

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 1 / 2015

(In accordance with § 82, section 2 and § 83, section 1 of the Decree of the Minister of Finance dated 19 February 2009 – Journal of Laws No. 33, point 259, with subsequent amendments)

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

For the first quarter of the financial year **2015** from **1 January 2015** to **31 March 2015**

Including the interim condensed consolidated financial statements prepared under International Accounting Standard 34 in **PLN**, and interim condensed financial statements prepared under IAS 34 in **PLN**.

date of publication: **8 May 2015**

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(name of the issuer)

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This report is a direct translation from the original Polish version.

In the event of differences resulting from the translation, reference should be made to the official Polish version.

SELECTED FINANCIAL DATA

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

	in mn PLN		in mn EUR	
	1st quarter of 2015 period from 1 January 2015 to 31 March 2015	1st quarter of 2014 period from 1 January 2014 to 31 March 2014	1st quarter of 2015 period from 1 January 2015 to 31 March 2015	1st quarter of 2014 period from 1 January 2014 to 31 March 2014
I. Sales revenue	4 731	4 650	1 140	1 110
II. Profit on sales	723	661	174	158
III. Profit before income tax	577	625	139	149
IV. Profit for the period	398	417	96	100
V. Profit for the period attributable to shareholders of the Parent Entity	397	417	96	100
VI. Profit for the period attributable to non-controlling interest	1	-	-	-
VII. Other comprehensive income	475	260	114	62
VIII. Total comprehensive income	873	677	210	162
IX. Total comprehensive income attributable to shareholders of the Parent Entity	873	680	210	163
X. Total comprehensive income attributable to non-controlling interest	-	(3)	-	(1)
XI. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	1.99	2.09	0.48	0.50
XIII. Net cash generated from operating activities	1 208	1 757	291	419
XIV. Net cash used in investing activities	(1 111)	(1 336)	(268)	(319)
XV. Net cash (used in)/ generated from financing activities	377	(1)	91	-
XVI. Total net cash flow	474	420	114	100
	At 31 March 2015	At 31 December 2014	At 31 March 2015	At 31 December 2014
XVII. Non-current assets	35 542	33 569	8 693	7 876
XVIII. Current assets	7 239	6 805	1 771	1 597
XIX. Total assets	42 781	40 374	10 464	9 473
XX. Non-current liabilities	10 933	9 292	2 674	2 180
XXI. Current liabilities	5 446	5 552	1 333	1 303
XXII. Equity	26 402	25 530	6 457	5 990
XXIII. Equity attributable to shareholders of the Parent Entity	26 178	25 302	6 402	5 937
XXIV. Equity attributable to non-controlling interest	224	228	55	53

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

	in mn PLN		in mn EUR	
	1st quarter of 2015 period from 1 January 2015 to 31 March 2015	1st quarter of 2014 period from 1 January 2014 to 31 March 2014	1st quarter of 2015 period from 1 January 2015 to 31 March 2015	1st quarter of 2014 period from 1 January 2014 to 31 March 2014
I. Sales revenue	3 767	3 800	908	907
II. Profit on sales	869	776	209	185
III. Profit before income tax	705	712	170	170
IV. Profit for the period	497	507	120	121
V. Other comprehensive income	(294)	207	(71)	49
VI. Total comprehensive income	203	714	49	170
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)	2.49	2.54	0.60	0.61
IX. Net cash generated from operating activities	1 157	1 681	279	401
X. Net cash used in investing activities	(1 884)	(1 015)	(454)	(242)
XI. Net cash (used in)/generated from financing activities	1 124	(258)	271	(62)
XII. Total net cash flow	397	408	96	97
	At 31 March 2015	At 31 December 2014	At 31 March 2015	At 31 December 2014
XIII. Non-current assets	29 088	27 439	7 114	6 438
XIV. Current assets	5 107	4 873	1 249	1 143
XV. Total assets	34 195	32 312	8 363	7 581
XVI. Non-current liabilities	5 395	4 195	1 319	984
XVII. Current liabilities	4 320	3 840	1 057	901
XVIII. Equity	24 480	24 277	5 987	5 696

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A. Interim condensed consolidated financial statements

(Consolidated financial statements)

Interim consolidated statement of financial position

	note	At 31 March 2015	At 31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment		18 091	17 621
Intangible assets		3 101	2 918
Investment property		60	60
Investments accounted for using the equity method	A.III.1	4 914	4 363
Deferred tax assets	A.II.2	760	535
Available-for-sale financial assets		816	931
Financial assets for mine closure and restoration of tailing storage facilities		370	358
Derivatives		190	214
Trade and other receivables		7 240	6 569
		35 542	33 569
Current assets			
Inventories		3 678	3 362
Trade and other receivables		2 267	2 537
Current corporate tax receivables		93	87
Available-for-sale financial assets		71	57
Financial assets for mine closure		5	2
Derivatives		244	277
Cash and cash equivalents		876	475
Non-current assets held for sale		5	8
		7 239	6 805
		42 781	40 374
TOTAL ASSETS			
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Parent Entity			
Share capital		2 000	2 000
Revaluation reserve from measurement of financial instruments		191	377
Exchange differences from the translation of foreign operations statements		1 928	1 171
Actuarial gains/losses on post-employment benefits		(525)	(430)
Retained earnings		22 584	22 184
		26 178	25 302
Equity attributable to non-controlling interest			
		224	228
TOTAL EQUITY			
		26 402	25 530
LIABILITIES			
Non-current liabilities			
Trade and other payables		1 052	1 002
Borrowings, debt securities and finance lease liabilities	A.IV.7	3 976	2 997
Derivatives		274	123
Deferred tax liabilities	A.II.2	1 865	1 676
Employee benefits liabilities		2 131	2 011
Provisions for other liabilities and charges		1 635	1 483
		10 933	9 292
Current liabilities			
Trade and other payables		3 272	3 236
Borrowings, debt securities and finance lease liabilities	A.IV.7	1 580	1 813
Current corporate tax liabilities		229	164
Derivatives		52	37
Employee benefits liabilities		142	135
Provisions for other liabilities and charges		171	167
		5 446	5 552
		16 379	14 844
TOTAL LIABILITIES			
		16 379	14 844
TOTAL EQUITY AND LIABILITIES			
		42 781	40 374

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of profit or loss

	Note	Reporting period	
		for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Sales revenue	A.IV.2	4 731	4 650
Cost of sales	A.IV.3	(3 709)	(3 664)
Gross profit		1 022	986
Selling costs	A.IV.3	(93)	(73)
Administrative expenses	A.IV.3	(206)	(252)
Profit on sales		723	661
Other operating income	A.IV.4	330	163
Other operating costs	A.IV.5	(340)	(150)
Operating profit		713	674
Finance costs	A.IV.6	(136)	(49)
Profit before income tax		577	625
Income tax expense		(179)	(208)
Profit for the period		398	417
Profit for the period attributable to:			
shareholders of the Parent Entity		397	417
non-controlling interest		1	-
Earnings per share attributable to the shareholders of the Parent Entity for the reporting period (in PLN per share)			
- basic		1.99	2.09
- diluted		1.99	2.09

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of comprehensive income

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Profit for the period	398	417
Other comprehensive income:		
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met:		
Other comprehensive income from the measurement of financial instruments		
Available-for-sale financial assets	(101)	159
Income tax related to available-for-sale financial assets	22	(30)
Cash flow hedging instruments	(133)	86
Income tax related to cash flow hedging instruments	26	(16)
Total other comprehensive income from the measurement of financial instruments	(186)	199
Exchange differences from the translation of foreign operations statements	756	56
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	570	255
Other comprehensive income, which will not be reclassified to profit or loss:		
Actuarial gains and losses on post-employment benefits	(117)	6
Income tax related to actuarial gains and losses	22	(1)
Total other comprehensive income, which will not be reclassified to profit or loss	(95)	5
Other comprehensive net income for the reporting period	475	260
TOTAL COMPREHENSIVE INCOME	873	677
Total comprehensive income attributable to:		
shareholders of the Parent Entity	873	680
non-controlling interest	-	(3)

KGHM Polska Miedź S.A.
Consolidated quarterly report with quarterly financial information
for the period from 1 January 2015 to 31 March 2015
(amounts in tables in PLN millions, unless otherwise stated)

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of changes in equity

	Equity attributable to shareholders of the Parent Entity						Equity attributable to non-controlling interest	Total equity
	Share capital	Revaluation reserve from measurement of financial instruments	Exchange differences from the translation of foreign operations statements	Actuarial gains/losses on post-employment benefits	Retained earnings	Total		
At 1 January 2015	2 000	377	1 171	(430)	22 184	25 302	228	25 530
Total comprehensive income	-	(186)	757	(95)	397	873	-	873
Profit for the period	-	-	-	-	397	397	1	398
Other comprehensive income	-	(186)	757	(95)	-	476	(1)	475
Changes in ownership shares in subsidiaries which do not lead to a loss of control	-	-	-	-	3	3	(4)	(1)
At 31 March 2015	2 000	191	1 928	(525)	22 584	26 178	224	26 402
At 1 January 2014	2 000	522	(267)	(132)	20 718	22 841	223	23 064
Offsetting of profit from prior years with actuarial gains and losses	-	-	-	4	(4)	-	-	-
Total comprehensive income	-	199	59	5	417	680	(3)	677
Profit for the period	-	-	-	-	417	417	-	417
Other comprehensive income	-	199	59	5	-	263	(3)	260
Changes in ownership shares in subsidiaries which do not lead to a loss of control	-	-	-	-	20	20	(19)	1
At 31 March 2014	2 000	721	(208)	(123)	21 151	23 541	201	23 742

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of cash flows

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Cash flow from operating activities		
Profit for the period	398	417
Adjustments to profit for the period:	1 047	1 668
Income tax recognised in profit or loss	179	208
Depreciation/Amortisation	564	401
Dividends and interest	(29)	(19)
Foreign exchange gains	(66)	(8)
Change in provisions	4	30
Change in assets/liabilities due to derivatives	267	512
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(118)	(124)
Other adjustments	10	7
Changes in working capital	236	661
Inventories	(262)	(332)
Trade and other receivables	301	623
Trade and other payables	197	370
Income tax paid	(237)	(328)
Net cash generated from operating activities	1 208	1 757
Cash flow from investing activities		
Acquisition of newly-issued shares in the increased share capital of a joint venture	(206)	-
Purchase of property, plant and equipment and intangible assets	(890)	(901)
Advances granted for the purchase of property, plant and equipment and intangible assets	(11)	(11)
Proceeds from the sale of property, plant and equipment and intangible assets	5	4
Purchase of financial assets from the mine closure fund and tailings storage facilities restoration fund	(28)	(25)
Proceeds from the sale of financial assets purchased from mine closure fund	23	-
Loans granted	-	(404)
Other investment (expenses)/proceeds	(4)	1
Net cash used in investing activities	(1 111)	(1 336)
Cash flow from financing activities		
Proceeds from payment to capital of a subsidiary from holders of non-controlling interest	10	2
Acquisition of shares from holders of non-controlling interest	(10)	(13)
Proceeds from bank and other loans	1 147	298
Repayments of bank and other loans	(756)	(275)
Payments of liabilities due to finance leases	(4)	(4)
Interest paid	(17)	(11)
Donations received	7	2
Net cash (used in)/generated from financing activities	377	(1)
Total net cash flow	474	420
Exchange (losses)/gains on cash and cash equivalents and on translation of foreign operations statements	(73)	18
Movements in cash and cash equivalents	401	438
Cash and cash equivalents at beginning of the period	475	864
Cash and cash equivalents at end of the period	876	1 302
including restricted cash and cash equivalents	45	103

A. Interim condensed consolidated financial statements (continued)

Selected explanatory data

I. Principles applied in preparing the financial statements

1. Introduction

The Parent Entity of the KGHM Polska Miedź S.A. Group is KGHM Polska Miedź S.A. with its registered office in Lubin, whose shares are traded on a regulated market. The core business of the Parent Entity is the production of copper and silver.

The principal activities of the Parent Entity comprise:

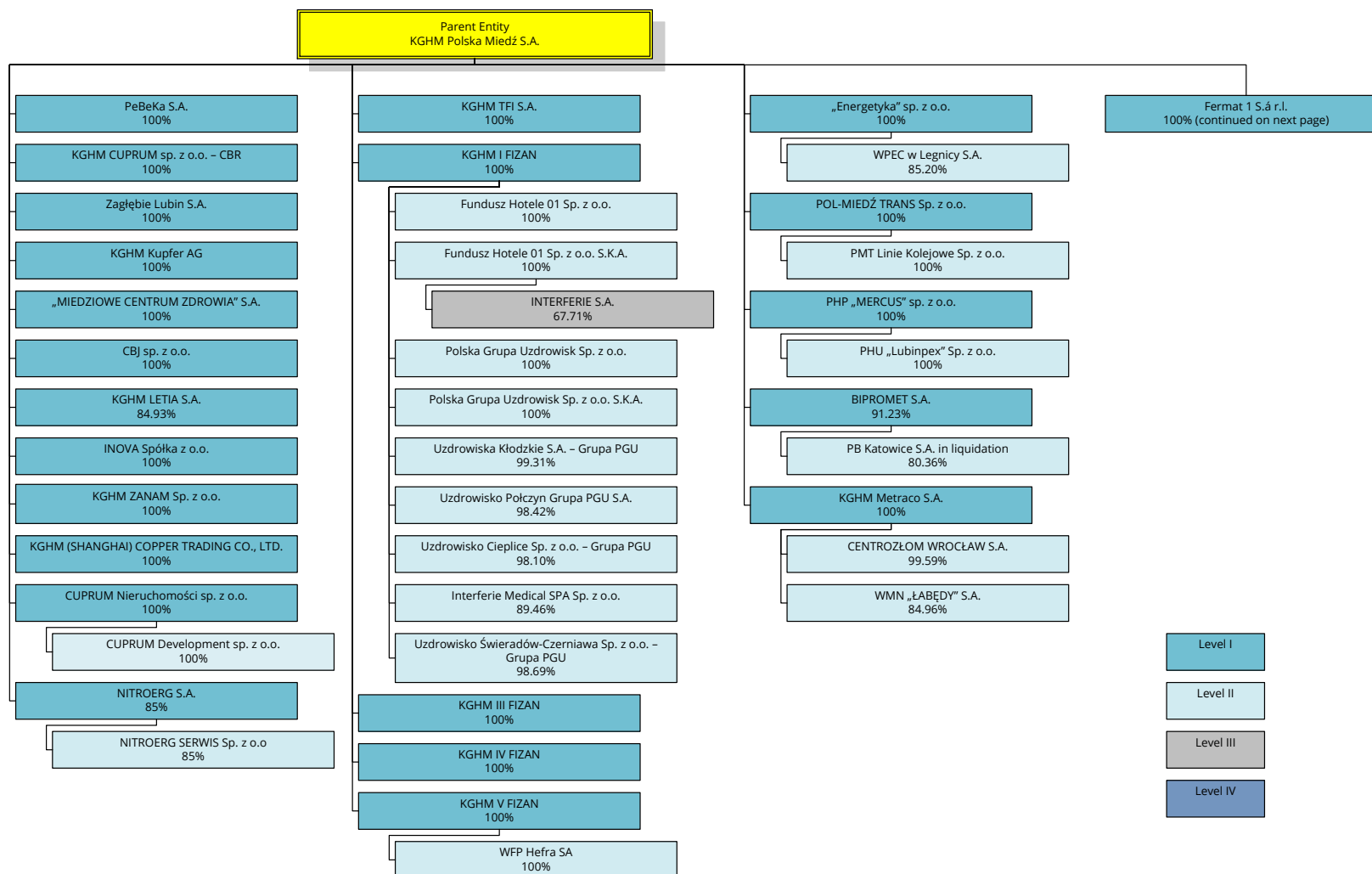
- mining of copper and non-ferrous metals ore;
- excavation of gravel and sand;
- production of copper, precious and non-ferrous metals;
- production of salt;
- casting of light and non-ferrous metals;
- forging, pressing, stamping and roll forming of metal - powder metallurgy;
- waste management;
-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

The business activities of the Group also include:

- mine production of metals, including copper, nickel, gold, platinum, palladium;
- production of goods from copper and precious metals;
- underground construction services;
- production of machinery and mining equipment;
- transport services;
- activities in the areas of research, analysis and design;
- production of road-building materials; and
- recovery of associated metals from copper ore.

