POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 1 / 2014

(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 **2014** comprising the period from **1 January 2014** to **31 March 2014**
Containing the interim condensed consolidated financial statements according to IAS 34 in PLN, and interim condensed financial statements according to IAS 34 in PLN.

publication date: 14 May 2014

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.	**Basic materials**
(name of issuer in brief)	(issuer branch title per the Warsaw Stock Exchange)
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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 M PLN		in M EUR	
	1st quarter of 2014 period from 1 January 2014 to 31 March 2014	1st quarter of 2013 period from 1 January 2013 to 31 March 2013	1st quarter of 2014 period from 1 January 2014 to 31 March 2014	1st quarter of 2013 period from 1 January 2013 to 31 March 2013
I. Sales	4 650	6 520	1 110	1 562
II. Operating profit	674	1 628	161	390
III. Profit before income tax	625	1 552	149	372
IV. Total profit for the period	417	1 100	100	264
V. Profit for the period attributable to shareholders of the Parent Entity	417	1 103	100	265
VI. Profit for the period attributable to non-controlling interest	-	(3)	-	(1)
VII. Other comprehensive income	260	463	62	111
VIII. Total comprehensive income	677	1 563	162	375
IX. Total comprehensive income attributable to shareholders of the Parent Entity	680	1 565	163	376
X. Total comprehensive income attributable to non-controlling interest	(3)	(2)	(1)	(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	2.09	5.52	0.50	1.33
XIII. Net cash generated from operating activities	1 757	1 711	419	411
XIV. Net cash used in investing activities	(1 336)	(1 119)	(319)	(268)
XV. Net cash used in financing activities	(1)	(1 045)	-	(250)
XVI. Total net cash flow	420	(453)	100	(107)

	At 31 March 2014	At 31 December 2013	At 31 March 2014	At 31 December 2013
XVII. Non-current assets	27 541	26 488	6 603	6 387
XVIII. Current assets	8 056	7 977	1 931	1 923
XIX. Total assets	35 597	34 465	8 534	8 310
XX. Non-current liabilities	7 234	6 714	1 734	1 619
XXI. Current liabilities	4 621	4 687	1 108	1 130
XXII. Equity	23 742	23 064	5 692	5 561
XXIII. Equity attributable to shareholders of the Parent Entity	23 541	22 841	5 644	5 508
XXIV. Equity attributable to non-controlling interest	201	223	48	53

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

	in M PLN		in M EUR	
	1st quarter of 2014 period from 1 January 2014 to 31 March 2014	1st quarter of 2013 period from 1 January 2013 to 31 March 2013	1st quarter of 2014 period from 1 January 2014 to 31 March 2014	1st quarter of 2013 period from 1 January 2013 to 31 March 2013
I. Sales	3 800	5 106	907	1 223
II. Operating profit	718	1 473	171	353
III. Profit before income tax	712	1 438	170	345
IV. Profit for the period	507	1 059	121	254
V. Other comprehensive income	207	(89)	49	(21)
VI. Total comprehensive income	714	970	170	233
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)	2.54	5.30	0.61	1.27
IX. Net cash generated from operating activities	1 681	1 510	401	362
X. Net cash used in investing activities	(1 015)	(677)	(242)	(162)
XI. Net cash used in financing activities	(258)	(1 039)	(62)	(249)
XII. Total net cash flow	408	(206)	97	(49)

	At 31 March 2014	At 31 December 2013	At 31 March 2014	At 31 December 2013
XIII. Non-current assets	24 363	23 535	5 841	5 675
XIV. Current assets	5 651	5 503	1 355	1 327
XV. Total assets	30 014	29 038	7 196	7 002
XVI. Non-current liabilities	2 217	1 989	531	480
XVII. Current liabilities	3 785	3 751	908	904
XVIII. Equity	24 012	23 298	5 757	5 618

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

A. Interim condensed consolidated financial statements
(Consolidated financial statements)

Interim consolidated statement of financial position

	note	At 31 March 2014	At 31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment		15 313	15 128
Intangible assets		2 378	2 175
Investment property		65	65
Investments accounted for using the equity method		3 708	3 720
Deferred tax assets		460	451
Available-for-sale financial assets		969	810
Financial assets for mine closure and restoration of tailing storage facilities		349	323
Derivatives		312	357
Trade and other receivables		3 987	3 459
		27 541	**26 488**
Current assets			
Inventories		3 731	3 397
Trade and other receivables		2 341	3 119
Current corporate tax receivables		83	54
Available-for-sale financial assets		57	58
Financial assets for mine closure		1	1
Derivatives		534	476
Cash and cash equivalents		1 302	864
Non-current assets held for sale		7	8
		8 056	**7 977**
TOTAL ASSETS		**35 597**	**34 465**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Parent Entity			
Share capital		2 000	2 000
Revaluation reserve from measurement of financial instruments		721	522
Exchange differences from the translation of foreign operations statements		(208)	(267)
Actuarial gains/losses on post-employment benefits		(123)	(132)
Retained earnings		21 151	20 718
		23 541	**22 841**
Equity attributable to non-controlling interest		**201**	**223**
TOTAL EQUITY		**23 742**	**23 064**
LIABILITIES			
Non-current liabilities			
Trade and other payables		899	774
Borrowings, debt securities and finance lease liabilities	A.IV.7	2 009	1 714
Derivatives		97	17
Deferred tax liabilities		1 721	1 726
Employee benefits liabilities		1 581	1 563
Provisions for other liabilities and charges		927	920
		7 234	**6 714**
Current liabilities			
Trade and other payables		3 057	3 094
Borrowings, debt securities and finance lease liabilities	A.IV.7	972	1 215
Current corporate tax liabilities		104	128
Derivatives		241	7
Employee benefits liabilities		135	131
Provisions for other liabilities and charges		112	112
		4 621	**4 687**
TOTAL LIABILITIES		**11 855**	**11 401**
TOTAL EQUITY AND LIABILITIES		**35 597**	**34 465**

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

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of profit or loss

	Note	Financial period for the 3 months ended 31 March 2014	for the 3 months ended 31 March 2013
Sales	A.IV.2	4 650	6 520
Cost of sales	A.IV.3	(3 664)	(4 467)
Gross profit		**986**	**2 053**
Selling costs	A.IV.3	(73)	(100)
Administrative expenses	A.IV.3	(252)	(235)
Other operating income	A.IV.4	163	305
Other operating costs	A.IV.5	(150)	(395)
Operating profit		**674**	**1 628**
Finance costs	A.IV.6	(49)	(76)
Profit before income tax		**625**	**1 552**
Income tax expense		(208)	(452)
Profit for the period		**417**	**1 100**
Profit for the period attributable to:			
shareholders of the Parent Entity		417	1 103
non-controlling interest		-	(3)
Earnings per share attributable to the shareholders of the Parent Entity for the reporting period (in PLN per share)			
- basic		2.09	5.52
- diluted		2.09	5.52

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

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of comprehensive income

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Profit for the period	**417**	**1 100**
Other comprehensive income:		
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met:		
Other comprehensive income from measurement of financial instruments		
Available-for-sale financial assets	159	72
Income tax	(30)	-
Cash flow hedging instruments	86	(59)
Income tax	(16)	11
Total other comprehensive income from measurement of financial instruments	**199**	**24**
Exchange differences from the translation of foreign operations statements	56	480
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	**255**	**504**
Other comprehensive income, which will not be reclassified to profit or loss:		
Actuarial gains/(losses) on post-employment benefits	6	(50)
Income tax	(1)	9
Total other comprehensive income, which will not be reclassified to profit or loss	**5**	**(41)**
Other comprehensive net income for the financial period	**260**	**463**
TOTAL COMPREHENSIVE INCOME	**677**	**1 563**
Total comprehensive income attributable to:		
shareholders of the Parent Entity	680	1 565
non-controlling interest	(3)	(2)

(amounts in tables in PLN million, 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							
	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	Equity attributable to non-controlling interest	Total equity
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**
At 1 January 2013	**2 000**	**235**	**19**	**(543)**	**19 971**	**21 682**	**232**	**21 914**
Total comprehensive income	**-**	**24**	**479**	**(41)**	**1 103**	**1 565**	**(2)**	**1 563**
Profit for the period	-	-	-	-	1 103	**1 103**	(3)	**1 100**
Other comprehensive income	-	24	479	(41)	-	**462**	1	**463**
At 31 March 2013	**2 000**	**259**	**498**	**(584)**	**21 074**	**23 247**	**230**	**23 477**

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

A. Interim condensed consolidated financial statements (continued)

Interim consolidated statement of cash flows

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Cash flow from operating activities		
Profit for the period	417	1 100
Adjustments to profit for the period:	1 668	701
Income tax recognised in profit or loss	208	452
Amortisation/Depreciation	401	368
(Reversal)/recognition of an impairment loss on available-for-sale financial assets, property, plant and equipment, intangible assets and loans	(3)	170
Interest and share in profits (dividends)	(19)	(9)
Foreign exchange (gains)/losses	(8)	24
Change in provisions	30	(5)
Change in assets/liabilities due to derivatives	512	63
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives	(124)	(48)
Other adjustments	10	-
Changes in working capital:	661	(314)
Inventories	(332)	(159)
Trade and other receivables	623	(340)
Trade and other payables	370	185
Income tax paid	(328)	(90)
Net cash generated from operating activities	**1 757**	**1 711**
Cash flow from investing activities		
Purchase of property, plant and equipment and intangible assets	(901)	(677)
Advances granted for purchase of property, plant and equipment and intangible assets	(11)	(30)
Proceeds from sale of property, plant and equipment and intangible assets	4	9
Purchase of financial assets from mine closure fund and tailing storage facilities restoration fund	(25)	(26)
Termination of deposits	1	29
Loans granted	(404)	(424)
Net cash used in investing activities	**(1 336)**	**(1 119)**
Cash flow from financing activities		
Proceeds from payment to capital from holders of non-controlling interest	2	-
Acquisition of non-controlling interest	(13)	-
Proceeds from bank and other loans	298	7
Repayments of bank and other loans	(275)	(1 045)
Payments of liabilities due to finance leases	(4)	(3)
Interest paid	(11)	(4)
Subsidies received	2	-
Net cash used in financing activities	**(1)**	**(1 045)**
Total net cash flow	**420**	**(453)**
Exchange gains on cash and cash equivalents	18	87
Movements in cash and cash equivalents	**438**	**(366)**
Cash and cash equivalents at beginning of the period	**864**	**2 629**
Cash and cash equivalents at end of the period	**1 302**	**2 263**
including restricted cash and cash equivalents	103	550

