of the Project will be made in the form of a separate agreement, which in accordance with the expectations of the Parties to the Agreement should be signed by 31 December 2016.

„Exploration for and extraction of shale gas in Poland (KCT Project)"

In 2013, the parties to the Framework Agreement entered into on 4 July 2012 on the joint exploration, evaluation and extraction of shale gas between Polskie Górnictwo Naftowe and Gazownictwo S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A., were involved in agreeing details and conducting business-taxation analyses with respect to the potential business cooperation model.

Due to prolongation of the process of negotiating with respect to determination of details regarding the terms of cooperation, on 21 February 2013 the parties to the Framework Agreement decided to prolong the period for determination of details regarding the terms of cooperation until 4 May 2013, signing an Annex to the Framework Agreement. Pursuant to the Annex it was determined that, if by 4 May 2013 the parties to the Framework Agreement do not agree the details regarding the terms of cooperation, the Agreement may be terminated by each of the parties. Moreover, if within three months after reaching such arrangements the parties have not obtained all of the required corporate approvals, or if by 31 December 2013 the required antimonopoly clearances have not been received, the Agreement will expire.

The Framework Agreement on the exploration for and extraction of shale gas entered into on 4 July 2012 between Polskie Górnictwo Naftowe i Gazownictwo S.A., KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. expired on 31 December 2013.

„Preparation for the construction and operation of the first Polish nuclear power plant".

In 2013, the parties (KGHM Polska Miedź S.A., ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A.) to the Letter of Intent signed on 5 September 2012, regarding the purchase of shares of a special purpose company founded in order to build and operate the first Polish nuclear power plant, continued conceptual analyses, among others with respect to the business model of cooperation and an economic feasibility analysis of the project. On 25 June 2013 the parties signed an Agreement to continue work related to the development of a draft agreement for the acquisition of shares in the aforementioned special purpose company to build and operate a nuclear power plant.

On 23 September 2013, the parties initialled the draft Shareholders Agreement PGE EJ1 sp. z o.o. („Shareholders Agreement"), will be signed if the corporate bodies of each of the parties grant their approval. The Shareholders Agreement obliges the parties to enter into an Agreement for the purchase of shares in PGE EJ1 sp. z o.o., a special purpose company to build and operate a nuclear power plant („Shares Purchase Agreement"). According to the Shareholders Agreement, PGE will sell to the other parties to the Shareholders Agreement a block of 438 000 shares, representing altogether 30% of the share capital of PGE EJ1 sp. z o.o., subsequent to which PGE will own 70% of the share capital of PGE EJ1 sp. z o.o. KGHM Polska Miedź S.A. will purchase 146 000 shares, representing 10% of the share capital of PGE EJ1 sp. z o.o. The Shareholders Agreement also describes the principles of cooperation of all of the parties regarding the project to prepare and build a nuclear power plant in Poland. PGE and each of the business partners will be obliged to enter into a Shares Purchase Agreement after meeting two conditions precedent:

- receipt of a decision regarding the unconditional approval by the President of UOKiK (the Office of Competition and Consumer Protection) to carry out the concentration, and
- adoption of a resolution in 2013 on the Polish Nuclear Energy Program by the Council of Ministers.

Despite the failure to meet the conditions precedent provided for in the initialled Draft „Shareholders Agreement", parties have resolved to continue work on the project to prepare and build a nuclear power plant in Poland and to develop updated provisions for the Draft „Shareholders Agreement".

Pillar IV – Regional support

KGHM Polska Miedź S.A., assuming responsibility for its impact on the social and natural environments in which it operates, in 2013 performed preparatory work related to implementation of the **CSR (***Corporate Social Responsibility)* strategy adopted in 2012.

This strategy encompasses all of the social, ethical and environmental aspects of the Company's business operations and its commitment to responsibility and transparency in managing relations with the Company's stakeholders, among others: employees, customers, shareholders, suppliers and local communities. The priority goal contained in the assumptions and activities of the CSR Strategy is the achievement of a substantial balance between the Company's efficiency and profitability and the common good of the environments in which the Company operates. The Main Initiatives of the CSR Strategy comprise:

- creating innovative solutions minimising the environmental impact of the operations of KGHM Polska Miedź S.A.,
- building a position as a „good neighbour" and trusted investor,
- ethics and transparency in managing relations with stakeholders, and
- care for its employees.

Reliable evidence of the responsibility of KGHM Polska Miedź S.A. for its environment and stakeholders may be seen in the variety of activities undertaken by the Company in 2013 in many of the areas described in the CSR Strategy. As an environmentally-friendly innovator, the Company joined the CO2 Emissions Management System and developed a program to reduce energy consumption during the production process. As an efficiently managed business partner the Company maintained its position in the prestigious RESPECT Index – an index of companies listed on the Warsaw Stock Exchange which are managed in a responsible and balanced manner, and carried out very advanced work on adopting a code of ethics. Caring for its position as a good neighbour, the Company supported many valuable initiatives and projects serving regional social development. KGHM Polska Miedź S.A. participated in regional sponsoring projects, through the Polish Copper Foundation financed nearly 400 institutional projects and granted more than 1300 subsidies to private individuals. Work related to implementation of the workplace air conditioning program in the mines and the II edition of the Mine Talents Program – these are in turn further important projects realised in the area of corporate responsibility for its employees.

KGHM Polska Miedź S.A., as a global participant in the world's copper and silver markets, meets international standards in the area of corporate social responsibility. It is also for this reason that the CSR Strategy comprises procedural principles which are in accordance with international guidelines: the standard ISO 26000, the standard AA1000 and CSR guidelines for the mining sector established by ICMM (the International Council on Mining and Metals). Based on international standards, in 2012 the Company issued its first Corporate Social Responsibility Report for the years 2010-2011 and a historical survey of the Company's activities with respect to social responsibility in the years 1961- 2011. In 2013, the Company issued a Corporate Social Responsibility Report for 2012, presenting the results of the Company's activities undertaken with respect to balanced development and corporate responsibility. The Report was issued at the level of application B of the GRI (Global Reporting Initiative) guidelines.

Pillar V – Developing organisational know-how and capabilities

Realisation of the strategic development of KGHM Polska Miedź S.A. is supported by activities aimed at continuous **improvement of skills and organisational know-how.** During the reporting period the Company continued realisation of initiatives set forth in this pillar, aimed at the development of employees and the Company's management potential, amongst which the following should be noted:

- development of educational systems and employee training programs,
- career planning and management of skills and knowledge,
- optimising the process of recruitment and professional adaptation, programs to develop young talent,
- planning the employee evaluation system and appropriate employee motivation,
- development of internal communication systems and shaping the organisational culture,
- continuation of projects adjusting organisational standards and management systems (such as an integrated management system, a system to manage projects, programs and portfolios, and a corporate risk management system), and
- improvement in the management and supervision of investments carried out by the Group.

2.2. Equity investments

As at 31 December 2013, KGHM Polska Miedź S.A. directly owned shares of 22 subsidiaries, 1 joint venture company, 2 other companies (in which the share is less than 20%) and investment certificates in 4 closed-end non-public investment funds. Nine direct subsidiaries held majority interests in at least one subsidiary. The largest Group, in terms both of the number of entities as well as the amount of equity, was KGHM INTERNATIONAL LTD.

The entities in which as at 31 December 2013, KGHM Polska Miedź S.A. directly owned shares are presented in Diagram 3.

At the end of 2013, the entire KGHM Polska Miedź S.A. Group amounted to 82 entities engaged in various businesses. Amongst them are companies engaged in the core business, i.e.: mine production of metals (such as copper, nickel, gold, platinum, palladium), exploring for and mining deposits of copper ore and other metals and companies working on behalf of the core production business, i.e.: providing services in mine construction, transport, the manufacture of mining machinery and equipment, electricity and heat generation, the production of explosives and research and development. The remaining entities, unrelated to the core business of the Company, provide services among others in health and cash investing.

In 2013, to improve the Group's management model, changes were made to the organisational structure of KGHM Polska Miedź S.A. Organisational units were separated which were responsible respectively for the supervision of domestic and foreign production assets and a unit supervising equity investments (including Investment Funds) and being an element of the CSR strategy in the Group. With respect to realisation of the Policy of coordination, support and integration with KGHM INTERNATIONAL LTD., in relation to progress on work with respect to integration, in December 2013 the decision was made to change the structure supporting realisation of the Policy. The number of functional committees was restricted, with realisation of their tasks to be performed by individual, already functioning organisational units of the KGHM Polska Miedź S.A. Central Office.

Entities in which at 31 December 2013, KGHM Polska Miedź S.A. directly held shares and investment certificates are presented in Diagram 3.

Diagram 3. Entities in which KGHM Polska Miedź S.A. directly held shares and investment certificates as at 31 December 2013*

KGHM Polska Miedź S.A.

„Energetyka" sp. z o.o.	**100%**	*KGHM Ecoren S.A.*	**100%**	*Fermat 1 S.à r.l.*	**100%**
PeBeKa S.A.	**100%**	*KGHM Metraco S.A.*	**100%**	*KGHM Kupfer AG*	**100%**
*KGHM ZANAM Sp. z o.o.***	**100%**	*PHP „MERCUS" sp. z o.o.*	**100%**	*KGHM Kupferhandelsges.m.b.H.i L. (in liquidation)*	**100%**
INOVA Spółka z o.o.	**100%**	*„MCZ" S.A.*	**100%**	*KGHM (SHANGHAI) COPPER TRADING CO., LTD.*	**100%**
POL-MIEDŹ TRANS Sp. z o.o.	**100%**	*KGHM TFI S.A.*	**100%**	*Abacus Mining & Exploration Corporation*	**7%**
CBJ sp. z o.o.	**100%**	*KGHM I FIZAN*	**100%**		
KGHM CUPRUM sp. z o.o. - CBR	**100%**	*KGHM III FIZAN*	**100%**		
TUW - CUPRUM	**97%**	*KGHM IV FIZAN*	**100%**		
NITROERG S.A.	**85%**	*KGHM V FIZAN*	**100%**		
BIPROMET S.A.	**66%**	*Zagłębie Lubin S.A.*	**100%**		
„Elektrownia Blachownia Nowa" sp. z o.o.	**50%**	*KGHM LETIA S.A.*	**85%**		
		*TAURON Polska Energia S.A.****	**10%**		

** does not include KGHM CONGO S.P.R.L. in liquidation, over which control was lost,*
*** change in name (formerly DFM ZANAM-LEGMET Sp. z o.o.),*
**** share of KGHM Polska Miedź S.A. according to current report dated 23 March 2011*

The Fermat 1 S.à r.l. Group includes entities realising the strategy of resource base development, i.e. KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC.

Main equity investments of KGHM Polska Miedź S.A.

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

The most important production assets of the KGHM INTERNATIONAL LTD. Group are the mines Robinson, Levack/Morrison and Franke.

Robinson mine

Location	Nevada, the USA
Ownership	100% Robinson Nevada Mining Company - 100% owned by KGHM INTERNATIONAL LTD.
Type of mine	open pit
Main ore type	copper ore
Associated metals	gold
Type of orebody	porphyry/skarn
Mine life	2020
End product	copper concentrate
Production (2013)	48.9 kt Cu, 45.1 koz TPM*
Employment (2013)	589

**TPM – total precious metals: gold, platinum, palladium*

The mine is located in White Pine County, Nevada, USA, around 11 km west of Ely (approx. 400 km north of Las Vegas), in the Egan Range, at an average altitude of 2 130m a.s.l., near Highway 50.

The mine is comprised of 3 large pits: Liberty (mining re-commenced in 2013), Tripp-Veteran (closed) and Ruth, currently in operation. The ore is extracted by conventional open-pit methods, and is then processed into a copper and gold concentrate in a concentrating plant.

Levack/Morrison mine

Location	Sudbury Basin, Ontario, Canada
Ownership	100% FNX Mining Company - 100% owned by KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper ore
Associated metals	nickel, platinum, palladium, gold
Type of orebody	footwall/contact Ni
Mine life	2020
End product	copper ore
Production (2013)	18.8 kt Cu, 2.9 kt Ni, 44.5 koz TPM*
Employment (2013)	279

**TPM – total precious metals: gold, platinum, palladium*

This mine is part of the Levack complex, and comprises two mines: McCreedy West and Levack (with the Morrison deposit). The mine is located at the edge of the town of Sudbury, Ontario, Canada. The Levack mine, to which the Morrison deposit which lies at a lower depth belongs, is located on the western border of the richly-mineralised North Range complex of the Sudbury Igneous Complex (SIC) in the Sudbury Basin. This is an elliptical structure 60 km long and 30 km wide, which is related to substantial economic resources of nickel, copper, platinum, palladium, gold, and other metals). The mine is connected to the eastern part of the McCreedy West mine.

The ore is accessed and mined with the aid of leased infrastructure belonging to the Craig mine owned by Xstrata Nickel. Mineralisation in the Morrison deposit most commonly occurs in the form of ore veins. Mining is carried out at the 4030 level (approx. 1228 m) using mining techniques adapted to the deposit's geometry - mainly this is a mechanised method of selective extraction using undercutting of successive levels from bottom to top. Drilling is being carried out to define the lower portions of the orebody above the 4700 level (ok. 1433 m).

All of the ore exracted from the mine is processed by Vale's Clarabelle plant in Sudbury.

Franke mine

Location	Region Antofagasta, Chile
Ownership	100% Sociedad Contractual Minera Franke - 100% owned by KGHM INTERNATIONAL LTD.
Type of mine	Open-pit
Main ore type	copper ore
Associated metals	none
Type of orebody	IOCG (iron oxide, copper, gold)
Mine life	2020
End product	copper cathodes
Production (2013)	19.9 kt Cu
Employment (2013)	534

This mine is located in a desert area of northern Chile, in the Altamira region, near the southern boundary of the Antofagasta region, near a public road connecting the mine with the Pan-American highway.

Mining is conducted by conventional open-pit methods from two orebodies: China (part of the larger Pelusa mine area) and Franke. Due to the nature of the ore, it is processed using the heap leach, solvent-extraction and electrowinning method. The end product is electrolytic copper in the form of cathodes.

DMC – mining services

Under the DMC Mining Services brand, the group of companies FNX Mining Company Inc., Raise Boring Mining Services S.A. de C.V. and DMC Mining Services Corporation provide services in shaft sinking, development work, above-ground and underground mine facilities, drilling, civil underground construction, and feasibility analyses and design work.

The most important existing assets of KGHM Polska Miedź S.A. at the development stage are the projects Sierra Gorda and Victoria.

Sierra Gorda project

Location	Region II , Chile
Ownership	55% KGHM INTERNATIONAL LTD, 45% Sumitomo group companies - Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%)
Type of mine	Open-pit
Main ore type	copper ore
Associated metals	molybdenum, gold
Mine life	around 20 years
End product	copper concentrate, molybdenum concentrate
Forecasted production	approx. 220 kt Cu, 11 kt Mo, 2 tonnes Au
Start of production	2014

KGHM INTERNATIONAL LTD. acquired the project in 2008. Since September 2011 the Sierra Gorda project has been a joint venture (under the company JV Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group. This is a key development project in the KGHM Group due to its scale - one of the world's largest mines of copper, molybdenum and gold is being created, which will improve the Group's position on the cost curve.

The Sierra Gorda project is located in the Atacama desert, in the Sierra Gorda administrative area in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The project is situated at an altitude of 1 700 m a.s.l. and 4 km from the town of Sierra Gorda, having a communications network with direct access to a highway and railway connections. Power for the project is through a power line from Mejillones, as well as from a local power plant. Desalinated sea water for the project will be pumped through a permanent pipeline. The copper and molybdenum concentrates produced will be transported to the port of Antofagasta, and from there by sea to smelters around the world.

The Sierra Gorda orebody is one of the largest deposits of copper and molybdenum in the world, comprising both sulphide copper ore as well as oxide copper ore located above the sulphide level. Development of the Sierra Gorda project assumes two investment stages. The first stage comprises the construction of a conventional open-pit mine (extraction using blasting materials and dump trucks, loaders and ore transport to a processing plant), infrastructure (among others a tailings pond, power line, salt water pipeline) and a processing plant with an installation to separate the molybdenum concentrate (high-pressure crushers, ball mills and conventional flotation) with processing capacity of 110 thousand tonnes of ore per day – commissioning of the mine in the second quarter of 2014. In the second stage, the capacity of the processing plant is planned to be increased to 190 thousand tonnes of ore per day. Oxide ore is stored separately for eventual later heap leaching. The project also has exploration potential in neighbouring areas.

Total estimated capital expenditure on the project amounts to approx. USD 4 billion. The Sierra Gorda project is financed from three sources – by the investors (KGHM INTERNATIONAL LTD. and Sumitomo Group companies) and from borrowing. A bank loan in the amount of USD 1 000 million was granted for a period of 9.5 years by a consortium of financial institutions: Japan Bank for International Cooperation and by the four private banks Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation, The Bank of Tokyo Mitsubishi UFJ, Ltd. and The Sumitomo Trust & Banking Co., Ltd. This is a project finance loan without recourse to KGHM INTERNATIONAL LTD.