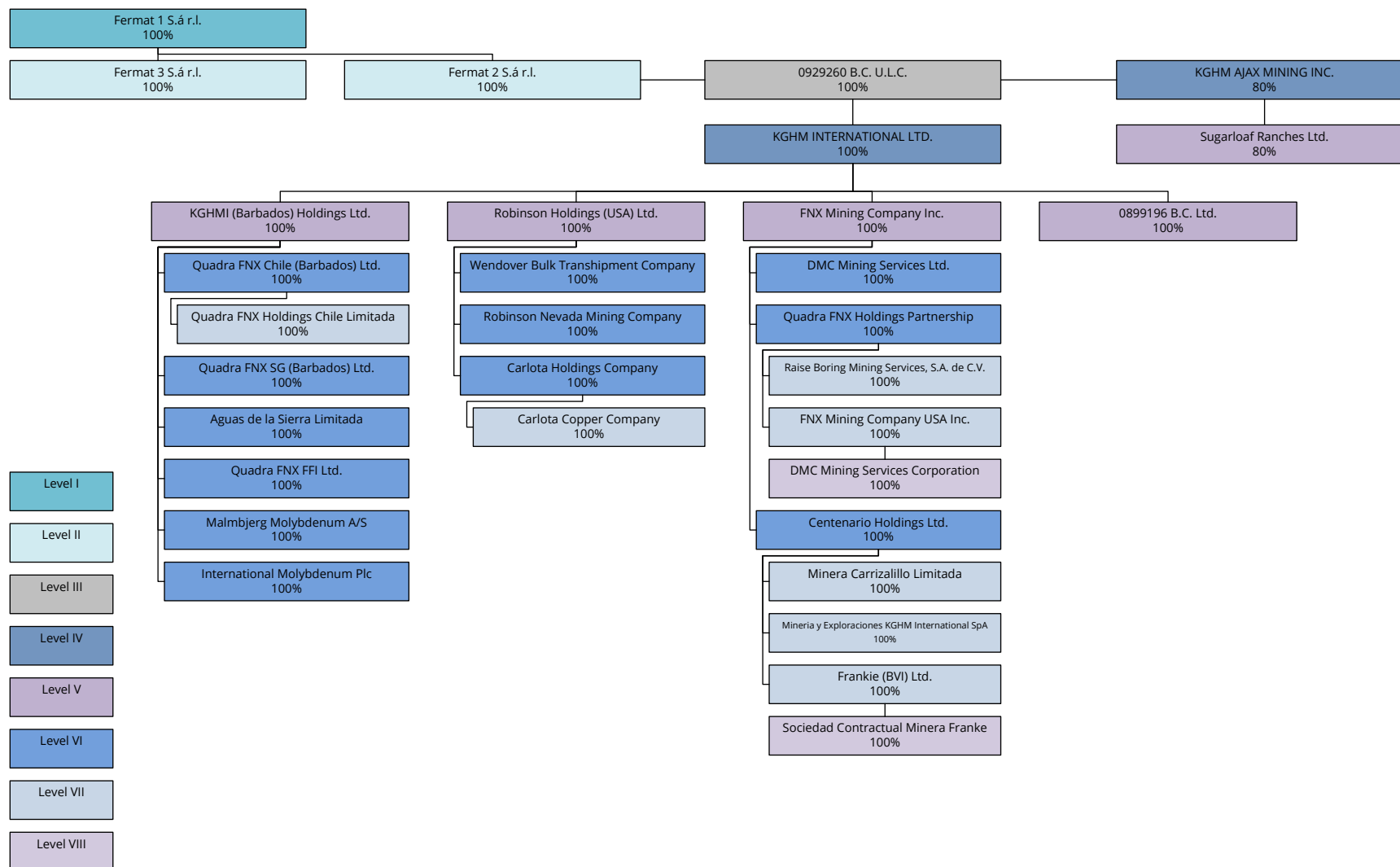
A. Interim condensed consolidated financial statements (continued)

2. Structure of the KGHM Polska Miedź S.A. Group at 31 March 2015



The percentage share represents the total share of the Group.

A. Interim condensed consolidated financial statements (continued)



A. Interim condensed consolidated financial statements (continued)

In the current quarter KGHM Polska Miedź S.A. consolidated 73 subsidiary entities (the subsidiaries of the Group are presented in part A.1.2), and three joint ventures were accounted for using the equity method (Sierra Gorda S.C.M., „Elektrownia Blachownia Nowa” sp. z o.o., NANO CARBON Sp. z o.o.).

The following quarterly report includes:

1. the interim condensed consolidated financial statements of the KGHM Polska Miedź S.A. Group for the period from 1 January to 31 March 2015 and the comparable period from 1 January to 31 March 2014, together with selected explanatory data (**Part A**);
2. other information to the consolidated quarterly report (**Part B**);
3. the quarterly financial information of KGHM Polska Miedź S.A. for the period from 1 January to 31 March 2015 and the comparable period from 1 January to 31 March 2014 (**Part C**).

Neither the interim consolidated financial statements at 31 March 2015 nor the interim separate financial statements at 31 March 2015 were audited by a certified auditor.

3. Exchange rates applied

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

- for the conversion of turnover, profit or loss and cash flow for the current period, the rate of **4.1489 PLNEUR***;
- for the conversion of turnover, profit or loss and cash flow for the comparable period, the rate of **4.1894 PLNEUR***;
- for the conversion of assets, equity and liabilities at 31 March 2015, the rate of **4.0890 PLNEUR**;
- for the conversion of assets, equity and liabilities at 31 December 2014, the rate of **4.2623 PLNEUR**.

**the rates represent the arithmetic average of current average exchange rates announced by the NBP on the last day of each month during the period from January to March respectively of 2015 and 2014.*

4. Accounting policies

The condensed consolidated financial report for the period from 1 January 2015 to 31 March 2015 was prepared in accordance with IAS 34 Interim Financial Reporting and for a full understanding of the financial position and operating results of KGHM Polska Miedź S.A. and the KGHM Polska Miedź S.A. Group, should be read jointly with the consolidated financial statements for the year ended 31 December 2014 and with the separate financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2014.

These financial statements have been prepared using the same principles for the current and comparable periods, with adjustment of the comparable period to changes in the principles of presentation of items in the statement of profit or loss. To ensure the usefulness of items presented in the statement of profit or loss, a new item to facilitate their analysis was added: "Profit/(loss) on sales", which comprises gross profit/(loss) adjusted by selling costs and administrative expenses. This change did not impact the financial data presented for the current and comparable periods.

From 1 January 2015 the following standards and interpretations are binding for the Group:

- **Annual Improvements to IFRSs, 2011-2013 Cycle**, introducing minor amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 3 *Business Combinations*, IFRS 13 *Fair Value Measurement* and IAS 40 *Investment Property*.
- **IFRIC 21 Levies**.

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.

Application of the changes introduced in the Annual Improvements to IFRSs, 2011-2013 Cycle did not have an impact on the accounting policy of the Group or on these consolidated financial statements. However, IFRIC 21 *Levies* was applied by the Group prior to its effective date for the purposes of preparing the financial statements for the financial year ended 31 December 2014, in which the impact of applying the interpretation to the financial statements of the Group was shown.

A. Interim condensed consolidated financial statements (continued)

II. Information on significant changes in estimates

1. Provisions for future liabilities

The effects of revaluation or recognition of estimates of future liabilities (provisions) were settled in the financial result and other comprehensive income of the current quarter, and in particular due to:

- 1.1 provisions for future employee benefits due to one-off retirement or disability payments, jubilee awards, post-mortem benefits and the coal equivalent also paid after the period of employment. The result of this change in estimates, mainly as a result of changes in macroeconomic assumptions, is an increase in the provision of PLN 127 million which was settled as a decrease in other comprehensive income of PLN 118 million and a decrease in the financial result of PLN 9 million,
(after reflecting the deferred tax effects, a decrease in other comprehensive income of PLN 95 million, a decrease in the financial result of PLN 8 million),
- 1.2 provisions for future costs of decommissioning (restoration) of the Group's mines, comprising the estimated costs of dismantling and removing technological facilities (waste storage facilities, tailings storage facility), for which the obligation for restoration upon the conclusion of activities is a result of separate law or standard practice. The result of this change in estimates is an increase in the provision of PLN 178 million, which was settled as a decrease in the financial result of PLN 20 million, an increase in property, plant and equipment of PLN 111 million and as a decrease in other comprehensive income of PLN 47 million due to exchange differences from the translation of provisions recognised in subsidiaries with a functional currency other than PLN, applying the exchange rate at the end of the reporting period,
- 1.3 provisions for future employee remuneration expenses together with charges of PLN 205 million, paid (in accordance with the Collective Labour Agreement) on the occasion of mining or smelting holidays and after approval of the annual financial statements,
/Provision as at 31 March 2015 amounted to PLN 529 million/.

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

2. Deferred tax

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

Deferred tax assets increased in the current quarter by PLN 220 million. The increase in deferred tax assets was settled as:

- an increase in profit of PLN 149 million;
- an increase in other comprehensive income due to actuarial gains of PLN 22 million;
- an increase in other comprehensive income due to the measurement of hedging financial instruments of PLN 18 million;
- an increase in other comprehensive income due to exchange differences from the measurement of the deferred tax assets of subsidiaries with a functional currency other than PLN, of PLN 31 million;

The deferred tax liabilities increased in the current quarter by PLN 184 million. The increase in deferred tax liabilities was settled as:

- a decrease in profit of PLN 34 million;
- an increase in other comprehensive income due to the measurement of hedging financial instruments and available for sale financial assets of PLN 30 million;
- a decrease in other comprehensive income due to exchange differences from the measurement of the deferred tax liabilities of subsidiaries with a functional currency other than PLN, of PLN 180 million.

After offsetting the deferred tax assets and deferred tax liabilities, in the statements of financial position at the level of subsidiaries as at 31 March 2015, the deferred tax assets were set at PLN 760 million, and the deferred tax liabilities at PLN 1 865 million.

A. Interim condensed consolidated financial statements (continued)

III. Financial assets

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

a) In the investment in the Sierra Gorda S.C.M. joint venture accounted for using the equity method

- an increase in the value of the investment of PLN 610 million, of which USD 55 million (PLN 206 million based on the arithmetic average of current average exchange rates announced by the NBP at the end of each month in the first quarter of 2015) relates to the acquisition of newly issued shares in the increased share capital, and PLN 404 million is a result of translation of the investment's value from the functional currency of the subsidiary (USD) to the presentation currency of the Group (PLN) applying a USD/PLN exchange rate at 31 March 2015 which was higher than the exchange rate at 31 December 2014 (a change from 3.5072 USDPLN to 3.8125 USDPLN);
- a decrease in the value of the investment due to the elimination of unrealised gains, proportionally to the Group's share, due to transactions between Group entities and Sierra Gorda S.C.M. of PLN 59 million;

b) in available-for-sale financial assets – a decrease in the value of the assets due to loss on measurement of PLN 101 million, recognised in other comprehensive income;

c) in derivatives (assets and liabilities) – as a result of changes in macroeconomic factors, settlement of transactions and entering into new derivatives' transactions and due to passage of time to maturity of unsettled transactions, the fair value of open positions in derivatives has decreased. As a result of the measurement and settlement of derivatives, in the first quarter of 2015:

- sales revenues increased by PLN 118 million;
- result on other operating activities decreased by PLN 233 million; and
- other comprehensive income decreased by PLN 41 million.

Detailed information on derivatives of the Parent Entity may be found in part C.III.5 of this report.

d) in trade and other receivables – an increase in the balance of receivables due to a loan granted to the joint venture Sierra Gorda S.C.M. in the amount of PLN 677 million, of which USD 35 million (PLN 131 million based on the arithmetic average of current average exchange rates announced by the NBP at the end of each month in the first quarter of 2015) due to accrued interest and PLN 546 million as a result of translation of the loan from the functional currency of the subsidiary (USD) to the presentation currency of the Group (PLN) applying a USD/PLN exchange rate as at 31 March 2015 which was higher than the exchange rate as at 31 December 2014 (a change from 3.5072 USDPLN to 3.8125 USDPLN).

2. The fair value hierarchy of financial instruments

Investments in listed companies (classified as available-for-sale financial assets) are classified under level 1 of the fair value hierarchy. All remaining financial instruments are classified by the Group under level 2 of the fair value hierarchy. The manner and techniques for measuring financial instruments to fair value have not changed in comparison to the manner and techniques for measurement as at 31 December 2014.