A. Interim condensed consolidated financial statements (continued)

Selected explanatory data

I. Principles applied in preparing the financial statements

1. Introduction

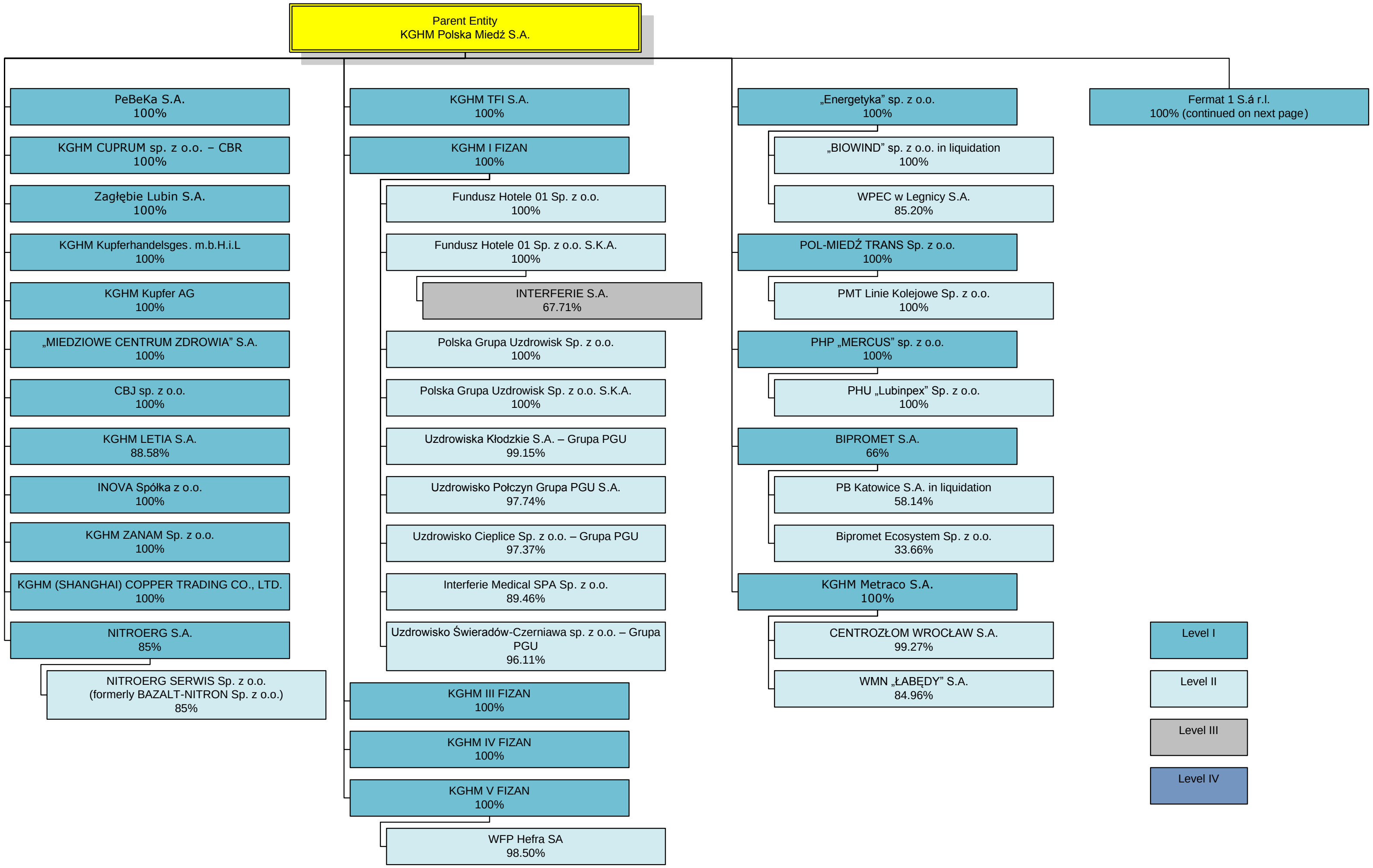
The Parent Entity of the KGHM Polska Miedź S.A. Group is KGHM Polska Miedź S.A. with its registered head office in Lubin, whose shares are traded on a regulated market. The core business of the Parent Entity is the production of copper and silver.

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 a supply network,
- 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.

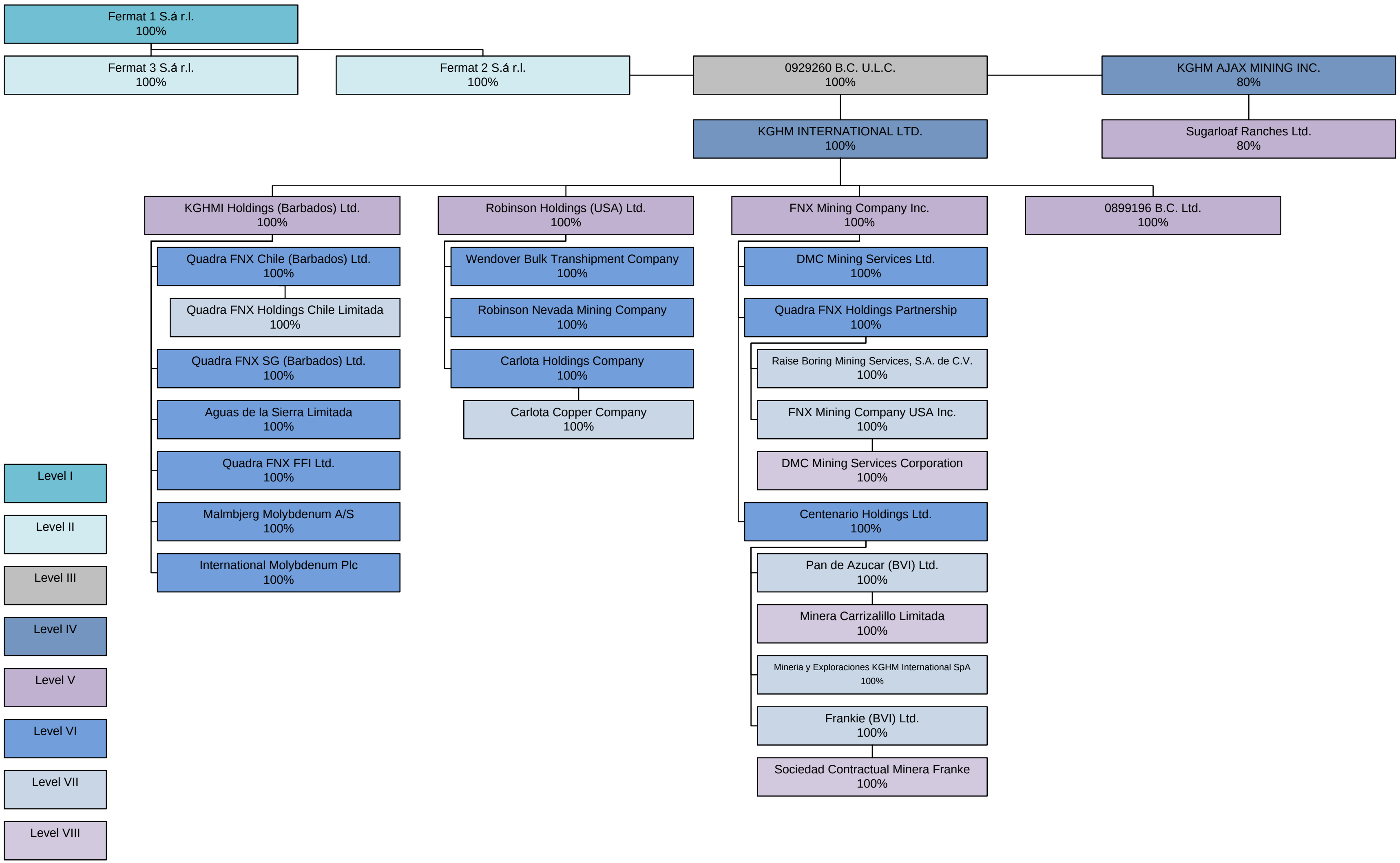
A. Interim condensed consolidated financial statements (continued)

2. Composition of the KGHM Polska Miedź S.A. Group at 31 March 2014



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 75 subsidiary entities (the subsidiaries of the Group are presented in part A.I.2), and three joint ventures (Sierra Gorda S.C.M., „Elektrownia Blachownia Nowa" sp. z o.o., NANO CARBON Sp. z o.o.) were accounted for using the equity method.

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 2014 and the comparable period from 1 January to 31 March 2013, 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 2014 and the comparable period from 1 January to 31 March 2013 **(Part C)**.

Neither the interim consolidated financial statements at 31 March 2014 nor the interim separate financial statements at 31 March 2014 were audited by a certified auditor.

3. Exchange rates applied

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

- for the calculation of turnover, profit or loss and cash flow for the current period, the rate of ***4.1894 PLNEUR*,***
- for the calculation of turnover, profit or loss and cash flow for the comparable period, the rate of ***4.1738 PLNEUR*,***
- for the calculation of assets, equity and liabilities at 31 March 2014, the rate of ***4.1713 PLNEUR,***
- for the calculation of assets, equity and liabilities at 31 December 2013, the rate of ***4.1472 PLNEUR.***

**the rates represent the arithmetic mean 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 2014 and 2013.*

4. Accounting policies

The condensed consolidated financial report for the period from 1 January 2014 to 31 March 2014 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 2013 and with the separate financial statements of KGHM Polska Miedź S.A. for the year ended 31 December 2013.

These financial statements have been prepared using the same principles for the current and comparable periods.

From 1 January 2014 the following standards and interpretations are binding for the Group:

- IFRS 10 Consolidated Financial Statements,
- IFRS 11 Joint Arrangements,
- IFRS 12 Disclosure of Interests in Other Entities,
- IAS 27 Separate Financial Statements,
- IAS 28 Investments in Associates and Joint Ventures,
- Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities,
- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities: Transition Guidance,
- Investment Entities – changes to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements,
- Amendments to IAS 36 Impairment of Assets,
- Amendments to IAS 39 Financial Instruments: Recognition and Measurement titled Novation of Derivatives and Continuation of Hedge Accounting,

The above changes to standards have been approved for use by the European Union up to the date of publication of these financial statements. Application of the above standards and amendments to standards did not have an impact on the accounting policy of the Group or on these consolidated financial statements.

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 22 million which was settled as an increase in other comprehensive income of PLN 6 million and a decrease in financial result of PLN 28 million,
(after reflecting the deferred tax effects, an increase in other comprehensive income of PLN 5 million, decrease in profit of PLN 23 million),

1.2 provision 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 12 million, which was settled as a decrease in the financial result of PLN 11 million and an increase of property, plant and equipment of PLN 1 million,

1.3 provisions for future employee remuneration costs together with charges of PLN 206 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 2014 amounted to PLN 522 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 is a change in the estimated value of the deferred tax asset and the deferred tax liability.

The deferred tax asset increased in the current quarter by PLN 74 million, and was settled as:
- an increase in profit of PLN 73 million,
- a decrease in other comprehensive income due to actuarial gains of PLN 1 million,
- an increase in other comprehensive income due to exchange differences from measurement of the deferred tax asset of subsidiaries with a functional currency other than PLN of PLN 2 million,

The deferred tax liability increased in the current quarter by PLN 60 million, and was settled as:
- an increase in profit of PLN 1 million,
- a decrease in other comprehensive income due to measurement of hedging financial instruments and available for sale financial assets of PLN 46 million,
- a decrease in other comprehensive income due to exchange differences from measurement of the deferred tax liability of subsidiaries with a functional currency other than PLN of PLN 15 million.

After offsetting the deferred tax asset and deferred tax liability, in the statements of financial position at the level of subsidiaries as at 31 March 2014, the deferred tax asset was set at PLN 460 million, while the deferred tax liability at PLN 1 721 million.

III. Financial assets

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

a) investment in the Sierra Gorda S.C.M. joint venture accounted for using the equity method
- an increase in the value of investment of PLN 27 million, due to translation of the investments value from the functional currency of the subsidiary (USD) to the functional currency of the Group (PLN) applying a USD/PLN exchange rate at 31 March 2014 which was higher than the exchange rate at 31 December 2013 (a change from 3.012 USDPLN to 3.0344 USDPLN),

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

– a decrease in the value of investments due to the elimination of unrealised gains, proportionally to the Group share, due to transactions between the Group entities and Sierra Gorda S.C.M. of PLN 39 million,

b) in available-for-sale financial assets an increase in the value of the asset due to gain from measurement of PLN 159 million, recognised in other comprehensive income.

c) in derivatives (assets and liabilities) – as a result of changes in macroeconomic factors, restructuring of positions, new transactions entered into on the currency market and settlement of derivative transactions falling in the first quarter of 2014, and in relation to the passage of time to maturity for unsettled transactions, the fair value of open positions in derivatives as at 31 March 2014 was decreased. As a result of measurement of derivatives as at 31 March 2014, the financial result for the first quarter of 2014 was decreased in the amount of PLN 62 million. Simultaneously, in the reporting period, other comprehensive income increased in the amount of PLN 86 million (excluding the deferred tax effect). As a result of realisation of derivatives, the financial result for the first quarter was increased in the amount of PLN 118 million (including: PLN 124 million was recognised in revenues from sales). For detailed information on derivatives of the Parent Entity see part C.III.5 of this report.

d) in long-term trade and other receivables – an increase in the balance of receivables due to a loan granted to the Sierra Gorda S.C.M. in the amount of USD 162 million (PLN 492 million at the USDPLN exchange rate of 3.0344 announced by the NBP as at 31 March 2014),

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 which are measured to fair value have not changed in comparison to the manner and techniques for measurement as at 31 December 2013.

There was no transfer by the Group of financial instruments between individual levels of 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.

IV. Selected additional explanatory notes

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

Purchase of property, plant and equipment and intangible assets

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Purchase of property, plant and equipment	468	418
Purchase of intangible assets*	213	32

* In the current quarter there was a significant increase in value of intangible assets in the Parent Entity, due to agreements entered into setting mining usufruct rights for the extraction of copper ore in the amount of PLN 150 million.