Realisation of the project is on schedule and on budget. Progress on the project at the end of 2013 was 86%.

On 26 February 2014, at the request of the local community, the Appeals Court in Antofagasta invalidated the environmental permits issued by the Environmental Office of Region II for the transportation and storage of copper concentrate belonging to Sierra Gorda S.C.M. at the port of Antofagasta. The defendants, i.e. the Environmental Office of Region II in Chile, Antofagasta Railway Company PLC and Sierra Gorda S.C.M., as well as the International Port of Antofagasta, hold the position that the environmental permits were acquired in accordance with the law, and that the claims of the plaintiffs are legally unjustified. The defendants are in the process of appealing this judgment.

Victoria project

Location	Sudbury Basin, Ontario, Canada
Ownership	100% KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper-nickel ore
Associated metals	precious metals (gold) and platinum group metals (platinum, palladium)
Mine life	around 14 years
End product	copper concentrate, nickel concentrate
Forecasted production	16 kt Ni, 15 kt Cu
Start of production	2018-2019, full capacity 2023

This project is located in the Canadian province of Ontario, around 35 km west of the town of Sudbury. In 2002 KGHM INTERNATIONAL LTD. acquired rights to the Victoria mineral deposits and commenced a campaign of exploration in this terrain. Based on the data obtained from drilling to the end of 2011, 14.5 million tonnes of ore were documented in the category inferred resources, with average grade of 2.5% Cu, 2.5% Ni and 7.6 g/t of precious metals.

In August 2013, KGHM INTERNATIONAL LTD. and FNX Mining Company Inc. signed an agreement with Vale Canada Limited, under which Vale waived its buy back right, and KGHM INTERNATIONAL LTD. became the owner of 100% of the project in exchange for a Net Smelter Return royalty of 2.25% on all future production from the mine. The current scenario foresees realisation of the project in two stages. The first of these, currently being realised, is of key importance and is based on the sinking of an exploration shaft, which will enable the conduct of accessing work and necessary drilling as part of an advanced exploration campaign, aimed at confirming and documenting copper and nickel resources in the appropriate category.

All of the ore extracted from the mine will be processed in the Clarabelle plant in Sudbury, owned by Vale.

Other important investments

From the point of view of ensuring continuity of the core production of KGHM Polska Miedź S.A., of importance are investments in companies operating in Poland on behalf of this core production, including among others:

- PeBeKa S.A. – mining work contractor,
- KGHM ZANAM Sp. z o.o. – a supplier and service provider for mining machinery, and also provides production maintenance services in selected areas,
- KGHM Metraco S.A. – a supplier of copper scrap,
- „Energetyka" sp. z o.o. – this company secures part of the energy supply for KGHM Polska Miedź S.A.

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

Investments realised in 2013, changes in the Group structure

In 2013, KGHM Polska Miedź S.A. realised equity investments in the total amount of PLN 87 million, through the purchase of Investment Certificates in the Funds managed by the Group company KGHM TFI S.A., and through the acquisition of shares in two subsidiaries: KGHM Kupfer AG and KGHM LETIA S.A.

Purchase of FIZAN certificates

KGHM Polska Miedź S.A. is the only participant in the Investment Funds managed by KGHM TFI S.A.

In April 2013, KGHM Polska Miedź S.A. acquired investment certificates in KGHM II FIZAN, in the total issue amount of PLN 42 million. The funds obtained from this issuance of Certificates were allocated to cash investment accounts. In June 2013, the General Meeting of the Fund adopted a resolution to dissolve the fund, with the fund's investments being transferred to KGHM V FIZAN. KGHM II FIZAN was de-registered on 4 October 2013.

In May 2013, two new closed-end investment funds were registered: KGHM IV FIZAN and KGHM V FIZAN. KGHM Polska Miedź S.A. acquired Investment Certificates in KGHM IV FIZAN with a total issue price of PLN 1 million and Investment Certificates in KGHM V FIZAN with a total issue price of PLN 42 million. KGHM IV FIZAN is dedicated to projects related to commercial property. With respect to the projects of KGHM V FIZAN, selected companies of the KGHM Polska Miedź S.A. Group will undergo restructurisation.

In 2013, KGHM Polska Miedź S.A. twice acquired Investment Certificates in KGHM I FIZAN, whose goal is to build a single integrated entity comprising a portfolio of spa-related companies under the name POLSKA GRUPA UZDROWISK. In September 2013, Investment Certificates were acquired with a total issue price of PLN 7.4 million – to be allocated among others to the purchase of the remaining shares of spa-related companies belonging to the State Treasury. In December 2013, Investment Certificates were acquired with a total issue price of PLN 22 million, to be allocated to the buyback of the remaining shares of spa-related companies belonging to employees.

Acquisition of shares in direct subsidiaries

In February 2013, KGHM Polska Miedź S.A. acquired newly-issued shares in the increased share capital of the subsidiary KGHM Kupfer AG for cash in the amount of EUR 1 600 thousand (PLN 7 million). The funds obtained from this increase in capital were used to finance the first phase of research in stage II of the Weisswasser project, comprising the exploration for and investigation of a copper deposit on the German side of the Nysa Łużycka river, in the vicinity of the town of Weisswasser (Saxony).

In October 2013, KGHM Polska Miedź S.A. acquired newly-issued shares in the increased share capital of the subsidiary KGHM LETIA S.A. and paid for them in cash in the amount of PLN 7.5 million. Ownership in the share capital of this company increased from 85.45% to 88.58%. KGHM LETIA S.A. manages a technology park and is involved in the sale and leasing of commercial property. The funds obtained from this increase in capital were used to repay a loan granted by KGHM Polska Miedź S.A. for the purpose among others of completing the Letia Business Center investment.

Financing of the Afton-Ajax project

In 2013, in order to finance the Afton-Ajax project, KGHM Polska Miedź S.A. granted a USD-denominated loan to the direct subsidiary Fermat 1 S.à r.l. equivalent to CAD 38.4 million (PLN 118.1 million). These funds were transferred through indirect subsidiaries: Fermat 2 S.à r.l. (as a loan) and 0929260 B.C. Unlimited Liability Company (as an increase in capital), to the equity of KGHM AJAX MINING INC. The above is the result of execution of the joint venture agreement of KGHM Ajax Inc., under which the partners committed to inject, proportionally to their respective interest in the share capital, quarterly payments to the company's equity in order to realise the Program and Budget approved by the Board of Directors of KGHM AJAX MINING INC.

Change in the Group structure

In December 2013, the company NITROERG S.A. acquired from another partner of BAZALT-NITRON Sp. z o.o. 70% of the share capital of this entity, as a result of which NITROERG S.A. became the sole owner (ownership interest in BAZALT-NITRON Sp. z o.o. increased from 30% to 100%). This company provides blasting services in the rock mining sector. The increase in equity interest by NITROERG S.A. in BAZALT-NITRON Sp. z o.o. is related to the development of a distribution channel.

In order to improve the structure of the KGHM Polska Miedź S.A. Group, in 2013 liquidation procedures commenced in respect of the following entities:

- Ecoren DKE sp. z o.o. – a subsidiary of KGHM Ecoren S.A. - 100%,
- „BIOWIND" sp. z o.o. – a subsidiary of „Energetyka" sp. z o.o. - 100%,
- Przedsiębiorstwo Budowlane Katowice S.A. – a subsidiary of BIPROMET S.A. – 88.09%.

In order to improve the structure of the KGHM INTERNATIONAL LTD. Group, in 2013 the following actions were taken:

- as a result of liquidation procedures, in February 2013 the indirect subsidiary Quadra Mining Australia PTY Limited was de-registered; this company did not conduct operating activities,
- in December 2013 the indirect subsidiary Robinson Nevada Railroad Company with its registered head office in the USA was dissolved,
- combination through the acquisition by Quadra FNX Holdings (Barbados) Ltd. of the following subsidiaries with their registered head offices in the Barbados which do not conduct operations, in respect of which there was no longer justification for their functioning in the Group's structure: Quadra FNX Intermoly Holdings Limited, Quadra FNX Moly Holdings (Barbados) Ltd. and Quadra FNX Water Holdings (Barbados) Ltd. Following this combination the company Quadra FNX Holdings (Barbados) Ltd. changed its name to KGHMI Holdings (Barbados) Ltd.,
- procedures to combine the following additional subsidiaries were prepared: Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd., which are unrelated to the conduct of core business operations, with their registered head offices in the British Virgin Islands, through their acquisition by Centenario Holdings Ltd. Combination took place on 22 January 2014.

Intentions as regards equity investment directions

Intentions as regards equity investments result from the main assumptions of the Strategy of KGHM Polska Miedź S.A., comprising development of the resource base to increase copper production and diversification of sources of revenues by investments in the energy sector to secure energy supplies and prices.
Investments as regards development of the resource base are aimed acquiring selective exploration projects related with copper and associated metals. In the near term it is not expected that there will be significant activity in the area of mergers and acquisitions of mining assets at a more advanced stage of development. The activities of the Group will be focused on advancement of the projects in its portfolio – above all Sierra Gorda, Victoria and Afton-Ajax.
In terms of its planned equity investments, KGHM Polska Miedź S.A. also 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 at maintaining production capacity and ensuring continuous operations by KGHM Polska Miedź S.A.

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

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

Related party transactions under other than arm's length conditions

In 2013, neither KGHM Polska Miedź S.A. nor its subsidiaries entered into related party transactions under other than arm's length conditions.

2.3. Capital expenditure

In 2013, capital expenditures amounted to PLN 2 321 million and were higher than in the prior year by 32%. Capital expenditures, including expenditures incurred on uncompleted development, amounted to PLN 2 357 million and were higher than in the prior year by 33%.

In reporting year 2013, prepayments were also made on future deliveries and services in the amount of PLN 58 million, which will be recognised under expenditures at the date of technical handover.

As a result of the above, in 2013 capital expenditures amounted in total to PLN 2 415 million.

Investments were aimed at locally-realised and centrally-realised projects:

- **centrally-realised projects** – these are development- and replacement-related investments of greater difficulty, size and risk having a substantial impact on the development of the Company and the realisation of its strategy, which represent 45%,
- **locally-realised projects** – these are replacement-related projects, and typical/repeatable development projects, minor conformatory and purchases of mining machinery, mine haulage vehicles, pumps, ventilators and other equipment, which represent 55%.

Expenditures on development-related investments in 2013 amounted to PLN 1 381 million (an increase by 33% versus the prior year).

Chart 7. Structure of capital expenditures (M PLN)

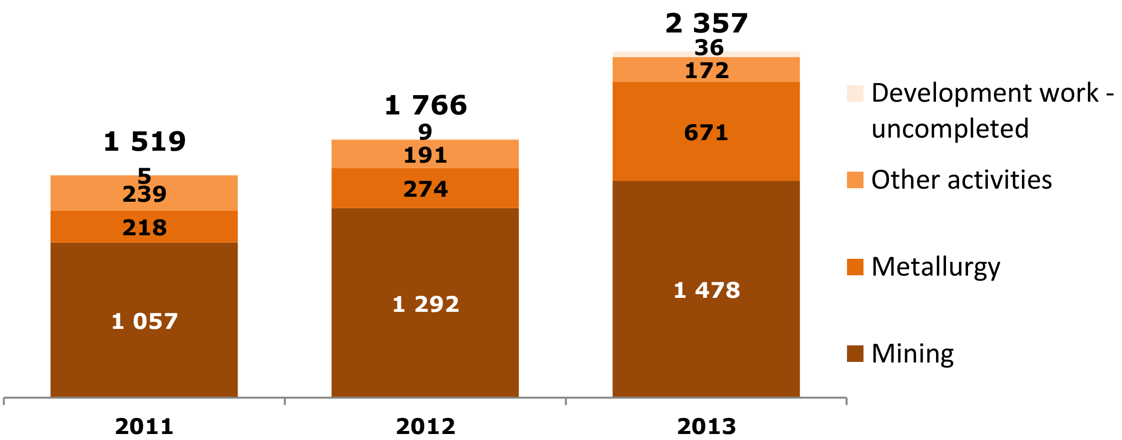


Table 17. Major projects and facilities realised in 2013

Mining

Completion of the **„Concessions 2013"**: project

- In February 2013 information was received on the initiation by the Minister of the Environment of proceedings regarding the granting of concessions for extraction of copper ore from the concession areas: "Lubin-Małomice", "Polkowice", "Sieroszowice", "Radwanice-Wschód", "Rudna".
- On 14 August 2013 three concession decisions were signed by the Minister of the Environment, i.e. Concession No. 7/2013 for extraction of copper ore from the concession area "Polkowice", Concession No. 8/2013 for extraction of copper ore from the concession area „Radwanice-Wschód" and Concession No. 9/2013 for extraction of copper ore from the concession area „Rudna" as well as agreements establishing mining usufruct rights for the respective concessions.
- On 30 August 2013 an agreement was signed regarding the right to paid use of geological information on the rock salt located above the copper ore deposit in the "Sieroszowice mine".
- On 12 September 2013 an agreement was signed by the Minister of the Environment for two further concessions, i.e. Concession No. 10/2013 for the concession area „Lubin-Małomice" and Concession No. 11/2013 for the concession area „Sieroszowice" as well as agreements establishing mining usufruct rights.
- On 31 December 2013 a decision was obtained from the District Mining Office approving the Mine Operating Plans for the three mines of KGHM Polska Miedź S.A.: Polkowice-Sieroszowice, Rudna and Lubin.

„Construction of the SW-4 shaft" – shaft sinking completed – since the start of the investment 1 219.0 m have been sunk (including 178.2 m in 2013) and a total of 15 650.0 m of drifts and shaft-area workings for a future ventilators station (including 3 817.0 m in 2013).

„Deep Głogów" - on 11 December 2013 the first bucket of rock was hoisted from the GG–1 shaft marking the start of shaft sinking, and work continued on temporary and permanent facilities at the shaft site. Work continued on development of the main drifts together with installation of technical infrastructure – in 2013 5 664.6 meters of drifts were excavated (altogether since 2005, 48.8 km of drifts have been executed of the planned 129.9 km, representing 38%). In addition, a contract was signed with the general contractor for execution of the Surface-based Cooling Station at the R-XI shaft and concept-design work was begun.

With respect to **modernisation and replacement of the machinery park in the mines,** 221 mining machines were purchased, representing 99% of planned purchases of mining machinery in 2013.

In the mines, work was carried out on investments related to **development of the infrastructure** of the mining sections, ventilation and cooling equipment and investments in the conveyor belts and pipelines.

In 2013, the project **„Replacement of flotation machinery"** was completed. Since 2009 a total of 113 machines were replaced and modernised, representing 100% of the planned project scope. 26 machines were replaced in the reporting period. The project was executed on schedule, within its scope and on budget.

As part of realisation of the project **„Modernisation of classification units"** involving modernisation of the over 30-year-old hydrocyclone batteries with new-generation equipment, part 1 of stage I was completed, under which 12 hydrocyclone batteries were built of the total planned 78 units. Selection procedures began for suppliers for subsequent project stages.

As part of the second stage of **„Investigation and documentation of the Synklina Grodziecka region"** realisation commenced in 2013 of 4 of the 9 drillholes. During the drilling geophysical and hydrogeological analysis was conducted.

Facilities were realised related to improving and maintaining the operational safety of the Żelazny Most mining tailings treatment pond and to eliminate its environmental impact.

Realisation was continued on the project „**Development of the Żelazny Most mining tailings treatment pond to ensure the ability to store flotation tailings after 2016".** In 2013:

- An area management concept was developed for storing thickened tailings at the Żelazny Most tailings pond – Main Facility;
- The expertise of a team of external experts was obtained for the purpose of developing the construction project to develop the Żelazny Most tailings pond;
- The initial scope of drilling was performed on the Southern Quarter based on approved geological projects for the Southern Quarter, pursuant to the plan for 2013. Work was also performed on evaluating the deposit, to be continued in 2014;
- Preliminary Construction Projects were prepared to build the Southern Quarter and develop the Main Facility;
- A Study of Conditions and Directions for Area Management was approved for the municipalities of Rudna and Grębocice.

As part of the project „**Achieving rock salt production of 1 million tonnes/year"**

- In July 2013 the extraction of salt using skips commenced at the Polkowice-Sieroszowice mine.
- On 18 November 2013 an agreement was signed with the Minister of the Environment on establishing mining usufruct rights for extraction of rock salt from the concession area „Bądzów".

As part of the **mechanical extraction of ore program,** the following were continued in 2013:

- The project „Development of mining technology using the ACT mining complex by KGHM". This project is being realised jointly with the company Caterpillar Global Mining Europe GmbH (formerly Bucyrus Europe GmbH), for which in 2009 the Company gained the possibility of receiving a subsidy from PARP in the amount of approx. PLN 38.6 million, representing 31.7% of the project budget.