There was no transfer by the Group of financial instruments between individual levels of the fair value hierarchy in either the reporting or the comparative periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

A. Interim condensed consolidated financial statements (continued)

IV. Selected additional explanatory notes

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

Purchase of property, plant and equipment and intangible assets

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Purchase of property, plant and equipment	586	468
Purchase of intangible assets	100	213

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

	At 31 March 2015	At 31 December 2014
Payables due to the purchase of property, plant and equipment and intangible assets	313	575

Capital commitments not recognised in the consolidated statement of financial position

	At 31 March 2015	At 31 December 2014
Purchase of property, plant and equipment	2 287	2 855
Purchase of intangible assets	54	34
Total capital commitments:	2 341	2 889

2. Sales revenue

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Copper, nickel, precious metals, smelter by-products	4 193	4 076
Services	198	207
Energy	33	54
Merchandise – smelter products	76	62
Other merchandise	37	13
Scrap and materials	51	62
Other finished goods	143	176
Total sales revenue	4 731	4 650

A. Interim condensed consolidated financial statements (continued)

3. Expenses by nature

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Depreciation of property, plant and equipment and amortisation of intangible assets	564	401
Employee benefit expenses	1 179	1 160
Materials and energy	1 755	1 950
External services	418	451
Taxes and charges	533	529
including the minerals extraction tax*	393	395
Other costs	50	35
Total expenses by nature	4 499	4 526
Cost of merchandise and materials sold (+)	117	111
Change in inventories of finished goods and work in progress (+/-)	(253)	(315)
Cost of manufacturing products for internal use (-)	(355)	(333)
Total cost of sales, selling costs and administrative expenses	4 008	3 989

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

4. Other operating income

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Income and gains on financial instruments	281	111
- measurement and realisation of derivatives	61	48
- interest	86	63
- foreign exchange gains	134	-
Management fee for Sierra Gorda S.C.M.	15	12
Release of unused provisions	4	2
Penalties and compensation	2	2
Government grants and other donations received	3	1
Other operating income/gains	25	35
Total other operating income	330	163

A. Interim condensed consolidated financial statements (continued)

5. Other operating costs

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Costs and losses on financial instruments	295	125
- including due to the measurement and realisation of derivatives	294	115
Losses on the sale of property, plant and equipment	2	7
Donations granted	18	-
Provisions for liabilities	12	3
Other operating costs/losses	13	15
Total other operating costs	340	150

6. Finance costs

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Interest expense	49	37
Foreign exchange losses/(gains) on borrowings	59	(5)
Changes in provisions and liabilities arising from the approach of the maturity date of liabilities (unwinding of discount)	13	12
Other finance costs	15	5
Total finance costs	136	49

7. Borrowings, debt securities and finance lease liabilities

	At 31 March 2015	At 31 December 2014
Non-current	3 976	2 997
Bank loans*	873	143
Loans	1 148	1 057
Debt securities**	1 927	1 769
Finance lease liabilities	28	28
Current	1 580	1 813
Bank loans	1 516	1 782
Loans	6	10
Debt securities - interest	43	6
Finance lease liabilities	15	15
Total	5 556	4 810

* The increase in the carrying amount of non-current bank loans is in particular due to bank loans drawn by KGHM Polska Miedź S.A. as described in part C.III.6.

** The change in the carrying amount of the senior notes issued by KGHM INTERNATIONAL LTD. is a result of translation of the balance of liabilities due to issued senior notes from the functional currency of KGHM INTERNATIONAL LTD. (USD) into the presentation currency of the Group (PLN), applying a USD/PLN exchange rate at 31 March 2015 which was higher than the exchange rate at 31 December 2014 (a change from 3.5072 USD/PLN to 3.8125 USD/PLN).

A. Interim condensed consolidated financial statements (continued)

8. Related party transactions

Operating income

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
From jointly controlled entities, including due to:	101	72
- interest on a loan granted to Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD.	82	60
- agreement to render services to support the management process in Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD.	15	12
From other related parties	10	9
Total operating income	111	81

Purchases

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Purchases from other related parties	12	11

Trade and other receivables

	At 31 March 2015	At 31 December 2014
From jointly-controlled entity Sierra Gorda S.C.M.	7 109	6 238
- including due to a loan granted	6 908	6 231
From other related parties	17	2
Total receivables	7 126	6 240

Trade and other payables

	At 31 March 2015	At 31 December 2014
Towards the jointly-controlled entity Sierra Gorda S.C.M.	6	-
Towards other related parties	8	2
Total payables	14	2

Contingent liabilities

	At 31 March 2015	At 31 December 2014
A letter of credit and guarantees granted to secure a contract for the supply of electricity, and to secure lease liabilities of the Sierra Gorda S.C.M. project	890	823
A letter of credit granted to secure the proper performance of future environmental obligations to restore the area following the closure of the Robinson mine, Podolsky mine and the Victoria project	319	272
Total contingent liabilities	1 209	1 095

A. Interim condensed consolidated financial statements (continued)

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

The remaining transactions, which were collectively significant, between the Group and the 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, and were carried out at arm's length. The result of these transactions was:

- the purchase by companies of the Group of materials and services to meet the needs of their current operating activities (fuel, energy, transport services). Turnover from these transactions for the period from 1 January 2015 to 31 March 2015 amounted to PLN 172 million (for the period from 1 January 2014 to 31 March 2014 – PLN 289 million), while the unsettled balance of liabilities from these transactions as at 31 March 2015 amounted to PLN 210 million (as at 31 December 2014 - PLN 241 million);
- sales to State Treasury companies during the period from 1 January 2015 to 31 March 2015 amounted to PLN 27 million (for the period from 1 January 2014 to 31 March 2014: PLN 19 million), while the unsettled balance of receivables from these transactions as at 31 March 2015 amounted to PLN 7 million (as at 31 December 2014: PLN 7 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN thousands)	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Remuneration due to service in the Supervisory Board, salaries and other short-term employee benefits	471	329

Remuneration of the Management Board of the Parent Entity (in PLN thousands)	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Salaries and other short-term employee benefits	1 826	2 205
Benefits due to termination of employment	248	1 216
Total	2 074	3 421

Remuneration of other key managers (in PLN thousands)	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Salaries and other short-term employee benefits	1 716	1 040

A. Interim condensed consolidated financial statements (continued)

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

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

	At 31 March 2015	Increase/(decrease) since the end of the last financial year
Contingent assets	486	12
Guarantees received	221	(2)
Disputed State Budget issues	21	19
Promissory notes receivables	103	(6)
Inventions, implementation of projects	48	1
Real estate tax on mining facilities	87	-
Other	6	-
Contingent liabilities	1 834	114
Guarantees and collateral, including:	1 548	119
A letter of credit granted to secure the proper performance of a long-term contract for the supply of electricity for Sierra Gorda S.C.M	524	42
Guarantees granted to additionally secure the proper performance of leasing agreements entered into by Sierra Gorda S.C.M.	366	25
A guarantee granted to secure the proper performance of future environmental obligations of the Parent Entity to restore the area, following the decommissioning of the Żelazny Most facility	320	-
A letter of credit granted to secure the proper performance by KGHM INTERNATIONAL LTD. of the future environmental obligations to restore the area following the closure of the Robinson mine, Podolsky mine and the Victoria project	319	47
Promissory note liabilities	11	9
Disputed issues, pending court proceedings	35	(8)
Liabilities due to implementation of projects and inventions	139	(15)
Real estate tax on mining facilities	78	8
Other	23	1
Other liabilities not recognised in the statement of financial position	261	17
Liabilities towards local government entities due to expansion of the tailings pond	121	1
Liabilities due to operating leases	140	16

A. Interim condensed consolidated financial statements (continued)

V. Implementation of Strategy

In the first quarter of 2015 work commenced on preparing the implementation process of the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040, as adopted by the Supervisory Board of the Parent Entity on 26 January 2015. The actions taken involved subdividing the strategic goals of the Main Strategy into operating goals as well as initiatives and strategic projects in individual areas, along with schedules of execution and the allocation of required resources. In 2015 we plan to develop a comprehensive Strategy Implementation Plan for KGHM Polska Miedź SA for the years 2015-2020 along with a system to monitor and measure progress on implementation of the strategy.

Following are key achievements with respect to progress on strategic projects in individual areas of the Strategy in the first quarter of 2015:

Pillar I. Resource Base Development

Regional exploration program of KGHM Polska Miedź S.A. regarding the exploration and documentation of copper deposits in the Lower Zechstein formation located in south-western Poland and Lusatia (Saxony in Germany)

Advanced exploration projects, with defined copper mineralisation, for which geological exploration is underway throughout or in part of the given concession area

Gaworzyce – Radwanice	-	In December 2014, the Ministry of the Environment received geological documentation on exploratory work carried out in the Radwanice-Gaworzyce deposit. The approval of the geological documentation by the concession body is in progress.
Synklina Grodziecka	-	Analysis continued of the laboratory results obtained from the exploration and assessment drilling program completed in 2014 in the area of Synklina Grodziecka, located in the so-called Old Copper Belt near Bolesławiec.
	-	In February 2015 the Company submitted an application to the Ministry of the Environment requesting a change in the concession, among others with respect to extending its validity to July 2017, i.e. to match the period of validity of the concession for the Konrad deposit. This action will enable the development of joint geological documentation for both the Synklina Grodziecka and Konrad deposits.
Konrad	-	Selection began of a contractor to carry out surface-based geophysical surveys, which are planned for 2015.
Retków - Ścinawa and Głogów	-	Work continued on sinking drillholes. Drilling for these projects is currently underway in six locations. The initial stages of work in these areas involves the sinking of 15 drillholes.

Projects at the early exploration stage, without defined copper mineralisation

Stojanów	-	Work performed involved the reinterpretation of archival geological and geophysical data for the currently explored part of the deposit. On 1 April 2015, an agreement was signed with the State Treasury – with the Minister of the Environment acting on its behalf – for the paid use of geological information in the form of geological data.
Weisswasser (Saxony in Germany)	-	Work continued on the second phase of the second stage of the project. In February 2015, a drilling company was selected which will perform exploratory drilling along with geophysical measurements in the area of the Weisswasser II concession.

Exploration projects in the preparatory phase

Bytom Odrzański Kulów-Luboszyce	-	Judicial administrative proceedings are underway with regard to the claims filed by the competing company Leszno Copper sp. z o.o. with the Regional Administrative Court against the decision of the Minister of the Environment to reverse in their entirety the decisions issued on 28 January 2014 regarding the refusal to grant KGHM Polska Miedź S.A. a concession for the exploration and assessment of the Bytom Odrzański copper ore deposit and for part of the Kulów-Luboszyce area applied for.
	-	The Regional Administrative Court in Warsaw announced the selection of 10 April 2015 as the date for the hearing on the case initiated by Leszno Copper sp. z o.o., which, for reasons beyond the control of KGHM Polska Miedź SA, was not held. The parties are currently awaiting another date to be set for the hearing.

Other concessions

Zatoka Pucka	-	At the end of the first quarter of 2015 work began on the reinterpretation of archival geological data, which will form the basis for performing work related to surface-based geophysical surveys.
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A. Interim condensed consolidated financial statements (continued)

Pillar II. Production Assets Development

Key development projects in terms of the Core Business Production Line in Poland

Deep Głogów Program	<ul style="list-style-type: none"> - Work continued on the sinking of the GG-1 ventilation (input) shaft using tubing construction. At the end of the first quarter of 2015, the shaft had reached a depth of 489.3 meters using tubing construction (target depth is 1 340 meters with a diameter of 7.5 meters). - In the first quarter of 2015, 5 331.4 meters of primary and development tunneling were excavated in the Rudna and Polkowice-Sierszowice mines together with necessary technical infrastructure (water pipes, power cables, electrical switching stations, conveyor belts, retention reservoirs, climate control piping and equipment and communications equipment). - In the case of the Surface-based Cooling Station at the R-XI shaft, final work is underway along with testing of working installations. Completion of construction is planned for the third quarter of 2015.
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Mechanical mining program

Drilling of drifts using combines	<ul style="list-style-type: none"> - The hub of drift tunnels currently being built in the Polkowice Sierszowice mine is in one of the most challenging sections in terms of geological and mining conditions, associated with faults (flexures) in the orebody of a significant inclination, affecting the efficiency and costs of wheeled vehicle haulage, as well as a slowdown in the process of mining and developing drift hubs. The above should be treated as a means of gathering experience to be used, for example, in determining the limits of the possibilities of applying combine technology. - Comparison of the results obtained when applying explosives with the production parameters from the use of combine technology, with similar conditions of work in flexures, shows that a much higher rate of drilling progress can be maintained at a comparable unit mining cost.
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Development of mechanised mining technology	<ul style="list-style-type: none"> - As part of the working trials of the ACT mining complex in a pilot section of the Polkowice-Sierszowice mine, work commenced on the implementation of required modifications, both in the body of the prototype machine as well as in its housing (in cooperation with the company Caterpillar Global Mining Europe GmbH). Once these changes are made further working trials will be performed. - Work began on the first stage of a project comprised of design and research work on the possibilities of developing a mechanised longwall complex for mining copper ore (in cooperation with the company KOPEX Machinery SA), as an alternative technology to ACT mining complex which is currently undergoing trials.
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Pyrometallurgy Modernisation Program at the Głogów smelter and refinery	<ul style="list-style-type: none"> - Work continued on the main technological elements of the flash furnace line at Głogów I smelter/refinery, i.e. the Electrical and Flash Furnaces: <ul style="list-style-type: none"> - Assembly work continued on the Electrical Furnace, Flash Furnace and Recovery Boilers halls. - Work continued on elements of the Charge Preparation Section (conveyor galleries). - Further design work was performed for the modernised flash furnace line. - With respect to progress under the Program to intensify smelting at the Głogów II smelter/refinery: <ul style="list-style-type: none"> - Additional work was performed which included a fire prevention system in the metallurgical hall, - A compressor power hub was brought online in the oxygen generating plant of the Głogów II smelter/refinery's Main Transformer Station, - The Program is planned to be completed by the end of the first half of 2015.
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Development projects abroad

Victoria project (Sudbury basin, Canada) KGHM INTERNATIONAL LTD.100%	<ul style="list-style-type: none"> - Preliminary work began on gaining access to the deposit, as well as work involving the preparation of shaft infrastructure, including the preparation of foundations for the lift machinery and preparations for work directly related to sinking the shaft. - Advanced work continues on developing technical documentation, i.e. the Integrated Development Study, which will provide a detailed project schedule and operational plan, including an orebody access and excavation model.
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A. Interim condensed consolidated financial statements (continued)

Development of the Sierra Gorda project (Chile)

Phase 2 - Work began aimed at optimising the adopted assumptions and developing basic engineering work for phase two of the project, which foresees an increase in processing capacity of the processing plant from 110 thousand tonnes to at least 190 thousand tonnes of ore per day.