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

	At	
	31 March 2014	**31 December 2013**
Payables due to purchase of property, plant and equipment and intangible assets	312	423

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

A. Interim condensed consolidated financial statements (continued)

Capital commitments not recognised in the consolidated statement of financial position

	At	
	31 March 2014	**31 December 2013**
Purchase of property, plant and equipment	2 359	2 711
Purchase of intangible assets	22	38
Total capital commitments:	**2 381**	**2 749**

2. Sales

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Copper, nickel, precious metals, smelter by-products	4 076	5 690
Energy	54	49
Services	207	326
Mining machinery, transport vehicles for mining and other	2	9
Merchandise – smelter products	62	121
Other merchandise	13	33
Scrap and materials	62	29
Other finished goods	174	263
Total sales	**4 650**	**6 520**

3. Expenses by nature

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Depreciation of property, plant and equipment and amortisation of intangible assets	401	368
Employee benefit expenses	1 160	1 133
Materials and energy	1 950	2 165
External services	451	610
Taxes and charges	529	696
including the minerals extraction tax*	395	569
Other costs	35	41
Total expenses by nature	**4 526**	**5 013**
Cost of merchandise and materials sold (+)	111	177
Change in inventories of finished goods and work in progress (+/-)	(315)	(204)
Cost of manufacturing products for internal use (-)	(333)	(184)
Total cost of sales, selling costs and administrative expenses	**3 989**	**4 802**

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

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

A. Interim condensed consolidated financial statements (continued)

4. Other operating income

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Income and gains on financial instruments, classified under other operating activities, resulting from:	111	255
Measurement and realisation of derivatives	48	163
Interest	63	57
Foreign exchange gains	-	35
Management fee for Sierra Gorda S.C.M.	12	20
Release of unused provisions	2	2
Penalties and compensation	2	4
Government grants and other donations received	1	5
Other operating income/gains	35	19
Total other operating income	**163**	**305**

5. Other operating costs

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Costs and losses on financial instruments, classified under other operating activities, resulting from:	125	362
Measurement and realisation of derivatives	115	191
Foreign exchange losses	9	-
Impairment losses on financial assets	1	171
Losses on the sale of property, plant and equipment	7	4
Donations granted	-	16
Provisions for liabilities	3	4
Other operating costs/losses	15	9
Total other operating costs	**150**	**395**

6. Finance costs

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Interest expense:	37	35
On bonds	29	30
On bank loans and finance leases	8	5
Foreign exchange (gains)/losses on borrowings	(5)	26
Changes in provisions and liabilities arising from the approach of the maturity date of liabilities (unwinding of discount effect)	12	12
Other finance costs	5	3
Total finance costs	**49**	**73**

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

A. Interim condensed consolidated financial statements (continued)

7. Borrowings, debt securities and finance lease liabilities

	At	
	31 March 2014	31 December 2013
Non-current	**2 009**	**1 714**
Bank loans	449	162
Loans	4	5
Debt securities*	1 524	1 513
Finance lease liabilities	32	34
Current	**972**	**1 215**
Bank loans	916	1 186
Loans	3	3
Debt securities - interest	37	9
Finance lease liabilities	16	17
Total	**2 981**	**2 929**

* refers to the senior notes issued by KGHM INTERNATIONAL LTD.

8. Related party transactions

Operating income from related entities	Financial period	
	for the 3 months ended 31 March 2014	for the 3 months ended 31 March 2013
Associates and joint ventures*	72	64
Other related entities	9	13
Total sales to related entities	**9**	**14**

* The following significant transactions, which were recognised in other operating income, in the current reporting period related to:

- services rendered to support the process of management of Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD. in the amount of PLN 12 million,
- Interest income on a loan granted to Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD. in the amount of PLN 60 million.

In the comparable period, due to the above, income recognised in other operating income amounted to PLN 63 million.

Purchases from related entities	Financial period	
	for the 3 months ended 31 March 2014	for the 3 months ended 31 March 2013
From other related entities	11	13
Total purchases from related entities	**11**	**13**

Trade and other receivables from related entities	At	
	31 March 2014	31 December 2013
Loan granted to the jointly-controlled entity Sierra Gorda S.C.M.	3 895	3 378
From associates	-	1
From other related entities	14	2
Total receivables from related entities	**3 909**	**3 381**

A. Interim condensed consolidated financial statements (continued)

Trade and other payables towards related entities	At	
	31 March 2014	31 December 2013
Towards other related entities	6	6
Total payables towards related entities	**6**	**6**

Contingent liabilities	At	
	31 March 2014	31 December 2013
Guarantees granted to secure a contract for the supply of electricity and liabilities due to leases within the Sierra Gorda project	551	414
Security granted by KGHM INTERNATIONAL LTD. for the payment of future environmental liabilities of the Robinson mine	219	184
Total contingent liabilities	**770**	**598**

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

The remaining transactions, which were collectively significant, between the Group and the government and 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. These transactions involved the purchase by companies of the Group of materials and services to meet the needs of their current operating activities (fuel, energy, transport services). Turnover from these transactions for the period from 1 January 2014 to 31 March 2014 amounted to PLN 289 million (for the period from 1 January to 31 March 2013 – PLN 206 million), and the unsettled balance of liabilities from these transactions as at 31 March 2014 amounted to PLN 187 million (as at 31 December 2013 - PLN 36 million).

Remuneration of the Supervisory Board of the Parent Entity (in PLN '000)	Financial period	
	for the 3 months ended 31 March 2014	for the 3 months ended 31 March 2013
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	329	207
Total	**329**	**207**

Remuneration of the Management Board of the Parent Entity (in PLN '000)	Financial period	
	for the 3 months ended 31 March 2014	for the 3 months ended 31 March 2013
Salaries and other current employee benefits	2 205	1 969
Benefits due to termination of employment relationship	1 216	-
Total	**3 421**	**1 969**

Remuneration of other key management personnel (in PLN '000)	Financial period	
	for the 3 months ended 31 March 2014	for the 3 months ended 31 March 2013
Salaries and other short-term employee benefits	1 040	2 008
Total	**1 040**	**2 008**

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

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 liabilities not recognised in the statement of financial position were determined based on estimates.

	At 31 March 2014	Increase/(decrease) since the end of the last financial year
Contingent assets	**503**	**(29)**
Guarantees received	245	(3)
Disputed State budget issues	22	-
Promissory notes receivables	99	(27)
Inventions, implementation of projects	45	1
Real estate tax on mining facilities	87	-
Other	5	3
Contingent liabilities	**1 021**	**129**
Guarantees and collateral, of which:	785	165
Guarantees granted to secure a contract for the supply of electricity and liabilities due to leases within the Sierra Gorda project	551	137
security granted by KGHM INTERNATIONAL LTD. for the payment of future environmental liabilities of the Robinson mine	219	35
Promissory note liabilities	2	(13)
Disputed issues, pending court proceedings	48	(26)
Liabilities due to implementation of projects and inventions	124	1
Real estate tax on mining facilities	48	6
Other	14	(4)
Liabilities not recognised in the statement of financial position	**301**	**(7)**
Liabilities towards local government entities due to expansion of the tailings storage facility	188	1
liabilities due to operating leases	113	(8)

V. Strategy realisation

In the first quarter of 2014, KGHM Polska Miedź S.A. continued its path of growth in accordance with the approved development Strategy for the years 2009-2018. The key strategic initiatives of the Parent Entity are as follows:

- investments related to development aimed at improving the productivity of the core copper production business,
- projects to secure access to the resource base,
- projects in the energy sector, mainly in the power generation segment to ensure energy supply at an optimum price.

1. Improving productivity

With respect to improving the productivity of the core copper production business, KGHM Polska Miedź S.A. continued investments aimed at implementing the newest, environmentally-friendly and low-emission technology, which is applied in the global mining and metallurgical sector.

Amongst the most important development projects are the following:

- Development and implementation in the conditions prevalent in the mines of KGHM Polska Miedź S.A. of technology for the mechanical mining of the deposit**.** During the reporting period mine tests, begun in 2013, continued using the ACT mining complex at a research site of the pilot section in the Polkowice-Sieroszowice mine. Work was performed on improving construction elements of the mining complex. A positive conclusion of these tests will form the basis for taking a decision as to the implementation of this mechanical deposit mining technology.

A. Interim condensed consolidated financial statements (continued)

- The development of mines using combine teams**.** During the reporting period in the Polkowice-Sieroszowice mine, as part of the work to access the "Głogów Głęboki Przemysłowy" (Deep Głogów) deposit, preparatory drift work was performed using a team of three combines. Simultaneously, experience was gained and technical and economic assessment was performed of the implemented technology, as well as work related to optimising the technical and organisational structure of the combine section.

- Pyrometallurgy Modernisation Program at the Głogów smelter**.** In the first quarter of the current year, work continued on construction of the main elements of the flash furnace production line in the Głogów I Smelter, including the foundations and construction of the furnace hall, the power switching station for the main facilities and installations, and the electric furnace slag pouring reserve front. Work continued on the installation design and on contracting for equipment for individual parts of the production line.
  In addition, during Stage II of the project to intensify concentrate smelting at the Głogów II smelter, design work continued as well as the delivery of installation components (Scrubber, Sulphuric Acid Warehouse, and 110/6kV GSTII Power Station) planned for modernisation in the second half of 2014.

  With respect to ongoing installation design work, an important element of which is the optimisation of smelting assets in terms of their optimal adaptation to the geological conditions of the deposit being mined by KGHM Polska Miedź S.A., work continues on a means to eliminate or separate organic carbon from the concentrate produced by KGHM Polska Miedź S.A. Solution of this question will enable further cost and technical optimisation of smelter production.

  As a result of realisation of the comprehensive Pyrometallurgy Modernisation Program, the smelting assets of KGHM Polska Miedź S.A. will be capable of processing all of the concentrate produced by KGHM, as well as imported purchased concentrate as a supporting material for the one-stage copper smelting process. The concentrate mix in both smelters will be in conformance with the production forecast of KGHM Polska Miedź S.A. to the year 2029.

2. Development of the resource base

With respect to activities to secure access to the resource base, the Group is realising projects aimed at:
- exploration of new deposits in the region
- development of mine projects by KGHM INTERNATIONAL LTD.

With respect to the exploration of new deposits in the region, in the first quarter of 2014 the Parent Entity realised projects related to the exploration and documentation of deposit reserves based on concessions granted for the exploration of the following areas:
- Gaworzyce – Radwanice (a deposit which borders on the west of the areas currently being worked by the Polkowice-Sieroszowice mine) – the program of geological work was continued, under which surface geophysical surveys were performed. Conclusion of this work is planned to the end of 2014. Evaluation of the possibility of mining the copper ore deposit from this area will enable prolongation of the working life of the Polkowice-Sieroszowice mine.
- Synklina Grodziecka (a deposit located within the so-called Old Copper Belt near Bolesławiec) – work continued on stage two with geological work, projecting the drilling of 9 drillholes together with specialised orebody, hydrogeological and geological-engineering analyses. In the first quarter of 2014, work commenced on the sinking of two drillholes (by the end of 2013, 4 drillholes had been completed.) The completion of all planned drillholes is scheduled for 2014.
- Retków-Ścinawa and Głogów (a deposit located directly adjacent to the areas currently being mined by the Parent Entity) - in the first quarter of 2014 preparatory and organisational work was performed prior to the planned commencement of geological work based on the concessions obtained for these areas in 2013.
- Weisswasser (Saxony in Germany) – this project is being realised by the company KGHM Kupfer AG, a 100% subsidiary of KGHM Polska Miedź S.A. – in the first quarter of 2014 required permits were obtained for the performance of seismic surveys. Surface geological work (seismic and geophysical surveys) is planned in the second quarter of 2014.

A. Interim condensed consolidated financial statements (continued)

In addition, the Parent Entity continued administrative proceedings with respect to gaining concessions for the exploration and documentation of copper ore deposits:

- in January 2014, the Ministry of the Environment granted KGHM Polska Miedź S.A. a concession for exploration and assessment of the Konrad copper ore deposit which is directly adjacent to the Synklina Grodziecka concession and comprises the mining area of the old Konrad mine. Work on this area is enabling a comprehensive assessment of hydrogeological conditions for the project of de-watering the deposit and determining geological-mining conditions for future mining.

- on 28 January 2014, the Minister of the Environment issued the following decision in respect of KGHM Polska Miedź S.A.:

  - declining to grant a concession for the exploration and assessment of the „Bytom Odrzański" copper ore deposit. The concession for this area was granted to the company Leszno Copper sp. z o.o.