  In the years 2009-2013 the first stage of the project was realised, comprising research and industrial testing. In 2013, operational trials of the ACT mining complex commenced at a research site of the pilot section in the Polkowice-Sieroszowice mine. Positive results from analysis of the technology's profitability will be the basis for making a decision as to implementation of this mining technology using the ACT mining complex in the mines of KGHM Polska Miedź S.A. The project is included in the Research and Development Work Plan.

- The project „Drilling of drifts using combines" in 2013 in the Polkowice-Sieroszowice mine. In 2013 the supply and assembly of three combines from the company SANDVIK were realised and technical – organisational structure of the combines section was prepared.

  Trials commenced on drilling drifts using the team of three combines as well as the process of improving and gaining experience from the trials conducted, aimed at the technical and economic justification for implementing this combine technology in performing preparatory mine work in the mines of KGHM Polska Miedź S.A. Due to the watershed nature of this project in developing the copper mines of KGHM Polska Miedź S.A., the drilling of drifts using the team of three combines is being carried out as part of the work to access the „Deep Głogów" deposit area in the Polkowice-Sieroszowice mine.

Metallurgy

As part of the **Pyrometallurgy Modernisation** at the Głogów I and Głogów II smelters, the following was continued:

- The „Pyrometallurgy Modernisation Program" with respect to building a flash furnace at Głogów I. In 2013, framework agreements were signed for construction-assembly work with three Main Contractors. Design and construction-assembly work was realised with respect to building the main facilities of the flash furnace unit, including foundations and construction of the Flash Furnace Hall complex, the Electric Furnace and the Recovery Boiler, the power building, renovation of naves A-B of the Anode Furnaces Section with construction of equipment and installations foundations. Arranging contracts continued for equipment for individual flash furnace production units.

  Work was realised aimed at optimising the technical-technological solutions of the investment and verifying the project's entire work and finance schedule based on work related to optimising organisation of the metallurgical assets of KGHM Polska Miedź S.A.

- The project „Intensification of processing at Głogów II". In 2013, design work was completed, contracts were signed for work and equipment supply, and construction-assembly work was performed on the modernised production lines during the maintenance shutdown of the flash furnace at Głogów II, i.e. the Sulphuric Acid Plant, Recovery Boiler, Electric Furnace Exhaust Incineration Chambers, the flash furnace concentrate collector, the OSR 22/1 power station, Mixing Chambers, roasted material bins, and the 110/6 kV GST-II electrical station for the production lines.

  As part of the preparatory work of stage II of the project, design work was performed, contracts were signed for the supply of equipment for the modernised production lines, the transformer was delivered and assembled with respect to realisation of the 110/6 kV GST-II electrical station, and tender procedures were opened for realisation of stage II of the construction-assembly work for the Sulphuric Acid Plant.

As part of the project **„Construction of a scrap melting unit"** analyses and optimisations were prepared of technical-technological solutions assumed in the Area Management Plan for individual production lines of the projected investment.

Other

As part of the project **„Construction of Gas-Steam Blocks at the Głogów and Polkowice Power Plants"** final start-up and handover work was performed:

- on 5 November 2013, the gas-steam block in Polkowice was handed over for operation.
- final work in progress for handover of the Gas-Steam Block at the Głogów power plant, all basic equipment (recovery boilers, steam turbo units and gas turbo units) was handed over from the Contractors in terms of completeness. Commissioning of the entire block is to be at the beginning of the second quarter of 2014. The decision to defer the date of handover of the Gas-Steam Block at the Głogów power plant is dictated by the prolonged process of handover and the previously unforeseen economic situation of gas-fired power plants in Poland.

2.4. Environmental protection

Activities of the Company in respect of environmental protection

KGHM Polska Miedź S.A., as one of the most important and socially responsible companies in Lower Silesia, cannot and does not want to avoid its responsibility for the environment in which it operates. The idea of balanced growth, and in particular respect for the environment, is an important element of the Company's strategy. The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations serving the environment, both those built in the past as well as new investments in this area. In 2013, the Company spent PLN 181 million on the realisation of investments related to environmental protection. The largest expenditure, in the amount of PLN 139 million, was incurred on continuation of the construction of two gas–steam blocks, one in Głogów and one in Polkowice.

In addition, KGHM Polska Miedź S.A. taking into consideration its corporate social responsibility, continued in 2013 a Program to Promote Health and Prevent Environmental Threats. This program is aimed mainly at children from ages 1 to 16 who live in the vicinity of our metallurgical facilities, comprised among others of blood testing for lead content, trips to „Green schools", pool-related activities and education related to ecology and health. In the past year this program covered 425 children and 75 adults, most of whom were pregnat women. A large-scale program of health checks for the citizens of the municipalities of Jerzmanowa and Żukowice was also conducted, who are exposed to odors emitted from the nearby SG-2 ventilation outlet shaft. In 2013, 253 citizens of the above municipalities participated in the program.

Environmental fees

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2013 amounted to PLN 30 million. The amount of fees paid was higher by PLN 3 million than in 2012, mainly due to the annual increase in environmental fee rates.

In the previous year the largest fees paid by the Company were for the drainoff of excess water from the Żelazny Most waste treatment tailings pond: PLN 19 million. Another item of costs is the fee for emissions into the atmosphere in the amount of PLN 6 million.

Legal aspect and intentions

KGHM Polska Miedź S.A. operates eight installations whose functioning, in accordance with the Act on Environmental Protection, requires the possession of integrated permits. These include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the smelter which do not require integrated permits at the Głogów Smelter,
- an installation titled The Biechów industrial waste storage facility at the Głogów Smelter,
- an installation titled The Biechów II industrial waste storage facility at the Głogów Smelter,
- an installation for the production of refined lead at the Legnica Smelter,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electronic processes, the tailings waste facility „Polowice", a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the Legnica Smelter,
- an installation for the melting, continuous casting and drawing of copper rod at the Cedynia Wire Rod Division,
- an installation for the storage of tailings from the flotation of copper ore at the Tailings Division, and
- an installation for the neutralisation of sulphuric acid waste at the Concentrators.

The remaining Divisions of the Company possess environmental sector administrative decisions.

In addition, the Głogów and Legnica Smelters received permits to participate in the CO_2 emissions trading system.

Due to on-going changes in environmental law and the resulting changes in modernisation of installations, it is necessary to continuously monitor current administrative decisions permitting the Company to operate its installations. In 2013, procedures continued related to changes in decisions for the mines.

Amongst the most important investments planned in the near term are the following:

- continuation of a program to promote health and prevent environmental threats – aimed at the inhabitants of former protective zones,
- continuation of work related to the modernisation of pyrometallurgy at the Głogów Smelter,
- adaptation of administrative decisions held to legal changes,
- introduction in the Company of a system for trading CO_2 emissions,
- work related to ensuring the security of the Żelazny Most tailings pond, such as strengthening the containment dam,
- development of the Żelazny Most tailings pond by the so-called southern quarter,
- work on the building of an integrated management system for the entire Company.

Activities on behalf of meeting REACH requirements

KGHM is a member of six international consortiums created to meet the requirements of the European Union's REACH decree. In 2013, two substtances were registered: selenium and copper chloride, and updates were made to 12 pieces of documentation submitted in 2010. Cooperation with the consortiums was with respect to:

- numerous updates to decrees, guidelines and requirements,
- the assessment of silver registration documentation conducted through Holland ordered by the European Chemicals Agency (ECHA), and
- the threat of introduction of restrictions and authorisations in the production and application of fire-resistant fabrics and hydrazines.

By 2018, KGHM is to register two more substances: gold as an end substance and silver chloride as an intermediate substance.

In the years 2014-2018 all of the REACH consortiums will continue to function with respect to the aforementioned numerous and frequent updates to REACH requirements.

2.5. Risk management in the Company

Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group

In 2013, KGHM Polska Miedź S.A. completed design work aimed at implementing a comprehensive integrated risk management system, supporting the management process at the strategic and operational level for the KGHM Polska Miedź S.A. Group.

This project was an element in realisation of the Strategy, as well as in developing skills and organisational efficiency, improving corporate governance and strengthening investor trust in the Company. The efficient implementation of such a system strengthens the robustness of the Company, its predictability and stability, and its responsibility towards its shareholders, as well as its ability to adapt to the volatile conditions of the business environment.

An integral part of the project was the conduct of a program of training for management staff and employees of the KGHM Polska Miedź S.A. Group in the question of risk management at the basic level, comprising principles and the adopted risk management model (realised at the turn of 2012/13) and at the advanced level – dedicated workshops for selected groups of participants/roles in the risk management process (realised in 2013).

As a result of realisation of this project, in November 2013 the following documents were approved:

- The **Corporate Risk Management Policy** in the KGHM Polska Miedź S.A. Group, describing the method of approach, setting forth basic principles and establishing the corporate risk management process in the KGHM Polska Miedź S.A. Group.

  This comprehensive approach to risk management conforms to the strategy of growth, with consistent efforts at operational improvement and with the principles of balanced growth and corporate resposibility. It was designed so as to support the Company in building a robust corporate structure.

  The goals of risk management are to:

  - ensure the creation and protection of shareholder value by establishing a unified approach to the identification, assessment, risk analysis and implementation of answers to key risks;
  - protect the lives and health of employees, the natural environment and the brand's reputation;
  - support the achievement of business goals through implementation of the tool of early recognition of opportunities and threats;
  - ensure strong support in making decisions at all levels of the organisation; and
  - build an organisation aware of the risks it takes and determined to continually improve.
- The **Corporate Risk Management Procedure** in KGHM Polska Miedź S.A., describing the sequence of individual stages, the role and responsibilities of individual participants and the applicable timeframes for the corporate risk management process in the KGHM Polska Miedź S.A. Group.

The goal of the Procedure is to ensure that key risks are identified, assessed and analysed, and on the basis of these assessments appropriate Risk Response Plans are prepared and Corrective Actions are implemented which provide for the limitation of threats and realisation of assumed business goals and will support identification of opportunities to build competitive advantage.

This Procedure was developed in accordance with best practices and was adapted to the needs and specifications of the KGHM Polska Miedź S.A. Group. It is inspired by solutions adopted by the standard ISO 31000:2012, which were adapted to the organisational conditions and cultures of the KGHM Polska Miedź S.A. Group. In addition, it implements selected practices developed in other norms and standards such as COSO I and II.

- The **Corporate Risk Committee Rules of** KGHM Polska Miedź S.A., containing the Committee's functional principles, enabling the Committee to realise the corporate risk management process, in accordance with principles set forth in the Policy and Procedure.
- The **Corporate Risk Management Methodology** of KGHM Polska Miedź S.A., describing ways to proceed and supporting tools in performing specific tasks araising from the Procedures, comprising among others Risk Models, Risk Assessment Matrices, Risk Registration, Risk Cards, Detailed Risk Cards, Risk Maps etc.

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to realisation of the business goals. The current, future, actual and potential impact of risk on the achievement of business goals is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risks.

In 2013, as part of the design work realised, the process of identification and assessment of risk in KGHM Polska Miedź S.A. was performed. Based on the process of identification and risk assessment, reflecting their position on the Risk Map, key risks were selected for KGHM Polska Miedź S.A. These risks will be the subject of deeper analysis in order to develop a Risk Response Plan and Corrective Actions. Other risks will be continuously monitored by the Corporate Risk Management and Conformity Department.

The management of individual risks (including among others market risk) is the subject of separate individual regulations in KGHM Polska Miedź S.A. and is covered by the following documents:

- „Market risk management principles", comprising among others: Market Risk Management Policy and the Rules of the Risk Management Committee.
- Credit Risk Management Policy and the Rules of the Credit Risk Committee.
- Financial Liquidity Management Policy.

Organisational structure of risk management in KGHM Polska Miedź S.A.

The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Diagram 4. Organisational structure of risk management in KGHM Polska Miedź S.A.

Supervisory Board (Audit Committee)					
Performs annual assessment of the effectiveness of the risk management process and monitors the level of key risks and ways to address them.					
Management Board					
Has ultimate responsibility for the risk management system and supervision of its individual elements.					
1st line of defense	**2nd line of defense**				**3rd line of defense**
Management	**Risk Committees**				**Internal Audit**
Management staff is responsible for identifying, assessing and analysing risk and for the implementation, within their daily duties, of responses to risk. The task of the management staff is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded.	Supports effective risk management and ongoing supervision of key risks.			Management of liquidity risk, understood as the ability to pay financial liabilities on time and to gain resources to finance its activities	The Internal Audit Plan is based on assessing risk and subordinated business goals, assessed is the current level of individual risks and the degree of efficiency with which they are managed.
	Market Risk Committee	**Credit Risk Committee**	**Corporate Risk Committee**		
	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of debtors to meet their obligations	Manages corporate risk and continuously monitors key risks		
	Market Risk Management Policy	*Credit Risk Management Policy*	*Corporate Risk Management Policy*	*Liquidity Management Policy*	*Internal Audit Rules*
	Market and Credit Risk Management Department *[Reports to the I Vice President of the Management Board (Finance)]*		Corporate Risk Management and Compliance Department [Reports to the President of the Management Board]	Treasury Department [Reports to the Executive Director, Finance]	Internal Audit and Control Department [Reports to the President of the Management Board]

Financial risk

The goal of financial risk management in KGHM Polska Miedź S.A. is to restrict the undesired impact of financial factors on cash flow and Company results in the short and medium terms and to build Company value over the long term. Financial risk management includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures applied in the Company.

In 2013 the Company was exposed to the main financial risks i.e. market risks, credit risk and liquidity risk.

Market risk management

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

The Management Board is responsible for market risk management in the Company and for adherance to policy in this regard. The main body involved in realising market risk management is the Market Risk Committee, which makes recommendations to the Management Board in this area. The primary technique for market risk management is the use of hedging strategies involving derivatives. Apart from this, natural hedging is also used.

Commodity risk, Currency risk

In 2013 the Company was exposed to the risk of changes in the price of metals it sells: copper and silver. In addition, of major significance for KGHM Polska Miedź S.A. was the risk of changes in currency rates, in particular the USD/PLN exchange rate.

In accordance with the Market Risk Management Policy, in 2013 the Company continuously identified and measured market risk related to changes in metals prices and exchange rates. Monitoring the size of market risk in the Company is based on analyses of the impact of market risk factors on the Company's operations (profit, balance sheet, cash flow), among others using the market risk measure Earnings-at-Risk, based on Corporate Metrics methodology. This measure indicates, for a given probability, the bottom level of net profit (e.g. with 95% probability, net profit in a given year will not be lower than…). EaR methodology allows the calculation of net profit reflecting the impact of changes in market prices of copper, silver and exchange rate in the context of planned budgets.

The Company in addition continuously analyses the metals and currency markets.

These analyses, along with assessment of the Company's internal situation, represented the basis for taking decisions on the appliaction of hedging strategies on the metals and currency markets.

In 2013 the Company did not implement copper and silver price hedging strategies. However, in the second quarter of 2013 there was a restructuring of hedging position on the silver market by repurchasing a seagull option structure, with prices of exercise of the options 20-40-65 USD/troz with a total nominal amount of 1.8 million troz of silver. The closure of the hedging position on silver market with profitable stock prices guaranteed that the Company increased its revenues from sales in the second half of 2013 by PLN 95 million.

In the case of the forward currency market, in 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. Additionally, in the reporting period the Company restructured the seagull option strategy for the first half of the 2014 with a total nominal amount of USD 180 million by repurchasing sold put options. Restructuring of positions in derivatives will allow to fully utilise put options purchased within those structures in case of the eventual strengthening of polish currency in the first half of 2014.

In 2013, the result on derivatives in the Company was PLN 73 million of which:

- PLN 450 million was transferred to revenues from sales,
- PLN 377 million decreased other operating activities (wherein: the loss from realisation of derivatives amounted to PLN 185 million, and the loss from the measurement of derivatives amounted to PLN 192 million).

The loss from the measurement of derivatives transactions, recognised in other operating activities, is mainly due to changes in the time value of options, which in accordance with hedge accounting policy is recognised in profit or loss.

As at 31 December 2013, the fair value of open positions in derivatives (on the copper and currency markets) amounted to PLN 791 million, while PLN 617 million was recognised in the revaluation reserve from the measurement of derivatives.

Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the Company's results. In 2013 the Company was exposed to this risk due to loans granted, unallocated cash placed on deposits, participating in zero-balance cash-pool services and borrowing.

As at 31 December 2013 the balance of the aforementioned positions are as follows:
- loans granted: PLN 257 million,
- bank deposits: PLN 308 million, including deposits of Social Fund, Mine Closure Fund and Tailings Storage Facility Restoration Fund,
- receivables due to participation in cash pool service: PLN 203 million,
- payables due to participation in cash pool service: PLN 94 million,
- liabilities due to bank loans: PLN 1 123 million (i.e. USD 373 million).

The impact of changes in interest rates on the Company's results, due to financial receivables held and financial liabilities drawn, is estimated as immaterial, due to the scale of the Company's operations.

Price risk related to the purchase of shares of listed companies

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

As at 31 December 2013, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 799 million.