KGHM INTERNATIONAL LTD. 55%,
Sumitomo Metal Mining and Sumitomo Corporation 45%

Sierra Gorda Oxides - Final work is underway to develop a feasibility study for the oxide ore processing project. In 2015 we expect to carry out detailed engineering studies for the project.

Ajax project (British Columbia, Canada) - A new campaign of drilling was commenced, comprising among others the conclusion in March 2015 of drilling within the planned open pit. The drill cores obtained will be used in further metallurgical research.

- Actions were carried out aimed at submitting an application for environmental permits. Due to the need to conduct additional analyses related to waste storage technology, dictated by the results of the work of the commission set up to examine the causes of the accident at the Mt. Polley mine in British Columbia and to stricter criteria applied in reviewing applications by the decision-making authorities in Canada, submission of the application is planned to occur in the second half of 2015.

KGHM Polska Miedź S.A. Group 80%,
Abacus Mining and Exploration Corp. 20%

Initiatives aimed at enhancing knowledge and innovation in KGHM Polska Miedź S.A.

CuBR Sector Program - In January 2015 the implementation began of projects selected during the first edition of the CuBR Program competition, for which PLN 40 million was allocated. These projects will be carried out in terms of R&D involving the development of new mining technology and metallurgical and processing processes, as well as of new products and their recycling, while at the same time reducing environmental costs.

- Preparatory work is underway to sign agreements with consortiums selected to advance projects under the second edition of the competition as well as preparations to commence the third edition of the competition.

Pillar III. Production

Sierra Gorda mine in Chile -

Phase 1 - Work continued to increase processing capacity under phase 1 of the Sierra Gorda project. The achievement of target phase 1 processing capacity, enabling the production of 120 thousand tonnes of copper annually (the processing of 110 thousand tonnes of ore per day), is planned in the second half of 2015.

KGHM INTERNATIONAL LTD. 55%
Sumitomo Metal Mining and Sumitomo Corporation 45%

- During the work to increase processing capacity, in the course of one day over 117 thousand tonnes of ore were processed.

- The production of copper concentrate from the Sierra Gorda mine in the first quarter of 2015 amounted to around 65 thousand tonnes, or around 17 thousand tonnes of copper.

- Work was performed involving the start-up and technical hand-over of the molybdenum production installation.

A. Interim condensed consolidated financial statements (continued)

Other significant initiatives with respect to actions to support the core business

Ensuring energy security for the KGHM Group

- Preparations to build and operate the first Polish nuclear power plant**
- KGHM Polska Miedź S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and ENEA S.A. continued work on the project to prepare for the construction of a nuclear power plant in Poland.
 - On 15 April 2015, these companies signed an agreement for the acquisition of shares in PGE EJ 1 sp. z o.o., the special purpose company which is responsible for the preparation and execution of the investment to build and operate the first Polish nuclear power plant with a capacity of approx. 3.000 MWe (the Project). KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A. each acquired from PGE 10% of the shares in PGE EJ 1 sp. z o.o. (a total of 30% of the shares). KGHM Polska Miedź S.A. paid the amount of PLN 16 million for the acquired shares. According to the Shareholders Agreement dated 3 September 2014, the parties will jointly, proportionally to their interest, fund activities of the initial phase of the Project. The objective of the initial phase of the Project is to determine such elements as potential partners, including the strategic partner, technology suppliers, EPC (*Engineering, Procurement, Construction*) contractors, nuclear fuel suppliers and acquiring funds for the Project, as well as preparing PGE EJ 1 sp. z o.o. organisationally and in terms of the skills required for its role as the nuclear power plant's future operator, responsible for its safe and efficient operation.
 - The Parties to the Shareholders Agreement expect that subsequent decisions concerning the Project, including a decision on the further participation of each Party in the next stage of the Project, will be made after the end of the initial phase and directly before the conclusion of the Integrated Proceedings.

A. Interim condensed consolidated financial statements (continued)

VI. KGHM INTERNATIONAL LTD. – results

Production results by individual mines of the KGHM INTERNATIONAL LTD. Group (KGHM INTERNATIONAL LTD. in the first quarter of 2015 and the first quarter of 2014.

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Copper production [kt], of which:	21.6	19.1
Robinson ⁽¹⁾	12.2	7.8
Morrison ⁽³⁾	2.7	3.5
Franke ⁽²⁾	4.2	4.9
Carlota ⁽²⁾	2.2	2.6
McCreedy West ⁽³⁾	0.3	0.3
Nickel production [kt], of which:	0.5	1.0
Morrison ⁽³⁾	0.5	0.7
McCreedy West ⁽³⁾	-	0.3
Precious metals production (gold, platinum, palladium) [koz], of which:	20.2	15.9
Robinson ⁽¹⁾	10.2	5.9
Morrison ⁽³⁾	8.9	9.3
McCreedy West ⁽³⁾	1.1	0.7
C1 [USD/lb]*	2.21	2.74

(1) payable metal produced in concentrate

(2) cathode

(3) shipped payable metal produced in ore

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

In the first quarter of 2015, copper production in KGHM INTERNATIONAL LTD. amounted to 21.6 thousand tonnes, meaning a 13% increase as compared to the corresponding period of 2014. An increase was recorded in the Robinson mine, which is responsible for over 50% of the production of KGHM INTERNATIONAL LTD. In the first quarter of 2015, the Robinson mine extracted ore from the Ruth pit, which is of higher quality than ore from the Kimbley pit which was processed in the comparable period of 2014. In February 2015, the mine achieved the highest level of ore processing in its history, an average of 49 thousand tonnes of ore per day. An increase in production enabled the accumulation of high-quality ore, ensuring production flexibility by the mine in subsequent months.

An improvement in production parameters in the Robinson mine contributed to an increase in gold production, and therefore to an increase in total production of precious metals by 27%.

The decrease in production of metals in the Morrison mine is mainly due to the limitations of the applied mining technology, geotechnical hazards and the planned mining of narrower-veined deposits than those mined at the beginning of 2014.

In the first quarter of 2015, the C1 unit cash cost of copper production calculated for all of KGHM INTERNATIONAL LTD.'s operations amounted to 2.21 USD/lb. This means a 19% lower cost as compared to the amount recorded in the previous year, as a result of implementation of cost reduction initiatives and an improvement in the Robinson mine's production parameters. It should be stressed that the increase in cost efficiency was achieved despite the decrease in precious metals prices, which decreased the C1 unit cash cost (a decrease in revenue from the sale of by-products by 13% as compared to the corresponding period in 2014).

A. Interim condensed consolidated financial statements (continued)

Financial results of KGHM INTERNATIONAL LTD. in the first quarter of 2015 and the first quarter of 2014 (excluding the adjustment due to purchase price allocation).

	Reporting period			
	for the 3 months ended 31 March 2015		for the 3 months ended 31 March 2014	
	PLN millions	USD millions	PLN millions	USD millions
Net sales revenue*	605	162	452	148
Total costs of products, merchandise and materials sold	780	208	558	182
Profit/(Loss) on sales	(175)	(47)	(106)	(34)
Operating profit/(loss)	(78)	(21)	(32)	(10)
Profit/(loss) for the period	(92)	(25)	(63)	(21)
Depreciation/Amortisation (units of production method)	276	74	110	36
Expenditures on property, plant and equipment and intangible assets	198	53	141	46
EBITDA**	101	27	4	2

* Revenues from sales less TC/RC charges

** Starting from the report for the first quarter of 2015, the Parent Entity presents EBITDA as profit/(loss) on sales plus depreciation/amortisation. In previous reports, EBITDA was calculated as operating result plus depreciation/amortisation.

In the first quarter of 2015, KGHM INTERNATIONAL LTD. recorded an increase in sales revenue of USD 14 million, or by 9% versus the comparable period of 2014. The increase in sales revenue was mainly due to an increase in the amount of copper sold by 44% and of precious metals by nearly 50% (an improvement in production parameters in the Robinson mine, which was described above).

The negative impact on revenues was mainly due to a decline in copper prices – the average realised copper price in the first quarter of 2015 amounted to 5 556 USD/t as compared to 6 349 USD/t in the first quarter of 2014.

Total costs of products, merchandise and materials sold increased by USD 26 million, mainly as a result of a much higher level of copper production. These costs were also significantly impacted by an increase in depreciation/amortisation of USD 38 million, mainly due to an increase in the Robinson mine's production and the expenses incurred to gain access to mining areas. At the same time there was a decrease in administrative expenses in the amount of USD 3 million as a result of implemented saving initiatives and weakening of the Canadian currency.

KGHM INTERNATIONAL LTD.'s profit from other operating activities amounted to USD 26 million, or at a level similar to that achieved in the first quarter of 2014 (USD 24 million). The above amount is mainly comprised of interest on loans granted to finance the Sierra Gorda project in Chile in the amount of USD 22 million (USD 20 million in the first quarter of 2014).

The aforementioned factors were the main cause of the increase in EBITDA from USD 2 million to USD 27 million. Moreover, the increase in EBITDA, following the translation to PLN, was caused by the exchange rate, which changed from 3.0629 USDPLN in the first quarter of 2014 to 3.7436 USDPLN in the first three months of 2015.

In the first quarter of 2015, KGHM INTERNATIONAL LTD. continued to advance its mining projects, including:

- Sierra Gorda in Chile – in the first quarter of 2015, work continued on increasing production capacity with respect to the first phase of the project. As at 31 March 2015, Sierra Gorda S.C.M. had not achieved commercial production, defined as bringing the project's assets to an operational stage, measured as the achievement of 65% of copper ore processing capacity for at least 60 consecutive days and at least 40% molybdenum content in concentrate;
- Victoria in the Sudbury Basin in Canada – work is underway with respect to the preparation of project documentation (Basic Engineering).

Information regarding the projects being advanced by KGHM INTERNATIONAL LTD. may be found in part A.V of this report.

A. Interim condensed consolidated financial statements (continued)

VII. Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

VIII. Information on the issuance, redemption and repayment of debt and equity securities

There was no issuance, redemption or repayment of debt and equity securities in the Group during the reporting period.

IX. Information related to paid (declared) dividend, total and per share

In accordance with Resolution No. 5/2015 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 29 April 2015 regarding the appropriation of the Parent Entity profit for financial year 2014, the amount of PLN 800 million, representing PLN 4.00 per share, was allocated from 2014 profit as a dividend.

The Ordinary General meeting set the following dates:

- a dividend date (the day on which the right to dividend is set) - 27 May 2015;
- dividend payment dates:
 - 1st instalment of 2.00 PLN/share: 18 June 2015;
 - 2nd instalment of 2.00 PLN/share: 19 October 2015.

All shares of the Parent Entity are ordinary shares.

X. Operating segments

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

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

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

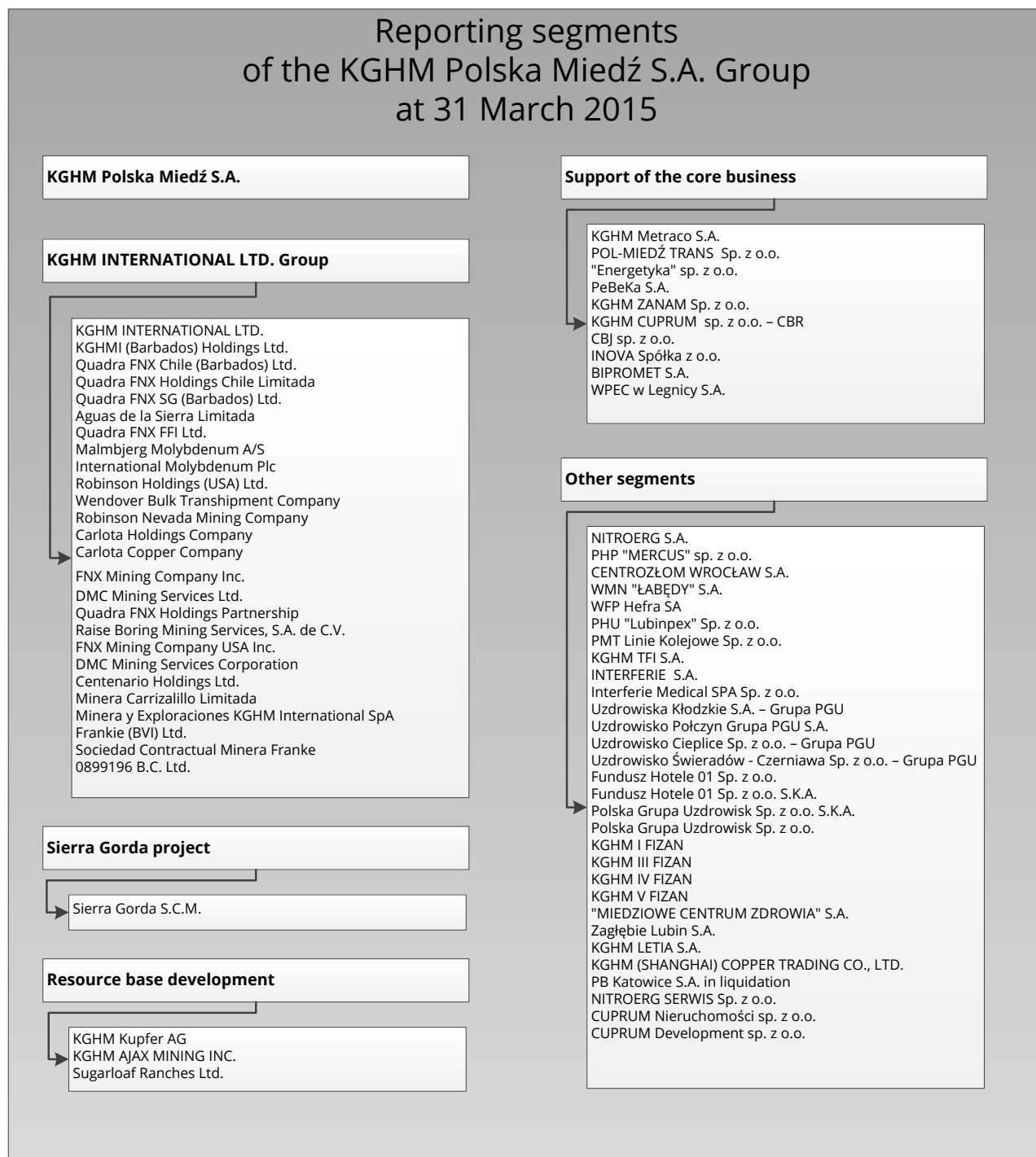
Fermat 1 S. á r. l., Fermat 2 S. á r. l., Fermat 3 S. á r. l. and 0929260 B.C.U.L.C were founded within the holding structure created to acquire KGHM INTERNATIONAL LTD. These companies' scope of activities include: foundation, development, management and exercise of control over other companies within this structure. These companies do not conduct operating activities which could impact the results achieved by individual segments. Because of this they were not classified to any of the aforementioned segments and their financial data was included in the column "Consolidation adjustments".

