Half-year report P 2014

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

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

for the first half of financial year **2014** comprising the period from **1 January 2014** to **30 June 2014** containing the interim condensed financial statements according to IAS 34 in PLN.

publication date: 13 August 2014

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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

SELECTED FINANCIAL DATA	in M PLN		in M EUR	
	half-year 2014 period from 1 January 2014 to 30 June 2014	**half-year 2013** period from 1 January 2013 to 30 June 2013	**half-year 2014** period from 1 January 2014 to 30 June 2014	**half-year 2013** period from 1 January 2013 to 30 June 2013
I. Sales	7 727	9 503	1 849	2 255
II. Operating profit	1 546	2 391	370	567
III. Profit before income tax	1 531	2 346	366	557
IV. Profit for the period	1 119	1 725	268	409
V. Other comprehensive income	(121)	237	(29)	56
VI. Total comprehensive income	998	1 962	239	465
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)	5.60	8.63	1.34	2.05
IX. Net cash generated from operating activities	2 210	2 383	524	565
X. Net cash used in investing activities	(1 976)	(1 239)	(468)	(294)
XI. Net cash used in financing activities	(49)	(1 038)	(12)	(246)
XII. Total net cash flow	185	106	44	25
	At 30 June 2014	**At 31 December 2013**	**At 30 June 2014**	**At 31 December 2013**
XIII. Non-current assets	25 189	23 535	6 054	5 675
XIV. Current assets	5 437	5 503	1 306	1 327
XV. Total assets	30 626	29 038	7 360	7 002
XVI. Non-current liabilities	2 507	1 989	603	480
XVII. Current liabilities	4 823	3 751	1 159	904
XVIII. Equity	23 296	23 298	5 598	5 618

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

	30 June 2014	31 December 2013	30 June 2013
Average exchange rate for the period*	4.1784	not applicable	4.2140
Exchange rate at the end of the period	4.1609	4.1472	not applicable

**Exchange rates are the arithmetical average of the current average exchange rates announced by the National Bank of Poland on the last day of each month respectively of 2014 and 2013*

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

KGHM POLSKA MIEDŹ S.A.

HALF-YEAR REPORT P 2014 COMPRISES:

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

Lubin, August 2014

KGHM POLSKA MIEDŹ S.A.

AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2014

Lubin, August 2014

Independent registered auditor's report on the review of the interim condensed financial statements for the period from 1 January to 30 June 2014 to the Shareholders and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

We have reviewed the accompanying interim condensed financial statements of KGHM Polska Miedź Spółka Akcyjna (hereinafter called *the Company*), with its registered office in Lubin, M. Skłodowskiej-Curie 48 Street, comprising the interim statement of financial position as at 30 June 2014, the interim statement of profit or loss, the interim statement of comprehensive income, the interim statement of changes in equity, the interim statement of cash flows for the period from 1 January to 30 June 2014 and selected explanatory notes to the interim condensed financial statements.

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

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

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

Independent registered auditor's report on the review of the interim condensed financial statements for the period from 1 January to 30 June 2014 to the Shareholders and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna (cont.)

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

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

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, 12 August 2014

Translation note:
This version of our report is a translation from the original, which was prepared in Polish language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

KGHM POLSKA MIEDŹ S.A.

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

Lubin, August 2014

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
12 August 2014	Herbert Wirth	President of the Management Board	
12 August 2014	Jarosław Romanowski	I Vice President of the Management Board	
12 August 2014	Marcin Chmielewski	Vice President of the Management Board	
12 August 2014	Jacek Kardela	Vice President of the Management Board	
12 August 2014	Wojciech Kędzia	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
12 August 2014	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

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

Lubin, August 2014

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
12 August 2014	Herbert Wirth	President of the Management Board	
12 August 2014	Jarosław Romanowski	I Vice President of the Management Board	
12 August 2014	Marcin Chmielewski	Vice President of the Management Board	
12 August 2014	Jacek Kardela	Vice President of the Management Board	
12 August 2014	Wojciech Kędzia	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
12 August 2014	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

INTERIM CONDENSED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2014

Lubin, August 2014

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

Interim statement of financial position

		At	
	Note	**30 June 2014**	**31 December 2013**
Assets			
Non-current assets			
Property, plant and equipment	5	10 324	9 744
Intangible assets	6	456	273
Shares and investment certificates in subsidiaries	7	11 746	11 744
Interest in joint ventures	7	33	33
Deferred tax assets	18	131	98
Available-for-sale financial assets	8	954	809
Financial assets for mine closure and restoration of tailing storage facilities	9	205	178
Derivatives	10	162	342
Trade and other receivables	11	1 178	314
		25 189	**23 535**
Current assets			
Inventories	12	2 924	2 432
Trade and other receivables	11	1 809	2 475
Financial assets for mine closure	9	-	1
Derivatives	10	379	472
Cash and cash equivalents	13	325	123
		5 437	**5 503**
TOTAL ASSETS		**30 626**	**29 038**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	2 000	2 000
Revaluation reserve from measurement of financial instruments	15	514	512
Actuarial gains/losses on post-employment benefits	15	(235)	(112)
Retained earnings	15	21 017	20 898
TOTAL EQUITY		**23 296**	**23 298**
LIABILITIES			
Non-current liabilities			
Trade and other payables	16	166	26
Derivatives	10	56	17
Employee benefits liabilities	19	1 592	1 423
Provisions for other liabilities and charges	20	693	523
		2 507	**1 989**
Current liabilities			
Trade and other payables	16	3 360	2 431
Borrowings	17	1 069	1 123
Current corporate tax liabilities		60	50
Derivatives	10	193	6
Employee benefits liabilities	19	112	110
Provisions for other liabilities and charges	20	29	31
		4 823	**3 751**
TOTAL LIABILITIES		**7 330**	**5 740**
TOTAL EQUITY AND LIABILITIES		**30 626**	**29 038**

The accounting policies and other explanatory information presented on pages 8 to 60 represent an integral part of these interim condensed financial statements.

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

Interim statement of profit or loss

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Sales	21	7 727	9 503
Cost of sales	22	(5 727)	(6 561)
Gross profit		**2 000**	**2 942**
Selling costs	22	(62)	(62)
Administrative expenses	22	(338)	(302)
Other operating income	24	151	382
Other operating costs	25	(205)	(569)
Operating profit		**1 546**	**2 391**
Finance costs	26	(15)	(45)
Profit before income tax		**1 531**	**2 346**
Income tax expense	29	(412)	(621)
Profit for the period		**1 119**	**1 725**
Earnings per share for the half-year period (in PLN per share)	30		
- basic		5.60	8.63
- diluted		5.60	8.63

The accounting policies and other explanatory information presented on pages 8 to 60 represent an integral part of these interim condensed financial statements.

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

Interim statement of comprehensive income

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Profit for the period		**1 119**	**1 725**
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		146	5
Income tax related to available-for-sale financial assets		(28)	(1)
Cash flow hedging instruments		(143)	392
Income tax related to cash flow hedging instruments		27	(74)
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met		**2**	**322**
Other comprehensive income, which will not be reclassified to profit or loss:			
Actuarial losses		(152)	(105)
Income tax related to actuarial losses		29	20
Total other comprehensive income, which will not be reclassified to profit or loss		**(123)**	**(85)**
Other comprehensive net income for the financial period	**15**	**(121)**	**237**
TOTAL COMPREHENSIVE INCOME		**998**	**1 962**

The accounting policies and other explanatory information presented on pages 8 to 60 represent an integral part of these interim condensed financial statements.

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

Interim statement of changes in equity

	Note	Share capital	Revaluation reserve from measurement of financial instruments	Actuarial gains/losses on post-employment benefits	Retained earnings	Total equity
At 1 January 2014		**2 000**	**512**	**(112)**	**20 898**	**23 298**
Dividends from profit for 2013, resolved but unpaid	31	-	-	-	(1 000)	**(1 000)**
Total comprehensive income		-	2	(123)	1 119	**998**
Profit for the period	15	-	-	-	1 119	**1 119**
Other comprehensive income	15	-	2	(123)	-	**(121)**
At 30 June 2014		**2 000**	**514**	**(235)**	**21 017**	**23 296**

	Note	Share capital	Revaluation reserve from measurement of financial instruments	Actuarial gains/losses on post-employment benefits	Retained earnings	Total equity
At 1 January 2013		**2 000**	**286**	**(519)**	**20 156**	**21 923**
Dividends from profit for 2012, resolved but unpaid		-	-	-	(1 960)	**(1 960)**
Offsetting of profit from prior years with actuarial gains and losses		-	-	356	(356)	**-**
Total comprehensive income		-	322	(85)	1 725	**1 962**
Profit for the period	15	-	-	-	1 725	**1 725**
Other comprehensive income	15	-	322	(85)	-	**237**
At 30 June 2013		**2 000**	**608**	**(248)**	**19 565**	**21 925**

The accounting policies and other explanatory information presented on pages 8 to 60 represent an integral part of these interim condensed financial statements.

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

Interim statement of cash flows		**For the period**	
	Note	**from 1 January 2014 to 30 June 2014**	**from 1 January 2013 to 30 June 2013**
Cash flow from operating activities			
Profit for the period	15	1 119	1 725
Total adjustments to profit for the period:		**1 498**	**1 555**
Income tax recognised in profit or loss		412	621
Amortisation/Depreciation		419	418
Losses on sale of property, plant and equipment and intangible assets		5	11
Impairment loss on available-for-sale financial assets		1	89
Dividends and interest		(30)	(37)
Foreign exchange (gains)/losses		(2)	18
Change in provisions		21	2
Change in assets/liabilities due to derivatives		621	425
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives		(264)	(166)
Changes in working capital:		315	174
Inventories		(492)	(8)
Trade and other receivables		637	9
Trade and other payables		170	173
Income tax paid		(407)	(897)
Net cash generated from operating activities		**2 210**	**2 383**
Cash flow from investing activities			
Purchase of shares and investment certificates in subsidiaries		-	(92)
Purchase of property, plant and equipment and intangible assets		(1 125)	(959)
Advances granted for purchase of property, plant and equipment and intangible assets		(41)	(35)
Proceeds from sale of property, plant and equipment and intangible assets		6	5
Purchase of financial assets from mine closure fund and tailings storage facilities restoration fund		(26)	(28)
Loans granted		(799)	(166)
Repayments of loans granted		3	3
Interest received		1	1
Dividends received		7	36
Other investment expenses		(2)	(4)
Net cash used in investing activities		**(1 976)**	**(1 239)**
Cash flow from financing activities			
Proceeds from bank and other loans		205	-
Repayments of bank loans		(250)	(1 037)
Interest paid		(4)	(2)
Other financial proceeds		-	1
Net cash used in financing activities		**(49)**	**(1 038)**
Total net cash flow		**185**	**106**
Exchange gains on cash and cash equivalents		17	10
Movements in cash and cash equivalents		**202**	**116**
Cash and cash equivalents at beginning of the period	**13**	**123**	**707**
Cash and cash equivalents at end of the period	**13**	**325**	**823**

The accounting policies and other explanatory information presented on pages 8 to 60 represent an integral part of these interim condensed financial statements.