  - granting a concession for the exploration of the Kulów – Luboszyce copper ore deposit. The concession granted comprises only part of the area requested by KGHM Polska Miedź S.A., covering an area of 689.75 km^2 (950.89 km^2 were applied for). The remaining part, in the „Kotla" area, was granted to the company Leszno Copper Spółka z o.o.

  On 13 February 2014, KGHM Polska Miedź S.A. submitted appeals to the Minister of the Environment requesting a re-hearing of the concession applications. The process of appealing to the concession-granting authority is in progress.
- based on an application submitted in July 2013 to the Ministry of the Environment for the exploration and assessment of the Stojanów copper ore deposit, the Parent Entity is awaiting the granting of a concession as part of ongoing administrative proceedings. The area applied for, from the geological point of view, is an extension of the Weisswasser II area into Poland.

On 10 January 2014, KGHM Polska Miedź S.A. signed an agreement with Gdańskie Zakłady Nawozów Fosforowych FOSFORY Sp. z o.o. and the company Grupa Azoty Zakłady Azotowe „Puławy" S.A. regarding assumptions for cooperation with respect to exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals.

On 16 January 2014, KGHM Polska Miedź S.A. signed a letter of intent with the company Grupa Azoty S.A. with its registered head office in Tarnów, setting forth the general principles for the eventual undertaking of joint business activities in the following areas: processing of phosphogypsum, exploration for potassium salt deposits abroad, gaining access to sources of natural gas, construction of a polygeneration power plant, and exploration for and extraction of phosphorite. The Parties determined that eventual realisation of joint projects in individual areas would be realised based on detailed agreements or through the establishment of joint venture companies.

With respect to the development of its mining assets outside Poland, KGHM Polska Miedź S.A. continued to advance mining projects through the company KGHM INTERNATIONAL LTD.

- Sierra Gorda mine project in Chile (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%) – during the first stage of the project work continued on construction of the open-pit mine as well as technical handover. Work was completed on pre-stripping (including oxide ore) required to access the ore deposit. Altogether 33 million tonnes of oxide ore and around 710 thousand tonnes of sulphide ore have been stored in heaps. Realisation of the project is on schedule, with progress as at the end of the first quarter of 2014 at 94.52 %. Commencement of extraction is planned in mid-2014.

  In addition, work continued on the Sierra Gorda Oxide project, involving the processing of the oxide ore set aside during construction and development of the Sierra Gorda mine in an installation for recovering metal using SX/EW technology. In the first quarter of 2014, testing began on the leaching of material stored in heaps on a semi-industrial scale, with the tests comprising 18 thousand tonnes of high-grade copper ore and 8 thousand tonnes each of medium and low grade copper ore. The results of these tests will be used for the purposes of the project feasibility study under preparation.
- Victoria Project in the Sudbury Basin of Canada (KGHM INTERNATIONAL LTD. 100%) - in the first quarter of 2014 work was conducted on levelling the terrain for the purpose of constructing the mine's surface infrastructure. Work also commenced on excavating the incline for the first shaft. In addition, work commenced on developing an Integrated Development Study for the Victoria project, the equivalent of a Feasibility Study, one of whose elements is a detailed project schedule and operational plan. The project foresees the construction of an underground mine enabling the extraction of a polymetallic ore rich in copper, nickel and precious metals (mainly platinum and gold).
- Afton-Ajax project in British Columbia in Canada (KGHM Polska Miedź S.A. Group 80%, Abacus Mining and Exploration Corp. 20%) – the project is at the stage of acquiring required environmental and mining permits. Independently of this, engineering work is being continued on preparations for construction of the mine. Work is underway to acquire material for metallurgical and geotechnical analysis, as well as surface hydrogeological work. Work also continues on an alternative mine plan, one which will both maximise the value of the Afton-Ajax project as well as reduce its impact on the environment.

A. Interim condensed consolidated financial statements (continued)

3. Projects being realised in the energy sector

With respect to activities to ensure the energy security of KGHM Polska Miedź S.A., projects were continued to enable an increase in energy generation from internal generating resources as well as energy projects of a national scope, participation in which will help to assure energy supply for the Parent Entity at an optimum price.

- Construction of gas-steam blocks at the Głogów and Polkowice power plants **–** further work was performed related to the handover of operational documentation and of the gas-steam block at the Głogów power plant for operation. The expected date for handover of the Głogów gas-steam block for operation is the second quarter of 2014. The project will enable the optimisation of power and heating costs in KGHM Polska Miedź S.A. through the associated production of energy using internal generation capacity at the level of 560 000 MWh, all of which is designated to meet the power needs of the Parent Entity.

- Production of synthetic gas through the underground gasification of brown coal in the Copper Belt (LGOM**)** **–** A comprehensive analysis and interpretation was carried out on the results of geological, specialized and laboratory research acquired during Stage II of the project. Work is underway to develop a report on the criteria for selecting the deposits and on algorithms for assessing the orebody in terms of the technical possibilities of conducting the underground gasification of brown coal considering the susceptibility of the brown coal to gasification.

- Preparation for the construction and operation of the first Polish nuclear power plant
  In the first quarter of 2014, the parties to the draft Shareholders Agreement for PGE EJ1 sp. z o.o., initialled on 23 September 2013 by ENEA S.A., PGE Polska Grupa Energetyczna S.A., TAURON Polska Energia S.A. and KGHM Polska Miedź S.A., continued work on the project to prepare and build a nuclear power plant in Poland and to develop updated provisions for the draft Shareholders Agreement with appendices.

  On 28 January 2014, the Council of Ministers adopted by resolution the Polish Nuclear Energy Program, referred to in the initialled draft Shareholders Agreement as one of two conditions precedent for entering into the Agreement for the purchase of shares in PGE EJ1 sp. z o.o. At present the only condition precedent for entering into the Agreement for the purchase of shares in PGE EJ1 sp. z o.o. remains the receipt of a decision regarding the unconditional approval by the President of Office of Competition and Consumer Protection (UOKiK) to carry out the concentration.

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

A. Interim condensed consolidated financial statements (continued)

VI. VI. KGHM INTERNATIONAL LTD. – results

Production results by individual mines of KGHM INTERNATIONAL LTD. in the first quarter of 2014 and the first quarter of 2013.

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Copper production [kt], *of which:*	**19.1**	**29.5**
Robinson(1)	7.8	16.5
Morrison(3)	3.5	3.3
Franke(2)	4.9	4.8
Carlota(2)	2.6	2.5
Podolsky(3)	0.0	1.9
McCreedy West(3)	0.3	0.5
Nickel production [kt], *of which:*	**1.0**	**1.0**
Morrison(3)	0.7	0.5
Podolsky(3)	0.0	0.0
McCreedy West(3)	0.3	0.5
Precious metals production (gold, platinum, palladium) [koz], *of which:*	**15.9**	**28.3**
Robinson(1)	5.9	15.4
Morrison(3)	9.3	7.6
Podolsky(3)	0.0	3.9
McCreedy West(3)	0.7	1.4
C1 [USD/lb]*	**2.74**	**1.99**

(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, smelter treatment and refining charges (TC/RC) less by-product revenues*

In the first quarter 2014, copper production in KGHM INTERNATIONAL LTD. amounted to 19.1 thousand tonnes, meaning a decrease versus the comparable period of 2013 by 10.4 thousand tonnes (by 35%). The decrease was mainly due to production in the Robinson mine and was the result of:

- lower than planned extraction and low metal content in processed ore from the Kimbley deposit (at the start of 2013 the Robinson mine was extracting high grade ore from the Ruth pit),
- materials in the floatation feed negatively impacting floatation and processing parameters, and therefore the amount of copper in concentrate,
- delays in water and waste management permitting,
- a disruption to mill operation resulting in an unplanned shutdown.

Consequently, copper production by the Robinson mine was lower than the amount realised in the first quarter of 2013 by 8.7 kt (-53%). In addition, the decrease in production was also due to the ending of extraction by the Podolsky mine due to the exhaustion of economically viable resources (in the first quarter of 2013 this mine produced 1.9 kt of copper). Production in the remaining mines was slightly higher than or close to the amounts achieved in the prior year.

The unit C1 cash cost of copper production achieved in the first quarter of 2014 amounted to 2.74 USD/lb. The higher cost versus that recorded in the prior year was mainly due to the decrease in the volume of copper sales caused by the aforementioned geological and technological factors in the Robinson mine. In addition, also having an unfavourable impact on the C1 cost was the level of revenues from sales of by-products, due to the decrease in prices and the lower production of precious metals.

A. Interim condensed consolidated financial statements (continued)

Financial results of the KGHM INTERNATIONAL LTD. Group in the first quarter of 2014 and first quarter of 2013 (excluding the purchase price allocation).

	Financial period			
	for the 3 months ended 31 March 2014		for the 3 months ended 31 March 2013	
	PLN million*	**USD million**	**PLN million***	**USD million**
Net revenues from sales**	452	148	863	272
Profit (loss) from mining operations***	(70)	(23)	203	64
Adjusted EBITDA****	5	2	254	80
Profit (loss) for the period	(63)	(21)	48	15
Expenditures on property, plant and equipment and intangible assets	141	46	46	15
Funding of Sierra Gorda project	404	132	424	134

**data calculated using the arithmetic mean of current average exchange rates announced by the NBP on the last day of each month, respectively for the first quarter of 2013 and 2014*
***revenues from sales less TC/RC charges*
**** net revenues from sales less costs of sales and selling costs*
***** profit from mining operations increased by amortisation/depreciation, management fee for Sierra Gorda JV, less administrative expenses, impairment losses*

In the first quarter 2014, the KGHM INTERNATIONAL LTD. Group recorded a drop in net revenues from sales of PLN 411 million (USD 124 million, i.e. by 46%) mainly due to the decrease in sales of payable copper (due to the aforementioned decrease in production) and to a decrease in the average price of copper sold by 19%.

The aforementioned negative factors were the main cause of the decrease in adjusted EBITDA to the level of PLN 5 million (USD 2 million) and of the loss of PLN 63 million (USD 21 million) for the first three months of 2014.
To address the problems at the Robinson mine, steps were undertaken aimed at improving the financial situation in subsequent months by implementing a costs savings plan and by restricting investment expenditures at the Robinson mine, as well as throughout the entire KGHM INTERNATIONAL LTD. Group. The implemented program is aimed at improving financial cash flow in 2014.

In the first quarter of 2014, the KGHM INTERNATIONAL LTD. Group continued to advance the projects in its portfolio of mining assets: the pre-operational development project Sierra Gorda, located in northern Chile, as well as the exploration project Victoria in the Sudbury Basin of Canada. Information regarding the projects being advanced by KGHM INTERNATIONAL LTD. may be found in part A.V.2 of this report.

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 declared dividend, total and per share

The Management Board of KGHM Polska Miedź S.A. will recommend to the Ordinary General Meeting of KGHM Polska Miedź S.A. the payment of a dividend from profit for the financial year 2013 in the amount of PLN 1000 million, i.e. 5 PLN/share and will propose the following dividend-related dates:
- a right to dividend date of 8 July 2014,
- date of payment of the first dividend instalment of 2.50 PLN/share - 18 August 2014,
- date of payment of the second dividend instalment of 2.50 PLN/share - 18 November 2014.

The proposals of the Management Board were positively evaluated by the Supervisory Board of KGHM Polska Miedź S.A.
The final decision on the appropriation of profit of KGHM Polska Miedź S.A. for financial year 2013 and on the setting of a right to dividend date and dividend payment date will be made by the Ordinary General Meeting of KGHM Polska Miedź S.A.

All shares of the Parent Entity are ordinary shares.

A. Interim condensed consolidated financial statements (continued)

X. Operating segments

The main impact on the structure of assets and the generation of revenues in the KGHM Polska Miedź S.A. Group is from the Parent Entity and the KGHM INTERNATIONAL LTD. Group (a subgroup). 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 business segments were identified which are analysed in detail by management bodies. The identified business segments are simultaneously reporting segments:

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

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

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

A. Interim condensed consolidated financial statements (continued)

Reporting segments of the KGHM Polska Miedź S.A. Group

at 31 March 2014

KGHM Polska Miedź S.A.

KGHM INTERNATIONAL LTD. Group

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

Sierra Gorda project

Sierra Gorda S.C.M.