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

Segment results are measured by: Profit/(loss) for the period and profit/(loss) on sales plus depreciation/amortisation (EBITDA).

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

A. Interim condensed consolidated financial statements (continued)



Internal reports on the results of Group are prepared monthly in a condensed form, and quarterly in an expanded scope. The Management Board of the Parent Entity is the body which performs regular reviews of the internal financial reports of the whole Group for purposes of making major investment decisions, as it is the body which is responsible for allocating Group resources.

Inter-segment transaction prices are set under arm's length conditions, similarly as in relations with parties external to the Group.

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A. Interim condensed consolidated financial statements (continued)

Reporting period for the 3 months ended 31 March 2015

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD. Group	Sierra Gorda Project***	Resource base development	Support of the core business	Other segments	Adjustment due to measurement in accordance with IFRS 3	Consolidation adjustments	Total
Sales revenue	3 767	605	-	-	1 103	556	-	(1 300)	4 731
Inter-segment sales revenue	79	-	-	-	990	238	-	(1 307)	-
External sales revenue	3 688	605	-	-	113	318	-	7	4 731
Total costs of products, merchandise and materials sold	(2 898)	(780)	-	(1)	(1 084)	(554)	(2)	1 311	(4 008)
- including depreciation/amortisation	(226)	(276)	-	-	(42)	(16)	(2)	(2)	(564)
Profit/(loss) on sales ****	869	(175)	-	(1)	19	2	(2)	11	723
Profit/(loss) on other operating activities	(79)	97	-	-	5	50	-	(83)	(10)
- including interest	36	83	-	-	1	-	-	(34)	86
Profit/(loss) on financing activities	(85)	(65)	-	-	(2)	1	2	13	(136)
- including interest	(3)	(54)	-	-	(1)	(1)	2	8	(49)
Profit/(loss) before income tax	705	(144)	-	(1)	33	54	-	(70)	577
Income tax expense	(208)	52	-	-	(9)	(3)	(3)	(8)	(179)
Profit/(loss) for the period	497*	(92)*	-	(1)	24	51*	(3)	(78)	398

At 31 March 2015

Segment assets, including:	34 195	16 921	13 330	679	2 872	2 297	2 912	(30 425)	42 781
Investments accounted for using the equity method	-	2 380**	-	-	-	-	2 505	29	4 914
Property, plant and equipment + Inventories	14 462	4 198	12 682	68	1 580	1 054	349	(12 624)	21 769
Liabilities	9 715	5 622	10 568	52	1 059	598	956	(12 191)	16 379

Other information

Reporting period for the 3 months ended 31 March 2015

Expenditures on property, plant and equipment and intangible assets	419	198	796	28	30	16	-	(801)	686
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EBITDA
(profit/(loss) on sales plus depreciation/amortisation)

1 095 **101** **61**

% of sales to KGHM Polska Miedź S.A.

84%

„Adjustment due to measurement in accordance with IFRS 3” – respecting adjustment to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidated level, including accumulated adjustments from the acquisition date to 31 March 2015 for an item in the consolidated statement of financial position and from 1 January to 31 March 2015 for an item of the consolidated statement of profit or loss.

* result analysed in a given segment

** Sierra Gorda S.C.M. investment

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

**** Profit/(loss) on sales = Sales revenue less Total costs of products, merchandise and materials sold

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A. Interim condensed consolidated financial statements (continued)

Information on segments for the comparable period

Reporting period for the 3 months ended 31 March 2014

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD. Group	Sierra Gorda Project***	Resource base development	Support of the core business	Other segments	Adjustment due to measurement in accordance with IFRS 3	Consolidation adjustments	Total
Sales revenue	3 800	452	-	-	1 271	569	-	(1 442)	4 650
Inter-segment sales revenue	80	-	-	-	1 138	225	-	(1 443)	-
External sales revenue	3 720	452	-	-	133	344	-	1	4 650
Total costs of products, merchandise and materials sold	(3 024)	(558)	-	(1)	(1 240)	(574)	(26)	1 434	(3 989)
- including depreciation/amortisation	(206)	(110)	-	-	(40)	(18)	(29)	2	(401)
Profit/(loss) on sales ****	776	(106)	-	(1)	31	(5)	(26)	(8)	661
Profit/(loss) on other operating activities	(58)	73	-	1	(1)	37	-	(39)	13
- including interest	6	63	-	-	1	1	-	(8)	63
Profit/(loss) on financing activities	(6)	(43)	-	-	(3)	(2)	1	4	(49)
- including interest	(1)	(35)	-	-	(2)	(2)	1	2	(37)
Profit/(loss) before income tax	712	(75)	-	-	31	32	(25)	(50)	625
Income tax expense	(205)	12	-	-	(9)	(2)	2	(6)	(208)
Profit/(loss) for the period	507*	(63)*	-	-	22*	30*	(23)	(56)	417

At 31 December 2014

Segment assets, including:	32 312	15 376	12 003	631	2 901	2 201	2 720	(27 770)	40 374
Investments accounted for using the equity method	-	2 051**	-	-	-	-	2 282	30	4 363
Property, plant and equipment + Inventories	13 939	3 996	11 228	70	1 586	1 049	285	(11 170)	20 983
Liabilities	8 035	5 193	9 655	56	1 116	584	865	(10 660)	14 844

Other information

Reporting period for the 3 months ended 31 March 2014

Expenditures on property, plant and equipment and intangible assets	569	141	923	32	28	11	-	(931)	773
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EBITDA

(profit/(loss) on sales plus depreciation/amortisation)

982	4	71
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% of sales to KGHM Polska Miedź S.A.

85%

„Adjustment due to measurement in accordance with IFRS 3” – respecting adjustment to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidated level, including accumulated adjustments from the acquisition date to 31 December 2014 for an item in the consolidated statement of financial position and from 1 January to 31 March 2014 for an item of the consolidated statement of profit or loss.

* result analysed in a given segment

** Sierra Gorda S.C.M. investment

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

**** Profit/(loss) on sales = Sales revenue less Total costs of products, merchandise and materials sold

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A. Interim condensed consolidated financial statements (continued)

	Reporting period			
	for the 3 months ended 31 March 2015		for the 3 months ended 31 March 2014	
	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD. Group	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD. Group
Production and cost data				
Payable copper (kt)	142.4	21.6	143.2	19.1
- including from purchased copper-bearing materials (kt)	36.9	-	29.6	-
Nickel (kt)	-	0.5	-	1
Molybdenum (kt)	-	0.1	-	0.1
Silver (t)	298	0.4	277.5	0.3
TPM (koz t)	18	20.2	7.9	15.9
C1 cash cost of copper in concentrate production (USD/lb)*	1.46	2.21	1.77	2.74

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

A. Interim condensed consolidated financial statements (continued)

Sales revenue of the Group - external clients with geographical breakdown

The geographical breakdown reflects the location of end clients.

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Poland	1 159	1 165
Germany	726	866
China	571	481
The USA	379	86
The Czech Republic	376	387
The United Kingdom	333	348
Italy	204	200
Hungary	177	148
Canada	154	178
France	144	263
Switzerland	127	75
Austria	71	62
Belgium	59	40
Turkey	50	111
Japan	49	(1)
Romania	38	32
Sweden	38	5
Slovakia	24	42
Bosnia and Herzegovina	11	5
Slovenia	9	7
Finland	7	10
Bulgaria	4	21
Ukraine	4	5
Australia	-	41
Other countries (dispersed sale)	17	73
Total	4 731	4 650

Main customers

During the period from 1 January 2015 to 31 March 2015, and in the comparable period, the revenues from no single customer exceeded 10% of the sales revenue of the Group.

69.96% of the Group's non-current assets (property, plant and equipment and intangible assets) are located in Poland. The remaining 30.04% of the non-current assets are located in the following countries: Canada – 17.09%; the USA – 6.39%; Chile – 2.80%; other countries – 3.76%.

A. Interim condensed consolidated financial statements (continued)

XI. Effects of changes in the economic structure, including due to the combination of economic entities, to the takeover or sale of entities of the KGHM Polska Miedź S.A. Group, to long-term investments, or to the separation, restructurisation or to discontinuation of operation.

Acquisition of shares of BIPROMET S.A.

On 29 January 2015, KGHM Polska Miedź S.A. announced a tender offer to purchase all shares of BIPROMET S.A. which were not already owned by the Company, i.e. an amount of shares representing 34% of the share capital, and granting the right to 34% of the total number of votes at the General Meeting of BIPROMET S.A.

On 27 March 2015 the share purchase transactions were settled, and as a result KGHM Polska Miedź S.A. acquired shares of BIPROMET S.A. representing 25.23% of the share capital. As a result of this acquisition, KGHM Polska Miedź S.A.'s ownership in BIPROMET S.A. increased to 91.23%. The transaction took place on the Warsaw Stock Exchange on 25 March 2015. The purchase price for the shares was PLN 6.29 per share, PLN 10 million in total. The cost of acquisition of these shares was settled with equity attributable to non-controlling interest in the consolidated financial statements.

On 24 April 2015, as a result of the compulsory acquisition of shares announced by KGHM Polska Miedź S.A., the Group acquired 8.77% of BIPROMET S.A.'s shares. Following this transaction, the Group owns 100% of the share capital of BIPROMET S.A.

Change in legal form of a subsidiary

On 17 April 2015, the conversion of the subsidiary KGHM ZANAM Sp. z o.o. (a limited liability company) into a joint-stock company was registered in the National Court Register at the Wrocław Fabryczna Regional Court, Section IX (Economic). After the change in legal form, the company's name is KGHM ZANAM S.A.

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

XII. Subsequent events

Acquisition of shares in PGE EJ 1 sp. z o.o.

On 15 April 2015, KGHM Polska Miedź S.A., in accordance with the signed Shareholders Agreement concerning the project to prepare and build a nuclear power plant, acquired 10% of the shares in PGE EJ 1 sp. z o.o. Detailed information on this transaction may be found in part A.V. of this report.

Dividend received from TAURON Polska Energia S.A.

On 23 April 2015, the Ordinary General Meeting of TAURON Polska Energia S.A. adopted a resolution on the appropriation of profit for financial year 2014.

In accordance with the resolution, the amount of PLN 263 million, representing PLN 0.15 per share, was appropriated from profit for financial year 2014 as a dividend. The amount of PLN 27 million is attributable to the Parent Entity.

The Ordinary General Meeting set the date on which the right to dividend is set at 22 July 2015 (dividend date) with the dividend payment date at 12 August 2015.

Ordinary General Meeting

On 29 April 2015, the Ordinary General Meeting of KGHM Polska Miedź S.A. adopted the following resolutions:

- on the approval of the separate and consolidated financial statements for 2014;
- on the approval of the reports on the activities of KGHM Polska Miedź S.A. and the Group in 2014;
- on the appropriation of KGHM Polska Miedź S.A.'s profit for 2014;
- on the approval of the performance of duties of members of the bodies of KGHM Polska Miedź S.A.

Significant commercial contract with Tele-Fonika Kable S.A.

On 8 May 2015 a contract was signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable S.A. for the sale of copper wire rod in the years 2016 – 2018 with the option to extend it for a subsequent two years ("the Contract").

The estimated value of the Contract during the first three years ranges from PLN 3 913 million to PLN 4 246 million, depending on the volume of options used and the relocation of material between plants belonging to Tele-Fonika Kable S.A. The value of the Contract was calculated based on the forward copper price curve as at 7 May 2015 and the average USD/PLN and EUR/PLN exchange rates announced by the National Bank of Poland as at 7 May 2015.

The Contract's coming into force is contingent on Tele-Fonika Kable S.A. receiving necessary financing for the repayment of financial liabilities as specified in the Contract, but no sooner than on 1 January 2016 (condition precedent). If the condition precedent is not met by 30 June 2016 the Contract will expire.

If the condition precedent is not met by 1 January 2016, the Parties will undertake steps to extend the contract dated 16 January 2013 and annexed on 29 December 2014.

B. Other information to the consolidated quarterly report

Position of the Management Board with respect to the possibility of achieving previously-published forecasts of results for 2015, in light of the results presented in this consolidated quarterly report relative to forecasted results

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2015.

Shareholders holding at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. as at the date of publication of this consolidated quarterly report, changes in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. in the period since publication of the report for 2014

At the date of publication of the report for 2014, i.e. at 16 March 2015, based on the knowledge of the Parent Entity's Management Board, the only shareholder owning at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the State Treasury – which owned 63 589 900 shares of KGHM Polska Miedź S.A., representing 31.79% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on a notification dated 12 January 2010).

Following publication of the report for 2014, KGHM Polska Miedź S.A. was not notified by any shareholder of any change in the ownership structure of a significant block of shares.

At the date of preparation of this report, based on information held by KGHM Polska Miedź S.A., the only shareholder owning at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. remains the State Treasury, which holds 63 589 900 shares of KGHM Polska Miedź S.A. representing 31.79% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A.

Ownership of shares of KGHM Polska Miedź S.A. or of rights to them by management or supervisory board members of KGHM Polska Miedź S.A., as at the date of publication of the consolidated quarterly report. Changes in ownership during the period following publication of the report for 2014

Members of the Parent Entity's Management Board

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

function	name	number of shares at the date of issuance of the report for the first quarter of 2015
President of the Management Board	Herbert Wirth	1900
First Vice President of the Management Board	Jarosław Romanowski	1900
Vice President of the Management Board	Marcin Chmielewski	1993
Vice President of the Management Board	Jacek Kardela	1900
Vice President of the Management Board	Mirosław Laskowski	-

Based on the information held by the Parent Entity, this state did not change since the date of publication of the report for 2014.

Members of the Parent Entity's Supervisory Board

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

function	name	number of shares at the date of issuance of the report for the first quarter of 2015
Member of the Supervisory Board	Józef Czyczerski	10
Member of the Supervisory Board	Leszek Hajdacki	1

Based on the information held by the Parent Entity, this state did not change since the date of publication of the report for 2014.

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

List of proceedings before courts, arbitration authorities or public administration authorities

As at 31 March 2015, the total value of on-going proceedings before courts, arbitration authorities or public administration authorities respecting liabilities and debtors, of KGHM Polska Miedź S.A. and subsidiaries, did not represent at least 10% of the equity of KGHM Polska Miedź S.A.