Credit risk management

Credit risk is defined as the risk that counterparties of the Company will not be able to meet their contractual obligations.

In 2013, KGHM Polska Miedź S.A. was exposed to this risk, mainly in four areas, related to:

- trade receivables,
- cash and cash equivalents and bank deposits,
- loans granted, and
- derivatives transactions.

The Management Board is responsible for managing credit risk in the Company and for adhering to policy in this regard. The main body involved in realising activities in this respect is the Credit Risk Committee.

Credit risk related to trade receivables

The Company limits its exposure to credit risk related to trade and other receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Company is the on-going monitoring of receivables and the internal reporting system. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments. In 2013 the Company secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain.

To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2013 the Company had secured 74% of its trade receivables.

The concentration of credit risk in the Company results from the fact that key clients are allowed extended terms of payment. Consequently, as at 31 December 2013 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 64% of the trade receivables balance (as at 31 December 2012: 66%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

Credit risk related to cash and cash equivalents and bank deposits

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

Credit risk related to bank deposits is continuously monitored by a continuous review of financial position and by maintaining an appropriately low level of concentration in individual financial institutions.

Credit risk related to derivative transactions

All of the entities with which the Company enters derivative transactions operate in the financial sector. These are mainly financial institutions, with the higher and medium-high ratings. According to fair value at 31 December 2013, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Company and from unsettled derivatives amounted to 22%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

Financial liquidity management

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

The Company manages its financial liquidity in accordance with the policy „Financial Liquidity Management Policy", which describes in a comprehensive manner the process of managing financial liquidity in the Company, based on best practice for such procedures and instruments.

The basic principles resulting from this document are:

- the investment of financial surpluses in safe instruments,
- limits for individual financial investment categories,
- concentration limits on monetary resources for financial institutions,
- assuring the appropriate financial sources

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

As at 31 December 2013, the Company held borrowing liabilities in the amount of USD 373 million (i.e. PLN 1 123 million). Interest on the loans is based on variable LIBOR plus a margin.

As at 31 December 2013, the Company owned open lines of credit in PLN, USD and EUR.

Interest rate is based on variable WIBOR, LIBOR, EURIBOR rates plus a margin.

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

The Company assumes that the *equity ratio* shall be maintained at a level of not less than 0.5, and the *ratio of Net Debt/EBITDA* at a level of up to 2.0.

The Company continues to add additional companies to the cash management service of the KGHM Polska Miedź S.A. Group (zero-balance cash pool). The funds available under this service bear an interest rate based on variable WIBOR. The credit limit available in the account as at 31 December 2013 was PLN 431 million.

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

3. Review of financial position

3.1. Assets

As at 31 December 2013, total assets amounted to PLN 29 038 million, meaning an increase by PLN 861 million (3%) versus the end of 2012.

Table 18. Current and non-current assets (M PLN)

	31.12.2012*	31.12.2013	Change 31.12.12=100	Structure
Property, plant and equipment	8 445	9 744	115.4	33.6
Shares and investment certificates in subsidiaries and interest in joint ventures	11 674	11 777	100.9	40.6
Deferred tax asset	266	98	36.8	0.3
Available-for-sale financial assets	882	809	91.7	2.8
Financial assets for mine closure and restoration of tailing storage facilities	141	179	127.0	0.6
Derivatives	1 123	814	72.5	2.8
Trade and other receivables	1 772	2 789	157.4	9.6
Inventories	2 992	2 432	81.3	8.4
Cash and cash equivalents	707	123	17.4	0.4
Other assets	175	273	156.0	0.9
Total assets	**28 177**	**29 038**	**103.1**	**100.0**

** Data restated due to a change in accounting policies (Note 2.1.2 of the Financial Statements)*

The increase in the value of assets was the effect of an increase in the following main items in assets:

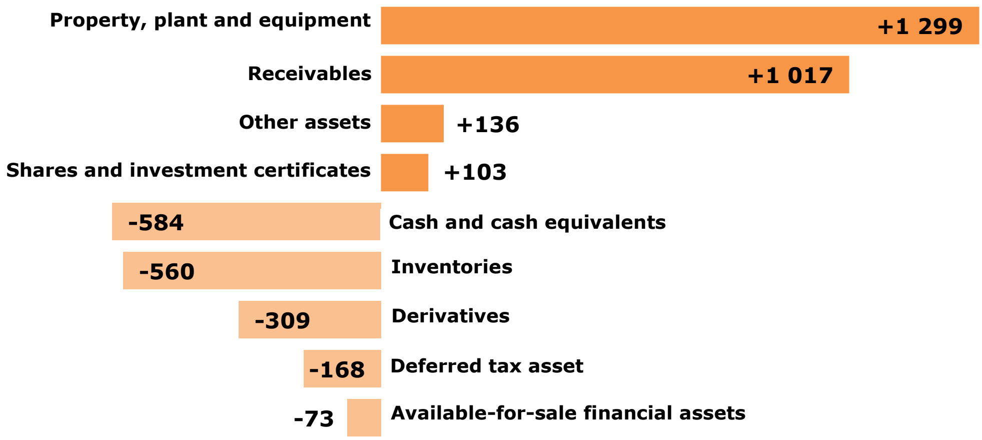
- Property, plant and equipment – an increase by PLN 1 299 million, mainly the result of realisation of investments – expenditures in this regard amounted to 2 357 million. Investing activities are described in detail in Section 2.3.
- Receivables – the increase in receivables by PLN 1 017 million was mainly due to:
  - high copper sales at the end of 2013 (an increase by 76%, i.e. from 37.3 kt in December 2012 to 65.7 kt in December 2013). This had a substantial impact on trade receivables, which during the year increased by PLN 403 million,
  - loans granted to subsidiaries. Receivables in this regard amounted to PLN 259 million versus PLN 44 million at the end of 2012, which means an increase by PLN 215 million. Loans are described in detail in the section on the Company's financial resources.
  - taxes, customs and insurance – receivables in this regard increased by PLN 202 million,
  - other receivables – an increase by PLN 198 million, including mainly receivables due to the Cash Pool (an increase by PLN 142 million).
- Shares and investment certificates – the increase by PLN 103 million is mainly due to the acquisition of investment certificates and to increases in the capital of Group subsidiaries. Equity investments are described in detail in Section 2.2.
- Other assets – of less significance were financial assets for mine closure and restoration of tailing storage facilities, as well as intangible assets, which together increased by PLN 136 million.

There was a simultaneous decrease in the following items in assets:

- Cash and cash equivalents – cash flow generated from operating activities (+PLN 3 790 million) was lower than the negative flow of cash from investing and financing activities, which led to a decrease in the value of cash and cash equivalents at the end of 2013 by PLN 584 million. With respect to operating activities, an important expenditure was the minerals extraction tax paid in the amount of PLN 1 916 million, while with respect to investing activities, of greatest significance were expenditures on the acquisition of property, plant and equipment and intangible assets in the amount of PLN 2 174 million, while amongst financial expenditures a dividend was paid in the amount of PLN 1 960 million.
- Inventories – the increase in sales recorded in December 2013 likewise led to a decrease in the value of inventories by PLN 560 million. This decrease was mainly in respect of copper and silver inventories:
  - cathodes - a decrease by 4.3 kt (Głogów and Legnica smelters)
  - wire rod - a decrease by 5.0 kt,
  - silver in finished goods – a decrease by 82.1 t.
- Derivatives – a decrease by PLN 309 million mainly due a decrease in the volume of derivatives transactions (the settlement of instruments during the year), as well as to a change in market conditions (among others the forward price of copper and the forward USD/PLN exchange rate) and to the passage of time to maturity of unsettled transactions. For the copper market there was a decrease in assets by PLN 254 million, for the silver market by PLN 113 million, while for the currency market there was an increase in assets by PLN 58 million (among others as a result of new transactions made).

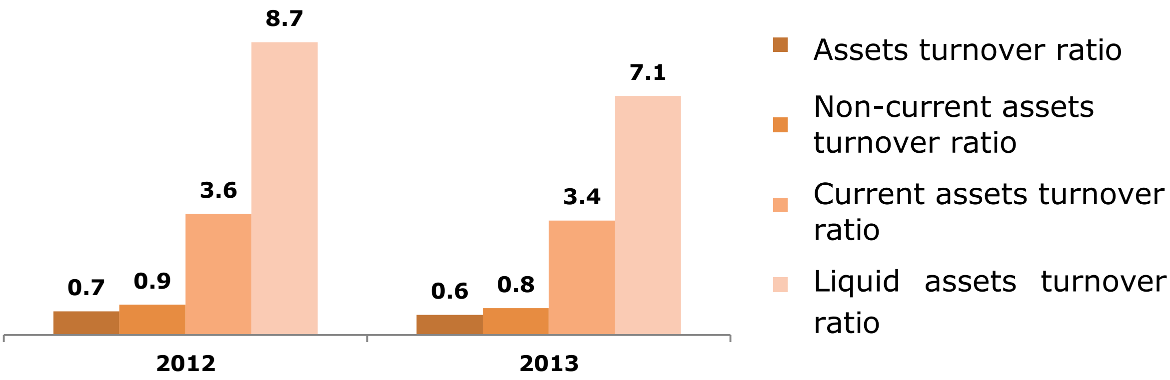
- Deferred tax asset – The decrease in the asset (after offsetting the tax asset and tax liability) was mainly due to:
  - a decrease in the tax asset due to measurement of forward transactions, remeasurement of hedge instruments, and the provision for decommissioning of mines and other technological facilities,
  - a decrease in the tax liability due to measurement of forward transactions, remeasurement of hedge instruments, and differences between the carrying amount of depreciation and depreciation for tax purposes.
- Available-for-sale financial assets – the decrease by PLN 73 million is mainly due to measurement of the shares of Tauron Polska Energia S.A. (the decrease in prices on the Warsaw Stock Exchange from the start of 2013 amounted to 8%). Based on the requirements of International Financial Reporting Standards, in 2013 a further impairment loss was recorded due to the fact that the decrease in the fair value of the shares of this company versus their cost has lasted over 12 months. The amount of this impairment loss on shares of Tauron Polska Energia S.A. which decreased the financial result amounted to PLN 85 million.

Chart 8. Change in value of assets versus the end of 2012 (M PLN)



Assets effectiveness ratios were slightly below the amounts recorded in 2012. This is mainly the effect of factors beyond the Company's control, i.e. a less favourable exchange rate and copper and silver prices. Their impact on revenues from sales is presented in the section on financial results.

Chart 9. Assets effectiveness ratios



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

3.2. Equity and liabilities

The increase in equity by PLN 1 375 million is due to the following factors:

- profit for 2013 in the amount of + PLN 3 058 million
- dividend from profit for 2012 in the amount of PLN (1 960) million
- other comprehensive income + PLN 277 million

Equity was the basic source for financing assets, while its share in total assets increased from 78% to 80%.

Table 19. Equity and liabilities (M PLN)

	31.12.2012*	31.12.2013	Change 31.12.12=100	Structure%
Equity	**21 923**	**23 298**	**106.3**	**80.2**
Share capital	2 000	2 000	100.0	6.9
Other capital	-233	400	x	1.4
Retained earnings	20 156	20 898	103.7	72.0
Current and non-current liabilities	**6 254**	**5 740**	**91.8**	**19.8**
Trade and other payables	2 263	2 457	108.6	8.5
Borrowings and finance lease liabilities	1 013	1 123	110.9	3.9
Derivatives	253	23	9.1	0.1
Current corporate tax liability	390	50	12.8	0.2
Employee benefits liabilities	1 581	1 533	97.0	5.3
Provisions for other liabilities and charges	754	554	73.5	1.9
Total equity and liabilities	**28 177**	**29 038**	**103.1**	**100.0**

** Data restated due to a change in accounting principles (Note 2.1.2 of the Financial Statements)*

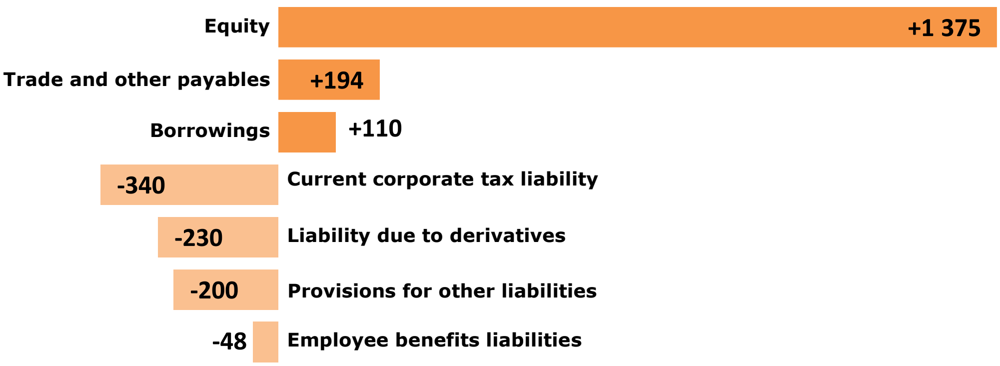
Apart from equity there were significant changes versus 31 December 2012 in the following items of liabilities and provisions:

- Trade and other payables – the increase by PLN 194 million was mainly due to investment activities - liabilities due to the acquisition and construction of property, plant and equipment and intangible assets amounted to PLN 591 million, which means an increase over the year of PLN 143 million. Trade payables did not change significantly.
- Current corporate tax liability – for 2012 and 2013 the Company made monthly prepayments on income tax based on simplified principles, i.e.:
  - for 2012 the monthly prepayment represented 1/12 of the income tax due for 2010 – which during the year resulted in a discrepancy between the actual amounts paid and the amounts due for the fiscal year,
  - for 2013 the monthly prepayment was determined by decisions of the tax office, while the basis for setting the amounts of these prepayments was the data contained in the Company Budget for 2013, reflecting as well its adjustment during the year.

In light of the above, at the end of 2013 there was a decrease in the CIT liability, as the amount of the prepayments made during the year was settled based on continuously estimated amounts arising from the updated Company Budget.

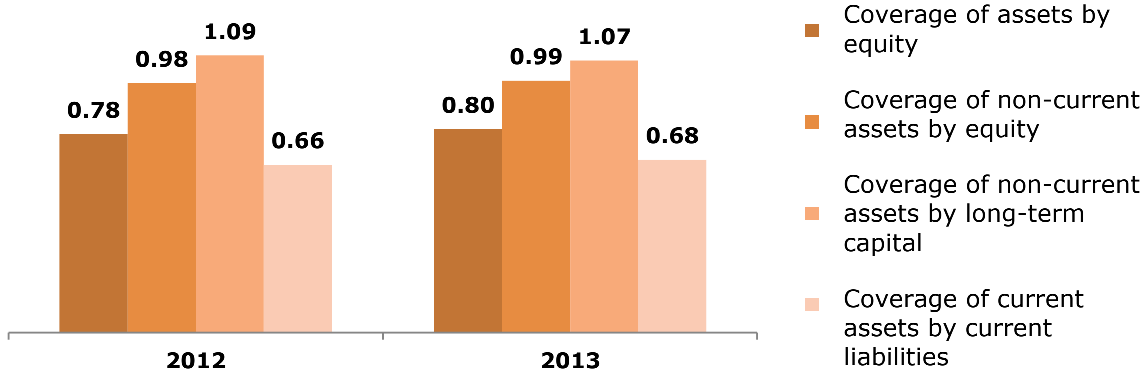
- Borrowings – in 2013 the Company engaged in financing in the form of overdraft facilities and working capital facilities – monetary resources received by the Company in this regard amounted to PLN 1 546 million. After partial repayment during the year, liabilities in this regard as at 31 December 2013 amounted to PLN 1 123 million, which means an increase during the year by 11%. For this amount of debt the indicator net debt/EBITDA amounts to 0.2.
- Employee benefits liabilities – the decrease by PLN 48 million was mainly in respect of liabilities due to the coal equivalent. The parameters selected in measuring employee benefits liabilities are presented in note 19 of the Financial Statements for 2013.
- Provisions for other liabilities and charges – the decrease by PLN 200 million was mainly in respect of the provision for decommissioning of mines and other technological facilities (a decrease by PLN 205 million, mainly due to prolongation of the lives of the mines).
- Derivatives – a decrease by PLN 230 million mainly due to a decrease in the volume of derivatives transactions (the settlement of instruments during the year), a change in market conditions (among others the forward price of copper and the forward USD/PLN exchange rate), and to the passage of time to maturity of unsettled transactions. For the copper market there was a decrease in liabilities by PLN 198 million, and for the currency market by PLN 32 million.

Chart 10. Change in value of equity and liabilities versus the end of 2012 (M PLN)



Assets financing ratios remained at levels similar to those recorded in 2012

Chart 11. Assets financing ratios



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

3.3. Contingent assets and liabilities

As at 31 December 2013, contingent assets of the Company amounted to PLN 464 million and related mainly to guarantees received (PLN 213 million), related to securities to cover potential claims by the Company due to the non-execution or improper execution of agreements by contractors. Other contingent assets primarily involve promissory note receivables (PLN 120 million) and overpayment of the tax on underground mines (PLN 87 million).