Accounting policies and other explanatory information

1. General information

Company name, registered office, business activities

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

The shares of KGHM Polska Miedź S.A. are listed on the Warsaw Stock Exchange.

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

The principal activities of the Company comprise:

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

Going concern assumption

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

Activities of KGHM Polska Miedź S.A. involving the mining of copper ores are carried out based on concessions held by the Company, which were issued by the Minister of the Environment in the year 2013, mining usufruct rights and mine operating plans for the five basic deposits. Concessions and mining usufruct rights for the five basic deposits are in force to 31 December 2063.

Period of operation

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

Management Board

The 8th-term Management Board of KGHM Polska Miedź S.A. as at 1 January 2014 consisted of:

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

To the date of signing of these interim condensed financial statements there were no changes in the composition of the Management Board.

1. General information (continued)

Supervisory Board

The 8th-term Supervisory Board of KGHM Polska Miedź S.A. as at 1 January 2014 consisted of:
- Aleksandra Magaczewska Chairwoman
- Krzysztof Kaczmarczyk Deputy Chairman
- Marek Panfil Secretary
- Andrzej Kidyba
- Iwona Zatorska - Pańtak
- Jacek Poświata

as well as the following employee-elected member
- Bogusław Szarek.

On 23 June 2014, following the expiry of the 8th-term Supervisory Board, the Ordinary General Meeting resolved to appoint to the 9th-term Supervisory Board: Tomasz Cyran, Bogusław Stanisław Fiedor, Marcin Moryń, Jacek Poświata, Barbara Wertelecka – Kwater and elected by the employees: Józef Czyczerski, Leszek Hajdacki, Bogusław Szarek.

At 30 June 2014 the composition of the Supervisory Board was as follows:

- Marcin Moryń Chairman
- Tomasz Cyran Deputy Chairman
- Bogusław Stanisław Fiedor
- Andrzej Kidyba
- Jacek Poświata
- Barbara Wertelecka – Kwater

as well as the following employee-elected members
- Bogusław Szarek Secretary
- Leszek Hajdacki
- Józef Czyczerski.

To the date of signing of these interim condensed financial statements there were no changes in the composition of the Supervisory Board.

Signing of the interim condensed financial statements

These interim condensed financial statements (financial statements) do not require approval by an approving body pursuant to art. 53 of the Accounting Act dated 29 September 1994. The interim condensed financial statements are signed by the head of the unit, i.e. the Management Board of KGHM Polska Miedź S.A. and by the person responsible for accounting. These financial statements were signed on 12 August 2014.

Seasonal or cyclical activities

The Company is not affected by seasonal or cyclical activities.

2. Basis of preparing financial statements

Accounting principles

These financial statements have been prepared in accordance with IAS 34 Interim financial reporting and, for a full understanding of the financial position and the results of the Company's activities, should be read together with the financial statements for the financial year ended 31 December 2013 which are an element of the Annual Report R 2013 available at the website www.kghm.pl. These financial statements have been prepared in accordance with the same principles for the current and comparable periods.

These financial statements have been prepared on the historical cost basis (adjusted for the effects of hyperinflation in respect of property, plant and equipment and equity), except for available-for-sale financial assets and derivatives measured at fair value.

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

2. Basis of preparing financial statements (continued)

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

- 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,
- IFRIC 21 Levies.

Application of the above standards, changes to standards and interpretations did not have a material impact on the accounting policy of the Company with respect to assets and liabilities held by the Company at the end of the reporting period and comparable periods, on transactions realised by the Company during the reporting period and comparable periods or on these financial statements.

3. Important estimates and assumptions

In preparing the financial statements the Management Board of the Company makes use of certain estimates which are based on assumptions and judgements. They have an influence on the accounting principles which are used and on the values of assets, liabilities, revenues and costs which are presented. The assumptions and estimates result from historical experience and the analysis of various factors which are considered as reasonable, and their results are considered as a basis of professional judgement for the values of items to which they refer. In certain important issues the Management Board relies on the opinions of independent experts.
Estimates and assumptions which are important for the financial statements of the Company are presented below.

a) Useful life of property, plant and equipment

The Management Board of the Company annually reviews the residual value, depreciation methods and useful lives of depreciable property, plant and equipment. At 30 June 2014, the Management Board determined that the useful lives of assets, applied by the Company for purposes of depreciation, reflect the period of expected future economic benefits from these assets.

b) Investments in subsidiaries and interest in joint ventures

In order to determine the value in use of investments in subsidiaries and interest in joint ventures, the Management Board performs an estimate of forecasted cash flows, which it expects due to maintaining the investments and the rate that will discount these cash flows to the present value. When calculating the present value, it adopts the estimates concerning the projection of companies' financial results for the coming financial periods, based on future events and circumstances, which may differ from actually realised values, which may result in adjustments to investments in subsidiaries and interest in joint ventures.

The Management Board determined that in the current period there was no evidence indicating an impairment of investments in subsidiaries and interest in joint venture, nor were there any significant changes in assumptions adopted for the purposes of tests conducted as at 31 December 2013.

3. Important estimates and assumptions (continued)

c) Measurement of available-for-sale financial assets

As at 30 June 2014, in accordance with the accounting policy the Company performed an analysis of evidence indicating an impairment of the shares of Tauron Polska Energia S.A. company, which are listed on the Warsaw Stock Exchange. The present value of these shares at the end of the reporting period achieved a higher level than their carrying amount (acquisition cost less impairment loss), and as a result there was a partial reversal of a previous impairment loss in the amount of PLN 146 million, which was recognised as an increase of other comprehensive income.

As at 30 June 2014 the carrying amount of the shares of Tauron Polska Energia S.A. company was PLN 942 million (as at 31 December 2013, PLN 796 million).

d) Future employee benefits

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

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

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

As at 30 June 2014 the carrying amount of employee benefits liabilities was PLN 1 704 million (as at 31 December 2013, PLN 1 533 million).

e) Provisions for decommissioning costs of mines and other technological facilities

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

a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS), and
b) the real discount rate calculated based on the yield on treasury bonds with maturities nearest to the planned financial outflow (nominal discount rate) and the forecasted rate of inflation.

Discount rates (nominal and inflation) are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year. At 30 June 2014, these provisions were reassessed using the real discount rate at the level of 1.32%.

As at 30 June 2014 the carrying amount of provisions for decommissioning costs of mines and other technological facilities was PLN 700 million (as at 31 December 2013, PLN 524 million).

f) Deferred tax assets/liabilities

The deferred tax assets/liabilities are measured using the tax rates which are expected to be applied at the moment when the assets are realised or the liabilities are settled, based on tax laws that have been enacted or substantively enacted at the end of the reporting period.

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

4. Operating segments

Based on analysis of the Company's organisational structure, the system of internal reporting and the management model, it was determined that the Company represents a single operating and reporting segment, which may be defined as „Production of copper, precious metals and other smelter products".

The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to concentrators where it is enriched. As a result of this process, copper concentrate is produced, which is then supplied to the smelters. At the smelters, concentrate is smelted and fire refined into copper anodes, which is then subjected to electrolytic refining into copper cathodes. Additionally, the smelters producing electrolytic copper make use of purchased copper-bearing materials in various forms (concentrate, scrap, copper blister) which amount to approx. 20% of total production volume. From these cathodes wire rod and round billets are produced. Anode slimes, which arise from the process of copper electrorefining, is a raw material used to produce precious metals. Lead-bearing dust which is generated from the smelting processes is used to produce lead. Nickel sulphate and copper sulphate are recovered from the processing of used electrolyte. Gases generated from the smelting furnaces are used to produce sulphuric acid. Economic use is also made of smelter slags, which are sold as road-building materials.

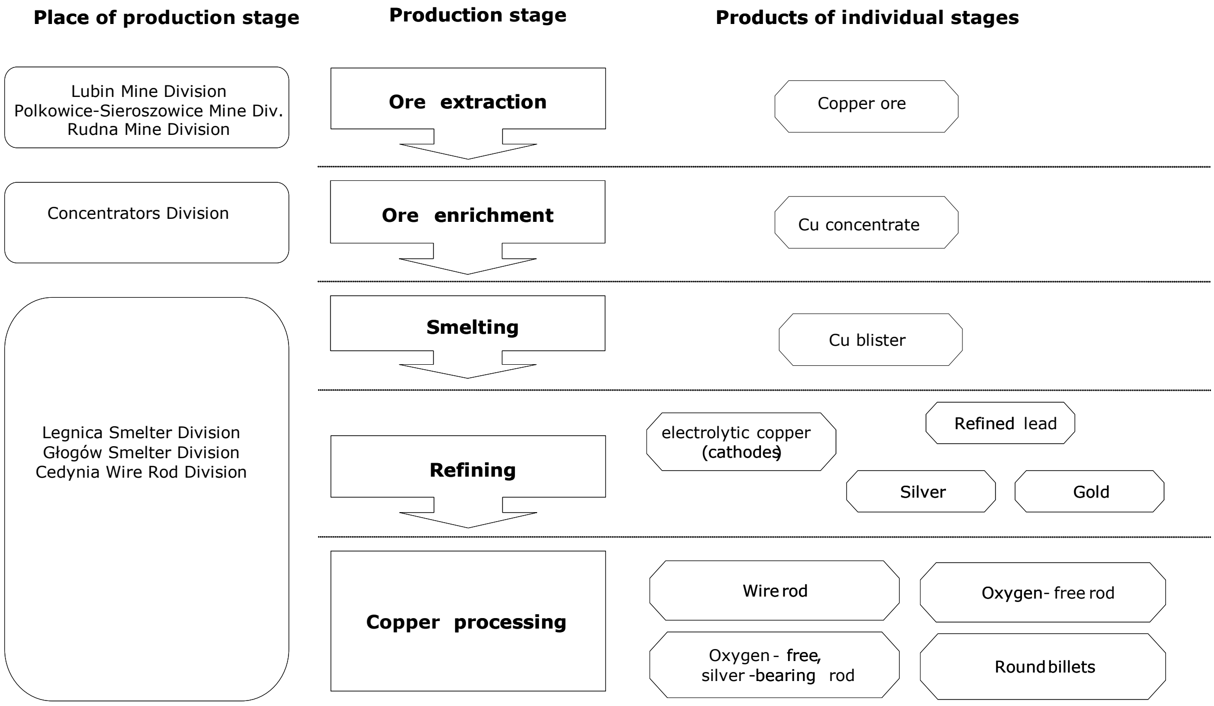
Settlements between further stages of the production process are at cost, and as a result the internal organisational units (mines, processing plants, smelters) in the production cycle do not show a profit from sales. The financial data which are prepared for management accounting purposes are based on the same accounting principles which are used to prepare the financial statements. The body which performs regular reviews of the internal reports for purposes of making major operational decisions is the Management Board of the Company as it is responsible for allocating resources and for the financial results of the Company. The internal reports of the Company on its results are prepared on a monthly basis, and do not contain profits/losses on the separate stages of the production process, concentrating on an analysis of costs of their realisation. The financial results, which comprise each stage of the production process, are analysed for the entire Company.