Information on entering by KGHM Polska Miedź S.A. or its subsidiary into a single or multiple transactions with related entities, if separately or jointly they are significant and were entered into under other than arm's length conditions

During the period from 1 January 2015 to 31 March 2015, neither KGHM Polska Miedź S.A. nor any of its subsidiaries entered into significant transactions with related entities under other than arm's length conditions.

Information on the granting by KGHM Polska Miedź S.A. or by its subsidiaries of guarantees or collaterals on credits or loans – jointly to a single entity or subsidiary thereof, where the total amount of collaterals or guarantees accounts for at least 10% of the Company's equity

During the period from 1 January 2015 to 31 March 2015, neither KGHM Polska Miedź S.A. nor its subsidiaries granted collateral on credits or loans, nor did they grant guarantees to any single entity or subsidiary with a total value representing the equivalent of at least 10% of KGHM Polska Miedź S.A.'s equity.

Other information which in the opinion of KGHM Polska Miedź S.A. is significant for the assessment of its employment situation, assets, finances and the financial result and any changes thereto, and information which is significant for assessing the ability to pay its liabilities

In the first quarter of 2015 there were no other significant events, apart from those mentioned in the commentary to the report, which could have a significant impact on the assessment of assets, financial position and the financial result of the Group and any changes thereto, or any events significant for the assessment of the employment situation and the ability to pay its liabilities.

Factors which, in the opinion of the Group, may affect its results over at least the next quarter

The main influence on the KGHM Polska Miedź S.A. Group's results has or may have the Parent Entity and, to a lesser extent, the KGHM INTERNATIONAL LTD. Group.

As a result, through the Parent Entity, the most significant factors influencing the Group's operations over at least the next quarter are:

- copper and silver market price;
- the USD/PLN exchange rate;
- electrolytic copper production costs, in particular due to the minerals extraction tax and the value of purchased copper-bearing materials used; and
- effects of the implemented hedging policy.

The most significant factors which may impact the results of the KGHM Polska Miedź S.A. Group, through the KGHM INTERNATIONAL LTD. Group, particularly in the following quarter, are:

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

**C. Quarterly financial information of KGHM Polska Miedź S.A.
 Interim statement of financial position**

	Note	At 31 March 2015	At 31 December 2014
ASSETS			
Non-current assets			
Property, plant and equipment		11 839	11 562
Intangible assets		530	511
Shares and investment certificates in subsidiaries		11 790	11 760
Investments in joint ventures		18	18
Deferred tax assets	C.III.3	239	111
Available-for-sale financial assets		815	931
Financial assets for mine closure and restoration of tailing storage facilities		232	206
Derivatives		175	190
Trade and other receivables		3 450	2 150
		29 088	27 439
Current assets			
Inventories		2 623	2 377
Trade and other receivables		1 774	2 142
Financial assets for mine closure		4	2
Derivatives		240	267
Cash and cash equivalents		466	85
		5 107	4 873
TOTAL ASSETS		34 195	32 312
EQUITY AND LIABILITIES			
Equity			
Share capital		2 000	2 000
Revaluation reserve from measurement of financial instruments		164	366
Actuarial gains/losses on post-employment benefits		(493)	(401)
Retained earnings		22 809	22 312
TOTAL EQUITY		24 480	24 277
LIABILITIES			
Non-current liabilities			
Trade and other payables		185	185
Borrowings		1 875	1 052
Derivatives		275	122
Employee benefits liabilities		1 957	1 842
Provisions for other liabilities and charges	C. II. 2	1 103	994
		5 395	4 195
Current liabilities			
Trade and other payables		2 519	2 537
Borrowings		1 488	1 056
Current corporate tax liabilities		98	56
Derivatives		51	36
Employee benefits liabilities		120	114
Provisions for other liabilities and charges	C. II. 2	44	41
		4 320	3 840
TOTAL LIABILITIES		9 715	8 035
TOTAL EQUITY AND LIABILITIES		34 195	32 312

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

Interim statement of profit or loss

	Note	Reporting period	
		for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Sales revenue	C. II. 3	3 767	3 800
Cost of sales	C. II. 4	(2 732)	(2 822)
Gross profit		1 035	978
Selling costs	C. II. 4	(31)	(30)
Administrative expenses	C. II. 4	(135)	(172)
Profit on sales		869	776
Other operating income	C. II. 5	245	67
Other operating costs	C. II. 6	(324)	(125)
Operating profit		790	718
Finance costs	C. II. 7	(85)	(6)
Profit before income tax		705	712
Income tax expense		(208)	(205)
Profit for the period		497	507
Earnings per share during the period (in PLN per share)			
- basic		2.49	2.54
- diluted		2.49	2.54

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

Interim statement of comprehensive income

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Profit for the period	497	507
Other comprehensive income:		
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met:		
Other comprehensive income from the measurement of financial instruments:		
Available-for-sale financial assets	(116)	160
Income tax related to available-for-sale financial assets	22	(30)
Cash flow hedging instruments	(133)	86
Income tax related to cash flow hedging instruments	25	(16)
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	(202)	200
Other comprehensive income, which will not be reclassified to profit or loss:		
Actuarial gains and losses on post-employment benefits	(114)	8
Income tax related to actuarial gains and losses	22	(1)
Total other comprehensive income, which will not be reclassified to profit or loss	(92)	7
Other comprehensive net income for the reporting period	(294)	207
TOTAL COMPREHENSIVE INCOME	203	714

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

Interim statement of changes in equity

	Share capital	Revaluation reserve from measurement of financial instruments	Actuarial gains/losses on post-employment benefits	Retained Earnings	Total equity
At 1 January 2015	2 000	366	(401)	22 312	24 277
Total comprehensive income	-	(202)	(92)	497	203
Profit for the period	-	-	-	497	497
Other comprehensive income	-	(202)	(92)	-	(294)
At 31 March 2015	2 000	164	(493)	22 809	24 480
At 1 January 2014	2 000	512	(112)	20 898	23 298
Total comprehensive income	-	200	7	507	714
Profit for the period	-	-	-	507	507
Other comprehensive income	-	200	7	-	207
At 31 March 2014	2 000	712	(105)	21 405	24 012

C. Quarterly financial information of KGHM Polska Miedź S.A. (continued)
Interim statement of cash flows

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Cash flow from operating activities		
Profit for the period	497	507
Total adjustments to profit for the period:	885	1 457
Income tax recognised in profit or loss	208	205
Depreciation/Amortisation	226	206
Losses on sale of property, plant and equipment and intangible assets	2	4
Interest	(18)	(1)
Foreign exchange gains	(67)	(9)
Change in provisions	13	25
Change in assets/liabilities due to derivatives	287	519
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(118)	(124)
Other adjustments	1	1
Changes in working capital	351	631
Inventories	(246)	(447)
Trade and other receivables	366	780
Trade and other payables	231	298
Income tax paid	(225)	(283)
Net cash generated from operating activities	1 157	1 681
Cash flow from investing activities		
Purchase of shares and investment certificates in subsidiaries	(29)	-
Purchase of property, plant and equipment and intangible assets	(659)	(651)
Advances granted for the purchase of property, plant and equipment and intangible assets	(16)	(11)
Proceeds from the sale of property, plant and equipment and intangible assets	4	4
Purchase of financial assets from the mine closure fund and tailing storage facilities restoration fund	(28)	(25)
Loans granted	(1 155)	(333)
Other investment (expenses)/proceeds	(1)	1
Net cash used in investing activities	(1 884)	(1 015)
Cash flow from financing activities		
Proceeds from bank and other loans	1 137	-
Repayments of bank loans	-	(257)
Interest paid	(13)	(1)
Net cash (used in)/generated from financing activities	1 124	(258)
Total net cash flow	397	408
Exchange (losses)/ gains on cash and cash equivalents	(16)	17
Movements in cash and cash equivalents	381	425
Cash and cash equivalents at beginning of the period	85	123
Cash and cash equivalents at end of the period	466	548
including restricted cash and cash equivalents	16	-

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

Selected explanatory data

I. Accounting policies

These financial statements have been prepared using the same principles for the current and comparable periods, with adjustment of the comparable period to changes in the principles of presentation of items in the statement of profit or loss. To ensure the usefulness of items presented in the statement of profit or loss, a new item to facilitate their analysis was added: "Profit/(loss) on sales", which comprises gross profit/(loss) adjusted by selling costs and administrative expenses. This change did not impact the financial data presented for the current and comparable periods.

II. Additional notes

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

Purchase of property, plant and equipment and intangible assets

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Purchase of property, plant and equipment	397	398
Purchase of intangible assets	22	171

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

	At 31 March 2015	At 31 December 2014
Payables due to the purchase of property, plant and equipment and intangible assets	437	745

Capital commitments not recognised in the interim statement of financial position

	At 31 March 2015	At 31 December 2014
Purchase of property, plant and equipment	4 096	4 821
Purchase of intangible assets	59	45
Total capital commitments:	4 155	4 866

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

2. Changes in provisions for other liabilities and charges

	Decommissioning costs of mines and other technological facilities, and costs of scrapping		Disputed issues and court proceedings, and other provisions
	TOTAL	property, plant and equipment	
Provisions at 1 January 2015	1 035	1 010	25
Recognition and updating of estimates	118	115	3
Adjustment of contribution to Special Purpose Funds	(6)	(6)	-
Provisions at 31 March 2015	1 147	1 119	28
of which:			
non-current provisions	1 103	1 102	1
current provisions	44	17	27
	Decommissioning costs of mines and other technological facilities, and costs of scrapping		Disputed issues and court proceedings, and other provisions
	TOTAL	property, plant and equipment	
Provisions at 1 January 2014	554	529	25
Recognition and updating of estimates	532	509	23
Utilisation	(22)	(1)	(21)
Adjustment of contribution to Special Purpose Funds	(27)	(27)	-
Release and updating of estimates	(2)	-	(2)
Provisions at 31 December 2014	1 035	1 010	25
of which:			
non-current provisions	994	992	2
current provisions	41	18	23
	Decommissioning costs of mines and other technological facilities, and costs of scrapping		Disputed issues and court proceedings, and other provisions
	TOTAL	property, plant and equipment	
Provisions at 1 January 2014	554	529	25
Recognition and updating of estimates	7	7	-
Adjustment of contribution to Special Purpose Funds	(6)	(6)	-
Release and updating of estimates	(8)	(7)	(1)
Provisions at 31 March 2014	547	523	24
of which:			
non-current provisions	518	515	3
current provisions	29	8	21

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

3. Sales revenue

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Copper, precious metals, smelter by-products	3 690	3 727
Salt	14	16
Merchandise	18	15
Services	21	23
Scrap and production materials	15	16
Other finished goods	9	3
Total	3 767	3 800

4. Expenses by nature

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Depreciation of property, plant and equipment and amortisation of intangible assets	226	206
Employee benefit expenses	741	750
Materials and energy	1 320	1 496
including purchased copper-bearing materials	799	952
External services	320	341
Taxes and charges	493	493
including the minerals extraction tax*	393	395
Other costs	18	14
Total expenses by nature	3 118	3 300
Cost of merchandise and materials sold (+)	33	30
Change in inventories of finished goods and work in progress (+/-)	(229)	(269)
Cost of manufacturing products for internal use (-)	(24)	(37)
Total cost of sales, selling costs and administrative expenses	2 898	3 024

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

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

5. Other operating income

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Income and gains on financial instruments	226	46
- measurement and realisation of derivatives	41	40
- interest	37	6
- foreign exchange gains	148	-
Release of unused provisions	1	1
Other operating income/gains	18	20
Total other operating income	245	67

6. Other operating costs

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Costs and losses on financial instruments	294	112
- including due to the measurement and realisation of derivatives	293	110
Losses on the sale of property, plant and equipment and intangible assets	2	4
Donations granted	18	-
Provisions for liabilities	5	-
Other operating costs/losses	5	9
Total other operating costs	324	125

7. Finance costs

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Interest due to drawn bank and other loans	3	2
Foreign exchange losses/(gains) on borrowings	62	(5)
Changes in provisions for decommissioning of mines arising from the approach of the maturity date of a liability (unwinding of discount)	8	8
Changes in liabilities arising from the approach of the maturity date of liabilities (unwinding of discount)	2	-
Other finance costs	10	1
Total finance costs	85	6

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

8. Related party transactions

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Revenues from sales to related entities	126	98
Purchases from related entities	1 151	1 293

During the period from 1 January 2015 to 31 March 2015, KGHM Polska Miedź S.A. did not receive dividends from related entities.

	At 31 March 2015	At 31 December 2014
Receivables from related parties due to sales of products, services, merchandise, materials and non-current assets	3 752	2 440
including loans granted	3 379	2 046
Payables towards related parties due to the purchase of products, services, merchandise, materials and non-current assets	430	499

During the current quarter, 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.

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. The result of these transactions was:

- the purchase of materials and services to meet the needs of current operating activities (fuel, energy, transport services). Turnover from these transactions in the period from 1 January 2015 to 31 March 2015 amounted to PLN 165 million (for the period from 1 January 2014 to 31 March 2014: PLN 259 million) while the unsettled balance of liabilities from these transactions as at 31 March 2015 amounted to PLN 207 million (as at 31 December 2014: PLN 238 million);
- sales to State Treasury companies during the period from 1 January 2015 to 31 March 2015 amounted to PLN 26 million (for the period from 1 January 2014 to 31 March 2014: PLN 17 million), while the unsettled balance of receivables from these transactions as at 31 March 2015 amounted to PLN 6 million (as at 31 December 2014: PLN 6 million).