Contingent liabilities as at 31 December 2013 amounted to PLN 191 million, including PLN 123 million due to disputed issues involving projects and inventions contracts.

In addition, as at 31 December 2013 the Company held liabilities not recognised in the statement of financial position in the amount of PLN 206 million, including PLN 187 million towards a local government unit related to development of the tailings pond.

3.4. Financial resources of the Company

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

Table 20. Structure of cash and cash equivalents (M PLN)

	31.12.2011	31.12.2012	31.12.2013	Change 2012=100
Cash*	8	18	21	116.7
Other monetary assets with a maturity up to 3 months	12 828	689	102	14.8
Total	**12 836**	**707**	**123**	**17.4**

* *in hand and on-demand bank deposits*

Borrowings

In 2013, KGHM Polska Miedź S.A. made use of borrowing in the form of bank loans, using both an overdraft facility as well as a working capital facility.

Borrowings as at 31 December 2013 amounted to PLN 1 123 million.

As at 31 December 2013 the Company held the following bank loans:

Table 21. Liabilities due to bank loans drawn (M)

Type of bank loan	Currency	Balance in currency	Balance in PLN	Maturity
Working capital facility	USD	17	51	31.01.2014
Working capital facility	USD	162	488	07.05.2014
Overdraft facility	USD	32	98	30.04.2015
Overdraft facility	USD	120	360	14.10.2015
Overdraft facility	USD	42	126	21.10.2015
Total		**373**	**1 123**	

Interest on these loans is based on variable WIBOR, LIBOR and EURIBOR plus a margin.

As at 31 December 2013 the Company held the following open lines of credit:

Table 22. Open lines of credit (M)

Type of bank loan	Currency	Balance available in currency	Balance available in PLN
Working capital facility and overdraft facility	USD	88	-
Overdraft facility	EUR	50	-
Working capital facility and overdraft facility	PLN	-	2 600

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

On 29 January 2014 the Company entered into a new overdraft facility agreement for the amount of USD 100 million, available in the period from 31 January 2014 to 29 January 2017, and for the amount of USD 30 million, available in the period from 31 January 2014 to 29 January 2015. Interest on the amounts drawn will be based on EURIBOR, LIBOR plus a bank margin.

Loans granted

As at 31 December 2013 the Company held the following loans granted to Group companies:

Table 23. Loans granted to Group companies (M)

Company	Loan principal	Interest	Repayment
Energetyka Sp. z o.o.	PLN 30.1 million	WIBOR 1M + 1.49 %	Instalments to 31.12.2019
KGHM LETIA S.A.	PLN 0.7 million	WIBOR 1M + 2.5 %	In total to 31.03.2014
Zagłębie Lubin S.A.	PLN 5 million	WIBOR 3M + 3.00 %	Instalments to 31.12.2022
Fermat 1 S.a.r.l.	USD 71.9 million	Fixed – 4.46 %	In total to 28.02.2018

On 21 December 2009 the Company granted a loan to „Energetyka" Sp. z o.o. in the amount of PLN 50.3 million. Actual interest on the loan is based on WIBOR 1M + 1.49%, with interest payable monthly. Repayment is in the form of forty equal instalments in the amount of PLN 1.3 million, each payable at the end of each quarter, beginning from 31 March 2010. As at 31 December 2013 the balance of the loan granted was PLN 30.1 million.

On 8 May 2012, KGHM Polska Miedź S.A. granted a loan to KGHM LETIA S.A. in the amount of PLN 7.5 million. Interest on the loan is based on WIBOR 1M + a margin, with interest capitalised monthly. In accordance with Annex no. 4 dated 31 October 2013, repayment of the principal was made on 30 October 2013. Repayment of interest due will be made by 31 March 2014. As at 31 December 2013 the balance of the loan was PLN 0.7 million.

On 9 January 2013, KGHM Polska Miedź S.A. granted a loan to Zagłębie Lubin S.A. in the amount of PLN 5 million. Interest on the loan is based on WIBOR 3M + 3.00%, with interest acrrued quarterly. Repayment of the loan is in the form of 27 quarterly instalments, in the amount of PLN 179 thousand each, and a final instalment in the amount of PLN 167 thousand. As at 31 December 2013 the loan balance amounted to PLN 5 million.

On 28 February 2013, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a.r.l. in the amount of USD 34.6 million. Interest is calculated based on a fixed interest rate, with repayment by 28 February 2018. As at 31 December 2013, the loan balance amounted to USD 34.6 million (PLN 104 million).

On 4 April 2013, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a.r.l. in the amount of CAD 4 million denominated in USD at the exchange rate set by the Bank of Canada on the date of payment of the loan. Interest is calculated based on a fixed interest rate, with repayment by 28 February 2018. As at 31 December 2013, the loan balance amounted to USD 3.9 million (PLN 12 million).

On 13 May 2013, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a.r.l. in the amount of CAD 43.8 million paid in instalments according to a set schedule, denominated in USD at the exchange rate set by the Bank of Canada on the date of payment of the instalment. Interest is calculated based on a fixed interest rate, with repayment by 28 February 2018. As at 31 December 2013 the loan balance amounted to USD 33.4 million (PLN 101 million).

Financial guarantees granted and received

As at the reporting date, the Company:

- held guarantees granted in the amount of PLN 9.7 million with validity to March 2015. These guarantees represent contingent liabilities,
- did not hold any received financial guarantees.

Subsequent events

On 8 January 2014, at the request of KGHM Polska Miedź S.A., HSBC Bank plc issued a letter of credit, in the amount of USD 137.5 million (the equivalent of PLN 414 million at the USD/PLN exchange rate of 31 December 2013), securing the liabilities of KGHM INTERNATIONAL LTD. in respect of the beneficiary Empresa Eléctrica Cochrane S.A. due to an agreement for the purchase of electricity entered into between Sierra Gorda SCM and Empresa Eléctrica Cochrane S.A. According to the agreement the sponsors of the Sierra Gorda project are obliged to ensure security for the transaction in the form of a guarantee or letter of credit. As at 8 January 2014 the Parent Entity assumed from KGHM INTERNATIONAL LTD. the obligation to meet this requirement.

In addition, on 29 January 2014 an agreement was signed for an overdraft facility in the amount of:

- USD 100 million, available during the period 31 January 2014 to 29 January 2017.
- USD 30 million, available during the period 31 January 2014 to 29 January 2015.

Interest on the amounts drawn will be calculated based on EURIBOR and LIBOR plus a bank margin. Collateral on the bank receivables arising from signed borrowing agreements are declarations on execution and proxy authority over bank accounts with respect to the signed bank account agreements.

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

The cash and cash equivalents currently held by the Company as well as the potential for borrowing from available sources guarantee the realisation of its investment goals, both in terms of equity investments as well as capital expenditures.

3.5. Financial results

In 2013, the Company realised a profit in the amount of PLN 3 058 million. The decrease versus the result achieved in 2012 amounted to PLN 1 810 million (by 37%) and was mainly due to market factors (metals prices, exchange rate), over which the Company did not have a significant impact.

Table 24. Basic items in the statement of profit or loss (M PLN)

	2012	2013	Change 2012=100
Sales	20 737	18 579	89.6
Operating costs	13 602	13 970	102.7
Profit from operations	7 135	4 609	64.6
Result on other operating activities	**(709)**	**(401)**	**56.6**
– Measurement and realisation of derivatives	(84)	(377)	x 4.5
– Exchange differences	(565)	0	x
– Impairment losses on available-for-sale assets	(158)	(90)	57.0
– Dividends	57	36	63.2
– Other	41	30	73.2
Operating profit (EBIT)	**6 426**	**4 208**	**65.5**
Finance costs (net)	9	12	133.3
Profit before taxation	6 417	4 196	65.4
Profit for the period	4 868	3 058	62.8
EBITDA (EBIT + depreciation/amortisation)	7 198	4 976	69.1

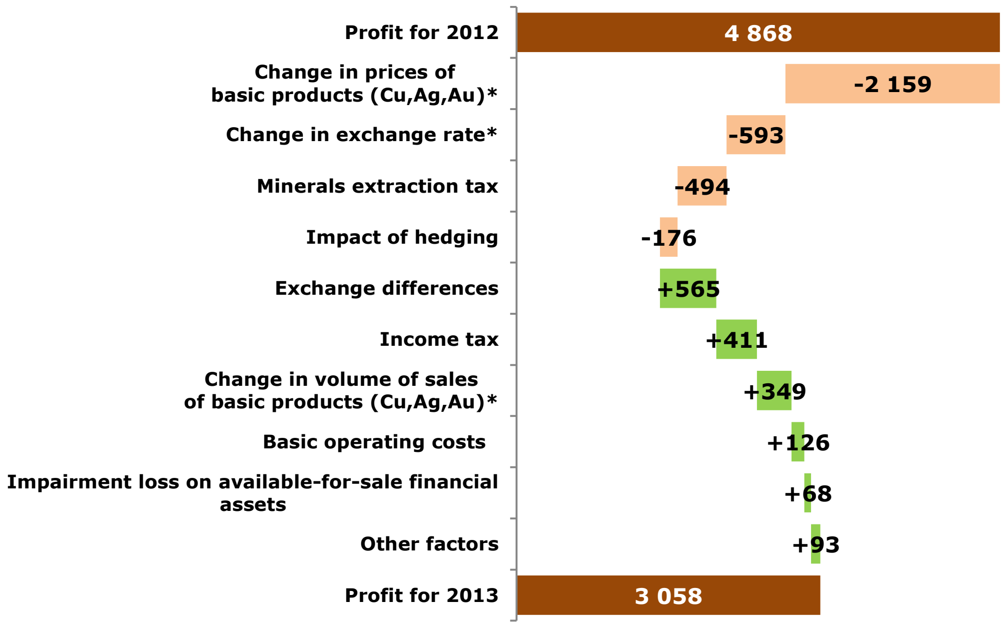
The most important factors impacting changes of profit for the period between 2013 and 2012 are presented in Table 25.

Table 25. Main factors impacting the financial result

Item	Impact on result (M PLN)	Description
Change in prices of basic products (Cu,Ag,Au)*	(2 159)	A decrease in the price of copper by 8%, silver by 24%, gold by 16%.
Change in exchange rate*	(593)	A change in the exchange rate from 3.26 USD/PLN to 3.17 USD/PLN (strengthening of the PLN by 3%)
Exchange differences	+565	In 2013, the result on exchange differences was below PLN 1 million, while in the previous year it amounted to PLN (565) million
Minerals extraction tax	(494)	An increase in the tax from PLN 1 327 million in 2012 to PLN 1 821 million in 2013, due to settlement of the tax for the full reporting year (in 2012 from April; in 2013 from January)
Income tax	+411	The lower tax is due to the lower tax base
Change in volume of sales of basic products (Cu,Ag,Au)*	+349	An increase in the volume of copper sales by 14.2 kt and gold by 149.4 kg alongside a decrease in silver sold by 16.4 t
Impact of hedging	(176)	Including a change in the result on other operating activities due to the measurement and realisation of derivatives (PLN (293) million) and a change in adjustment to sales due to hedging (+PLN 117 million)
Basic operating costs	+126	A decrease in costs, excluding the aforementiond minerals extraction tax, mainly due to lower costs of purchased Cu-bearing materials measured based on lower metals prices and exchange rate.
Impairment loss on available-for-sale financial assets	+68	In 2013, an impairment loss was recognised on investments in the total amount of PLN 90 million, of which PLN 85 million was in respect of Tauron Polska Energia S.A. As at 31 December 2012 this impairment loss amounted in total to PLN 158 million.
Other factors	+93	Mainly an increase in sales of other products besides copper, silver and gold.

** Impact on sales*

Chart 12. Change in profit for the period (M PLN)



**Impact on sales*

Taxation and fees

The most significant statutory charge to the Company's profit for 2013 was the minerals extraction tax. The year 2013 was the first full year when this tax was in force, calculated as a multiple of the amount of copper and silver contained in concentrate which is produced at the Concentrators belonging to KGHM and a tax rate dependent on the average market price for copper and silver. In 2013, average taxation amounted for copper to 14.62% of the value of metal in concentrate, and for silver 14.25%.

The second-largest statutory charge impacting profit for 2013 was the corporate income tax. The effective tax rate for 2013 amounted to 27.12%, which is mainly due to the statutory exclusion from deductible costs of the amount of the minerals extraction tax. After removing the impact of the minerals extraction tax, the effective tax rate amounts to 18.71%.

Table 26. Charge on profit due to taxation and fees (M PLN)

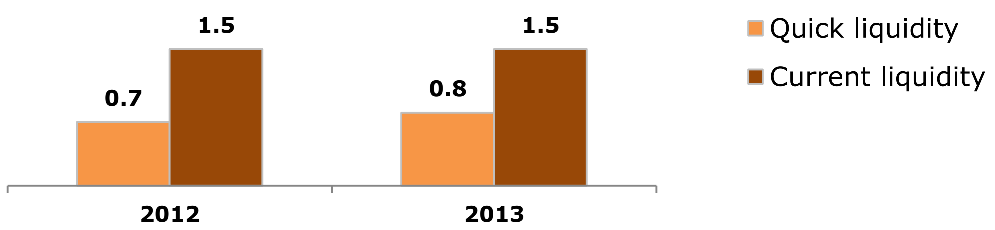
	2012	2013	Change 2012=100
Minerals extraction tax	1 596	1 856	116
Corporate income tax	1 557	1 035	66
Property tax	119	126	106
Basic extraction fee	95	100	105
Excise tax	55	55	100
Other taxation and fees	57	66	116
Total taxation and fees	**3 479**	**3 238**	**93**

In 2013, the Company continued over 30 administrative proceedings and court-administrative proceedings aimed at recovering overpayment of the tax on underground mines as a result of a judgement of the Constitutional Tribunal dated 13 September 2011 (case no. sygn. akt P-33/09). The amount of overpayment being claimed is approx. PLN 86.8 million plus interest on the overpayment for the period from payment of the tax to the date the amount returns to the accounts of the Company. On 23 January 2014, the Supreme Administrative Court issued the first judgement in this matter. The SAC confirmed the validity of the manner of proceeding chosen by KGHM and revoked both the decision of the Regional Administrative Court in Wrocław, as well as the decisions of tax bodies in both instances questioning the formal manner of proceeding chosen by KGHM and consequently denying a substantive hearing of the request. The court at this stage did not consider the return of the overpayment, but of the further manner of proceeding, in which the tax bodies were required to prepare a substantive assessment of the request submitted by the Company for return of the overpayment.

Financial ratios

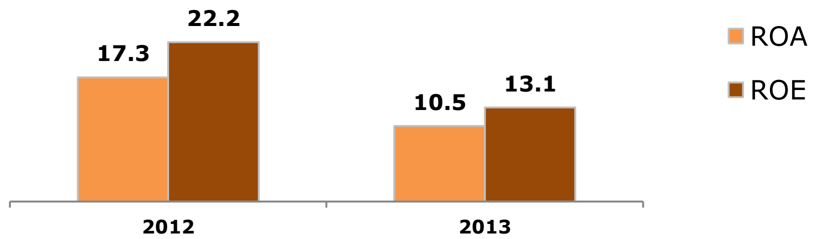
Basic ratios describing financial liquidity, the profitability of assets and equity and financing are shown in Charts 13, 14 and 15.

Chart 13. Liquidity ratios



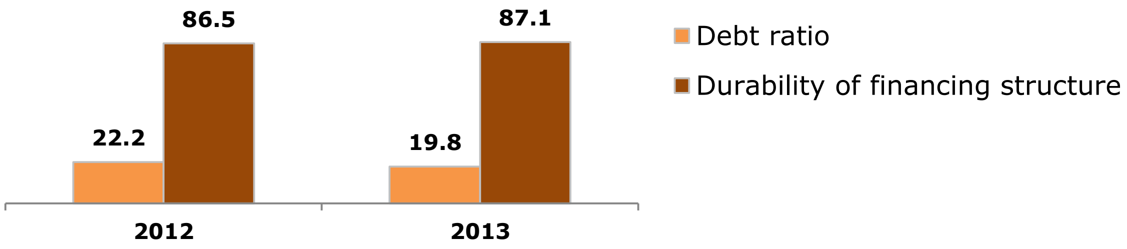
Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. There were no significant changes in these ratios in respect of their levels at the end of 2012.

Chart 14. Profitability ratios



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

Chart 15. Financing ratios



The financing ratios show changes in the assets financiang structure, including a decrease in liabilities, mainly due to dividends.