The organisational structure of KGHM Polska Miedź S.A. includes the Central Office and 10 Divisions: mines, concentrators and metallurgical plants. The Central Office carries out sales of the Company's basic products, i.e. copper cathodes, round billets, OFE and CuAg wire rod, rod and silver, and smelter by-products, of which refined lead, sulphuric acid, nickel sulphate and copper sulphate. In addition, the Central Office carries out support functions, particularly including the management of financial assets, centralised finance and accounting, marketing, legal and other services.

4. Operating segments (continued)

Production of basic products

In the first half of 2014 the Company produced 283 thousand tonnes of electrolytic copper and 605 tonnes of metallic silver (in the comparable period of the prior year, 286 thousand tonnes of electrolytic copper and 544 tonnes of metallic silver). The C1[1] cost amounted respectively: in the first half of 2014, 1.79 USD/lb (in the comparable period of the prior year, 1.73 USD/lb).



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

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

4. Operating segments (continued)

Segment assets and liabilities	At 30 June 2014	At 31 December 2013
Assets	30 626	29 038
Liabilities	7 330	5 740

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

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

	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Capital expenditures by type of activity	**1 021**	**864**
Mining	758	577
Metallurgy	226	203
Other activities	37	84
Incomplete capitalised development	**5**	**29**
Total	**1 026**	**893**
Capital expenditures by project	**1 021**	**864**
Local	417	454
Central	604	404
Study and analysis stage	-	6
Incomplete capitalised development	**5**	**29**
Total	**1 026**	**893**

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

4. Operating segments (continued)

Segment profit or loss

	For the period	
	from 1 January 2014 to 30 June 2014	**from 1 January 2013 to 30 June 2013**
Sales	**7 727**	**9 503**
Interest income	23	19
Interest cost	(4)	(2)
Amortisation/depreciation	(419)	(418)
Other operating income on measurement and realisation of derivatives	54	233
Other operating costs on measurement and realisation of derivatives	(158)	(434)
Income tax	(412)	(621)
Profit for the period	**1 119**	**1 725**
ROA* - return on assets (%)	3.7	5.9
ROE** - return on equity (%)	4.8	7.9
EBITDA (operating profit + amortisation/depreciation)	**1 965**	**2 809**

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

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

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

4. Operating segments (continued)

Geographical areas

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

		For the period	
	Note	**from 1 January 2014 to 30 June 2014**	**from 1 January 2013 to 30 June 2013**
Poland		1 714	1 746
Germany		1 713	2 192
China		740	1 058
The Czech Republic		720	623
The United Kingdom		699	1 380
France		416	405
Italy		313	349
Hungary		306	377
Australia		278	-
Turkey		221	261
Switzerland		158	231
Austria		117	130
Belgium		76	98
Romania		67	86
Slovakia		43	23
The United States of America		40	46
Bulgaria		35	19
Finland		19	5
Slovenia		15	19
Netherlands		13	1
Bosnia and Hercegovina		11	18
Ukraine		9	12
Spain		2	1
Malaysia		-	348
Denmark		-	62
Other countries		2	13
Total	**21**	**7 727**	**9 503**

Main contractors

In the first half of 2014 and in the first half of 2013, the revenues from no single Company contractor were equal to or exceeded 10% of the revenues of KGHM Polska Miedź S.A.

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

5. Property, plant and equipment

	At	
	30 June 2014	**31 December 2013**
Land	18	18
Buildings	3 384	3 082
Technical equipment and machinery	3 872	3 654
Motor vehicles	76	79
Other fixed assets	24	21
Fixed assets under construction	2 950	2 890
Total	**10 324**	**9 744**

Major investment projects recognised under fixed assets under construction

	At	
	30 June 2014	**31 December 2013**
Pyrometallurgy Modernisation Program	656	609
Deep Głogów (Głogów Głęboki – Przemysłowy)	623	552
Construction of the SW-4 shaft	566	534
Construction of gas-steam blocks	264	269
Investments related to mining region infrastructural development in mines	139	222

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

	At	
	30 June 2014	**31 December 2013**
Purchase of property, plant and equipment	5 309	4 989
Purchase of intangible assets	24	78
Total capital commitments	**5 333**	**5 067**

Purchase and sale of property, plant and equipment

		For the period	
	from 1 January 2014 to 30 June 2014	**from 1 January 2013 to 31 December 2013**	**from 1 January 2013 to 30 June 2013**
Purchase of property, plant and equipment	819	2 222	830

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

6. Intangible assets

	At	
	30 June 2014	**31 December 2013**
Development costs	3	3
Software	2	2
Acquired concessions, patents and licenses*	221	74
Other intangible assets	19	16
Exploration and evaluation assets	147	111
Intangible assets not yet available for use	64	67
Total	**456**	**273**

* Increase in the position of acquired concessions, patents and licences mainly results from the recognition in intangible assets of mining usufruct rights due to agreements concluded by the Company for the extraction of copper ore (carrying amount of the mining usufruct rights as at 30 June 2014 amounted to PLN 154 million).

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

7. Investments in subsidiaries and interest in joint ventures

	shares and investment certificates in subsidiaries	**joint ventures**
At 1 January 2014		
Amount at cost	11 798	33
Discount on receivables due to returnable payments to capital	27	-
Impairment losses	(81)	-
Net carrying amount at 1 January 2014	**11 744**	**33**
Changes in the first half of 2014		
Other	2	-
At 30 June 2014		
Amount at cost	11 799	33
Discount on receivables due to returnable payments to capital	27	-
Impairment losses	(80)	-
Net carrying amount at 30 June 2014	**11 746**	**33**
At 1 January 2013		
Amount at cost	11 718	33
Discount on receivables due to returnable payments to capital	25	-
Impairment losses	(102)	-
Net carrying amount at 1 January 2013	**11 641**	**33**
Changes in 2013		
- acquisition of shares and investment certificates	43	-
- acquisition of newly-issued shares	86	-
- reversal of impairment losses	21	-
- redemption of investment certificates of KGHM II FIZAN	(49)	-
- discount on receivables due to payments to capital	2	-
At 31 December 2013		
Amount at cost	11 798	33
Discount on receivables due to returnable payments to capital	27	-
Impairment losses	(81)	-
Net carrying amount at 31 December 2013	**11 744**	**33**
At 1 January 2013		
Amount at cost	11 718	33
Discount on receivables due to returnable payments to capital	25	-
Impairment losses	(102)	-
Net carrying amount at 1 January 2013	**11 641**	**33**
Changes in the first half of 2013		
- acquisition of shares and investment certificates	43	-
- acquisition of newly-issued shares	49	-
At 30 June 2013		
Amount at cost	11 810	33
Discount on receivables due to returnable payments to capital	25	-
Impairment losses	(102)	-
Net carrying amount at 30 June 2013	**11 733**	**33**

7. Investments in subsidiaries and joint ventures (continued)

Changes in the first half of 2014

In the first half of 2014, the Company acquired newly-issued shares in the increased share capital of KGHM Metraco S.A. in the nominal amount of PLN 74 million due to the combination of Metraco and Ecoren.

The acquired newly-issued shares were fully covered by the assets of the subsidiary KGHM Ecoren S.A. in the amount of PLN 387 million. The acquisition of shares in the increased share capital of Metraco S.A. had no effect on the total carrying amount of shares and investment certificates in subsidiaries.

Changes in 2013

In 2013 the Company acquired investment certificates of KGHM IV FIZAN in the amount of PLN 1 million and of KGHM V FIZAN in the amount of PLN 42 million, in addition the Company acquired newly-issued shares and investment certificates in the increased share capital of the following Entities of the Group:

- KGHM KUPFER AG in the amount of PLN 7 million,
- KGHM II FIZAN in the amount of PLN 42 million,
- KGHM I FIZAN in the amount of PLN 29 million,
- KGHM Letia S.A. in the amount of PLN 8 million.

Due to the liquidation of KGHM II FIZAN on 4 October 2013 according to the decision of the District Court in Warsaw, Section VII Civil Registration Department, the liquidated company was removed from the court register.

Changes in the first half of 2013

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

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

and the investment certificates of the next issue:

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

In addition, the Company acquired newly-issued shares in the increased share capital of KGHM Kupfer AG in the amount of PLN 7 million.