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Remuneration of the Supervisory Board (in PLN thousands)		
Remuneration due to service in the Supervisory Board, salaries and other short-term employee benefits	471	329
Total	471	329

	Reporting period	
	for the 3 months ended 31 March 2015	for the 3 months ended 31 March 2014
Remuneration of the Management Board (in PLN thousands)		
Salaries and other short-term employee benefits	1 826	2 205
Benefits due to termination of employment relationship	248	1 216
Total	2 074	3 421

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

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

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

	At 31 March 2015	Increase/(decrease) since the end of the last financial year
Contingent assets	457	(10)
Guarantees received	178	-
Promissory notes receivables	144	(10)
Inventions, implementation of projects	48	1
Real estate tax on mining facilities	87	-
Other	-	(1)
Contingent liabilities	1 777	130
Guarantees, of which the most significant are:	1 542	122
A letter of credit granted to secure the proper execution of a long-term contract for the supply of electricity for Sierra Gorda S.C.M.	524	42
Guarantees granted to additionally secure the proper performance of leasing agreements entered into by Sierra Gorda S.C.M.	366	25
A guarantee granted to secure the proper performance of future environmental obligations of the Company to restore the area, following the decommissioning of the Żelazny Most facility	320	-
A letter of credit granted to secure the proper performance by KGHM INTERNATIONAL LTD. of the future environmental obligations to restore the area following the closure of the Robinson mine, Podolsky mine and the Victoria project	319	47
Disputed issues, pending court proceedings	15	-
Liabilities due to implementation of projects and inventions	139	1
Real estate tax on mining facilities	78	8
Other	3	(1)
Other liabilities not recognised in the statement of financial position	136	-
Liabilities towards local government entities due to expansion of the tailings pond	121	1
Liabilities due to operating leases	15	(1)

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

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

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

Strategy for the years 2015-2020 with an outlook to 2040

On 26 January 2015, the Company's Supervisory Board adopted the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 as submitted by the Management Board. Detailed information on the Strategy may be found in part A.V of this report.

Other significant events covered by current reports

Dividend Policy

On 26 January 2015, the Management Board of KGHM Polska Miedź S.A. adopted a resolution on approving a Dividend Policy for KGHM Polska Miedź S.A.

The Dividend Policy of KGHM Polska Miedź S.A. is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the Company's funds. The Dividend Policy assumes that the Management Board will recommend allocation of up to one-third of the profit for the previous financial year as a dividend, while taking into account the current and anticipated financial situation of the Company and the Group.

In particular, in making its recommendation the Management Board will take into account the Company's anticipated capital needs to complete the company's development program as well as a safe debt level for the Group. The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

The Management Board's recommendation on payment of dividend

On 16 March 2015, the Management Board of KGHM Polska Miedź S.A. resolved to recommend the payment of a dividend from profit for financial year 2014 in the amount of PLN 800 million (or PLN 4.00 per share). Detailed information may be found in part A.IX of this report.

Appointment of the Management Board of KGHM Polska Miedź S.A. for a new term

On 16 March 2015, the Supervisory Board adopted a resolution which set the number of Members of the 9th-term Management Board of the Company at 5 persons, and appointed as at 17 March 2015 the following persons as Members of the Management Board of KGHM Polska Miedź S.A.: Herbert Wirth, appointing him to the function of President of the Management Board of KGHM Polska Miedź S.A., Jarosław Romanowski, appointing him to the function of First Vice President of the Management Board of KGHM Polska Miedź S.A., and Marcin Chmielewski, Jacek Kardela and Mirosław Laskowski, appointing them to the functions of Vice Presidents of the Management Board of KGHM Polska Miedź S.A.

Opening of liquidation proceedings of a subsidiary

On 23 March 2015, the Shareholders of International Molybdenum Limited, with its registered office in the United Kingdom, adopted a resolution approving the voluntary liquidation of the company. International Molybdenum Limited is a subsidiary of KGHM (Barbados) Holdings Ltd., a wholly-owned subsidiary of KGHM INTERNATIONAL LTD.

The decision to liquidate the company was made due to the fact that the company, International Molybdenum Limited, does not conduct activities. The liquidation is aimed at simplifying the corporate structure of the KGHM INTERNATIONAL LTD. Group.

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

2. Measurement of financial and tangible assets

Financial assets – derivatives

In the current quarter, due to the measurement and settlement of future cash flow hedging transactions, other comprehensive income was decreased by PLN 34 million, of which:

- PLN 118 million represents a reclassification adjustment made at the time of impact of the hedged position on profit or loss;
- PLN 76 million represents a gain resulting from changes in the fair value of hedging instruments, in the portion reflecting an effective hedge;
- PLN 8 million represents tax on the above-mentioned items.

As a result of the realisation and fair value re-measurement of derivatives there was a decrease in the financial result for the current quarter in the amount of PLN 134 million, of which:

- PLN 118 million represents an increase in sales revenue;
- PLN 252 million represents a decrease in the result on other operating activities.

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

Available-for-sale financial assets

In the current quarter there was a decrease in the fair value of available-for-sale financial assets below their carrying amount in the amount of PLN 116 million. This measurement resulted in a decrease in deferred tax liabilities in the amount of PLN 22 million, recognised in other comprehensive income.

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

Trade and other non-current receivables

In the current quarter there was an increase in trade and other non-current receivables in the amount of PLN 1 300 million, mainly due to loans granted to foreign entities of the KGHM Polska Miedź S.A. Group in the amount of USD 296 million (PLN 1 127 million at the USD/PLN exchange rate of 3.8125 announced by the NBP as at 31 March 2015).

Property, plant and equipment

As a result of the depreciation of property, plant and equipment and the amortisation of intangible assets, the amount of PLN 226 million was charged to operating costs in the current quarter.

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

3. Nature and amount of changes in estimates

Provisions

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

3.1 provisions for future employee benefits due to one-off retirement or disability payments, jubilee awards, post-mortem benefits and the coal equivalent also paid after the period of employment. The result of this change in estimates, mainly as a result of changes in macroeconomic assumptions, is an increase in the provisions of PLN 120 million which was settled as:

- a decrease in other comprehensive income of PLN 114 million (after reflecting the deferred tax effects, a decrease in other comprehensive income of PLN 92 million),
- a decrease in the financial result of PLN 6 million, (after reflecting the deferred tax effects, a decrease in the financial result of PLN 5 million),

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

- 3.2 provisions for future costs of decommissioning (restoration) of mines, comprising the estimated costs of dismantling and removing technological facilities, for which the obligation for restoration upon the conclusion of activities is a result of separate law or standard practice. The result of this change in estimates is an increase in the provisions of PLN 115 million, which was accounted for as a decrease in the financial result of PLN 10 million and as an increase of property, plant and equipment of PLN 105 million. The increase in the provisions caused an increase in deferred tax assets in the amount of PLN 18 million.
- 3.3 provisions for future employee remuneration expenses together with charges of PLN 163 million, paid (in accordance with the Collective Labour Agreement) on the occasion of mining or smelting holidays and after approval of the annual financial statements.

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

Deferred tax

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

After offsetting the deferred tax assets and deferred tax liabilities, the deferred tax assets at the end of the reporting period were set at PLN 239 million.

(After offsetting the deferred tax assets and deferred tax liabilities, the deferred tax assets at 31 December 2014 were set at PLN 111 million)

There was an increase in the deferred tax assets in the current quarter of PLN 122 million, which was settled as:

- | | |
|---|----------------|
| • an increase in profit | PLN 83 million |
| • an increase in other comprehensive income due to re-measurement of derivative hedging instruments | PLN 17 million |
| • an increase in other comprehensive income due to actuarial losses on post-employment benefits | PLN 22 million |

There was a decrease in the deferred tax liabilities in the current quarter of PLN 6 million, which was settled as:

- | | |
|--|----------------|
| • a decrease in profit | PLN 24 million |
| • an increase in other comprehensive income due to measurement of derivative hedging instruments and available-for-sale financial assets | PLN 30 million |

4. Factors and events, in particular those of an unusual nature, having an impact on profit achieved by the Company.

Economic results in the first quarter of 2015

In the first quarter of 2015, KGHM Polska Miedź S.A. produced 107 thousand tonnes of copper in concentrate (in the comparable period of the prior year, 110 thousand tonnes) and 305 tonnes of silver in concentrate (in the first quarter of 2014: 303 tonnes). Electrolytic copper production amounted to 142 thousand tonnes (in the first quarter of 2014: 143 thousand tonnes), including 106 thousand tonnes from own concentrate (in the first quarter of 2014: 106 thousand tonnes) and 298 tonnes of metallic silver (in the first quarter of 2014: 278 tonnes).

In terms of copper equivalent production in the first quarter of 2015, the Company produced 139 thousand tonnes of copper equivalent from own concentrate (i.e. the total amount of production of all metals translated as copper production based on market prices), while during the comparable period of the prior year copper equivalent production from own concentrate amounted to 135 thousand tonnes.

Sales revenue in the first quarter of 2015 amounted to PLN 3 767 million (including PLN 118 million due to adjustments as a result of hedging transactions) and was lower by PLN 33 million, or by 1%, than the level achieved in the comparable period of the prior year, which was mainly due to:

- lower copper prices (from 7 041 USD/t to 5 818 USD/t) and silver (from 20.48 USD/troz to 16.71 USD/troz) as well as to
- a lower volume of copper sales (from 138 thousand tonnes to 132 thousand tonnes)

alongside a more favourable USD/PLN exchange rate (a change from 3.06 to 3.73) and an increase in the volume of silver sales (from 220 tonnes to 245 tonnes).

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

In addition, in the first quarter of 2015 the Company allocated 10 thousand tonnes of finished copper products to inventories, which will increase revenues in the following quarter.

In the first quarter of 2015, revenues from the sale of copper and copper products represented 79%, and silver 13%, of total sales revenue (in the comparable period of 2014, respectively: 83% and 12%) of total sales revenue.

Expenses by nature in the first quarter of 2015 amounted to PLN 3 118 million, and were lower than in the comparable period of 2014 by PLN 182 million, or by 6%, mainly due to the lower cost of purchased copper-bearing materials used in the production of wire rod.

After excluding the value of purchased copper-bearing materials (PLN 799 million) and the minerals extraction tax (PLN 393 million), expenses by nature amounted to PLN 1 926 million, or at the same level as in the prior year.

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate (unit cost prior to decrease by the value of anode slimes containing, among others, silver and gold) amounted to 19 725 PLN/t (in the comparable period of 2014: 20 018 PLN/t) alongside a similar volume of production. The total unit cost of electrolytic copper production from own concentrate amounted to 13 532 PLN/t (in the comparable period of 2014: 13 971 PLN/t). The decrease in the unit cost from own concentrate was due to the lower by 569 PLN/t minerals extraction tax.

C1 cost* amounted to 1.77 USD/lb in the first quarter of 2014 and to 1.46 USD/lb in the first quarter of 2015. The decrease in the C1 cost (by 0.31 USD/lb) was mainly due to the weakening of the Polish zloty in comparison to the US dollar by 22%. The C1 cost for the first quarter of 2015, using the metals prices and exchange rates in the first quarter of 2014, would amount to 1.78 USD/lb or at the same level as in 2014.

As a result of the above, **profit on sales** amounted to PLN 869 million and was higher by PLN 93 million, or 12%, than in the comparable period of 2014. As a result, EBITDA (profit/(loss) on sales plus depreciation/amortisation**) in the reporting period amounted to PLN 1 095 million (including depreciation/amortisation of PLN 226 million) and was higher by PLN 113 million, or by 12%, than in the first quarter of 2014.

Other operating activities showed a loss in the first quarter of 2015 of PLN 79 million, which is worse than the result achieved in the first quarter of 2014 by PLN 21 million, mainly due to a higher loss on the measurement and realisation of derivatives (-PLN 182 million) alongside a more favourable result on exchange differences (+PLN 149 million) and higher interest income (+PLN 31 million).

Net finance costs in the first quarter of 2015 amounted to PLN 85 million (an increase in costs by PLN 79 million) and are mainly in respect of exchange differences on loans drawn.

KGHM Polska Miedź S.A. earned a **profit** for the first quarter of 2015 of PLN 497 million, which was lower by PLN 10 million, or 2%, than the profit earned in the first quarter of 2014.

* *Cash cost of concentrate production including the minerals extraction tax, plus administrative expenses and treatment and refining (TC/RC) charges, less depreciation/amortisation and by-product premiums, calculated for payable copper in concentrate.*

** *Starting from the report for the first quarter of 2015, the Company presents EBITDA as profit on sales plus depreciation/amortisation. In previous reports, EBITDA was calculated as operating result plus depreciation/amortisation.*

5. Commodity, currency and interest rate risk management in the Company

The management of market risk, and especially the management of the risk of changes in metals prices, exchange rates and interest rates, should be considered through analysis of the hedging position together with the item being hedged (hedged position). A hedging position is understood as the Company's position in derivatives. A hedged position is comprised of highly probable, future cash flows (revenues from the physical sale of products).

The notional amount of copper price hedging strategies settled in the first quarter of 2015 represented approx. 10% of the total sales of this metal realised by the Company. In the case of the currency market, approx. 31% of total revenues from metals sales realised by the Company during the period were hedged.

In the first quarter of 2015, the amount of PLN 118 million was recognised as revenues from sales (this was the amount transferred from the revaluation reserve from the measurement of cash flow hedging instruments to profit or loss). The result on other operating activities was decreased by PLN 252 million (a loss from the measurement of derivatives). The loss on the measurement of derivative transactions results mainly from the changes in the time value of options which, in accordance with the hedge accounting policy, are recognised in profit or loss.

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

	Reporting period	
	For the 3 months ended 31 March 2015	For the 3 months ended 31 March 2014
Impact on sales revenue	118	124
Impact on other operating activities	(252)	(70)
from realisation of derivatives	-	(1)
from measurement of derivatives	(252)	(69)
Total impact of derivatives on profit or loss for the period:	(134)	54

Revaluation reserve from measurement of cash flow hedging instruments⁽¹⁾

	At 31 March 2015	At 31 December 2014
Commodity price risk hedging transactions (copper)	222	237
Currency risk hedging transactions	(42)	76
derivatives	67	93
bank and other loans in foreign currencies	(109)	(17)
As at the end of the period (excluding the deferred tax effect)	180	313

During the first quarter of 2015 there was a decrease by PLN 133 million in other comprehensive income (excluding the deferred tax effect), which was comprised of:

- PLN 15 million, the result of changes in fair value during the period, recognised as a decrease in the revaluation reserve from the measurement of cash flow hedging instruments in the portion reflecting an effective hedge; and
- PLN 118 million, the amount of the decrease of the revaluation reserve from the measurement of cash flow hedging instruments. This amount increased revenues from sales and was a result of the settlement of hedging transactions in the portion reflecting an effective hedge.

In the first quarter of 2015, the Company did not implement any hedging transactions for the copper market or for the silver market. However, transactions hedging sales revenues for the total notional amount of USD 735 million and a time horizon falling from April 2015 to December 2017 were implemented for the currency market. The Company made use of put options (European options) and collar option strategies. In addition, transactions hedging the Company against an increase in the interest rate (LIBOR USD) were implemented in the first quarter of 2015 by purchasing call options (interest rate cap) with a 2.50 % interest rate, for the period from January 2016 to December 2018 and an average quarterly notional amount of USD 717 million.