Capital market ratios

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

Table 27. Capital market ratios

		2012	2013
EPS (PLN)	Profit for the period / number of shares	24.34	15.29
P/CE	Price per share / financial surplus per share *	6.74	6.17
P/E	Price per share / earnings per share	7.82	7.72
MC/S	Market capitalisation**/ revenues from sales	1.83	1.27
P/BV	Price per share / book value per share ***	1.73	1.01

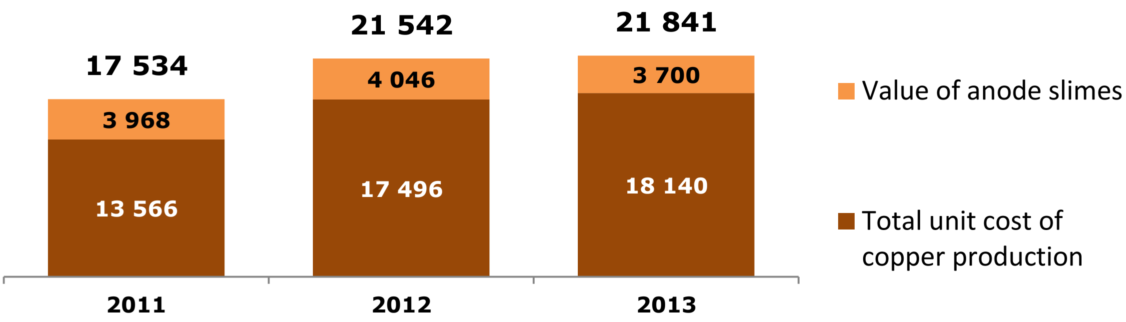
** Financial surplus = profit for the period + depreciation/amortisation*
*** Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares x PLN 190.00 in 2012; PLN 118.00 in 2013)*
**** Carrying amount of equity at the end of the reporting period*

Substantially impacting the capital market ratios versus their levels in 2012 was the lower profit for the period earned by the Company and the decrease in the share price of KGHM from PLN 190.00 at the end of 2012 to PLN 118.00 at the end of 2013.

3.6. Operating costs

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

Chart 16. Pre-precious metals credit unit cost of electrolytic copper production – total (PLN/t)



The pre-precious metals credit unit cost of copper production (unit cost prior to decrease by the value of anode slimes containing among others silver and gold) increased in 2013 versus 2012 by 299 PLN/t, i.e. by 1.4%, mainly due to: the increase in the value of the minerals extraction tax (+817 PLN/t) alongside a lower utilisation of purchased copper-bearing materials by approx. 12 kt Cu (- 1 034 PLN/t).

Chart 17. Pre-precious metals credit unit cost of electrolytic copper production – from own concentrate (PLN/t)

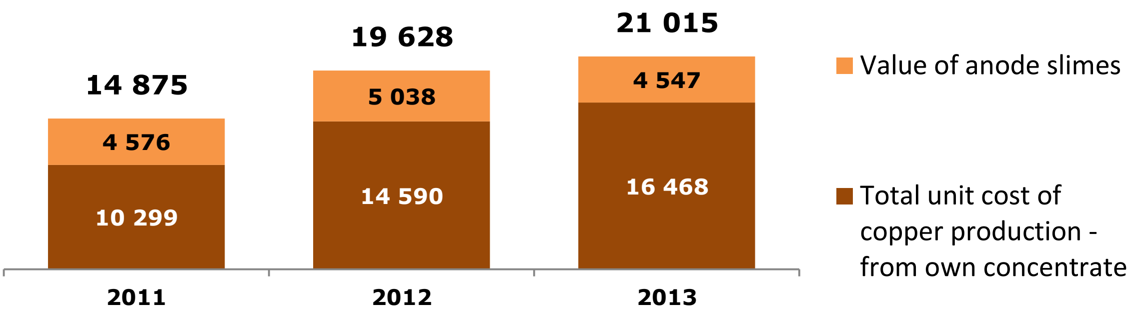
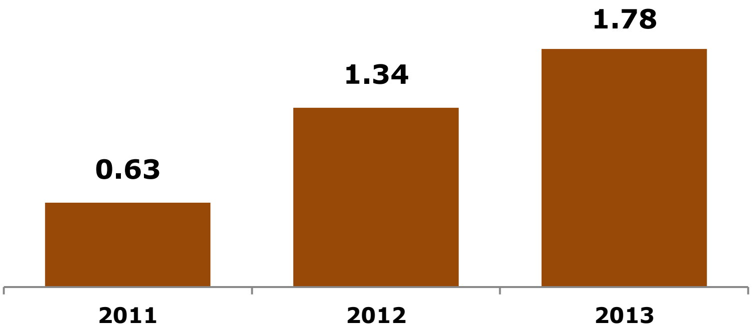


Chart 18. Cost of production of copper in concentrate – C1 (USD/lb)



The pre-precious metals credit unit cost of copper production from own concentrate increased by 1 387 PLN/t, i.e. by 7.1%, mainly due to the minerals extraction tax (+987 PLN/t) and to the increase in expenses by nature described below (excluding the value of purchased copper-bearing materials), alongside the positive impact of a higher volume of copper production from own concentrate (+2.7% versus 2012).

C1 cost (*cash cost of producing payable copper, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative costs during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products*) was as follows: 1.34 USD/lb in 2012 and 1.78 USD/lb in 2013. Also having a negative impact on the C1 cost expressed in USD/lb, apart from the minerals extraction tax, was the strengthening of the zloty versus the USD from a level of 3.26 in 2012 to 3.17 in 2013.

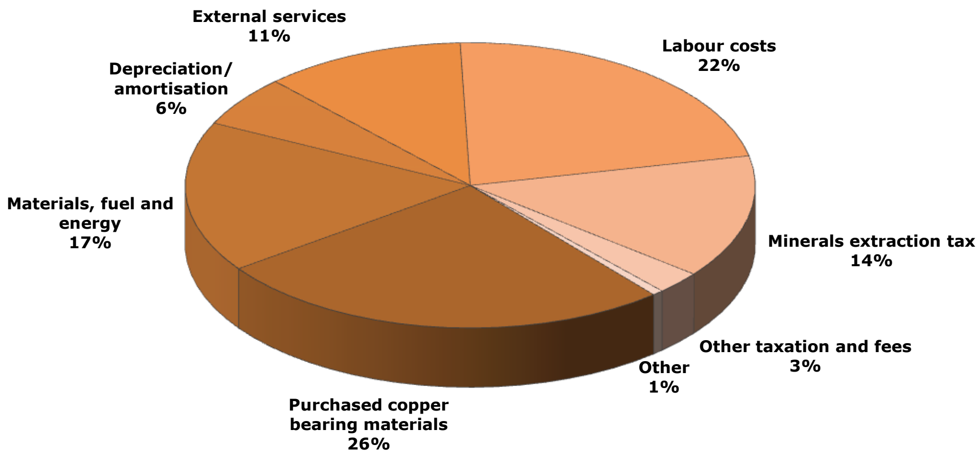
In 2013, total expenses by nature versus 2012 were lower by PLN 738 million, i.e. by 5%, mainly due to the lower value of purchased copper-bearing materials by PLN 1 010 million due to a lower volume of consumption by 24 kt Cu (including 12 kt related to electrolytic copper production) and lower purchase prices.

Expenses by nature excluding purchased copper-bearing materials increased by PLN 272 million. Expenses by nature were impacted by the following:

- a higher calculated minerals extraction tax (+PLN 260 million) due to the fact that in 2013 the tax was in force for the full year while in 2012 it was in force from 18 April,
- higher external services (+PLN 159 million) – mainly due to an increase in the scope of mine development work (+PLN 56 million), higher maintenance costs due to the general maintenance performed at the Głogów II smelter (+PLN 27 million) and higher costs of external processing for the recovery of rhenium (+PLN 40 million),
- lower energy costs (PLN (62) million) – due to a decrease in the price of electricity by 9%.
- lower labour costs (PLN (41) million) – due to a lower annual bonus charge (in 2012 24%; in 2013 20%), and a lower provision for future employee benefits with a higher contribution to the ERP.

The structure of expenses by nature in 2013 is shown in Chart 19. With respect to prior years, the change in the structure is mainly due to a decrease in the share of purchased copper-bearing materials (in 2012: 32%, in 2013: 26%) and an increase in the share of taxation due to the minerals extraction tax (in 2012: 14%, in 2013: 17%).

Chart 19. Structure of expenses by nature in 2013



3.7. Realisation of projected financial results for 2013

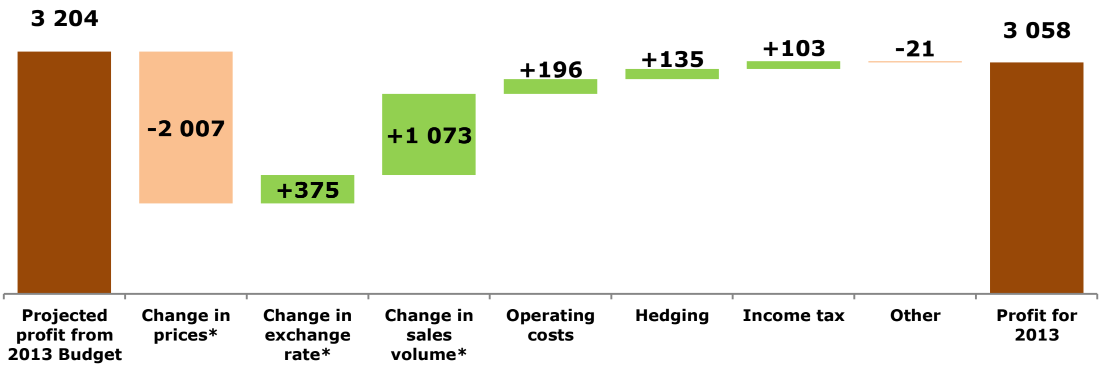
In a current report dated 15 February 2013, the Company published its Budget assumptions for 2013 as approved by the Supervisory Board on 14 February 2013. The Budget assumed the achievement in 2013 of revenues from sales in the amount of PLN 18 930 million and profit of PLN 3 204 million. Details of the basic Budget assumptions for 2013 and their realisation are shown in Table 28.

Table 28. Company Budget assumptions for 2013

	Unit	Budget 2013	Execution 2013	Realisation (%)
Sales	**M PLN**	**18 930**	**18 579**	**98.1**
Profit for the period	**M PLN**	**3 204**	**3 058**	**95.4**
EBITDA	**M PLN**	**5 337**	**4 976**	**93.2**
Average annual copper price	USD/t	7 800	7 322	93.9
Average annual silver price	USD/troz	32.00	23.79	74.3
USD/PLN exchange rate	USD/PLN	3.10	3.17	102.3
Total unit cost of electrolytic copper production from own concentrate	PLN/t	17 087	16 468	96.4
Cash cost of concentrate production – C1	USD/lb	1.76	1.78	101.1
Production of copper in concentrate	kt	425.1	428.9	100.9
Production of electrolytic copper	kt	548.0	565.2	103.1
- of which from purchased copper bearing materials	kt	146.6	134.8	92.0
Silver production	t	1 075	1 161	108.0
Capital expenditure	M PLN	2 470	2 357	95.4

The substantial deterioration in metals prices, and in particular silver, was offset by an increased sales volume, a more favourable than expected exchange rate, the lower level of costs, lower income tax and the impact of hedging.

Chart 20. Realisation of planned profit for the period (M PLN)



** impact on sales*

3.8. Projected Company financial position

The financial position of the Company in 2014 will be decisively impacted by macroeconomic conditions, production assumptions and the continuation of the main investment projects. The basic assumptions of the Budget for 2014 are presented in Table 29.

Table 29. Company Budget assumptions for 2014

	Unit	Execution 2013	Budget 2014	Change 2013=100
Average annual copper price	USD/t	7 322	7 100	97.0
Average annual silver price	USD/troz	23.79	22.00	92.5
Exchange rate	USD/PLN	3.17	3.05	96.2
Production of copper in concentrate	kt	428.9	420.0	97.9
Production of silver in concentrate	t	1 199	1 112	92.7
Electrolytic copper production	kt	565.2	567.5	100.4
- of which from purchased copper-bearing materials	kt	134.8	142.6	105.8
Metallic silver production	t	1 161	1 140	98.2
Sales volume of copper products	kt	594.5	562.8	94.7
Sales volume of silver products	t	1 250	1 115	89.2
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	PLN/t	21 015	20 906	99.5
Total unit cost of electrolytic copper production from own concentrate *	PLN/t	14 657	15 435	105.3
C1 cash cost of producing copper in concentrate	USD/lb	1.78	1.94	109.0
Capital expenditure	M PLN	2 357	2 565	108.8
Equity investments **	M PLN	380	1 686	x 4.4

** From 2014 there has been a change in the method of measuring by-products in the unit cost of electrolytic copper production – analogously to the methodology for C1 cost – the value of Ag and Au is equivalent to the revenues from the sales of these metals (controlling presentation). Until now the measurement included a sales profitability factor (accounting presentation). In the above table the year 2013 is shown under 2014 conditions.*

*** Total expenditure on equity investments as well as loans*.

The investment expenditure plans of KGHM for 2014 in the total amount of PLN 4 251 million (capital and equity expenditure) assume the replacement of property and the continuation of strategic projects commenced in the Group, mainly with respect to:

– completing construction of the Sierra Gorda mine and commencement of the mine's production phase,

  The goal of the project's ramp-up phase is to commence extraction and to gradually switch on installations, as well as to achieve target processing capacity within six months. The period in which the optimal, target production and technical parameters will be achieved will depend on the confirmation of the assumed ore parameters as well as technological tests during the switching on of the processing installations.

– accessing the Deep Głogów (GGP) area,

  In 2014 it is assumed that access drifts along with infrastructure will be developed, and sinking of the GG-1 shaft and construction of the central air conditioning unit will begin. Gaining access to the GGP area will enable the extraction of a deposit with estimated balance resources of 6.7 million tonnes of Cu. Planned ore extraction in 2014 amounts to 1.8 million tonnes dry weight.

– continuation of the Pyrometallurgy Modernisation Program at the Głogów I smelter (a change in concentrate smelting technology) and modernisation of pyrometallurgy at the Głogów II smelter.

– continuation of preparations on the project to build the Ajax mine and commencement of work related to building the Victoria mine, in the Sudbury Region in Canada.

Attention should be paid to the high sensitivity of the Company's results to changes in macroeconomic conditions, in terms of metals prices and the exchange rate. Taking into consideration current market conditions, and assuming the forecasted volume of sales and level of costs, an increase or decrease in the average annual copper price by 100 USD/t may cause a change in the Company's profit for the period by approx. PLN 50 million, while a divergence of the average annual exchange rate (PLN versus the USD) by PLN 0.05 may change profit for the period by approx. PLN 80 million. The sensitivity of the Company to fluctuations in the copper price is reduced thanks to the hedging strategies applied.

4. Ownership structure and Company quotations

4.1. The Company on the stock exchange

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Company are traded on the primary market in a continuous trading system, and are a component of the WIG and WIG20 indices, and since 23 September 2013 have also been a component of the WIG30 index published as of that date, comprising 30 of the largest and most liquid companies on the WSE. KGHM Polska Miedź S.A. is also amongst the group of socially-responsible companies which comprise the RESPECT Index. The Company's shares are included in the „basic materials" sector index WIG-SUROWCE as well as the WIG div index which includes companies which have the highest dividend yield recorded at the end of August each year and regularly paid dividends in previous years.

In 2013, the share price of KGHM Polska Miedź S.A. decreased in value. During the first half year the share price systematically fell, and at the close of the last trading day in June amounted to PLN 121.00, i.e. 36.32% below the level of the last trading day in 2012. In the second half of the year the closing share price ranged between PLN 111.00 and PLN 130.00. The Company's shares reached their annual maximum closing of PLN 193.50 on the second and third trading days of January, while the lowest price of PLN 111.00 was recorded on 31 July. Overall, during the past year the share price of KGHM Polska Miedź S.A. decreased by 37.89%, from PLN 190.00 on the last trading day of 2012 to PLN 118.00 on the last trading day of 2013. During this same period the WIG index increased by 8.06 %, while the WIG20 index decreased by 7.05%.

Chart 21. Share price of KGHM Polska Miedź S.A. versus the WIG index

Key data on the share performance of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2011-2013 are presented in the following table:

Table 30. Key share price data of the Company on the Warsaw Stock Exchange

	Unit	2011	2012	2013
Number of shares issued	M	200	200	200
Closing price from the last day of trading in the year	PLN	110.60	190.00	118.00
Market capitalisation of the Company at year's end	M PLN	22 120	38 000	23 600
Highest trading price in the year	PLN	200.30	194.80	194.80
Lowest trading price in the year	PLN	102.40	109.60	106.90
Average trading volume per session	'000	1 070	945	950
Share in turnover (trading sessions)	%	17.16	17.70	14.82

4.2. Dividends

In accordance with Resolution No. 5/2013 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 19 June 2013, the amount of PLN 1 960 million was allocated from profit for financial year 2012 as a shareholder dividend, representing PLN 9.80 per share. The dividend date was set at 12 July 2013 with the dividend being paid in two instalments: PLN 4.90 per share on 14 August 2013 and PLN 4.90 per share on 14 November 2013.