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

7. Investments in subsidiaries and joint ventures (continued)

Investment in subsidiaries (direct share)

			As at					
			30 June 2014			31 December 2013		
Entity	**Head office**	**Subject of activities**	**% of share capital held**	**% of voting power**	**Carrying amount of shares/investment certificates**	**% of share capital held**	**% of voting power**	**Carrying amount of shares/investment certificates**
Fermat 1 S.a r.l.	Luxembourg	holding activity	100	100	9 624	100	100	9 624
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	13	100	100	13
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	488	100	100	488
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	R&D activities	100	100	13	100	100	13
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	-	-	-	100	100	387
KGHM Kupfer AG	Berlin	copper and other deposits exploring and mining	100	100	62	100	100	62
KGHM I FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	378	100	100	378
KGHM III FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	5	100	100	5
KGHM IV FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	1	100	100	1
KGHM V FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	42	100	100	42
KGHM Kupferhandelsges. m.b.H.i.L	Vienna	copper trading	100	100	1	100	100	1
KGHM LETIA S.A	Legnica	promotion of innovation	84.92	84.92	31	88.58	88.58	31
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	420	100	100	33
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	3	100	100	3
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	79	100	100	79
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	84	100	100	84
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	34	100	100	32
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	151	100	100	151
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	98	100	100	98
KGHM ZANAM Sp. z o.o.	Polkowice	repair and construction of machinery	100	100	52	100	100	52
INOVA Spółka z o.o.	Lubin	inspection and control of machinery, R&D work	100	100	13	100	100	13
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	trade, intermediation and trade consulting services	100	100	2	100	100	2
BIPROMET S.A.	Katowice	design services, general realisation of construction projects, supply completion	66	66	31	66	66	31
NITROERG S.A.	Bieruń	production and sale of explosives, blasting materials, emulsions, nitrocet	85	85	121	85	85	121
					11 746			**11 744**

Translation from the original Polish version

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

8. Available-for-sale financial assets

	Note	At 30 June 2014	At 31 December 2013
Shares in unlisted companies		10	10
Shares in listed companies*		944	799
Non-current available-for-sale financial assets	**27**	**954**	**809**

*A significant increase in the carrying amount of the shares of listed companies was due to the reversal of impairment losses on shares of TAURON S.A. measured according to quoted share prices.

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

	Note	At 30 June 2014	At 31 December 2013
Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund – non-current		205	178
Cash held in the Mine Closure Fund - current		-	1
Financial assets for mine closure and restoration of tailings storage facilities, total	**27**	**205**	**179**

As at 30 June 2014 and as at 31 December 2013, the balance of financial assets for mine closure and restoration of tailings storage facilities is represented by bank deposits.

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

10. Derivatives

	Note	At 30 June 2014	31 December 2013
Non-current assets			
Hedging instruments		107	342
Instruments initially designated as hedging instruments excluded from hedge accounting		55	-
Non-current assets due to derivatives, total		**162**	**342**
Current assets			
Hedging instruments		186	472
Instruments initially designated as hedging instruments excluded from hedge accounting		193	-
Current assets due to derivatives, total		**379**	**472**
Total assets due to derivatives	**27**	**541**	**814**
Non-current liabilities			
Hedging instruments		1	15
Trade instruments		55	2
Non-current liabilities due to derivatives, total		**56**	**17**
Current liabilities			
Hedging instruments		-	2
Trade instruments		193	4
Current liabilities due to derivatives, total		**193**	**6**
Total liabilities due to derivatives	**27**	**249**	**23**
Derivatives net assets/ (liabilities)		**292**	**791**
including:			
Derivatives – currency contracts		76	536
Derivatives – commodity contracts – metals		216	255

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

11. Trade and other receivables

	Note	At 30 June 2014	At 31 December 2013
Trade and other non-current receivables			
Payments to capital		57	54
Other financial receivables		1	1
Loans granted*		1 042	253
Total loans and financial receivables, net	**27**	**1 100**	**308**
Advances granted		78	6
Total trade and other non-current receivables, net		**1 178**	**314**

	Note	At 30 June 2014	At 31 December 2013
Trade and other current receivables			
Trade receivables		1 049	1 616
Loans granted		5	6
Payments to capital		16	15
Cash pool receivables		60	145
Other financial receivables		68	25
Receivables due to unsettled derivatives		19	41
Impairment allowances		(30)	(30)
Total loans and financial receivables, net	**27**	**1 187**	**1 818**
Non-financial receivables		570	543
Advances granted		62	124
Impairment allowances		(10)	(10)
Total non-financial current receivables, net		**622**	**657**
Total trade and other current receivables, net		**1 809**	**2 475**
Total trade and other current and non-current receivables, net		**2 987**	**2 789**

* Non-current receivables resulting from loans granted include loans granted to the company Fermat 1 S.à r.l. in the amount of PLN 1 014 million, of which:

- the loans in the amount of PLN 230 million (USD 76 million) have a fixed interest rate of 4.46%, with a maturity date on 28 February 2018,
- the loans in the amount of PLN 784 million (USD 257 million) have a fixed interest rate of 4.27%, with a maturity date on 31 December 2024.

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

12. Inventories

	At	
	30 June 2014	**31 December 2013**
Materials	547	447
Half-finished products and work in progress	1 833	1 617
Finished goods	508	361
Merchandise	36	7
Total net carrying amount of inventories	**2 924**	**2 432**

		For the period	
Write-down of inventories in the financial period	**Note**	**from 1 January 2014 to 30 June 2014**	**from 1 January 2013 to 30 June 2013**
Write-down of inventories recognised in cost of sales	22	(1)	(4)
Write-down used		2	4

13. Cash and cash equivalents

		At	
	Note	**30 June 2014**	**31 December 2013**
Cash at bank		63	21
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		262	102
Total cash and cash equivalents	**27**	**325**	**123**

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

14. Share capital

As at 30 June 2014, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares.
Each share gives the right to one vote at the general meeting. The Company does not have treasury shares.
Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.
In the first half of 2014 and in 2013 there were no changes in the registered share capital or in the number of shares.

Ownership structure

As at 30 June 2014, the only shareholder of the Company holding shares granting the right to at least 5% of the total number of votes at the general meeting was the Polish State Treasury, which - based on notification dated 12 January 2010 - held 63 589 900 shares, with a total nominal value of PLN 635 899 thousand, representing 31.79% of the share capital and the same number of votes at the general meeting.
The remaining shareholders held shares representing less than 5% of the total number of votes at the general meeting – a total of 136 410 100 shares, with a total nominal value of PLN 1 364 101 thousand, representing 68.21% of the share capital and the same number of votes at the general meeting.
In the first half of 2014 and in 2013 there were no changes in significant blocks of shares of KGHM Polska Miedź S.A. Up to the date of signing of these financial statements by the Management Board of KGHM Polska Miedź S.A. this has not changed.

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

15. Other equity items

		Revaluation reserve from measurement of financial instruments			Retained earnings		
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging financial instruments**	**Actuarial gains/losses on post-employment benefits**	**Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396**	**Reserve capital created from profit in accordance with the Statutes**	**Profit/(loss) from prior years**
At 1 January 2014	**Note**	**13**	**499**	**(112)**	**660**	**17 180**	**3 058**
Dividends from profit for 2013 resolved but unpaid		-	-	-	-	-	(1 000)
Transfer of profit for 2013 to reserve capital		-	-	-	-	2 058	(2 058)
Total comprehensive income:		**118**	**(116)**	**(123)**	**-**	**-**	**1 119**
Profit for the period		-	-	-	-	-	1 119
Other comprehensive income		**118**	**(116)**	**(123)**	**-**	**-**	**-**
Impact of effective cash flow hedging transactions entered into		-	121	-	-	-	-
Amount transferred to profit or loss due to the reclassification of hedging instruments		-	(264)	-	-	-	-
Fair value gains after prior impairment		146	-	-	-	-	-
Actuarial gains/(losses) on post-employment benefits		-	-	(152)	-	-	-
Deferred income tax	18	(28)	27	29	-	-	-
At 30 June 2014		**131**	**383**	**(235)**	**660**	**19 238**	**1 119**

Based on the Commercial Partnerships and Companies Code, the Company is required to create a reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
As at 30 June 2014 the statutory reserve capital in the Company amounts to PLN 660 million, and is recognised in the item of retained earnings as Reserve capital, created in accordance with the Commercial Partnerships and Companies Code, art. 396.

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

15. Other equity items (continued)

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

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

15. Other equity items (continued)

		Revaluation reserve from measurement of financial instruments			Retained earnings		
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging financial instruments**	**Actuarial gains/losses on post-employment benefits**	**Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396**	**Reserve capital created from profit in accordance with the Statutes**	**Profit/(loss) from prior years**
At 1 January 2013	**Note**	**-**	**286**	**(519)**	**660**	**14 272**	**5 224**
Dividends from profit for 2012 resolved but unpaid		-	-	-	-	-	(1 960)
Transfer of profit for 2012 to reserve capital		-	-	-	-	2 908	(2 908)
Offsetting of profit from prior years with the actuarial gains and losses		-	-	356	-	-	(356)
Total comprehensive income:		**4**	**318**	**(85)**	**-**	**-**	**1 725**
Profit for the period		**-**	**-**	**-**	**-**	**-**	**1 725**
Other comprehensive income		**4**	**318**	**(85)**	**-**	**-**	**-**
Fair value gains after prior impairment		5	-	-	-	-	-
Impact of effective cash flow hedging transactions entered into		-	558	-	-	-	-
Amount transferred to profit or loss - due to the reclassification of hedging instruments		-	(166)	-	-	-	-
Actuarial gains/(losses) on post-employment benefits		-	-	(105)	-	-	-
Deferred income tax	18	(1)	(74)	20	-	-	-
At 30 June 2013		**4**	**604**	**(248)**	**660**	**17 180**	**1 725**

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

16. Trade and other payables

	Note	At 30 June 2014	At 31 December 2013
Trade and other non-current payables			
Trade payables due to mining usufruct agreements entered into		149	9
Other financial liabilities		7	7
Total financial liabilities (scope of IFRS 7)	**27**	**156**	**16**
Deferred income		10	10
Total non-financial liabilities		**10**	**10**
Total trade and other non-current payables		**166**	**26**
Trade and other current payables			
Trade payables, including:		1 074	1 157
payables due to mining usufruct agreements entered into		8	-
payables due to purchase, construction of property, plant and equipment and intangible assets		302	582
Payables due to unsettled derivatives		-	19
Payables due to cash pool		36	36
Other financial liabilities*		1 034	62
Total financial liabilities (scope of IFRS 7)	**27**	**2 144**	**1 274**
Employee benefits liabilities		76	161
Liabilities due to taxes and social security		445	361
Other non-financial liabilities		37	56
Special funds		218	204
Deferred income		8	1
Accruals		432	374
Total non-financial liabilities		**1 216**	**1 157**
Total trade and other current payables		**3 360**	**2 431**
Total trade and other non-current and current payables		**3 526**	**2 457**

* Liability due to unpaid shareholders dividend from appropriation of profit for financial year 2013 in the amount of PLN 1 billion is recognised in the item other financial liabilities.