Resource base development

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

Support of the core business

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

Other segments

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

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

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

A. Interim condensed consolidated financial statements (continued)

	Financial period for the 3 months ended 31 March 2014								
	KGHM Polska Miedź S.A.	**KGHM INTERNATIONAL LTD.**	**Sierra Gorda project*** **	**Resource base development**	**Support of the core business**	**Other segments**	**Adjustment restating to measurement/ principles under IFRS**	**Consolidation adjustments**	**Total**
Sales	3 800	452	-	-	1 271	569	-	(1 442)	**4 650**
Inter-segment sales	80	-	-	-	1 138	225	-	(1 443)	**-**
External sales	3 720	452	-	-	133	344	-	1	**4 650**
Operating costs	(3 024)	(558)	-	(1)	(1 240)	(574)	(26)	1 434	**(3 989)**
Depreciation/Amortisation	(206)	(110)	-	-	(40)	(18)	(29)	2	**(401)**
Operating profit/(loss)	718	(32)*	-	-	34*	33*	(26)	(53)	**674**
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 March 2014								
Segment assets, including:	**30 014**	**11 497**	**8 084**	**474**	**2 851**	**1 996**	**(5 432)**	**(13 887)**	**35 597**
investments accounted for using the equity method	33	1 460**	-	-	-	2	2 213	-	**3 708**
Liabilities	**6 002**	**3 884**	**6 520**	**35**	**1 051**	**541**	**(5 514)**	**(664)**	**11 855**
Other information	Financial period for the 3 months ended 31 March 2014								
Expenditures on property, plant and equipment and intangible assets	569	141	923	32	28	11	(923)	(8)	**773**
EBITDA (operating profit plus depreciation/amortisation)	**924**	**78**			**74**				
% of sales to KGHM Polska Miedź S.A.					**85%**				
Production and cost data									
Payable copper (kt)	143.2	19.1							
- including from purchased copper-bearing materials (kt)	29.6	-							
Nickel (kt)	-	1.0							
Molybdenum (kt)	-	0.1							
Silver (t)	277.5	0.3							
Gold (k troz)	7.9	7.7							
Platinum (k troz)	-	2.3							
Palladium (k troz)	-	5.9							
C1 cash cost of copper in concentrate production (USD/lb)****	1.77	2.74							

„Adjustment restating to measurement/principles under IFRS" – respecting adjustment to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 31 March 2014 for the item in the consolidated statement of financial position and from 1 January to 31 March 2014 for the item in the consolidated statement of profit or loss
* result analysed in a given segment
** Sierra Gorda S.C.M. accounted for using the equity method
*** 55% share of the Group in Sierra Gorda S.C.M.
**** C1 cash cost of copper production - cash cost of payable copper production, reflecting ore mining and processing costs, minerals extraction tax, transport costs, mining phase administrative expenses, smelter treatment and refining charges (TC/RC) less by-product revenues.

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

A. Interim condensed consolidated financial statements (continued)

Information on segments for the comparable period

Financial period for the 3 months ended 31 March 2013 - restated

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda project ***	Resource base development	Support of the core business	Other segments	Adjustment restating to measurement/ principles under IFRS	Consolidation adjustments	Total
Sales	5 106	863	-	-	1 382	660	-	(1 491)	**6 520**
Inter-segment sales	73	-	-	-	1 175	245	-	(1 493)	**-**
External sales	5 033	863	-	-	207	415	-	2	**6 520**
Operating costs	(3 557)	(716)	-	(2)	(1 351)	(656)	(123)	1 603	**(4 802)**
Depreciation/Amortisation	(209)	(99)	-	-	(32)	(20)	(123)	115	**(368)**
Operating profit/(loss)	1 473	129*	-	(2)	39*	9*	(123)	103	**1 628**
Profit/(loss) before income tax	**1 438**	**94**	**-**	**(2)**	**32**	**5**	**(123)**	**108**	**1 552**
Income tax expense	(379)	(47)	-	-	(10)	(3)	16	(29)	**(452)**
Profit/(loss) for the period	**1 059***	**47***	**-**	**(2)**	**22**	**2***	**(107)**	**79**	**1 100**
					At 31 December 2013 - restated				
Segment assets	**29 038**	**11 270**	**7 381**	**484**	**2 647**	**2 365**	**(4 418)**	**(14 302)**	**34 465**
Investments accounted for using the equity method	32	1 488**	-	-	-	2	2 198	-	**3 720**
Liabilities	**5 740**	**3 652**	**5 828**	**33**	**1 234**	**573**	**(4 709)**	**(950)**	**11 401**
Other information									
Expenditures on property, plant and equipment and intangible assets	313	46	567	16	74	18	(567)	(2)	**465**
EBITDA (operating profit plus depreciation/amortisation)	**1 682**	**228**			**71**				
% of sales to KGHM Polska Miedź S.A.					**81%**				
Production and cost data									
Payable copper (kt)	142.3	29.5							
- including from purchased copper-bearing materials (kt)	36.0	-							
Nickel (kt)	-	1.0							
Molybdenum (kt)	-	0.1							
Silver (t)	279.8	-							
Gold (k troz)	7.4	18.0							
Platinum (k troz)	-	3.8							
Palladium (k troz)	-	6.5							
C1 cash cost of copper in concentrate production (USD/lb)****	1.72	1.99							

„Adjustment restating to measurement/principles under IFRS" – respecting adjustment to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 31 December 2013 for the item in the consolidated statement of financial position and from 1 January to 31 March 2013 for the item in the consolidated statement of profit or loss
* result analysed in a given segment
** Sierra Gorda S.C.M. accounted for using the equity method
*** 55% share of the Group in Sierra Gorda S.C.M.
**** C1 cash cost of copper production - cash cost of payable copper production, reflecting ore mining and processing costs, minerals extraction tax, transport costs, mining phase administrative expenses, smelter treatment and refining charges (TC/RC) less by-product revenues.

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

A. Interim condensed consolidated financial statements (continued)

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

The geographical breakdown reflects the location of end clients.

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Poland	1 165	1 232
Germany	866	1 039
China	481	918
The Czech Republic	387	425
The United Kingdom	348	828
France	263	163
Italy	200	185
Canada	178	327
Hungary	148	179
Turkey	111	173
The USA	86	225
Switzerland	75	115
Austria	62	70
Slovakia	42	24
Australia	41	-
Belgium	40	59
Romania	32	36
Bulgaria	21	8
Finland	10	6
Slovenia	7	11
Bosnia and Herzegovina	5	9
Ukraine	5	5
Denmark	-	30
South Korea	-	42
Other countries (dispersed sale)	77	411
Total	**4 650**	**6 520**

Main customers

During the period from 1 January 2014 to 31 March 2014, and in the comparable period, the revenues from no single customer exceeded 10% of the revenues of the Group.

59.88% of the non-current assets of the Group are located in Poland. The remaining 40.12% of the non-current assets are located in the following countries: Chile – 19.19%; Canada – 15.98%; the USA – 4.53%; other countries – 0.42%.

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.

Combination of jointly controlled companies

On 21 January 2014 the General Meeting of KGHM Metraco S.A. and the General Meeting of KGHM Ecoren S.A. decided to combine the companies through a takeover of KGHM Ecoren S.A. by KGHM Metraco S.A. On 31 January 2014 an entry about the combination was made in the National Court Register. From the day of combination KGHM Metraco S.A. will continue the activities previously carried out by KGHM Ecoren S.A.

On 22 January 2014 there was a combination of subsidiaries of KGHM INTERNATIONAL LTD. Group Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd., Volcanes (BVI) Ltd. and takeover by Centenario Holdings Ltd. These actions were undertaken in order to simplify the KGHM INTERNATIONAL LTD. Group structure by dissolving subsidiaries whose activities are not related to the core business operations of KGHM INTERNATIONAL LTD.

The aforementioned transactions did not impact the consolidated financial statements.

A. Interim condensed consolidated financial statements (continued)

Acquisition of employee shares

In the first quarter of 2014, the Group performed an acquisition of employee shares in the following subsidiaries:

- Uzdrowiska Kłodzkie S.A. – Grupa PGU, representing 6.58% of the company's share capital,
- Uzdrowisko Połczyn Grupa PGU S.A., representing 6.36% of the company's share capital,
- Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, representing 4.7% of the company's share capital,
- Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU, representing 8.38 % of the company's share capital,
- CENTROZŁOM WROCŁAW S.A., representing 0.63% of the company's share capital,

The total value of shares purchased is PLN 13 million and decreased put option liabilities for employee shares in the consolidated financial statements.
Simultaneously, a decrease in equity attributable to non-controlling interest of PLN 19 million was performed by a settlement of capital from valuation of the put option for employee shares in the amount of PLN 19 million (equity from initial recognition of put option liabilities in retained earnings).

Acquisition of these shares represents realisation of an obligation due to an irrevocable purchase offer submitted as part of a sales agreement by the State Treasury of all remaining shares acquired by employees during the privatisation of the aforementioned companies.

Other changes in the Group's structure in the first quarter of 2014 in the financial statements were immaterial.

XII. Subsequent events

Issuance of a bank guarantee to secure environmental liabilities of the Parent Entity

On 24 April 2014, at the request of KGHM Polska Miedź S.A., a bank cooperating with the Parent Entity issued a guarantee in the amount of PLN 320 million, securing liabilities of the Parent Entity towards the Lower Silesian Voivodeship.
The guarantee was issued to ensure that the obligations of the Parent Entity, arising from art. 32 section 1 of the law of 10 July 2008 on mining wastes, which puts on the wastes' owner which operates the tailings storage facility an obligation to meet certain requirements concerning the closure of the tailings storage facility and restoration of the terrain.

Conclusion to the collective dispute with the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego

On 29 April 2014, the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego resumed a collective dispute after prior suspension (information in part C.III.1. of this report). On 12 May of the current year an agreement was signed, acknowledging as having been realized demands that were the subject of the dispute, with the exception of the demand concerning payment of a one-off bonus for 2013 due to compensation for the wage increase ratio. In terms of settling wages for the prior year, the Management Board is only prepared to consider compensation for the wage increase ratio, whose realisation was lower than agreed by 0.8%. The question of compensation for the wage increase ratio will be considered no later than to the date of adoption of a Management Board resolution on the payment of the annual bonus for 2013. The representatives of the trade union ZZPPM declare that a positive decision by the Management Board on the aforementioned issue will mean a definitive conclusion to the collective dispute.

Judgment of the Court of Appeal

The Court of Appeal in Wrocław, Section I Civil, as a result of an appeal filed by Waldemar Brus, in its judgment dated 12 May 2014 (case no. I ACa 344/14) changed the judgment of the Regional Court in Legnica Section VI Economic dated 2 December 2013, case no. VI GC 253/13, by repealing the resolution of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013 regarding the non-appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Józef Czyczerski elected by the employees of KGHM Polska Miedź S.A.

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

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 2014, 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 results for 2014.

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 prior consolidated quarterly report

At the date of publication of the consolidated report for the fourth quarter of 2013, i.e. at 28 February 2014, 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 consolidated report for the fourth quarter of 2013, 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 personnel 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 prior consolidated quarterly report

Based on the information held by KGHM Polska Miedź S.A., the number of shares of KGHM Polska Miedź S.A. owned by the persons serving as Members of the Management Board was as follows:

position/function	name	number of shares at the date of publication of the consolidated report for the fourth quarter of 2013	shares purchased during the period following publication of the report for the fourth quarter of 2013	shares sold during the period following publication of the consolidated report for the fourth quarter of 2013	number of shares at the date of preparation of the consolidated report for the first quarter of 2014
President of the Management Board	Herbert Wirth	0	1900	0	1900
I Vice President of the Management Board	Jarosław Romanowski	0	1900	0	1900
Vice President of the Management Board	Marcin Chmielewski	93	1900	0	1993
Vice President of the Management Board	Jacek Kardela	0	1900	0	1900
Vice President of the Management Board	Wojciech Kędzia	0	1900	0	1900

Based on the information held by KGHM Polska Miedź S.A. both at the date of publication of the consolidated report for the fourth quarter of 2013 and at the date of preparation of this report, the persons serving as Members of the Supervisory Board did not own shares of KGHM Polska Miedź S.A. or rights to them.

List of proceedings being pursued in a court, an appropriate body for arbitration, or in a body of public administration

As at 31 March 2014, the total value of on-going proceedings before courts, bodies appropriate for arbitration proceedings and bodies of public administration 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 single or multiple transactions entered into by KGHM Polska Miedź S.A. or its subsidiary 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 2014 to 31 March 2014, 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.