Table 31. Dividend payments, 2011 - 2013

	Unit	2011	2012	2013
Dividend paid in the financial year from allocation of prior year profit	M PLN	2 980	5 668	1 960
	PLN/share	14.90	28.34	9.80
Dividend yield *	%	13.5	14.9	8.3

** dividend per share paid in the given financial year divided by the final share price in the given financial year*

4.3. Information on the ownership structure and on the issued shares of the Company

As at 31 December 2013, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting.

The Company has not issued preference shares.

In 2013 there was no change either in registered share capital or in the number of issued shares.

As far as the Management Board of the Company is aware, during this same time there was also no change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The only shareholder who as at 1 January 2013 as well as at 31 December 2013 held a number of shares granting the right to 5% or more of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the Polish State Treasury. The shareholder structure of the Company as at 31 December 2013 and at the date of preparation of this report is as follows:

Table 32. Shareholder structure as at 31 December 2013 and at the date of preparation of this report

shareholder	number of shares/votes held	% of share capital	share in total number of votes
State Treasury*	63 589 900	31.79%	31.79%
Other shareholders	136 410 100	68.21%	68.21%
Total	200 000 000	100.00%	100.00%

** based on an announcement received by the Company dated 12 January 2010*

The group of remaining shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 68.21%, is mainly represented by institutional shareholders, both domestic and international.

The Company does not hold any of its own shares.

The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Amongst the members of the Company's Management Board, as at 31 December 2013, only Marcin Chmielewski, a Vice President of the Management Board, appointed to the Management Board of the Company on 2 September 2013, held 93 shares of KGHM Polska Miedź S.A. with a total nominal value of PLN 930.

Based on information held by the Company, Members of the Supervisory Board of KGHM Polska Miedź S.A. as at 31 December 2013 did not hold shares of KGHM Polska Miedź S.A. Marek Panfil, appointed to the Supervisory Board on 19 June 2013, sold 90 shares of the Company on 19 September 2013.

Members of the Company's Management Board and Supervisory Board were not in the possession of shares of related entities of KGHM Polska Miedź S.A.

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

5. Report on the application of corporate governance principles

In accordance with §91 sec. 5 point 4 of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of recognising information as equivalent as required by the laws of a non-member state and §29 sec. 5 of the Bylaws of the Warsaw Stock Exchange, the Management Board of KGHM Polska Miedź S.A. herein presents the Report on the application of corporate governance principles in 2013.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in 2013 was subject to the corporate governance principles described in the document „Code of Best Practice for WSE Listed Companies" (an appendix to Resolution No. 19/1307/2012 of the Warsaw Stock Exchange Supervisory Board dated 21 November 2012). These principles are available at the official website of the Warsaw Stock Exchange devoted to this subject (www.corp-gov.gpw.pl), as well as at the Company's website (www.kghm.pl) under the section devoted to corporate governance.

The Company has endeavoured at every stage of its operations to carry out the recommendations and principles respecting best practice for listed companies.

In 2013, KGHM Polska Miedź S.A. decided not to comply with the recommendation described in chapter I point 12 of the „Code of Best Practice for WSE Listed Companies", regarding providing assurance by the Company that its shareholders will have the possibility to personally, or through a proxy, exercise their voting rights during General Meetings from a location other than that of the Meeting, using electronic means of communication.

KGHM Polska Miedź S.A. also refrained from application of the principle set forth in Section IV point 10 of the „Code of Best Practice for WSE Listed Companies", according to which the Company should assure its shareholders of the possibility to participate in General Meetings using electronic means of communication, based on real-time webcasts of General Meetings as well as real-time bilateral communication, based on which shareholders may take the floor during a General Meeting from a location other than that of the Meeting.

In the Company's opinion, introduction of the possibility of participation in General Meetings using electronic means of communication may carry risks of a legal and technical nature leading to interference with the efficient conduct of General Meetings, and as a result to the possible questioning of any resolutions adopted. In the Company's opinion, the principles of participation in the General Meetings of KGHM Polska Miedź S.A. enable the rights attached to the holding of shares to be exercised and guarantee the interests of all shareholders. The Company is considering introducing the process of implementing the aforementioned principle and recommendation in situations where their technical and legal aspect no longer raises any doubts, and where such introduction will be justified by a real need for this form of communication by shareholders.

5.1. General Meetings

The General Meeting of KGHM Polska Miedź S.A. is the Company's highest body. It meets in either an ordinary or an extraordinary form, based on generally prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A. General Meetings are convened by the Company's Management Board. In situations defined by the Commercial Partnerships and Companies Code, General Meetings may be convened by the Supervisory Board or by shareholders. The Statutes of KGHM Polska Miedź S.A. also authorise the Polish State Treasury to convene a General Meeting.

The General Meeting of the Company is convened by an announcement published on the Company website and in the manner set forth in the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies. A General Meeting may adopt resolutions if at least one-fourth of the share capital is represented. Resolutions are usually adopted by a simple majority of votes cast, unless the law or the Company's Statutes state otherwise. The principles for conducting a General Meeting are set forth by the Commercial Partnerships and Companies Code and the Company's Statutes. Additional questions related to the functioning of the General Meeting are regulated by the Bylaws of the General Meeting of KGHM Polska Miedź S.A. adopted by the General Meeting of KGHM Polska Miedź S.A. on 17 May 2010, which are available on the Company's website.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the Company's activity and the financial statements, including the consolidated financial statements of the Company Group, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the Company,
- changing the subject of the Company's activity,
- changes in the Company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the Company,
- dissolving and liquidating the Company,
- issuing convertible bonds or senior bonds,

- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the foundation of the Company, or from management or supervisory activities,
- purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the Company or by related companies for a period of at least three years,
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.

The introduction of changes to the Company Statutes requires a resolution by the General Meeting and an entry in the National Court Register. Changes in the Company Statutes are made by the General Meeting in conformance with generally prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code, by a majority three-fourths of the votes cast in the presence of persons representing at least half of the share capital.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the Company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and materials for the General Meeting on the Company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

5.2. Shareholders and their rights

The only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting on both 1 January 2013 and 31 December 2013 was the Polish State Treasury. This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A. and the same numer of votes at the General Meeting, representing 31.79% of the share capital and of the total number of votes. 136 410 100 of the shares and voting rights, i.e. 68.21% of the share capital and of the total number of votes, were held by other institutional and individual shareholders, of which – as far as the Management Board of the Company is aware – none exceeded the threshold of 5% of the total number of votes.

Shareholders of the Company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A. Shareholder is entitled to exercise their voting rights either personally or through a proxy. The authority to participate in a General Meeting and to exercise voting rights should be granted in writing or in electronic form.

All of the shares are bearer shares. Each share grants the right to one vote. There is no limitation to the transferral of ownership rights to the shares of the Company or with respect to the execution of voting rights on the shares of the Company, other than those generally prescribed by laws in force. The Company has not issued securities which would grant special control rights in respect of the Company.

A shareholder is entitled in particular to the following:

- to convene an Extraordinary General Meeting if the said shareholder represents at least half of the share capital or has been authorised by a court of registration and represents at least one-twentieth of the share capital;
- to order the convening of an Extraordinary General Meeting and to include specified matters on the agenda of this General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital;
- to order the inclusion of specified matters on the agenda of the next General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital;
- to announce draft resolutions during a General Meeting which are in regard to matters introduced to the agenda;
- in accordance with the Statutes, the Polish State Treasury as a shareholder may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted;
- to request that a matter included in the agenda be removed or not considered.

5.3. Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A., in all of the Company's functional areas. According to the Statutes, the Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 members are elected by the Company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board selects from among its members a Chairman of the Supervisory Board, his Deputy and a Secretary. The Supervisory Board should meet no less than once a quarter. For resolutions of the Supervisory Board to be valid all of the members of the Supervisory Board must be invited to attend and resolutions must be adopted by an absolute majority of votes in the presence of at least one-half of the members.

The duties of the Supervisory Board include in particular the following:

- evaluating the separate and consolidated financial statements and the report of the Management Board on the activity of the Company and the Group for the given financial year,
- evaluating the proposals of the Management Board with respect to the distribution of profits or coverage of losses,
- submitting to the General Meeting an annual written report on the results of the evaluation of the documents referred to in tirets 1 and 2,
- submitting to the General Meeting annual requests for granting approval of the Management Board's members with respect to their activities,
- examining and controlling the activity and financial condition of the Company, and submitting to the Ordinary General Meeting an annual, brief assessment of the standing of the Company,
- choosing an auditor to audit the statements referred to in tiret 1,
- suspending from their duties for important reasons some or all of the members of the Management Board,
- temporarily delegating a member or members of the Supervisory Board to carry out the duties of members of the Management Board who are unable to carry out their duties,
- establishing the remuneration of members of the Management Board, as well as the other conditions of agreements or contracts concluded with them,
- approving the Bylaws of the Management Board of the Company,
- approving the Company's annual and long-term plans of activity,
- stating its opinion on any request of the Management Board addressed to the General Meeting,
- at the request of the Management Board, expressing its consent to:
  - the purchase and sale of real estate, of perpetual usufruct or of a stake in real estate (this does not require a resolution of the General Meeting),
  - the granting of guarantees and loans to commercial entities in which the Company owns less than 1/3 of the voting rights at the General Meeting of such entities,
  - establishing and acceding to commercial partnerships and companies,
  - disposing of shares in subsidiaries of the Company,
  - establishing branches, companies, representative offices and other organizational or economic entities abroad,
  - obtaining or acquiring shares of another Company,
  - the establishment and liquidation of foundations,
- appointing and recalling members of the Management Board, with due regard being given to § 12 of the Statutes of the Company,
- expressing an opinion on investments by the Company in tangible assets, which meet one of the following conditions:
  - investments having a value of more than 10% of the budget for expenditures on investments in tangible assets of the Company for a given financial year,
  - investments of more than 5% of the budget for expenditures on investments in tangible assets of the Company for a given financial year, if the investment does not meet the criteria for planned effectiveness in comparison to the accepted rate of return on equity in the Company.

The Supervisory Board operates on the basis of generally prevailing law, the Statutes of the Company and the Bylaws of the Supervisory Board. The Bylaws and Statutes of the Company are available on the Company's website.

The composition of the 8th-term Supervisory Board at 1 January 2013 was as follows:

- Aleksandra Magaczewska Chairman,
- 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

During 2013 the following changes occurred in the composition of the Supervisory Board:

- on 19 June 2013 Paweł Białek resigned from the function of member of the Supervisory Board;
- on 19 June 2013 the General Meeting resolved to:
  - dismiss from the Supervisory Board: Dariusz Krawczyk, Ireneusz Piecuch;
  - appoint to the Supervisory Board: Andrzej Kidyba, Marek Panfil and Iwona Zatorska - Pańtak.
- on 2 September 2013 the Supervisory Board selected Marek Panfil as Secretary of the Supervisory Board;
- on 27 November 2013 the mandate of Supervisory Board member Krzysztof Opawski expired due to his death.

Following the aforementioned changes, the composition of the 8th-term Supervisory Board as at 31 December 2013 and as at the date of preparation of this report was as follows:

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

as well as the following employee-elected member:

- Bogusław Szarek

Krzysztof Kaczmarczyk, Andrzej Kidyba, Marek Panfil and Jacek Poświata have submitted declarations on the fulfilment of independence criteria described in III.6 of the „Code of Best Practice for WSE Listed Companies".

Supervisory Board Committees

Under the auspices of the Supervisory Board are three comimittees: the Audit Committee, the Remuneration Committee and the Strategy Committee. These committees assist the Supervisory Board with respect to preparing evaluations and opinions and the taking of other actions aimed at decision-making by the Supervisory Board.

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits.

The Remuneration Committee is responsible for supervising the realisation of contracts signed with the Management Board, the remuneration system and benefits paid out in the Company and Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.

The Strategy Committee supervises the realisation of Company strategy, the Company's annual and long-term operating plans, supervising the coherence of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the Company and any changes thereto, as well as on the Company's annual and long-term operating plans.

The detailed rights, scope of activities and manner of work of these Committees are described by bylaws approved by the Supervisory Board.

Audit Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Audit Committee are as follows:

- supervision on behalf of the Supervisory Board of the process of financial reporting in the Company, including the process of reporting to the Supervisory Board,
- analysis and/or evaluation of the accounting principles adopted by the Company,
- review of the transactions conducted by the Company, which are regarded as material for the Company by the Audit Committee,
- analysis and monitoring of the conclusions resulting from the control of the risk management processes in the Company,
- conduct of the process of selection of independent auditors to audit the financial statements of the Company in order to recommend the choice made to the Supervisory Board, and participation in the commercial negotiations before the conclusion of the agreement with the auditor by the Company,
- on-going cooperation with the independent auditor of the Company during the audit, analysis and the drawing of conclusions from the audit and opinion of the auditor regarding the financial statements, auditor's letter to the Management Board and/or the Supervisory Board, and the preparation of draft reports and assessments required under the regulations for the Company's bodies or other administrative institutions,
- issuing an opinion on the Company's internal audit plan and on the rules of the internal audit, and on any changes in the position of the internal audit director,
- analysis of the conclusions and recommendations of the Company's internal audit including the monitoring of the degree of implementation of recommendations by the Company's Management Board,
- monitoring of the rules applied in the Company in the areas of accounting, finances and hedging against the trade and financial risks and the risk of exposing the Company to serious harm, and
- other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board at 1 January 2013:

- Krzysztof Kaczmarczyk Committee Chairman
- Paweł Białek
- Krzysztof Opawski

Following changes in the Supervisory Board, from 10 July 2013 the composition of the Audit Committee was as follows:

- Marek Panfil Committee Chairman
- Krzysztof Kaczmarczyk
- Krzysztof Opawski (to 27 November 2013)
- Iwona Zatorska–Pańtak

As at 31 December 2013 and as at the date of preparation of this report the composition of the Audit Committee was as follows:

- Marek Panfil Committee Chairman
- Krzysztof Kaczmarczyk
- Iwona Zatorska–Pańtak

Remuneration Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

- management of the affairs associated with the recruitment and employment of the Management Board members by preparing and arranging the draft documents and processes to be submitted for the acceptance of the Supervisory Board,
- preparation of the draft agreements and other model documents in relation to the employment relationship established with the Management Board members and supervision of the execution of contractual obligations of the parties,
- supervision of the execution of the Management Board remuneration system, specifically preparation of the settlement documents in the area of variable elements and bonus-based remuneration in order to submit the recommendations to the Supervisory Board,
- monitoring and periodic analyses of the remuneration system of senior management of the Company and, if necessary, the preparation of recommendations for the Supervisory Board,
- supervision of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, apartments, etc., and
- other tasks ordered by the Supervisory Board.

As at 1 January 2013 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:

- Paweł Białek Committee Chairman
- Dariusz Krawczyk
- Ireneusz Piecuch

Following changes in the Supervisory Board, from 10 July 2013 the composition of the Remuneration Committee was as follows (as at 31 December 2013 and as at the date of preparation of this report):

- Iwona Zatorska – Pańtak Committee Chairman
- Krzysztof Kaczmarczyk
- Andrzej Kidyba
- Bogusław Szarek

Strategy Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

- execution on behalf of the Company's Supervisory Board of the tasks in the area of supervision of the issues associated with the Company's strategy and annual and long-term operating plans of the Company,
- monitoring the execution of the Company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
- monitoring the execution of annual and long-term operating plans of the Company by the Management Board, and assessment of whether these plans need to be modified,
- assessment of the consistency of the annual and long-term operating plans of the Company with the Company's strategy executed by the Management Board, and the presentation of any proposed changes in all such Company documents,
- submission to the Company's Supervisory Board of its opinions regarding the draft strategies of the Company and any changes thereto and annual and long-term operating plans of the Company, presented by the Company's Management Board, and
- other tasks ordered by the Supervisory Board.

As at 1 January 2013 the following Members of the Supervisory Board served on the Strategy Committee:

- Aleksandra Magaczewska Committee Chairman
- Krzysztof Kaczmarczyk
- Paweł Białek
- Dariusz Krawczyk
- Krzysztof Opawski
- Ireneusz Piecuch
- Jacek Poświata

Following changes in the Supervisory Board, from 10 July 2013 the composition of the Strategy Committee was as follows:

- Aleksandra Magaczewska Committee Chairman
- Krzysztof Kaczmarczyk Deputy Committee Chairman
- Krzysztof Opawski (to 27 November 2013)
- Marek Panfil
- Jacek Poświata
- Bogusław Szarek

As at 31 December 2013 and as at the date of preparation of this report the following Members of the Supervisory Board served on the Strategy Committee:

- Aleksandra Magaczewska Committee Chairman
- Krzysztof Kaczmarczyk Deputy Committee Chairman
- Marek Panfil
- Jacek Poświata
- Bogusław Szarek

After the end of the year the Audit, Remuneration and Strategy Committees submit a report of their activities to the Supervisory Board.