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

17. Borrowings

	Note	At	
		30 June 2014	**31 December 2013**
Bank loans		1 069	1 123
Total current borrowings	**27**	**1069**	**1 123**

In the first half of 2014, the Company benefited from external financing in the form of bank loans, using both working capital facilities and overdraft facilities.

As at 30 June 2014, the Company held liabilities due to bank loans drawn in the amount of PLN 1 069 million (i.e. USD 351 million), which are as follows:

Bank loans liabilities as at 30 June 2014

Type of bank loan	Bank loan currency	Balance of bank loan in the original currency [million]	Balance of bank loan in PLN [million]	Maturity date
Working capital facility	USD	17	52	30.07.2014
Working capital facility	USD	162	493	06.08.2014
Overdraft facility	USD	96	293	30.04.2015
Overdraft facility	USD	68	208	14.10.2015
Overdraft facility	USD	8	23	21.10.2015
Total		**351**	**1 069**	

The bank loans interest is based on variable LIBOR rate plus a margin.
The maturity dates of repayment of working capital facilities, whose balances as at 30 June 2014 amounted to USD 17 million and USD 162 million, were prolonged by a subsequent one-month period.

In order to support the financial liquidity, in the first half of 2014 the Company held open credit lines available in PLN, USD and EUR, the balances of which in the original currencies as at 30 June 2014 were as follows:

Open credit lines as at 30 June 2014

Type of Bank Loan	Bank loan currency	Balance of available bank loan in original currency [million]
Working capital facility and overdraft facility	USD	285
Overdraft facility	EUR	50
Working capital facility and overdraft facility	PLN	2 600

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

Available facility limits in EUR and partially in PLN concern bank loans, which can be also drawn in USD.

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

18. Deferred tax

	Note	At		
		30 June 2014	31 December 2013	30 June 2013
Net deferred tax assets at the beginning of the reporting period, of which:		**98**	**266**	**266**
Deferred tax assets at the beginning of the reporting period restated		892	1 189	1 189
Deferred tax liabilities at the beginning of the reporting period		(794)	(923)	(923)
Changes during the period				
Credited/(Charged) to profit for the period	29	5	(103)	20
Increase/(Decrease) in other comprehensive income	15	28	(65)	(55)
Net deferred tax assets at the end of the reporting period, of which:		**131**	**98**	**231**
Deferred tax assets at the end of the reporting period		**957**	**892**	**1 086**
Deferred tax liabilities at the end of the reporting period		**(826)**	**(794)**	**(855)**

Realisation periods of deferred tax assets and deferred tax liabilities

	At		
	30 June 2014	31 December 2013	30 June 2013
in the period of over 12 months from the end of the reporting period	(74)	(44)	59
in the period of 12 months and less from the end of the reporting period	205	142	172
Total	**131**	**98**	**231**

Deferred tax assets prior to offsetting

	At	
	30 June 2014	31 December 2013
Provision for decommissioning of mines and other technological facilities	135	106
Measurement of forward transactions	283	309
Accruals due to remuneration	66	57
Future employee benefits liabilities	323	290
Difference between the carrying amount of depreciation and depreciation for tax purposes	29	35
Other	121	95
Total	**957**	**892**

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

18. Deferred tax (continued)

Deferred tax liabilities prior to offsetting

	At	
	30 June 2014	**31 December 2013**
Interest	4	1
Measurement of forward transactions	117	157
Re-measurement of hedging instruments	90	118
Difference between the carrying amount of depreciation and depreciation for tax purposes	583	514
Measurement of available-for-sale financial assets	31	4
Other	1	-
Total	**826**	**794**

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

19. Employee benefits

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

Changes in future employee benefits

	TOTAL liabilities	jubilee awards	retirement and disability benefits	coal equivalent	other benefits
As at 1 January 2014	**1 533**	**241**	**213**	**1 051**	**28**
Total amount of costs recognised in profit or loss due to verification of assumpiton	**76**	**34**	**10**	**31**	**1**
Interest costs	**35**	6	5	23	1
Current service cost	**20**	7	5	8	-
Actuarial losses recognised in profit or loss	**21**	21	-	-	-
Actuarial losses recognised in other comprehensive income	**152**	-	17	131	4
Benefits paid	**(57)**	(11)	(10)	(36)	-
As at 30 June 2014	**1 704**	**264**	**230**	**1 177**	**33**
of which:					
Carrying amount of non-current liabilities	**1 592**	229	199	1 134	30
Carrying amount of current liabilities	**112**	35	31	43	3

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

19. Employee benefits (continued)

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

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

19. Employee benefits (continued)

	TOTAL liabilities	jubilee awards	retirement and disability benefits	coal equivalent	other benefits
As at 1 January 2013	**1 581**	**255**	**219**	**1 077**	**30**
Total amount of costs recognised in profit or loss due to verification of assumpiton	**60**	**20**	**10**	**30**	**-**
Interest costs	**32**	5	5	22	-
Current service cost	**21**	8	5	8	-
Actuarial losses recognised in profit or loss	**7**	7	-	-	-
Actuarial losses recognised in other comprehensive income	**105**	-	6	98	1
Benefits paid	**(58)**	(11)	(9)	(38)	-
As at 30 June 2013	**1 688**	**264**	**226**	**1 167**	**31**
of which:					
Carrying amount of non-current liabilities	**1 578**	229	196	1 125	28
Carrying amount of current liabilities	**110**	35	30	42	3

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

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

19. Employee benefits (continued)

Main actuarial assumptions adopted for purposes of reassessment of the liabilities as at 30 June 2014:

	2014	2015	2016	2017	2018 and beyond
- discount rate	3.75%	3.75%	3.75%	3.75%	3.75%
- rate of increase in coal prices	0.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.40%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	0.00%	2.50%	2.50%	2.50%	2.50%

Main actuarial assumptions adopted for purposes of reassessment of the liabilities at 31 December 2013:

	2014	2015	2016	2017	2018 and beyond
- discount rate	4.50%	4.50%	4.50%	4.50%	4.50%
- rate of increase in coal prices	0.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	5.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.40%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	2.50%	2.50%	2.50%	2.50%	2.50%

Main actuarial assumptions adopted for purposes of reassessment of the liabilities at 30 June 2013:

	2013	2014	2015	2016	2017 and beyond
- discount rate	3.80%	3.80%	3.80%	3.80%	3.80%
- rate of increase in coal prices	0.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	1.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	2.50%	2.50%	2.50%	2.50%	2.50%

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

20. Provisions for other liabilities and charges

		TOTAL	decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	disputed issues and court proceedings, and other provisions
Provisions at 1 January 2014	**Note**	**554**	**529**	**25**
Provisions recognised in other operating costs	25	**1**	-	1
Changes in provisions arising from updating of estimates recognised in other operating (income)/costs	25	**4**	4	-
Changes in provisions arising from updating of estimates recognised in fixed assets		**164**	164	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	26	**15**	15	-
Utilisation of provisions		**(2)**	(1)	(1)
Release of provisions and recognition in other operating income	24	**(2)**	(1)	(1)
Adjustment due to transfer to Mine Closure Fund and Tailings Storage Facilities Restoration Fund		**(12)**	(12)	-
Provisions at 30 June 2014		**722**	**698**	**24**
of which:				
Non-current provisions		**693**	**691**	**2**
Current provisions		**29**	**7**	**22**

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

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

20. Provisions for other liabilities and charges (continued)

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

21. Sales

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

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Copper, precious metals, smelter by-products		7 576	9 351
Salt		21	42
Merchandise		48	35
Services		43	37
Scrap and production materials		32	32
Other goods		7	6
Total	**4**	**7 727**	**9 503**

	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Average copper price on LME (USD/t)	6 916	7 540
Average exchange rate (USD/PLN) per NBP	3.05	3.18

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

22. Expenses by nature

	Note	For the period	
		from 1 January 2014 to 30 June 2014	**from 1 January 2013 to 30 June 2013**
Depreciation of property, plant and equipment and amortisation of intangible assets, of which:		419	418
Depreciation of property, plant and equipment		413	414
Amortisation of intangible assets		6	4
Employee benefits expenses	23	1 487	1 448
Materials and energy		2 909	3 126
including purchased copper-bearing materials		1 826	1 988
External services		688	746
Taxes and charges		935	1 194
including the minerals extraction tax*		748	1 021
Advertising costs and representation expenses		22	19
Property and personal insurance		11	12
Research and development costs not capitalised in intangible assets		4	1
Other costs, of which:		**11**	**16**
Write-down of inventories	12	1	4
Losses from the disposal of financial instruments	27	3	4
Business trip expenses		5	5
Other operating costs		2	3
Total expenses by nature		**6 486**	**6 980**
Merchandise and materials sold (+)		79	61
Change in inventories of finished goods and work in progress (+/-)		(364)	(32)
Cost of manufacturing products for internal use (-)		(74)	(84)
Total cost of sales, selling costs and administrative expenses		**6 127**	**6 925**
of which:			
Cost of sales		5 727	6 561
Selling costs		62	62
Administrative expenses		338	302

*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.