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

Information on the granting by KGHM Polska Miedź S.A. or by its subsidiaries of collateral on credit or loans, or of guarantees – jointly to a single entity or subsidiary thereof if the total value of such collateral or guarantees represents the equivalent of at least 10% of the equity of KGHM Polska Miedź S.A.

During the period from 1 January 2014 to 31 March 2014, neither KGHM Polska Miedź S.A. nor its subsidiaries granted collateral on credit or loans, nor did they grant guarantees to a single entity or subsidiary thereof whose total value would represent at least 10% of the equity of KGHM Polska Miedź S.A.

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

In the first quarter of 2014 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 assessing the personnel situation and the ability to meet obligations.

Factors which will impact the results of the Group, at least in the following quarter

The largest impact on the results of the KGHM Polska Miedź S.A. Group is from the Parent Entity and, to a lesser extent, from the KGHM INTERNATIONAL LTD. Group.
As a result, through the Parent Entity, the most significant factors impacting the results of the Group, particularly in the following quarter, will be:
- copper and silver prices on the metals markets,
- the USD/PLN exchange rate,
- electrolytic copper production costs, including particularly due to the minerals extraction tax and the value of purchased copper-bearing materials used
- the effects of the hedging policy being realised.

The most significant factors impacting the results of the KGHM Polska Miedź S.A. Group, through the KGHM INTERNATIONAL LTD. Group, particularly in the following quarter, will be:
- copper, nickel and gold prices on the metals markets,
- the CLP/USD, CAD/USD and USD/PLN exchange rates, and
- mined copper production costs.

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

C. Quarterly financial information of KGHM Polska Miedź S.A.

Interim statement of financial position

	Note	At 31 March 2014	At 31 December 2013
Assets			
Non-current assets			
Property, plant and equipment		9 927	9 744
Intangible assets		440	273
Shares and investment certificates in subsidiaries		11 744	11 744
Interest in joint ventures		33	33
Deferred tax assets		119	98
Available-for-sale financial assets		968	809
Financial assets for mine closure and restoration of tailing storage facilities		204	178
Derivatives		290	342
Trade and other receivables		638	314
		24 363	**23 535**
Current assets			
Inventories		2 879	2 432
Trade and other receivables		1 692	2 475
Financial assets for mine closure		1	1
Derivatives		531	472
Cash and cash equivalents		548	123
		5 651	**5 503**
Total assets		**30 014**	**29 038**
Equity and liabilities			
Equity			
Share capital		2 000	2 000
Revaluation reserves from measurement of financial instruments		712	512
Actuarial gains/losses on post-employment benefits		(105)	(112)
Retained earnings		21 405	20 898
Total equity		**24 012**	**23 298**
Liabilities			
Non-current liabilities			
Trade and other payables		165	26
Derivatives		97	17
Employee benefits liabilities		1 437	1 423
Provisions for other liabilities and charges	C. II. 2	518	523
		2 217	**1 989**
Current liabilities			
Trade and other payables		2 498	2 431
Borrowings		862	1 123
Current corporate tax liabilities		42	50
Derivatives		241	6
Employee benefits liabilities		113	110
Provisions for other liabilities and charges	C. II. 2	29	31
		3 785	**3 751**
Total liabilities		**6 002**	**5 740**
Total equity and liabilities		**30 014**	**29 038**

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

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

Interim statement of profit or loss

	Note	Financial period for the 3 months ended 31 March 2014	Financial period for the 3 months ended 31 March 2013
Sales	C. II. 3	3 800	5 106
Cost of sales	C. II. 4	(2 822)	(3 393)
Gross profit		**978**	**1 713**
Selling costs	C. II. 4	(30)	(33)
Administrative expenses	C. II. 4	(172)	(131)
Other operating income	C. II. 5	67	225
Other operating costs	C. II. 6	(125)	(301)
Operating profit		**718**	**1 473**
Finance costs	C. II. 7	(6)	(35)
Profit before income tax		**712**	**1 438**
Income tax expense		(205)	(379)
Profit for the period		**507**	**1 059**
Earnings per share during the period (in PLN per share)			
- basic		2.54	5.30
- diluted		2.54	5.30

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

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

Interim statement of comprehensive income

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Profit for the period	**507**	**1 059**
Other comprehensive income:		
Other comprehensive income, which will be reclassified to profit or loss when specific conditions are met		
Other comprehensive income from measurement of financial instruments:		
Available-for-sale financial assets	160	-
Income tax related to available-for-sale financial assets	(30)	-
Cash flow hedging instruments	86	(60)
Income tax related to cash flow hedging instruments	(16)	12
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	**200**	**(48)**
Other comprehensive income, which will not be reclassified to profit or loss		
Actuarial gains/(losses)	8	(50)
Income tax related to actuarial gains/losses	(1)	9
Total other comprehensive income, which will not be reclassified to profit or loss	**7**	**(41)**
Other comprehensive net income for the financial period	**207**	**(89)**
TOTAL COMPREHENSIVE INCOME	**714**	**970**

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

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 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**
At 1 January 2013	**2 000**	**286**	**(519)**	**20 156**	**21 923**
Total comprehensive income	-	(48)	(41)	1 059	**970**
Profit for the period	-	-	-	1 059	**1 059**
Other comprehensive income	-	(48)	(41)	-	**(89)**
At 31 March 2013	**2 000**	**238**	**(560)**	**21 215**	**22 893**

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

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

Interim statement of cash flows

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Cash flow from operating activities		
Profit for the period	507	1 059
Total adjustments to profit for the period:	1 457	490
Income tax recognised in profit or loss	205	379
Amortisation/Depreciation	206	209
Losses on sale of property, plant and equipment and intangible assets	4	2
Interest	(1)	-
Foreign exchange (gains)/losses	(9)	23
Change in provisions	25	(10)
Change in assets/liabilities due to derivatives	519	62
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives	(124)	(49)
Impairment losses on available for sale financial assets	1	86
Changes in working capital:	631	(212)
Inventories	(447)	(26)
Trade and other receivables	780	(243)
Trade and other payables	298	57
Income tax paid	(283)	(39)
Net cash generated from operating activities	**1 681**	**1 510**
Cash flow from investing activities		
Purchase of shares in subsidiaries	-	(7)
Purchase of property, plant and equipment and intangible assets	(651)	(505)
Advances granted for purchase of property, plant and equipment and intangible assets	(11)	(24)
Proceeds from sale of property, plant and equipment and intangible assets	4	2
Purchase of financial assets from mine closure fund and tailing storage facilities restoration fund	(25)	(26)
Loans granted	(333)	(118)
Repayments of loans granted	1	-
Interest received	1	-
Other investment (expenses)/proceeds	(1)	1
Net cash used in investing activities	**(1 015)**	**(677)**
Cash flow from financing activities		
Repayments of bank loans	(257)	(1 038)
Interest paid	(1)	(1)
Net cash used in financing activities	**(258)**	**(1 039)**
Total net cash flow	**408**	**(206)**
Exchange gains on cash and cash equivalents	17	5
Movements in cash and cash equivalents	**425**	**(201)**
Cash and cash equivalents at beginning of the period	**123**	**707**
Cash and cash equivalents at end of the period	**548**	**506**

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

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.

II. Additional notes

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

Purchase of property, plant and equipment and intangible assets

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Purchase of property, plant and equipment	390	299
Purchase of intangible assets*	168	6

*In the current quarter there was a significant increase in value of intangible assets in the Parent Entity, due to agreements entered into setting mining usufruct rights for the extraction of copper ore in the amount of PLN 150 million

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

	At	
	31 March 2014	**31 December 2013**
Payables due to purchase of property, plant and equipment and intangible assets	440	591

Capital commitments not recognised in the interim statement of financial position

	At	
	31 March 2014	**31 December 2013**
Purchase of property, plant and equipment	4 875	4 989
Purchase of intangible assets	24	78
Total capital commitments	**4 899**	**5 067**

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

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

2. Changes in provisions for other liabilities and charges

	TOTAL	Decommissioning costs of mines and other facilities, and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
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

	TOTAL	Decommissioning costs of mines and other facilities, and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
Provisions at 1 January 2013	**754**	**734**	**20**
Recognition and updating of estimates	**174**	166	8
Utilisation	**(12)**	(10)	(2)
Adjustment of contribution to Special Purpose Funds	**(33)**	(33)	-
Release and updating of estimates	**(329)**	(328)	(1)
Provisions at 31 December 2013	**554**	**529**	**25**
of which:			
Non-current provisions	**523**	520	3
Current provisions	**31**	9	22

3. Sales

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Copper, precious metals, smelter by-products	3 727	5 026
Salt	16	25
Merchandise	15	19
Services	23	19
Scrap and production materials	16	14
Other finished goods	3	3
Total	**3 800**	**5 106**

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

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

4. Expenses by nature

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Depreciation of property, plant and equipment and amortisation of intangible assets	206	209
Employee benefit expenses	750	711
Materials and energy	1 496	1 627
External services	341	370
Taxes and charges	493	655
including the minerals extraction tax*	395	569
Other costs	14	14
Total expenses by nature	**3 300**	**3 586**
Cost of merchandise and materials sold (+)	30	31
Change in inventories of finished goods and work in progress (+/-)	(269)	(21)
Cost of manufacturing products for internal use (-)	(37)	(39)
Total cost of sales, selling costs and administrative expenses	**3 024**	**3 557**

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

5. Other operating income

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Income and gains on financial instruments, classified under other operating activities, resulting from:	46	206
Measurement and realisation of derivatives	40	160
Interest	6	12
Foreign exchange gains	-	34
Release of unused provisions	1	1
Other operating income/gains	20	18
Total other operating income	**67**	**225**

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

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

6. Other operating costs

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Costs and losses on financial instruments, classified under other operating activities, resulting from:	112	275
Measurement and realisation of derivatives	110	189
Foreign exchange losses	1	-
Impairment losses on available-for-sale financial assets and allowances for impairment of other receivables	1	86
Losses on the sale of property, plant and equipment and intangible assets	4	2
Donations granted	-	16
Provisions recognised	-	3
Other operating costs/losses	9	5
Total other operating costs	**125**	**301**

7. Finance costs

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Foreign net exchange (gains)/losses on borrowings	(5)	25
Changes in provisions arising from the approach of the maturity date of liabilities (unwinding of discount effect)	8	9
Interest expense	2	1
Other finance costs	1	-
Total finance costs	**6**	**35**

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

8. Related party transactions

	Financial period	
	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Revenues from sales to related entities	98	93
Purchases from related entities	1 293	1 351

	At	
	31 March 2014	**31 December 2013**
Receivables from related entities due to sales of products, services , merchandise, materials and non-current assets	748	545
Payables towards related entities due to purchase of products, services , merchandise, materials and non-current assets	465	495

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

The remaining transactions, which were collectively significant, between the Company and the government and with entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, and were carried out at arm's length. These transactions involved the purchase of materials and services to meet the needs of its current operating activities (fuel, energy, transport services). Turnover from these transactions in the period from 1 January 2014 to 31 March 2014 amounted to PLN 259 million (for the period from 1 January 2013 to 31 March 2013 – PLN 192 million), the unsettled balance of liabilities from these transactions as at 31 March 2014 amounted to PLN 182 million (as at 31 December 2013: PLN 30 million), and the unsettled balance of receivables as at 31 March 2014 amounted to PLN 8 million (as at 31 December 2013: PLN 5 million). Revenues from sales from State Treasury companies in the period from 1 January 2014 to 31 March 2014 amounted to PLN 17 million (for the period from 1 January 2013 to 31 March 2013 – PLN 16 million).

	Financial period	
Remuneration of the Supervisory Board (in PLN '000)	**for the 3 months ended 31 March 2014**	**for the 3 months ended 31 March 2013**
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	329	207
Total	**329**	**207**

	Financial period	
Remuneration of the Management Board (in PLN '000)	**for the 3 months ended 31 March 2014**	**for the 3 months ended 31 March 2013**
Salaries and other current employee benefits	2 205	1 969
Benefits due to termination of employment relationship	1 216	-
Total	**3 421**	**1 969**

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

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 liabilities not recognised in the statement of financial position were determined based on estimates.