5.4. Management Board

The duties of the Management Board include all matters pertaining to the functioning of the Company which have not been reserved by the Commercial Partnerships and Companies Code and the Statutes of the Company to the duties of General Meeting and Supervisory Board. The Management Board represents the Company externally, including both within and out of courts. The Management Board of the Company is obligated to manage the assets and the affairs of the Company with the requisite amount of prudence demanded by commercial affairs, and to obey the law, the Statutes of the Company and the resolutions passed by the General Meeting and the Supervisory Board to the limits of their duties.

The Management Board is comprised of 1 to 7 persons appointed for a mutual term of office. The term of office of the Management Board lasts three years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board, with due regard to §12 sec. 5 and sec. 7 to 12 of the Company Statutes, regarding the appointment and dismissal of an employee-elected Member of the Management Board. Members of the Management Board, including any employee-elected Member of the Management Board, may be dismissed by the Supervisory Board prior to the completion of their mandate, which does not impair their rights resulting from employment contracts or other legal relationships involving fulfilling their functions as members of the Management Board. The result of elections for an employee-elected member of the Management Board, or the result of voting in the matter of his dismissal, is binding for the Supervisory Board, if at least 50% of the Company's employees took part in the voting for his election or dismissal. The election and dismissal of an employee-elected Member of the Management Board requires an absolute majority of the votes cast.

The Management Board operates based on generally prevailing law, the Statutes of the Company and the Regulations of the Management Board of KGHM Polska Miedź S.A. For resolutions of the Management Board to be valid at least two-thirds of the members of the Management Board must be present. Resolutions of the Management Board are usually approved by a simple majority of the votes cast. In the case of a tie vote being cast for a given resolution either for or against, the President of the Management Board shall cast the deciding vote.

A detailed list of the matters requiring a resolution of the Management Board is included in the Regulations of the Management Board of KGHM Polska Miedź S.A. approved by the Supervisory Board, which is available on the Company's website.

The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The shares of the Company may be redeemed given shareholder consent through their acquisition by the Company. A resolution of the General Meeting on the redemption of shares may be preceeded by an agreement entered into with a shareholder. In accordance with §29 sec. 1 point 6 of the Statutes of the Company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the Company). The Management Board of the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The composition of the 8th-term Management Board and the segregation of duties amongst its Members as at 1 January 2013 was as follows:

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

In 2013 the following changes occured in the composition of the KGHM Polska Miedź S.A. Management Board:

- Dorota Włoch resigned from the function of Vice President of the Management Board (Development) from 2 September 2013.
- On 2 September 2013 the Supervisory Board resolved to dismiss the following persons from the Management Board:
  - Włodzimierz Kiciński from the function of I Vice President of the Management Board of KGHM Polska Miedź S.A.;
  - Adam Sawicki from the function of Vice President of the Management Board (Corporate Affairs);
- On 2 September 2013 the Supervisory Board resolved to appoint the following persons to the Management Board:
  - Jarosław Romanowski to the function of I Vice President of the Management Board (Finance) of KGHM Polska Miedź S.A.
  - Marcin Chmielewski to the function of Vice President of the Management Board (Corporate Affairs) of KGHM Polska Miedź S.A.;
  - Jacek Kardela to the function of Vice President of the Management Board (Development) of KGHM Polska Miedź S.A.

Following the aforementioned changes, the composition of the 8th-term Management Board as at 31 December 2013 and as at the date of preparation of this report was as follows:

– Herbert Wirth	President of the Management Board
– Jarosław Romanowski	I Vice President of the Management Board (Finance)
– Marcin Chmielewski	Vice President of the Management Board (Corporate Affairs)
– Jacek Kardela	Vice President of the Management Board (Development)
– Wojciech Kędzia	Vice President of the Management Board (Production)

5.5. Description of the basic characteristics of internal control and risk management systems applied in the Company with respect to the process of preparing financial statements and consolidated financial statements

The Company's system of internal control and risk management in the process of preparing financial statements is realised through:

Supervision of the application of a uniform accounting principles by KGHM Polska Miedź S.A. and the companies of the KGHM Polska Miedź S.A. Group in the process of preparing reporting packets for the purpose of preparing the consolidated financial statements of the KGHM Polska Miedź S.A. Group

In order to ensure truth and accuracy in the keeping of the accounting books of KGHM Polska Miedź S.A. and the uniformity of applied accounting principles in preparing the financial statements of Group subsidiaries, the Management Board of KGHM Polska Miedź S.A. has introduced for continuous use an Accounting Policy for for the Group, in accordance with International Financial Reporting Standards approved by the European Union, continuously updated based on new regulations.

Control of the applied accounting principles in the process of preparing the financial statements of KGHM Polska Miedź S.A. and of Group subsidiaries is based on the control mechanisms embedded in the functioning of the reporting systems.

The reporting packets of subsidiaries are also reviewed by the appropriate units in KGHM Polska Miedź S.A. as well as by an independent auditor during the process of reviewing and auditing the consolidated financial statements of the Group.

Finance and accounting systems

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control over ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. KGHM Polska Miedź S.A. continuously adapts the IT information system to changing accounting principles or other legal standards.

To ensure the legitimate utilisation and protection of systems, data, secure access to data and computer equipment, appropriate organisational and systemic solutions have been introduced in KGHM Polska Miedź S.A. Access to the resources of the financial and accounting system and financial reporting – separate and consolidated – is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular audits. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information.

Corporate risk management

In 2013, KGHM Polska Miedź S.A. completed design work aimed at implementing a comprehensive integrated risk management system for supporting management at the strategic and operational levels of the KGHM Polska Miedź S.A. Group.

This project was an element in the realisation of the Strategy, as well as in the development of organisational skills and efficiencies, improving corporate governance and strengthening the trust of investors in the Company. The effective implementation of such a system will enhance the Company's durability, its predictability and stability and its responsibility towards shareholders, as well as its ability to adapt to volatile business conditions.

As part of the realisation of this project, in November 2013 a Corporate Risk Management Policy for the KGHM Polska Miedź S.A. Group was adopted, describing the overall approach and setting forth basic principles as well as the corporate risk management process in the KGHM Polska Miedź S.A. Group.

The Corporate Risk Management and Conformity Department is responsible for coordination of the conduct of the entire corporate risk management process and for developing the methods and tools used by the managers in KGHM Polska Miedź S.A., in all subsidiaries and projects. This Department is responsible for risk monitoring and escalation, and for reporting incidents.

These activities also comprise risk management with respect to the process of preparing the separate financial reports of KGHM Polska Miedź S.A. and the consolidated financial reports of the Group.

Internal Audit

A fundamental element of risk management with respect to the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A. is the work carried out by the Department of Auditing and Internal Control. Consequently this work indirectly augments the process of preparing financial statements as well as their accuracy.

The Department of Auditing and Internal Control carries out its tasks based on the "Integrated Audit Plan of KGHM Polska Miedź S.A. for the years 2011-2015" approved by the Management Board of KGHM Polska Miedź S.A. and the annual „Integrated Audit and Internal Control Plan" for the given calendar year. These documents were developed in conformity with the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors and approved by the Supervisory Board.

The goal of internal auditing and internal control is to provide the Management Board and Supervisory Board of KGHM Polska Miedź S.A. with independent and objective information on internal control and risk management systems as well as with analyses of business processes within KGHM Polska Miedź S.A. and its subordinated companies. Apart from internal audit and institutional control, the obligation fully remains in KGHM Polska Miedź S.A. for each employee to exercise self-control in respect of their duties and for every level of management staff to perform their control – within supervisory-related duties.

External audit

In accordance with prevailing law, KGHM Polska Miedź S.A. submits its separate financial statements and consolidated financial statements to review and auditing by a certified auditor. The Supervisory Board selects the certified auditor through a tender process, based on the recommendations of the Audit Committee and the report on the tender conducted by the Committee. The appropriate entity to audit the separate and consolidated financial statements of KGHM Polska Miedź S.A. for the years 2013-2015 is PricewaterhouseCoopers Sp. z o.o. As part of the audit work performed the certified auditor performs an independent evaluation of the accounting principles applied by KGHM Polska Miedź S.A. in preparing the financial statements and the accuracy and truthfulness of the separate and consolidated financial statements.

Supervision over the process of financial reporting

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of KGHM Polska Miedź S.A. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular:

- monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the KGHM Polska Miedź S.A. Group and prevailing laws,
- monitors the effectiveness of internal control systems, internal audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- recommends to the Supervisory Board an entity entitled to audit financial statements.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the truth and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A.

Appendix A: Methodology of calculating ratios used in the report

Assets effectiveness ratios

$$\text{Assets turnover ratio} = \frac{\text{sales}}{\text{total assets}}$$

$$\text{Non-current assets turnover ratio} = \frac{\text{sales}}{\text{non-current assets}}$$

$$\text{Current assets turnover ratio} = \frac{\text{sales}}{\text{current assets}}$$

$$\text{Liquid assets turnover ratio} = \frac{\text{sales}}{\text{current receivables} + \text{cash and cash equivalents}}$$

Assets financing ratios

$$\text{Coverage of assets by equity} = \frac{\text{equity}}{\text{total assets}}$$

$$\text{Coverage of non-current assets by equity} = \frac{\text{equity}}{\text{non-current assets}}$$

$$\text{Coverage of non-current assets by long-term capital} = \frac{\text{equity} + \text{non-current liabilities}}{\text{non-current assets}}$$

$$\text{Coverage of current assets by current liabilities} = \frac{\text{current liabilities}}{\text{current assets}}$$

Economic activity ratios

$$\text{Current liquidity} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{current assets - inventories}}{\text{current liabilities}}$$

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

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

$$\text{Debt ratio} = \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{equity} + \text{non-current liabilities}}{\text{equity and liabilities}} \times 100$$

Appendix B: Current reports of the Company published in 2014 – to the date of preparation of the annual report

Agreement on assumptions for cooperation regarding exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals as part of a joint venture (10 January 2014)

On 10 January 2014, KGHM Polska Miedź S.A., Grupa Azoty Zakłady Azotowe „Puławy" S.A. and Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o. (a subsidiary of Grupa Azoty Zakłady Azotowe „Puławy" S.A.) signed an Agreement on assumptions for cooperation regarding exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals as part of a joint venture („Agreement").

The signing of this Agreement is a continuation of the cooperation initiated by the signing by KGHM Polska Miedź S.A. and the company Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o. of a Letter of Intent on 30 August 2013. This Agreement allows other entities of the KGHM Polska Miedź S.A. Group and the Grupa Azoty S.A. Group to participate in the project to be realised under the Letter of Intent.

The Agreement sets forth the conditions and further steps involved in realisation of this project, fundamental amongst which are agreeing the details of the investment contract, setting forth in particular the principles for the founding and operation of the special purpose company which will execute the project, obtaining antimonopoly permits and corporate agreements for its founding and the principles for purchase of the raw materials from this company. The Agreement foresees that the leader of the entire project will be KGHM Polska Miedź S.A., while the capital interest of Grupa Azoty Zakłady Azotowe „Puławy" S.A. and of Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o., or of entities belonging to the Grupa Azoty S.A. Group, in the special purpose company and in projects executed by it, will essentially amount to 50%.

Signing of a Letter of Intent with the company Grupa Azoty S.A. (16 January 2014)

On 16 January 2014, a Letter of Intent was signed between KGHM Polska Miedź S.A. and the company Grupa Azoty S.A. with its registered head office in Tarnów, setting forth the general principles for the eventual undertaking of joint business activities in the following areas: processing of phosphogypsum, exploration for potassium salt deposits abroad, gaining access to sources of natural gas, construction of a polygeneration power plant, and exploration for and extraction of phosphorite.

Judgment of the Court in a case on declaring a resolution of the General Meeting invalid (27 January 2014)

The Regional Court in Legnica, Section VI Economic, regarding a suit filed by Józef Czyczerski "requesting that Resolution No. 35 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013, regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Józef Czyczerski elected by the employees of KGHM PM S.A., be declared invalid" on 27 January 2014 issued a judgement in which it dismissed the suit of the plaintiff.

Change in a significant contract with Polskie Górnictwo Naftowe i Gazownictwo SA (30 January 2014)

On 30 January 2014, an annex was signed to the comprehensive contract for the purchase of fuel gas („the Contract"), entered into on 30 July 2010 with Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG). The contract from 2010 involves the purchase of natural gas for power generation purposes – to supply two Gas-Steam Blocks, each of approx. 45 MWe, and is valid to 30 June 2033. Based on the annex, the annual volume to be supplied was reduced from 266 million m3 to 41.5 million m3. This change is due to the limitation by KGHM Polska Miedź S.A. in the generation of electricity in association with heat production due to changes in the system of support for cogeneration in 2013 as well as to low electricity prices. The estimated value of this Contract after signing the annex is approx. PLN 830 million. The parties do not preclude a return to the initial volume of supply following improvements in the regulatory environment and in macroeconomic conditions.

Also, annexes were signed for three other contracts for the purchase of fuel gas from PGNiG: i) a contract dated 25 September 2001, ii) a contract dated 4 January 1999, and iii) a contract dated 1 October 1998. The only change in these contracts involved their period of validity, which was changed from being undefined to 30 June 2033. The estimated value of the three contracts during their period of validity is approx. PLN 2.8 billion.

In addition, current reports were published concerning the dates of publication of periodic reports in 2014 (15 January 2013) and on the sale of Company shares by Marek Panfil, a Member of the Supervisory Board of KGHM Polska Miedź S.A. (16 January 2013).

Appendix C: List of tables, diagrams and charts

TABLES

CHARTS

DIAGRAMS

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

Date	Description
22.01.2013	Contract signed with HSBC Bank USA N.A., London Branch for the sale of silver in 2013
28.01.2013	Contract signed with MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathode in 2013
31.01.2013	Contract signed with Prysmian Metals Limited for the sale of copper wire rod in the years 2013 and 2014
11.02.2013	Publication of the „Technical Report on the Copper-Silver Production Operations of KGHM Polska Miedź S.A. in the Legnica-Głogów Copper Belt Area of Southwestern Poland" prepared by Micon International Limited
15.02.2013	Publication of forecast of results for 2013
21.02.2013	Signing of an Annex to the Framework Agreement on the Joint Exploration for and Extraction of Shale Gas (other parties to the agreement: Polskie Górnictwo Naftowe i Gazownictwo SA, PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A.)
1.03.2013	Publication of the Sierra Gorda CAPEX definitive cost estimate
14.03.2013	Elections by employees of persons to the Supervisory Board of the Company
28.03.2013	Selection of entity entitled to audit the financial statements
3.04.2013	Opening of proceedings to liquidate Ecoren DKE Sp. z o.o.
8.05.2013	Recommendation of the Management Board on the dividend payout
18.06.2013	Opening of proceedings to liquidate KGHM II FIZAN
19.06.2013	Resignation of Paweł Białek from the Supervisory Board
19.06.2013	Ordinary General Meeting – decision on profit allocation for financial year 2012, changes in the composition of the Supervisory Board
25.06.2013	Understanding with PGE Polska Grupa Energetyczna S.A., Tauron Polska Energia S.A. and ENEA S.A. on continuation of work related to creating a draft agreement regarding the purchase of shares of a special purpose company founded in order to build and operate a nuclear power plant
12.07.2013	Right to dividend date
1.08.2013	Agreement signed 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.)
14.08.2013	Payment of 1st instalment of shareholder dividend (4.90 PLN/share)
30.08.2013	Letter of Intent signed with Gdańskie Zakłady Nawozów Fosforowych „Fosfory" regarding cooperation on managing deposits of chemical raw materials
2.09.2013	Changes in composition of Company Management Board
23.09.2013	Understanding with PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. on the conditions to purchase shares of the company PGE EJ1 sp. z o.o.
14.11.2013	Payment of 2nd instalment of shareholder dividend (4.90 PLN/share)
27.11.2013	Death of a Member of the Supervisory Board - Krzysztof Opawski
30.12.2013	Decision taken, together with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., to suspend the project to build a gas-steam block at the Blachownia power plant
31.12.2013	Opening of proceedings to liquidate „BIOWIND" sp. z o.o.
31.12.2013	Expiry of the framework agreement on the joint exploration for and extraction of shale gas
31.12.2013	Decision to continue work on the project to prepare and build a nuclear power plant in Poland
10.01.2014	Agreement signed on assumptions for cooperation regarding exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals as part of a joint venture with Grupa Azoty Zakłady Azotowe „Puławy" S.A. and Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o.
16.01.2014	Letter of Intent signed with Grupa Azoty S.A. setting forth general principles for the eventual undertaking of joint business activities
30.01.2014	Annex signed to the comprehensive contract for the purchase of fuel gas entered into on 30 July 2010 with Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG)

** including events following the end of the reporting period – to the date of preparation of the annual report*

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
24 March 2014	Herbert Wirth	President of the Management Board	
24 March 2014	Jarosław Romanowski	I Vice President of the Management Board	
24 March 2014	Marcin Chmielewski	Vice President of the Management Board	
24 March 2014	Jacek Kardela	Vice President of the Management Board	
24 March 2014	Wojciech Kędzia	Vice President of the Management Board	