23. Employee benefits expenses

	Note	For the period	
		from 1 January 2014 to 30 June 2014	**from 1 January 2013 to 30 June 2013**
Remuneration		1 034	1 021
Costs of social security and other benefits		434	425
Costs of future benefits		19	2
Employee benefits expenses	**22**	**1 487**	**1 448**

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

24. Other operating income

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Income and gains on financial instruments classified under other operating activities, resulting from:	27	112	359
Measurement and realisation of derivatives		54	233
Interest		23	19
Foreign exchange gains		-	70
Dividends received from other entity		35	36
Reversal of allowance for other receivables		-	1
Dividends received from subsidiaries		10	-
Reversal of allowances for impairment of non-financial receivables		1	1
Government grants received and other donations		1	-
Release of unused provisions, resulting from:		2	2
Mine closure		1	1
Court proceedings and disputed issues		1	1
Penalties and compensation received		3	4
Fees and charges due to re-invoicing costs of bank guarantees securing liabilities		7	-
Other operating income/gains		15	16
Total other operating income		**151**	**382**

25. Other operating costs

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Costs and losses on financial instruments classified under other operating activities, resulting from:	27	165	525
Measurement and realisation of derivatives		158	434
Interest		1	1
Foreign exchange losses		5	-
Losses on measurement of non-current liabilities		-	1
Impairment losses on available-for-sale financial assets		1	89
Losses on the sale of property, plant and equipment and intangible assets		5	11
Donations granted		17	16
Provisions for liabilities due to:		5	4
Mine closure		4	-
Court proceedings and disputed issues		1	1
Real estate tax		-	3
Penalties and compensation paid		1	-
Contributions to a voluntary organisation		7	9
Other operating costs/losses		5	4
Total other operating costs		**205**	**569**

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

26. Finance costs

		For the period	
	Note	**from 1 January 2014 to 30 June 2014**	**from 1 January 2013 to 30 June 2013**
Interest due to drawn bank loans	27	3	1
Foreign exchange (gains)/losses on borrowings	27	(8)	25
Changes in provisions for decommissioning of mines arising from the approach of the maturity date of a liability (unwinding of the discount)	20	15	18
Changes in liabilities arising from the approach of the maturity date of liabilities (unwinding of the discount)	27	4	-
Other finance costs		1	1
Total finance costs		**15**	**45**

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

27. Financial instruments

27.1 Carrying amount

At 30 June 2014

Categories of financial instruments

Classes of financial instruments	Note	Available-for-sale financial assets	Financial assets at fair value through profit or loss*	Loans and financial receivables	Other liabilities: Financial liabilities at fair value through profit or loss	Other liabilities: Financial liabilities measured at amortised cost	Hedging instruments	Total
Listed shares	8	944	-	-	-	-	-	**944**
Unlisted shares	8	10	-	-	-	-	-	**10**
Trade receivables (net)		-	-	1 027	-	-	-	**1 027**
Cash and cash equivalents and deposits		-	-	530	-	-	-	**530**
Financial assets for mine closure and restoration of tailings storage facilities	9	-	-	205	-	-	-	**205**
Cash and cash equivalents	13	-	-	325	-	-	-	**325**
Loans granted		-	-	1 046	-	-	-	**1 046**
Other financial assets (net)		-	-	214	-	-	-	**214**
Derivatives - Currency (net)	10	-	248	-	(248)	-	76	**76**
Derivatives – Commodity contracts - Metals (net)	10	-	-	-	-	-	216	**216**
Trade payables	16	-	-	-	-	(1 223)	-	**(1 223)**
Borrowings	17	-	-	-	-	(1 069)	-	**(1 069)**
Other financial liabilities	16	-	-	-	-	(1 077)	-	**(1 077)**
Total		**954**	**248**	**2 817**	**(248)**	**(3 369)**	**292**	**694**

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

Fair value of individual classes of financial instruments did not significantly differ from their carrying amount as at 30 June 2014 and as well as at 31 December 2013.

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

27. Financial instruments (continued)

At 31 December 2013

Categories of financial instruments

					Other liabilities			
Classes of financial instruments	**Note**	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and financial receivables	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Hedging instruments	**Total**
Listed shares	8	799	-	-	-	-	-	**799**
Unlisted shares	8	10	-	-	-	-	-	**10**
Trade receivables (net)		-	-	1 594	-	-	-	**1 594**
Cash and cash equivalents and deposits		-	-	302	-	-	-	**302**
Financial assets for mine closure and restoration of tailings storage facilities	9	-	-	179	-	-	-	**179**
Cash and cash equivalents	13	-	-	123	-	-	-	**123**
Loans granted		-	-	257	-	-	-	**257**
Other financial assets (net)		-	-	275	-	-	-	**275**
Derivatives – Currency (net)	10	-	-	-	(4)	-	540	**536**
Derivatives – Commodity contracts – Metals (net)	10	-	-	-	(2)	-	257	**255**
Trade payables	16	-	-	-	-	(1 166)	-	**(1 166)**
Borrowings	17	-	-	-	-	(1 123)	-	**(1 123)**
Other financial liabilities	16	-	-	-	-	(124)	-	**(124)**
Total		**809**	**-**	**2 428**	**(6)**	**(2 413)**	**797**	**1 615**

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

27. Financial instruments (continued)

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

For the period from 1 January 2014 to 30 June 2014	Note	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Hedging instruments	Total
Dividends received	24	-	35	-	-	-	**35**
Interest income/(costs) recognised in:		**-**	**-**	**23**	**(4)**	**-**	**19**
Other operating income	24	-	-	23	-	-	23
Other operating costs	25	-	-	-	(1)	-	(1)
Finance costs	26	-	-	-	(3)	-	(3)
Foreign exchange gains/(losses) recognised in:		**-**	**-**	**88**	**(85)**	**-**	**3**
Other operating costs	25	-	-	88	(93)	-	(5)
Finance costs	26	-	-	-	8	-	8
Gains/(losses) on measurement of non-current liabilities recognised in:		**-**	**-**	**-**	**(4)**	**-**	**(4)**
Finance costs	26	-	-	-	(4)	-	(4)
Impairment losses recognised in:		**-**	**(1)**	**-**	**-**	**-**	**(1)**
Other operating costs	25	-	(1)	-	-	-	(1)
Adjustment to sales due to hedging transactions	15	-	-	-	-	264	**264**
Gains/(losses) from disposal of financial instruments recognised in:		**-**	**-**	**(3)**	**-**	**-**	**(3)**
Expenses by nature	22	-	-	(3)	-	-	(3)
Income from measurement and realisation of derivatives	24	54	-	-	-	-	**54**
Losses on measurement and realisation of derivatives	25	(158)	-	-	-	-	**(158)**
Total net gain/(loss)		**(104)**	**34**	**108**	**(93)**	**264**	**209**

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

27. Financial instruments (continued)

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

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

27. Financial instruments (continued)

27.3 Fair value hierarchy

Investments in shares of listed companies (classified as available-for-sale financial assets) are classified under level 1 of the fair value hierarchy. All remaining financial instruments (presented in note 27.1) are classified by the Company under level 2 of the fair value hierarchy. The manner and techniques for measuring 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.

In both the reporting and the comparable period, there were no transfers in the Company of financial instruments between individual levels of the fair value hierarchy, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these instruments.

28. Financial risk management

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

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

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

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

28.1 Market risk

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

28.1.1 Commodity risk

The Company is exposed to the risk of changes in the price of metals it sells: copper, lead, silver and gold. The price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange (LME) for copper and lead, and from the London Bullion Market Association (LBMA) for silver and gold. The Company’s commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month. The permanent and direct link between sales proceeds and metals prices, without similar relationships on the expenditures side, results in a strategic exposure. In turn, operating exposure is a result of possible mismatches in the pricing of physical contracts with respect to the Company’s benchmark profile, in particular in terms of the reference prices and the quotation periods.

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

In the first half of 2014, the strategic exposure of the Company to the risk of changes in copper and silver prices is presented below:

	For the period					
	from 1 January 2014 to 30 June 2014			from 1 January 2013 to 30 June 2013		
	Net	**Sales**	**Purchases**	**Net**	**Sales**	**Purchases**
Copper [tonnes]	**193 672**	274 634	80 962	**213 987**	297 824	83 837
Silver [tonnes]	**551**	571	20	**577**	596	19

28. Financial risk management (continued)

28.1.2 Currency risk

The transaction exposure to currency risk results from contracts generating cash flows, the amounts of which in the base (functional) currency depend on the future levels of exchange rates of the foreign currencies with respect to the base currency (for KGHM Polska Miedź S.A. it is the Polish zloty). Cash flows exposed to currency risk may present the following characteristics:

- denomination in the foreign currency - cash flows are settled in the foreign currencies,
- indexation to the foreign currency - cash flows are settled in the base currency (PLN), but the price (i.e. of a metal) is settled in the foreign currency[2].

The key source of exposure to currency risk in the business operations of KGHM Polska Miedź S.A. are the revenues from sales of products (metals prices, processing and producer margins).

In the first half of 2014, the Company benefited from external financing in the form of bank loans denominated in USD (balance as at 30 June 2014: USD 351 million). Because the Company generates revenue from the sale of its products mainly in USD and EUR, the exposure related to bank loans denominated in USD does not expose the Company to a significant currency risk, from the moment such liabilities/receivables arise to the moment they are repaid/received.

28.1.3 Commodity and currency risk management

The notional amount of copper price hedging strategies settled in the first half of 2014 represented approx. 15% (in the first half of 2013 25%) of the total[3] sales of this metal realised by the Company. Revenues from sales of silver were not hedged by derivatives in the first half of 2014 (in the first half of 2013 the ratio amounted to approx. 9%). In the case of the currency market, hedged revenues from sales represented approx. 25% (in the first half of 2013: 17%) of total revenues from sales realised by the Company.

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

However, in the reporting period favourable market conditions on the currency market were taken advantage of (strengthening of the PLN versus the USD) and a restructure was performed of a hedging position for the period from April to December 2014 through the repurchase of seagull and collar option structures, implemented in the fourth quarter of 2011 and in the second quarter of 2012, in the total amount of USD 540 million. Closure of the position and un-designation of the hedging transactions was reflected in the revenues from sales in the second quarter of 2014 in the amount of PLN 72 million and in the revaluation reserve from the measurement of financial instruments in the amount of PLN 132 million, which will increase revenues from sales in the second half of 2014. Simultaneously put options were purchased with an strike exchange rate of USD/PLN 2.85 hedging revenues from sales in these same periods (second quarter and second half of 2014) and for the same nominal amount (in total USD 540 million).

In addition, a restructure was performed of the hedging position for 2015 by reselling purchased put options with an strike exchange rate of USD/PLN 3.40 from the collar structure implemented in the second quarter of 2012, for the notional amount of USD 360 million. Simultaneously put options were purchased with an exchange rate of USD/PLN 2.70 for the same notional amount (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 financial instruments 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 nominal as they were before restructuring.

As at 30 June 2014, the Company remains hedged for a portion of copper sales planned in the second half of 2014 (40.5 kt) and in 2015 (42 kt). The Company did not hold any open hedging positions on the silver market. With respect to revenues from sales (currency market) the Company holds a hedging position for the second half of 2014 (USD 480 million) and in 2015 (USD 600 million).