With respect to the management of currency risk whose source is borrowing, the Company uses natural hedging by borrowing in currencies in which it has revenues. As at 31 March 2015, bank loans and an investment loan, drawn in USD, following their translation to PLN, amounted to PLN 3 401 million⁽²⁾.

As at 31 March 2015, the Company remains hedged for a portion of copper sales planned for the period from April to December 2015 (34.5 thousand tonnes). The Company does not hold any open hedging transactions on the silver market. As at 31 March 2015, with respect to revenues from sales (currency market), the Company held a hedging position in derivatives for the planned revenues from sales of metals in the amount of USD 2 715 million, including: USD 855 million for the period from April to December 2015, USD 960 million for 2016 and USD 900 million for 2017. In addition, the first instalment of the loan from the European Investment Bank (in the amount of USD 300 million) hedges revenues from sales against the risk of changes in foreign exchange rates during the period from October 2017 to October 2026. Moreover, the Company holds open derivatives transactions on the interest rate market for 2016 (average quarterly notional amount of USD 550 million), for 2017 (average quarterly notional amount of USD 700 million) and for 2018 (average quarterly notional amount of USD 900 million).

(1) In the Financial Statements for 2014, the table "Revaluation reserve from the measurement of cash flow hedging instruments" does not include the negative amount of PLN 17 million which was recognised due to the exchange differences on the tranche of the loan granted by the European Investment Bank, designated as a cash flow hedging instrument.

(2) The balance of liabilities due to bank loans and an investment loan is presented in the statement of financial position in the amount of PLN 3 363 million, and is the amount of bank loans and a loan drawn in the amount of PLN 3 401 million less costs associated with signing of the syndicated credit facility agreement. These costs are accounted for on a deferred basis and are included in the initial amount of the liability.

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

Presented below is condensed information on open hedging transactions, by type of hedged asset and instruments used as at 31 March 2015. In the case of the copper market and the currency market, the hedged notional/volume in the presented periods is allocated monthly, on a systematic basis.

COPPER MARKET

	Instrument	Volume [tonnes]	Option strike price [USD/t]			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t]	
			Sold call option	Purchased put option	Sold put option ⁽³⁾			Participation limited to	Hedge limited to
II quarter of 2015	Seagull	3 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	7 500	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Purchased put option	3 000	-	7 200	-	-298	6 902	-	-
	Total	13 500							
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 April-Dec 2015		34 500							

(3) Due to current hedge accounting laws, transactions included in the seagull structures – *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* in seagull structures are shown in the table "Trade instruments".

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

CURRENCY MARKET

	Instrument	Notional [million USD]	Option strike price [USD/PLN]			Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Limitations [USD/PLN]	
			Sold call option	Purchased put option	Sold put option			Participation limited to	Hedge limited to
II quarter of of 2015	Sold call option	90	4.5000	-	-	+0.3125	-	4.5000	-
	Purchased put option	90	-	2.7000	-	-0.0352	2.6648	-	-
	Collar	60	4.0000	3.3000	-	-0.0694	3.2306	4.0000	-
	Purchased put option	90	-	3.2000	-	-0.0647	3.1353	-	-
	Purchased put option	45	-	3.5500	-	-0.0247	3.5253	-	-
	Total⁽⁴⁾	285	Closure of the purchased put option USDPLN 3.40 and un-designation of the hedging transactions in the first quarter of 2014 was reflected in the <i>Revaluation reserve from the measurement of financial instruments</i> in the amount of PLN 24 million, which will increase <i>Sales revenue</i> for the second quarter of 2015.						
II half of 2015	Sold call option	180	4.5000	-	-	+0.3125	-	4.5000	-
	Purchased put option	180	-	2.7000	-	-0.0352	2.6648	-	-
	Collar	120	4.0000	3.3000	-	-0.0694	3.2306	4.0000	-
	Collar	180	4.0000	3.2000	-	-0.0499	3.1501	4.0000	-
	Purchased put option	90	-	3.5500	-	-0.0654	3.4846	-	-
	Total⁽⁴⁾	570	Closure of the purchased put option USDPLN 3.40 and un-designation of the hedging transactions in the first quarter of 2014 was reflected in the <i>Revaluation reserve from the measurement of financial instruments</i> in the amount of PLN 43 million, which will increase <i>Sales revenue</i> for the second half of 2015.						
TOTAL April-Dec 2015		855							
I half of 2016	Collar	180	4.0000	3.2000	-	-0.0525	3.1475	4.0000	-
	Collar	180	4.2000	3.3000	-	-0.0460	3.2540	4.2000	-
	Collar	120	4.4000	3.5500	-	-0.0448	3.5052	4.4000	-
	Total	480							
II half of 2016	Collar	180	4.0000	3.2000	-	-0.0553	3.1447	4.0000	-
	Collar	180	4.2000	3.3000	-	-0.0473	3.2527	4.2000	-
	Collar	120	4.4000	3.5500	-	-0.0468	3.5032	4.4000	-
	Total	480							
TOTAL 2016		960							
I half of 2017	Collar	270	4.0000	3.3500	-	-0.0523	3.2977	4.0000	-
	Collar	180	4.4000	3.5500	-	-0.0477	3.5023	4.4000	-
	Total	450							
II half of 2017	Collar	270	4.0000	3.3500	-	-0.0524	3.2976	4.0000	-
	Collar	180	4.4000	3.5500	-	-0.0487	3.5013	4.4000	-
	Total	450							
TOTAL 2017		900							

(4) Excluded from the amount is the notional of *sold call options* (USD 90 million for the second quarter of 2015 and USD 180 million for the second half of 2015), which, from the risk profile point of view, represent a *collar strategy* together with *purchased put options* of the same notional amount. The strategy is not presented directly as a collar, as it arose as a result of a restructuring of the position and, from a formal point of view and in accordance with the risk management principles, could not be designated as such.

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

INTEREST RATE MARKET

	Instrument	Notional [million USD]	Option strike level	Average weighted premium		Effective hedge level
			[LIBOR 3M]	[USD for USD 1 million hedged]	[%]	[LIBOR 3M]
IQ 2016	Purchase of interest rate cap options	400	2.50%	734	0.29%	2.79%
IIQ 2016	Purchase of interest rate cap options	500	2.50%	734	0.29%	2.79%
IIIQ 2016	Purchase of interest rate cap options	600	2.50%	734	0.29%	2.79%
IVQ 2016	Purchase of interest rate cap options	700	2.50%	734	0.29%	2.79%
AVERAGE IN 2016		550				
IQ 2017	Purchase of interest rate cap options	700	2.50%	734	0.29%	2.79%
IIQ 2017	Purchase of interest rate cap options	700	2.50%	734	0.29%	2.79%
IIIQ 2017	Purchase of interest rate cap options	700	2.50%	734	0.29%	2.79%
IVQ 2017	Purchase of interest rate cap options	700	2.50%	734	0.29%	2.79%
AVERAGE IN 2017		700				
IQ 2018	Purchase of interest rate cap options	900	2.50%	734	0.29%	2.79%
IIQ 2018	Purchase of interest rate cap options	900	2.50%	734	0.29%	2.79%
IIIQ 2018	Purchase of interest rate cap options	900	2.50%	734	0.29%	2.79%
IVQ 2018	Purchase of interest rate cap options	900	2.50%	734	0.29%	2.79%
AVERAGE IN 2018		900				

As at 31 March 2015, the net fair value of open positions in derivatives amounted to PLN 89 million, of which PLN 67 million related to the positive fair value of the hedging instruments and PLN 20 million related to the positive fair value of trade instruments, while PLN 2 million related to the positive fair value of instruments initially designated as hedging instruments excluded from hedge accounting. The fair value of open positions in derivatives varies, depending on changes in market conditions, and the final result on these transactions may vary significantly from the measurement described above.

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

	At 31 March 2015		At 31 December 2014	
	Derivatives	Receivables due to unsettled derivatives ⁽⁵⁾	Derivatives	Receivables due to unsettled derivatives ⁽⁶⁾
Financial assets	415	29	457	34
Financial liabilities	(326)	-	(158)	-
Fair value	89	29	299	34

(5) Settlement date falls on 2 April 2015

(6) Settlement date falls on 5 January 2015

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

Detailed information on positions in derivatives as at 31 March 2015 is presented below in the tables "Trade instruments" and "Hedging instruments" and "Instruments initially designated as hedging instruments excluded from hedge accounting".

TRADE INSTRUMENTS			At 31 March 2015			
Type of derivative	Volume/ Notional	Avg. weighted price/ ex. rate/interest rate level	Financial assets		Financial liabilities	
	Cu [t] Currency [USD thousands] Interest rate [USD thousands]	Cu [USD/t] Currency [USD/PLN] Interest rate [LIBOR 3M]	Current	Non-current	Current	Non-current
Derivatives - Metals - Copper:						
Options						
Sold put options	31 500	4 500	-	-	-	-
TOTAL			-	-	-	-
Derivatives - Currency contracts:						
USD options						
Sold put options	270 000	3.4000	-	-	(3)	-
TOTAL			-	-	(3)	-
Derivatives - Interest rate:						
Options						
Purchased interest rate cap options	717 000 ⁽⁷⁾	2.50%	-	23	-	-
TOTAL			-	23	-	-
TOTAL TRADE INSTRUMENTS			-	23	(3)	-

HEDGING INSTRUMENTS			At 31 March 2015							
Type of derivative	Volume/ Notional	Avg. weighted price/ ex. rate	Maturity/ settlement period		Period of impact on profit or loss		Financial assets		Financial liabilities	
			Cu [t] Currency [USD thousands]	Cu [USD/t] Currency [USD/PLN]	From	To	From	To	Current	Non-current
Derivatives - Metals- Copper										
Options										
Purchased put options	3 000	7 200	April 15-Jun 15		May 15-Jul 15		13	-	-	-
Seagull	31 500	7 771 - 10 271	April 15-Dec 15		May 15-Jan 16		209	-	-	-
TOTAL							222	-	-	-
Derivatives - Currency contracts										
Options USD										
Purchased put options	495 000	3.0227	April 15-Dec 15		April 15-Dec 15		4	-	-	-
Collar	2 220 000	3.3554-4.1405	April 15-Dec 17		April 15-Dec 17		10	152	(46)	(275)
TOTAL							14	152	(46)	(275)
TOTAL HEDGING INSTRUMENTS							236	152	(46)	(275)

(7) Interest rate cap options hedge the quarterly interest payments on bank loans drawn in USD. The notional hedged in individual interest periods is presented in the "INTEREST RATE MARKET" table.

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

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING						At 31 March 2015					
Type of derivative	Volume/ Notional	Avg. weighted price/ ex. rate	Maturity/ settlement period		Period of impact on profit or loss		Financial assets		Financial liabilities		
			Currency [USD thousands]	Currency [USD/PLN]	From	To	From	To	Current	Non-current	Current
Derivatives – Currency contracts											
Options USD											
Collar	270 000	3.4000-4.5000	April 15-	Dec 15	April 15-	Dec 15	4	-	(2)	-	
TOTAL:							4	-	(2)	-	
INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING- TOTAL							4	-	(2)	-	

All entities with which derivative transactions are entered into by the Company operate in the financial sector. The following table presents the rating structure of financial institutions, with which the Company had derivative transactions that constitute an exposure to credit risk⁽⁶⁾.

Rating levels	At 31 March 2015	At 31 December 2014
Highest ⁽⁹⁾	-	1%
Medium-high ⁽¹⁰⁾	95%	93%
Medium ⁽¹¹⁾	5%	6%

Taking into consideration the fair value of open derivative transactions entered into by the Company and unsettled derivatives, as at 31 March 2015, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 53% (as at 31 December 2014: 44%).

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 counterparties) to the level of the positive balance of fair value measurement of transactions in derivatives with a given counterparty. In addition, credit risk in this regard is monitored on an ongoing basis by analysing credit ratings and is limited by actions taken to achieve diversification in terms of individual entities when implementing hedging strategies.

Despite the concentration of credit risk associated with derivatives transactions, the Company has determined that, as it only cooperates with renowned financial institutions, as well as continuously monitors their ratings, it is not materially exposed to credit risk as a result of transactions signed with them.

6. Management of liquidity risk and capital in the Company

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 our operating activities.

In order to support financial liquidity, in the first quarter of 2015 the Company made use of borrowing in the form of short-term bank loans, an unsecured, revolving syndicated credit facility and an investment loan.

In the first quarter of 2015, the Company drew the first instalment of the unsecured, revolving syndicated credit facility. The credit facility in the amount of USD 200 million was drawn for the period of 3 months with the intent to extend it to subsequent periods. The acquired funds were used for refinancing of the financial debt of KGHM INTERNATIONAL LTD. Moreover, in the second quarter of 2015, the Company plans to perform a refinancing through early redemption of the senior notes of KGHM INTERNATIONAL LTD. in the amount of USD 500 million while simultaneously drawing an equivalent instalment on the unsecured syndicated credit facility.

(8) Weighted by positive fair value of open and unsettled derivatives.

(9) 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.

(10) 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.

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

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

Consolidating the Group's external financing at the Parent Entity's level is a key provision of the new financing strategy. The strategy will enable significant savings to be achieved on the Group's debt servicing costs and is in line with the best market practises for the financing of large, international groups.

As at 31 March 2015 the Company held liabilities resulting from bank loans drawn and an investment loan in the amount of PLN 3 401 million (or USD 892 million). Interest on the bank loans is based on variable LIBOR plus a margin. Interest on the investment loan is based on a fixed interest rate.

As at 31 March 2015, the Company had open lines of financing due to bank loan agreements entered into and an investment loan agreement, in respect of which the amount of credit available and drawn were as follows:

Open credit lines and loans, with the amount of bank and other loans drawn, as at 31 March 2015

Type of bank and other loans:	Bank and other loans available in:	Available bank and other loans in PLN	Bank and other loans drawn in PLN
Working capital facility and overdraft facility	USD, EUR, PLN	3 382	1 488
Unsecured revolving syndicated credit facility	USD	9 531	764
Investment loan	USD, EUR, PLN	2 000	1 149
Total		14 913	3 401

The funds available through the open lines of financing are available in PLN, USD and EUR, with interest based on either a fixed rate or on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

As at 31 March 2015, all bank and other loans in the amount of PLN 3 401 million were drawn in USD.

The revolving, unsecured syndicated credit facility agreement and the loan agreement signed with the European Investment Bank oblige the Company to maintain its financial and non-financial covenants, standard for these types of transactions. As at 31 March 2015 and in the reporting period there were no instances of breaching the covenants stipulated in the aforementioned agreements.

Lubin, 8 May 2015