	At 31 March 2014	Increase/(decrease) since the end of the last financial year
Contingent assets	**461**	**(3)**
Guarantees received	209	(4)
Promissory notes receivables	120	-
Inventions, implementation of projects	45	1
Real estate tax on mining facilities	87	-
Contingent liabilities	**760**	**569**
Guarantees*	562	552
Disputed issues, pending court proceedings	26	10
Liabilities due to implementation of projects and inventions	124	1
Real estate tax on mining facilities	48	6
Liabilities not recognised in the statement of financial position		
Liabilities towards local government entities due to expansion of the tailings storage facility	188	1
Liabilities due to operating leases	19	-

* In the current quarter there was a significant increase in liabilities due to a letter of credit issued and guarantees granted. The most significant positions are:

- a letter of credit issued by HSBC Bank plc in the amount of USD 137.5 million (PLN 417 million), securing liabilities of KGHM INTERNATIONAL LTD. towards the beneficiary Empresa Electrica Cochrane SPA due to a contract for the purchase of electricity entered into between Sierra Gorda SCM and Empresa Electrica Cochrane SPA. According to the contract the sponsors of the Sierra Gorda project are obliged to secure the transaction in the form of a guarantee or letter of credit. As at 8 January 2014, the Company assumed from KGHM INTERNATIONAL LTD. the obligation to meet this requirement.
- A corporate guarantee for Caterpillar Leasing Chile S.A. in the amount of USD 44.3 million (PLN 134 million), securing liabilities of Sierra Gorda due to leasing of 4 excavators.

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

Głogów Głęboki Przemysłowy (Deep Głogów)

On 1 April 2014, at a depth below 1200 meters, the first mining section in the Głogów Głęboki-Przemysłowy (Deep Głogów or GG-P) concession area was opened in the Rudna mine.

The deposit in this area will be mined through two existing mines: Rudna and Polkowice-Sieroszowice. Gaining access to the GG-P orebody enables the Company to prolong mining operations in Poland from its own deposit for the next 30–40 years.

The accessing and preparatory work related to opening the first mining section in the GG-P concession area began in 2010. The scope of this work included among others the development of access drifts, the construction of heavy machinery chambers and the development of ventilation and air cooling infrastructure.

In December of the previous year the first bucket of rock was extracted from the sinking of the GG-1 ventiliation shaft. This shaft is being built in stages and will be completed in 2019. This will be the deepest of the 31 shafts in the Polish Copper Belt, with a target depth of 1340 meters and a width of 7.5 meters.

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

In the years 2004–2014 total capital expenditures to access the deposit in the GG-P concession area amounted to PLN 931 million. Estimated deposit reserves in this area amount to over 290 million tonnes of ore, with an average copper grade in deposit of 2.4%. In 2014 production from this area, being part of the plan of the Rudna mine, will amount to around 1 million tonnes of ore and around 14.5 thousand tonnes of electrolytic copper. The mining of this area will be conducted through the Rudna and Polkowice-Sieroszowice mines. At the peak of production, i.e. in the years 2028–2035, production from this area will amount to 10–11 million tonnes of ore and 200–220 thousand tonnes of electrolytic copper annually.

Collective dispute with the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego

In the month of October 2013, the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego announced the following wage demands: payment of a one-off bonus for all employees in the amount of 100% of monthly remuneration, an additional contribution to the Social Fund in the amount of PLN 500 per employee, setting the salary increase factor at a min. 5% level and reconstruction of the table of basic wages.

Due to the lack of an agreement with the Management Board in this regard, the trade union in the month of November initiated a collective dispute, with respect to which negotiations were held. Following the signing by the Management Board with all of the trade unions of Additional Protocol No. 15 to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A., the trade union declared that this does not conclude the collective dispute, demanding further amendments to appendix no. 11 to the Collective Labour Agreement outlining the principles for calculating the annual bonus on profit earned.

Representatives of the Management Board of KGHM Polska Miedź S.A. and the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego decided to suspend the collective dispute from 13 February 2014. The dispute was suspended until the holding of a Parliamentary debate and further decisions by Parliament regarding the minerals extraction tax, no longer however than to the end of April of the current year.

Information on events regarding the above after 31 March 2014 may be found in Part A.XII.

Other significant events covered by current reports

Judgment of the Court in a case on declaring a resolution of the General Meeting invalid.

The Regional Court in Legnica, Section VI Economic, regarding a suit filed by Józef Czyczerski, "requesting that Resolution No. 35 of the Ordinary General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin dated 19 June 2013, regarding the failure to adopt a resolution on the appointment to the Supervisory Board of KGHM Polska Miedź S.A. of Józef Czyczerski elected by the employees of KGHM PM S.A., be declared invalid" on 27 January 2014 issued a judgement in which it dismissed the suit of the plaintiff.

Change in a significant contract with Polskie Górnictwo Naftowe i Gazownictwo SA

On 30 January 2014 an annex was signed to the comprehensive contract for the purchase of fuel gas („the Contract"), entered into on 30 July 2010 with Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG).
The contract from 2010 involves the purchase of natural gas for power generation purposes – to supply two Gas-Steam Blocks, each of approx. 45 MWe, and is valid to 30 June 2033. Based on the annex, the annual volume to be supplied was reduced from 266 million m^3 to 41.5 million m^3. This change is due to the limitation by KGHM Polska Miedź S.A. in the generation of electricity in association with heat production due to changes in the system of support for cogeneration in 2013 as well as to low electricity prices. The estimated value of this Contract after signing the annex is approx. PLN 830 million. The parties do not preclude a return to the initial volume of supply following improvements in the regulatory environment and in macroeconomic conditions.

Also, annexes were signed for three other contracts for the purchase of fuel gas from PGNiG: i) a contract dated 25 September 2001, ii) a contract dated 4 January 1999, and iii) a contract dated 1 October 1998. The only change in these contracts involved their period of validity, which was changed from being undefined to 30 June 2033. The estimated value of the three contracts during their period of validity is approx. PLN 2.8 billion.

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 increased by PLN 70 million, of which:

- PLN 124 million represents a reclassification adjustment made at the time of impact of the hedged position on profit or loss,
- PLN 210 million represents a gain resulting from changes in fair value of the effective portion of hedging instruments,
- PLN 16 million represents tax from the above-mentioned items.

As a result of realisation and fair value re-measurement of derivatives there was an increase in financial result for the current quarter in the amount of PLN 54 million (of which: an increase in revenues from sales in the amount of PLN 124 million and a decrease in the result of other operating activities in the amount of PLN 70 million).

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

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

Available-for-sale financial assets

In the current quarter there was an increase in the fair value of available-for-sale financial assets above their carrying amount, which resulted in a reversal of impairment losses in the amount of PLN 160 million (recognised in previous periods) and increased other comprehensive income.

Property, plant and equipment and receivables

Due to the depreciation of property, plant and equipment and amortisation of intangible assets, operating costs were increased in the current quarter by PLN 206 million.

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

3. Type and amounts of changes in estimates

Provisions

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

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 provision of PLN 17 million which was settled as an increase in other comprehensive income of PLN 8 million and a decrease in financial result of PLN 25 million,

(after reflecting the deferred tax effects, an increase in other comprehensive income of PLN 7 million, decrease in profit of PLN 20 million),

3.2 provision for future costs of decommissioning (restoration) of the 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 provision of PLN 1 million, which was accounted for as a decrease in the financial result of PLN 7 million and as a decrease of property, plant and equipment of PLN 6 million.

3.3 provisions for future employee remuneration expenses together with charges of PLN 164 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 2014 amounted to PLN 444 million/.

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

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 asset and the deferred tax liability.

After offsetting the deferred tax asset and deferred tax liability, the deferred tax asset at the end of the reporting period was set at PLN 119 million.

/After offsetting the deferred tax asset and deferred tax liability, the deferred tax asset at 31 December 2013 was set at PLN 98 million/.

There was an increase in the deferred tax asset in the current quarter of PLN 85 million, which was settled:

- as an increase in profit PLN 87 million,
- as a decrease in other comprehensive income due to actuarial gains on post-employment benefits, PLN 2 million.

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

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

There was an increase in the deferred tax liability in the current quarter of PLN 64 million, of which the following was settled as:

– a decrease in profit,	PLN 17 million,
– a decrease in other comprehensive income due to measurement of hedging derivative instruments and available–for-sale financial assets	PLN 47 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 2014

In the first quarter of 2014, KGHM Polska Miedź S.A. produced 110 kt of copper in concentrate. Electrolytic copper production amounted to 143 kt, including 106 kt from own concentrate, and 278 t of metallic silver.

The most significant factors impacting the value of sales in the first quarter of 2014 were macroeconomic factors:
- copper prices on the London Metal Exchange (LME) at the average level of 7 041 USD/t,
- an average exchange rate of 3.06 USDPLN,
- average silver prices on the London Bullion Market (LBM) of 20.48 USD/troz,

and the sales volume of copper and copper products (138 kt), and of silver (220 t).

The **revenues from sales** achieved of PLN 3 800 million were lower by PLN 1 306 million, i.e. by 26% than those achieved in the comparable prior year period, mainly as a result of:
- a decrease in sales volume of copper (from 154 kt to 138 kt) and silver (from 303 t to 220 t), mainly due to rebuilding of inventory in the first quarter of 2014 (4 kt Cu and 57 t Ag) alongside sales from inventories of finished goods in the first quarter of 2013 (10 kt Cu and 23 t Ag).
- a decrease in copper prices (from 7 931 USD/t to 7 041 USD/t) and silver prices (from 30.11 USD/troz to 20.48 USD/troz),
- a change in USD/PLN exchange rate (from 3.15 USDPLN to 3.06 USDPLN)

In the first quarter of 2014, revenues from the sale of copper and copper products represented 83%, and silver 12% (in the comparable period of 2013 respectively: 77% and 19%) of total revenues from sales.

Expenses by nature in the first quarter of 2014 amounted to PLN 3 300 million, and were lower than those in the comparable prior year period by PLN 286 million, i.e. by 8%. Expenses were lower due to the cost of purchased copper-bearing materials used and the minerals extraction tax, mainly as a result of a decrease in copper prices and silver prices.

After excluding purchased copper-bearing materials (PLN 952 million) and the minerals extraction tax (PLN 395 million) expenses by nature amounted to PLN 1 952 million and were on the level of those in the comparable prior year period.

The pre-precious metals credit unit cost of electrolytic copper production (total cost prior to decrease by the value of precious metals) in the first quarter of 2014 amounted to 20 924 PLN/t, and decreased versus the first quarter of 2013 by 4% due to the lower value of purchased copper-bearing materials used. Taking into consideration the valuation of precious metals in anode slimes*, the total unit cost of copper production amounted to 15 954 PLN/t (in the comparable period 15 722 PLN/t).

** According to the new method of measuring by-products in the unit cost of electrolytic copper production - analogously to the methodology for C1 cost – the value of Ag and Au is equivalent to the revenues from the sales of these metals (controlling presentation). Until now the measurement included a sales profitability factor (accounting presentation).*

The pre-precious metals credit unit cost of electrolytic copper production from own concentrate amounted to 20 018 PLN/t (in the comparable period 20 456 PLN/t) alongside a similar volume of production from own concentrate and a lower minerals extraction tax by 280 PLN/t. The total unit cost of electrolytic copper production from own concentrate amounted to 13 971 PLN/t (in the comparable period 12 512 PLN/t).

C1 cost (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 revenues, calculated for payable copper in produced concentrate) was as follows: 1.72 USD/lb in the first quarter of 2013 and 1.77 USD/lb in the first quarter of 2014.

Total unit cost and C1 cost are significantly impacted by the lower value of by-products (Ag and Au) due to a decrease in precious metals prices.

Other operating activities showed a loss in the first quarter of 2014 of PLN 58 million, meaning an increase of the result versus the first quarter of 2013 by PLN 18 million, mainly due to impairment losses on financial assets in 2013 alongside worsening in 2014 of the result on exchange differences and on measurement and realisation of derivatives.

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

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

As a result of the above, **operating profit** in the first quarter of 2014 amounted to PLN 718 million and decreased versus the comparable period of 2013 by PLN 755 million.

KGHM Polska Miedź S.A. earned a **profit for the first quarter of 2014** of PLN 507 million, which was lower by 52% of that achieved in the first quarter of 2013.

EBITDA after the first three months of 2014 amounted to PLN 924 million (including depreciation/amortisation of PLN 206 million) and was lower by PLN 758 million than that in the comparable period of 2013.