[2] It is widely accepted on commodity markets, that physical delivery contracts of metals are settled in USD or indexed in USD.
[3] Relates to the sales of products from own concentrates and from purchased copper-bearing materials.

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

28. Financial risk management (continued)

Condensed table of open transactions in derivatives[4]

COPPER MARKET

	Instrument	Volume [tonnes]	Strike price [USD/t]			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t]	
			Sold call option	Purchased put option	Sold put option [5]			Participation limited to	Hedge limited to
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 VII-XII 2014		**40 500**							
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]	Strike price [USD/PLN]			Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Limitations [USD/PLN]	
			Sold call option	Purchased put option	Sold put option			Participation limited to	Hedge limited to
II 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 positions 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 half of 2014.						
TOTAL VII-XII 2014		**480**							
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[6]	**300**	Closure of the purchased put option USDPLN 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[6]	**300**	Closure of the purchased put option USDPLN 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**							

[4] With the classification by type of assets hedged and type of instrument used as at 30 June 2014; hedged notional/volume in the presented periods is allocated monthly, on a systematic basis.
[5] 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".
[6] 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.

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

28. Financial risk management (continued)

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

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

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

	For the period	
	from 1 January 2014 to 30 June 2014	**from 1 January 2013 to 30 June 2013**
Impact on sales	**264**	**166**
Impact on other operating activities:	**(104)**	**(201)**
due to realisation of derivatives	(13)	(50)
due to measurement of derivatives	(91)	(151)
Total impact of derivatives on profit or loss for the period	**160**	**(35)**

The impact of derivatives on the revaluation reserve from measurement of cash flow hedging instruments.

Revaluation reserve from measurement of cash flow hedging instruments	At	
	30 June 2014	**31 December 2013**
Commodity price risk hedging transactions (copper)	189	161
Currency risk hedging transactions	285	456
As at the end of the period (excluding the deferred tax effects)	**474**	**617**

In the first half of 2014, other comprehensive income decreased by the amount of PLN 143 million (excluding the impact of deferred tax), composed of:

- changes in fair value in the period, which increased the effective part of revaluation reserve from measurement of cash flow hedging financial instruments, in the amount of PLN 121 million,
- the amount of PLN 264 million, which decreased revaluation reserve from the measurement of cash flow hedging instruments and was transferred to increase revenues from sales, due to settlement of the effective part of hedging transactions.

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

	At 30 June 2014		At 31 December 2013	
	Derivatives	**Receivables due to unsettled derivatives**[7]	**Derivatives**	**Receivables/(liabilities) due to unsettled derivatives**[8]
Financial assets	541	19	814	41
Financial liabilities	(249)	-	(23)	(19)
Fair value	**292**	**19**	**791**	**22**

Detailed information on positions in derivatives at 30 June 2014 is presented in the tables below "Trade instruments", "Hedging instruments" and "Instruments initially designated as hedging instruments excluded from hedge accounting".

[7] Settlement date falls on 2 July 2014
[8] Settlement date falls on 3 January 2014

28. Financial risk management (continued)

TRADE INSTRUMENTS — **At 30 June 2014 [PLN '000]**

Type of derivative	Volume/ Notional Cu [t] Currency ['000 USD]	Weighted average price/exch. 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 option	82 500	4 618	-	-	(12)	(244)
TOTAL:			**-**	**-**	**(12)**	**(244)**
Derivatives – Currency contracts						
Options USD						
Purchased call option	360 000	4.5000	-	-	-	-
Purchased put option	180 000	2.7000	27	-	-	-
Sold put option	900 000	3.2800	-	-	(192 815)	(55 325)
TOTAL:			**27**	**-**	**(192 815)**	**(55 325)**
TOTAL TRADE INSTRUMENTS			**27**	**-**	**(192 827)**	**(55 569)**

HEDGING INSTRUMENTS — **At 30 June 2014 [PLN '000]**

Type of derivative	Volume/ Notional Cu [t] Currency ['000 USD]	Weighted average price/ exch. rate Cu [USD/t] Currency [USD/PLN]	Maturity/ settlement period From	Maturity/ settlement period To	Period of profit/loss impact From	Period of profit/loss impact To	Financial assets Current	Financial assets Non-current	Financial liabilities Current	Financial liabilities Non-current
Derivatives – Metals- Copper										
Options										
Seagull	82 500	7 755 - 10 042	July 14	Dec 15	Aug 14	Jan 16	140 486	75 962	(76)	(804)
TOTAL:							**140 486**	**75 962**	**(76)**	**(804)**
Derivatives – Currency contracts										
Options USD										
Purchased put option	720 000	2.7750	July 14	Dec 15	July 14	Dec 15	1 508	2 263	-	-
Collar	360 000	3.2667 – 4.0000	July 14	Dec 15	July 14	Dec 15	44 319	28 131	(11)	(207)
TOTAL:							**45 827**	**30 394**	**(11)**	**(207)**
TOTAL HEDGING INSTRUMENTS							**186 313**	**106 356**	**(87)**	**(1 011)**

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING — **At 30 June 2014 [PLN '000]**

Type of derivative	Volume/ Notional Currency ['000 USD]	Weighted average price/ exch. rate Currency [USD/PLN]	Maturity/ settlement period From	Maturity/ settlement period To	Period of profit/loss impact From	Period of profit/loss impact To	Financial assets Current	Financial assets Non-current	Financial liabilities Current	Financial liabilities Non-current
Derivatives – Currency contracts										
Options USD										
Collar	540 000	3.4000-4.5000	July 14	Dec 15	July 14	Dec 15	115 394	55 325	-	(11)
Seagull	180 000	3.5000-4.5000	July 14	Dec 14	July 14	Dec 14	77 394	-	-	-
TOTAL							**192 788**	**55 325**	**-**	**(11)**
TOTAL INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING							**192 788**	**55 325**	**-**	**(11)**

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

28. Financial risk management (continued)

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

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

Due to investments in listed companies KGHM Polska Miedź S.A. is exposed to the risk of significant changes in accumulated other comprehensive income due to changes in the share prices of these companies, resulting from current macroeconomic conditions. In case of a prolonged decrease in the value of the shares below their cost or when the decrease in the fair value of the shares versus cost is at least 20%, the Company is exposed to the risk of changes in profit or loss.

As at 30 June 2014, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 944 million.

28.1.6 Interest rate risk

Interest rate risk is the probability of the negative impact of changes in interest rates on the Company's results. In the first half of 2014, the Company was exposed to such risk due to loans granted, investing unallocated cash and participating in cash pool services and loans.

As at 30 June 2014, the balances of the items exposed to the risk of changes in interest rates were as follows:

- loans granted with a variable interest rate - PLN 32 million,
- bank deposits - PLN 534 million, including deposits of the Social Fund, Mine Closure Fund and Tailings Storage Facility Restoration Fund,
- receivables due to participation in cash pool service – PLN 140 million (all from subsidiaries),
- liabilities resulting from participation in cash pool service – PLN 116 million (towards subsidiaries - PLN 80 million; towards other entities – PLN 36 million),
- liabilities due to bank loans – PLN 1 069 million (i.e. USD 351 million).

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

The increase in market interest rates will result in an increase in liabilities resulting from cash pool, and in liabilities due to bank loans.

As at 30 June 2014, the Company held liabilities due to bank loans drawn in the amount of PLN 1 069 million (i.e. USD 351 million), which are as follows:

Bank loans liabilities as at 30 June 2014

Type of bank loan	Bank loan currency	Balance of bank loan in original currency [million]	Balance of bank loan in PLN [million]	Repayment date
Working capital facility	USD	17	52	30 July 2014
Working capital facility	USD	162	493	6 August 2014
Overdraft facility	USD	96	293	30 April 2015
Overdraft facility	USD	68	208	14 October 2015
Overdraft facility	USD	8	23	21 October 2015
Total		**351**	**1 069**	

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

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

28.2 Credit risk

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

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

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

28. Financial risk management (continued)

In particular, the source of the Company's exposure to credit risk is as follows:
- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- loans granted,
- guarantees granted.

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

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

All entities with which deposit transactions are entered into by the Company, both in terms of the Company's monetary resources as well as resources accumulated in the MCF, TSFRF and in the SF[9], operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest[10], medium-high[11] and medium[12] credit ratings, an appropriate level of equity and a strong, stable market position. Credit risk in this regard is continuously monitored through the on-going review of the financial standing and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the level of concentration of periodically unallocated cash and cash equivalents, showing the assessed creditworthiness of the financial institutions[13].

	At	
Rating levels	**30 June 2014**	**31 December 2013**
Highest	6%	-
Medium-high	58%	67%
Medium	36%	33%

28.2.2 Credit risk related to derivative transactions

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

The following table presents the structure of ratings of the financial institutions with whom the Company engaged in derivatives transactions, representing an exposure to credit risk[14].

	At	
Rating levels	**30 June 2014**	**31 December 2013**
Highest	11%	16%
Medium-high	89%	79%
Medium	-	5%

Taking into consideration the fair value of open derivative transactions entered into by the Company and unsettled derivatives, as at 30 June 2014, the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 34% (as at 31 December 2013: 22%).

[9] Mine Closure Fund, Tailings Storage Facilities Restoration Fund and the Social Fund.
[10] 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.
[11] 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.
[12] 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.
[13] Weighed by amount of deposits.
[14] Weighed by positive fair value of open and unsettled derivatives.

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

28. Financial risk management (continued)

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

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

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

	As at 30 June 2014			As at 31 December 2013		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Counterparty 1	153	(27)	**126**	185	(9)	**176**
Counterparty 2	95	-	**95**	140	(6)	**134**
Counterparty 3	63	-	**63**	98	(2)	**96**
Counterparty 4	95	(56)	**39**	131	(1)	**130**
Counterparty 5	46	(20)	**26**	75	(15)	**60**
Other	108	(147)	**(39)**	226	(9)	**217**
Total	**560**	**(250)**	**310**	**855**	**(42)**	**813**
Open derivatives	541	(250)	**291**	814	(23)	**791**
Unsettled derivatives	19	-	**19**	41	(19)	**22**

28.2.3 Credit risk related to trade and other financial receivables

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

Geographical concentration of credit risk for trade receivables in the Company[15]:

	At					
	30 June 2014			31 December 2013		
	Poland	**EU (excl. Poland)**	**Other Countries**	**Poland**	**EU (excl. Poland)**	**Other Countries**
Net trade receivables	40%	42%	18%	21%	37%	42%

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

Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments. The Company has secured the majority of its receivables by promissory notes[16], frozen funds on bank accounts, registered pledges[17], bank guarantees, corporate guarantees, mortgages, documentary collection and letters of credit. In addition, the majority of contracts where customers are provided with buyer's credit contain an ownership rights reservation clause confirmed by a date certain[18].