5. Commodity and currency risk management in the Company

The management of market risk should be considered through analysis of the hedging position together with the item being hedged (hedged position). By hedging position is meant the position of the Company in derivatives. A hedged position comprises revenues from the physical sale of products.

The nominal of copper price hedging strategies settled in the first quarter of 2014 represented approx. 15% of the total sales of this metal realised by the Company. In the case of the currency market, approx. 24% of total revenues from metals sales realised by the Company during the period were hedged.

In the first quarter of 2014, the amount of PLN 124 million was recognised in revenues from sales (the amount transferred from revaluation reserve from measurement of cash flow hedging instruments to profit or loss), the amount of PLN 70 million decreased the result on other operating activities, of which PLN 1 million represented a loss due to the realisation of derivatives, while PLN 69 million represented a loss on the measurement of derivatives. The loss on the measurement of derivative transactions recognised in other operating activities, 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.

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

	for the 3 months ended 31 March 2014	**for the 3 months ended 31 March 2013**
Impact on sales	**124**	**49**
Impact on other operating activities	**(70)**	**(29)**
Losses from realisation of derivatives	(1)	(11)
Losses from measurement of derivatives	(69)	(18)
Total impact of derivatives on profit or loss for the period:	**54**	**20**

Revaluation reserve from measurement of cash flow hedging instruments	**At 31 March 2014**	**31 December 2013**
Commodity price risk hedging transactions (copper) – derivatives	342	161
Currency risk hedging transactions – derivatives	361	456
Total (excluding the deferred tax effect):	**703**	**617**

During the first quarter of 2014 there was an increase in other comprehensive income by PLN 86 million (excluding the deferred tax effect), comprised of:

- changes in fair value during the period recognised as an increase in revaluation reserve from measurement of the effective portion of cash flow hedging instruments, of PLN 210 million,
- the amount of PLN 124 million, decreasing the revaluation reserve from measurement of cash flow hedging instruments, transferred to increase revenues from sales, due to the settlement of the effective portion of hedging transactions.

In the first quarter of 2014, the Company did not implement any hedging strategies both on the copper and silver markets.

However, on the currency market in the reporting period, good market conditions were taken advantage of (strengthening of the PLN versus the USD) and a restructure was performed of the hedging position for the period from April to December 2014 by repurchasing seagull and collar options implemented in the fourth quarter of 2011 and in the second quarter of 2012, with a total notional of USD 540 million. The closure of the position and un-designation of the hedging transaction was reflected in the revaluation reserve from the measurement of derivatives in the amount of PLN 204 million, which will increase revenues from sales for the period from April to December 2014. Simultaneously put options were purchased with an execution exchange rate of USD/PLN 2.85, hedging revenues from sales in the same period (from April to December 2014) and for the same amount (USD 540 million). In addition, a restructure was performed of the hedging position for 2015 by reselling purchased put options with an execution exchange rate of USD/PLN 3.40 from the collar structure, implemented in the second

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

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

quarter of 2012, in the amount of USD 360 million. Simultaneously put options were purchased with an exchange rate of USD/PLN 2.70 for the same notional (USD 360 million) and for the same period (2015). The closure of the position and un-designation of the hedging transaction was reflected in the revaluation reserve from the measurement of derivatives in the amount of PLN 93 million, which will increase revenues from sales for 2015. In case of a significant strengthening of the Polish currency, revenues from sales will still be hedged for the same notional as they were before restructuring.

As at 31 March 2014 the Company remains hedged for a portion of copper sales planned for the period from April to December 2014 (60.75 kt) and for 2015 (42 kt). The Company does not hold any open hedging transactions on the silver market. With respect to revenues from sales (currency market) the Company holds a hedging position for the period from April to December 2014 (USD 720 million) and for 2015 (USD 600 million).

Presented below is condensed information on open hedging transactions, by type of hedged asset and instruments used as at 31 March 2014. The hedged nominal/volume in the presented periods is equally balanced on a monthly basis.

COPPER MARKET

	Instrument	**Volume** [tonnes]	**Option execution price** [USD/t]			**Average weighted premium** [USD/t]	**Effective hedge price** [USD/t]	**Limitations** [USD/t]	
			Sold call option	Purchased put option	Sold put option[1]			Participation limited to	Hedge limited to
II quarter of 2014	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
	Seagull	9 750	9 300	7 700	5 000	-281	7 419	9 300	5 000
	Total	**20 250**							
II half of 2014	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Seagull	19 500	9 300	7 700	5 000	-281	7 419	9 300	5 000
	Total	**40 500**							
TOTAL Apr-Dec 2014		**60 750**							
I half of 2015	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Total	**21 000**							
II half of 2015	Seagull	6 000	10 200	7 700	4 500	-332	7 368	10 200	4 500
	Seagull	15 000	10 300	7 800	4 500	-368	7 432	10 300	4 500
	Total	**21 000**							
TOTAL 2015		**42 000**							

CURRENCY MARKET

	Instrument	**Notional** [million USD]	**Option execution price** [USD/PLN]			**Average weighted premium** [PLN for USD 1]	**Effective hedge price** [USD/PLN]	**Limitations** [USD/PLN]	
			Sold call option	Purchased put option	Sold put option[1]			Participation limited to	Hedge limited to
II quarter of 2014	Collar	60	4.0000	3.2000	-	-0.0572	3.1428	4.0000	-
	Purchased put option	180	-	2.8500	-	-0.0117	2.8383	-	-
	Total	**240**	Closure of the position and un-designation of the hedging transactions was reflected in the revaluation reserve from the measurement of financial instruments in the amount of PLN 72 million, which will increase revenues from sales for the second quarter of 2014						
II half of 2014	Collar	120	4.0000	3.2000	-	-0.0554	3.1446	4.0000	-
	Purchased put option	360	-	2.8500	-	-0.0215	2.8285	-	-
	Total	**480**	Closure of the position and un-designation of the hedging transactions was reflected in the revaluation reserve from the measurement of financial instruments in the amount of PLN 132 million, which will increase revenues from sales for the second quarter of 2014						
TOTAL Apr-Dec 2014		**720**							

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

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

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

I 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	-
	Total[2]	**300**	Closure of the purchased put option USD/PLN 3.40 and un-designation of the hedging transactions was reflected in the revaluation reserve from the measurement of financial instruments in the amount of PLN 50 million, which will increase revenues from sales for the first half 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	-
	Total[2]	**300**	Closure of the purchased put option USD/PLN 3.40 and un-designation of the hedging transactions was reflected in the revaluation reserve from the measurement of financial instruments in the amount of PLN 43 million, which will increase revenues from sales for the second half of 2015						
TOTAL 2015		**600**							

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

As at 31 March 2014, the net fair value of open positions in derivatives amounted to PLN 483 million, of which PLN 486 million related to the positive fair value of the hedging instruments and PLN 332 million related to the negative fair value of trade instruments, while PLN 329 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 and payables due to unsettled derivatives as at 31 March 2013, are presented in the following table:

	At 31 March 2014		At 31 December 2013	
	Derivatives	**Receivables due to unsettled derivatives**[3]	**Derivatives**	**Receivables and (liabilities) due to unsettled derivatives**[4]
Financial assets	821	22	814	41
Financial liabilities	(338)	-	(23)	(19)
Fair value	**483**	**22**	**791**	**22**

[2] Excluded from the amount is the notional of *sold call options* (PLN 180 million for every half-year), which, from the risk profile point of view, represent a *collar strategy* together with *purchased put options* in the same notional amount. The strategy is not shown directly as a collar, as it arose as a result of a restructuring of the position and could not, from a formal point of view, be designated as such according to risk management principles.
3 Settlement date falls on 2 April 2014
4 Settlement date falls on 3 January 2014

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

Detailed information on positions in derivatives as at 31 March 2014 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 2014 [PLN '000]**

Type of derivative	Volume/ Notional Cu [t] Currency ['000 USD]	Avg. weighted price/ex. rate Cu [USD/t] Currency [USD/PLN]	Financial assets Current	Financial assets Non-current	Financial liabilities Current	Financial liabilities Non-current
Derivatives - Metals – Copper:						
Options						
Sold put options	102 750	4 642	-	-	(619)	(2 538)
TOTAL:			**-**	**-**	**(619)**	**(2 538)**
Derivatives – Currency contracts:						
Options USD						
Purchased call options	540 000	4.5000	-	-	-	-
Purchased put options	270 000	2.7000	968	-	-	-
Sold put options	1 170 000	3.2615	-	-	(239 666)	(90 105)
TOTAL:			**968**	**-**	**(239 666)**	**(90 105)**
TOTAL TRADE INSTRUMENTS			**968**	**-**	**(240 285)**	**(92 643)**

HEDGING INSTRUMENTS — **At 31 March 2014 [PLN '000]**

Type of derivative	Volume/ Notional Cu [t] Currency ['000 USD]	Avg. weighted price/ ex. rate Cu [USD/t] Currency [USD/PLN]	Maturity/ settlement period From	Maturity/ settlement period To	Period of impact on profit or loss From	Period of impact on profit or loss To	Financial assets Current	Financial assets Non-current	Financial liabilities Current	Financial liabilities Non-current
Derivatives – Metals- Copper										
Options										
Seagull	102 750	7 751 - 9 995	Apr 14-Dec 15		May 14- Jan 16		235 968	143 562	(370)	(2 492)
TOTAL:							**235 968**	**143 562**	**(370)**	**(2 492)**
Derivatives – Currency contracts										
Options USD										
Purchased put options	900 000	2.7900	Apr 14-Dec 15		Apr 14-Dec 15		9 504	8 216	-	-
Collar	420 000	3.2571 -4.0000	Apr 14-Dec 15		Apr 14-Dec 15		45 623	47 896	(106)	(1 743)
TOTAL:							**55 127**	**56 112**	**(106)**	**(1 743)**
TOTAL HEDGING INSTRUMENTS							**291 095**	**199 674**	**(476)**	**(4 235)**

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING — **At 31 March 2014 [PLN '000]**

Type of derivative	Volume/ Notional Currency ['000 USD]	Avg. weighted price/ ex. rate Currency [USD/PLN]	Maturity/ settlement period From	Maturity/ settlement period To	Period of impact on profit or loss From	Period of impact on profit or loss To	Financial assets Current	Financial assets Non-current	Financial liabilities Current	Financial liabilities Non-current
Derivatives – Currency contracts										
Options USD										
Collar	630 000	3.4000-4.5000	Apr 14-Dec 15		Apr 14-Dec 15		121 658	90 105	(5)	(336)
Collar-seagull	90 000	3.5000-4.5000	Apr 14-Jun 14		Apr 14-Jun 14		40 609	-	-	-
Seagull	180 000	3.5000-4.5000	Jul 14-Dec 14		Jul 14-Dec 14		76 432	-	-	-
TOTAL:							**238 699**	**90 105**	**(5)**	**(336)**
INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING- TOTAL							**238 699**	**90 105**	**(5)**	**(336)**

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

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

All entities with which derivative transactions are entered into by the Company operate in the financial sector. The following table presents rating structure of financial institutions, with which the Company had derivative transactions that are exposure to credit risk[5].

	At	
Rating levels	**31 March 2014**	**31 December 2013**
Highest[6]	10%	16%
Medium-high[7]	90%	79%
Medium[8]	-	5%

Taking into consideration the fair value of open derivative transactions entered into by the Company and unsettled derivatives, as at 31 March 2014, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 32% (as at 31 December 2013: 22%).

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

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

6. Liquidity risk and capital management

Capital management is aimed at maintaining continuous financial liquidity in every period. The Company actively manages the risk of loss of liquidity to which it is exposed.

In order to minimise risk associated with loss of liquidity, in the first quarter of 2014 the Company made use of borrowing in the form of bank loans, using both a working capital facility as well as an overdraft facility.

As at 31 March 2014 the balance of liabilities of the Company due to bank loans drawn amounted to PLN 862 million (i.e. USD 284 million) with the interest based on variable LIBOR rates plus a margin.

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

Open credit lines as at 31 March 2014

Type of bank loan	Bank loan currency	Balance of available bank loan in original currency [million]
Working capital facility and overdraft facility	USD	218
Overdraft facility	EUR	50
Working capital facility and overdraft facility	PLN	2 600

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

Lubin, 14 May 2014

5 Weighted by positive fair value of open and unsettled derivatives.
6 By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moody's.
7 By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moody's.
8 By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moody's.