[15] Data concerning receivables arising from sales of copper and silver was presented in the financial statements as at 31 December 2013. The data was recalculated in order to include all trade receivables.

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

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

[18] A trade contract clause officially certified by a notary means that the ownership of merchandise is transferred to the buyer only upon payment, regardless of their physical delivery. Application of this clause is aimed solely at hedging credit risk and simplifying any eventual legal claims with regard to deliveries. The Company transfers the substantial risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

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

28. Financial risk management (continued)

To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with credit limits which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 30 June 2014 the Company had secured 93% of its trade receivables (as at 31 December 2013 – 74%).

The total value of the Company's net trade receivables as at 30 June 2014, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 1 027 million (as at 31 December 2013: PLN 1 594 million).

The concentration of credit risk in the Company is related to the terms of payment allowed to key clients. Consequently, as at 30 June 2014 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 75% of the trade receivables balance (as at 31 December 2013: 64%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

28.2.4 Credit risk related to loans granted

As at 30 June 2014 the balance of loans granted by KGHM Polska Miedź S.A. amounted to PLN 1 047 million, of which PLN 1 042 million represented long-term loans, and PLN 5 million short-term loans.
The most significant items are loans granted to KGHM Polska Miedź S.A. Group companies for realisation of mining projects. The risk due to loans granted depends on the risk due to realisation of projects and is considered by the Company to be moderate.

To reduce the risk due to loans granted, the Company continuously monitors the assets and financial results of the borrowers.

28.2.5 Other information related to credit risk

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

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

	At 30 June 2014				At 31 December 2013			
	Total value	**Up to 1 month**	**From 1 up to 3 months**	**Over 1 year**	**Total value**	**Up to 1 month**	**From 1 up to 3 months**	**Over 1 year**
Trade receivables	**27**	14	13	-	**40**	38	2	-
Other financial receivables	**1**	-	1	-	**1**	1	-	-

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

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

28.3 Liquidity risk and capital management

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

28.3.1 Liquidity risk management

Financial liquidity is managed in accordance with the „Financial Liquidity Management Policy" approved by the Management Board. This document describes in a comprehensive way the process of managing the Company's financial liquidity, indicating best practise procedures and instruments.

The basic principles resulting from this document are:
- the investment of financial surpluses in liquid instruments,
- limits for individual financial investment categories,
- limits for the concentration of resources for financial institutions, and
- assuring the appropriate quality and diversification of available financial sources.

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

28. Financial risk management (continued)

In order to support the financial liquidity, in the first half of 2014 the Company benefited from the external financing in the form of bank loans, using both working capital facilities and overdraft facilities. Open lines of credit are available in PLN, USD and EUR.
At the end of the reporting period, the Company had open lines of credit, of which the available bank loan limits balances in the original currencies were as follows:

Open Credit lines as at 30 June 2014

Type of Bank Loan	Bank loan currency	Balance of available bank loan limit in original currency [million]
Working capital facility and overdraft facility	USD	285
Overdraft facility	EUR	50
Working capital facility and overdraft facility	PLN	2 600

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

Available bank loans limits in EUR and partially in PLN concern facilities, which can be also drawn in USD.

The Company continues to add additional companies to the cash management service of the KGHM Polska Miedź S.A. Group (zero-balance cash pool).

In the first half of 2014, KGHM INTERNATIONAL LTD. among others was included in the service. As at 30 June 2014, the credit limit available under this service was PLN 613 million. The funds available under this service is based on a variable interest WIBOR and LIBOR rates, respectively for PLN and USD.

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

KGHM Polska Miedź S.A. is the coordinator of this service. This function is based on establishing the conditions for functioning of the system, particularly including the interest rate risk and representation of the entire Group in relations with the bank with respect to services. KGHM Polska Miedź S.A. also acts as a participant of the Cash pool system, in which it deposits its financial surpluses and, in case of need, benefits from financing.

As at 30 June 2014 net balance of receivables due to participation in the Group's cash management system amounts to PLN 24 million.

Guarantees are an important financial liquidity management tool of the KGHM Polska Miedź S.A. Group, thanks to which the Group does not need to engage cash and cash equivalents in order to secure its liabilities towards other entities.

As at 30 June 2014 the Company held contingent liabilities due guarantees granted and issued letters of credit in the total amount of PLN 1 331 million.

The most significant items are:
- securing of the proper execution of agreements entered into by Sierra Gorda in the amount of PLN 770 million,
- securing of the liabilities of the Company in case the need arises to cover the costs of decommissioning of Żelazny Most mining tailings treatment pond in the amount of PLN 320 million,
- securing of the restoration costs of the Robinson mine in the amount of PLN 236 million.

28.3.2 Capital management

The Company manages its capital in order to maintain the capacity to continue its operations, including the realisation of planned investments, in a manner enabling it to generate returns for the shareholders and benefits to other stakeholders.
In accordance with market practice, the Company monitors its capital, among others based on the *equity ratio* and the *ratio of Net Debt/EBITDA*. The *equity ratio* is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of *Net Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities decreased by unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation/amortisation).

28. Financial risk management (continued)

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

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

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

	As at	
Indicator	**30 June 2014**	**31 December 2013**
Net debt/EBITDA	0.19	0.20
Equity ratio	0.75	0.79

In the first half of 2014 and in 2013 there were no external equity requirements imposed on the Company, including due to the credit agreements concluded by the Company.

29. Income tax

		For the period	
Income tax	**Note**	**from 1 January 2014 to 30 June 2014**	**from 1 January 2013 to 30 June 2013**
Current income tax		428	645
Deferred income tax	18	(5)	(20)
Adjustments to income tax from prior periods		(11)	(4)
Total		**412**	**621**

The rate applied to the taxation of income in accordance with corporate income tax law in force amounted to 19% (in the first half of 2013: 19%). The effective interest rate was 27.00% (in the first half of 2013: 26.47%). The high level of the effective interest rate was mainly due to the minerals extraction tax, which is not a deductible cost for tax purposes.

30. Earnings per share

	For the period	
	from 1 January 2014 to 30 June 2014	**from 1 January 2013 to 30 June 2013**
Profit for the period	1 119	1 725
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	5.60	8.63

There are no dilutive ordinary shares.

31. Dividends declared for payment

In accordance with Resolution No. 5/2014 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 23 June 2014, the amount of PLN 1 000 million, representing PLN 5.00 per share, was allocated from the profit for 2013 as a shareholders dividend.
The right to dividend date was set at 8 July 2014 and the payment of dividend in two instalments: on 18 August 2014 – in the amount of PLN 2.50 per share and on 18 November 2014 – in the amount of PLN 2.50 per share.
All Company shares are ordinary shares.

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

32. Related party transactions

	For the period from 1 January 2014 to 30 June 2014		
Sales	**Sales of products**	**Sales of merchandise and materials**	**Other transactions**
- to subsidiaries	105	35	32
Total sales to related entities	**105**	**35**	**32**

During the period from 1 January 2014 to 30 June 2014 and in the comparable prior year period, no sales of property, plant and equipment, intangible assets and investment property between the Company and its related entities were reported.

	For the period from 1 January 2013 to 30 June 2013		
Sales	**Sales of products**	**Sales of merchandise and materials**	**Other transactions**
- to subsidiaries	101	36	23
Total sales to related entities	**101**	**36**	**23**

	For the period from 1 January 2014 to 30 June 2014		
Purchases from related entities	**Purchase of services, merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other transactions**
- from subsidiaries	1 946	461	-
Total purchases from related entities	**1 946**	**461**	**-**

	For the period from 1 January 2013 to 30 June 2013		
Purchases from related entities	**Purchase of services, merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other transactions**
- from subsidiaries	2 360	368	1
Total purchases from related entities	**2 360**	**368**	**1**

32. Related party transactions (continued)

Receivables from related entities due to sales of products, services, merchandise, materials, non-current assets, cash pool and loans	At 30 June 2014	31 December 2013
- from subsidiaries	1 275	545
Total receivables from related entities	**1 275**	**545**

Trade and other payables towards related entities due to purchase of products, services, merchandise, materials, and non-current assets	At 30 June 2014	31 December 2013
- towards subsidiaries	437	495
Total payables towards related entities	**437**	**495**

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

The remaining transactions, which were collectively significant, between the Company and the government and with entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions involved the purchase by the Company of materials and services to meet the needs of its current operating activities (fuel, energy, transport services). Turnover from these transactions in the period from 1 January 2014 to 30 June 2014 amounted to PLN 399 million (for the period from 1 January 2013 to 30 June 2013 – PLN 357 million).
The unsettled balance of liabilities from these transactions as at 30 June 2014 amounted to PLN 213 million (as at 31 December 2013: PLN 30 million). Payables due to mining usufruct agreements entered into in the amount of PLN 172 million represent a significant amount of this balance, of which PLN 15 million is due to variable fee.
The unsettled balance of receivables at 30 June 2014 amounted to PLN 41 million (at 31 December 2013: PLN 5 million). Revenues from sales from State Treasury companies in the period from 1 January 2014 to 30 June 2014 amounted to PLN 32 million (for the period from 1 January 2013 to 30 June 2013, PLN 30 million).

Remuneration of members of key management personnel

Remuneration of the Management Board [PLN '000]	For the period from 1 January 2014 to 30 June 2014	from 1 January 2013 to 30 June 2013
Salaries and other current employee benefits	4 084	3 786
Benefits due to termination of employment	1 576	-
Total	**5 660**	**3 786**

Remuneration of the Supervisory Board [PLN '000]	For the period from 1 January 2014 to 30 June 2014	from 1 January 2013 to 30 June 2013
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	678	515
Total	**678**	**515**

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

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

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

	At 30 June 2014	At 31 December 2013
Contingent assets	**455**	**464**
- guarantees received	195	213
- promissory notes receivables	127	120
- real estate tax on mining facilities	81	87
- inventions, implementation of projects	52	44
Contingent liabilities	**1 532**	**191**
- guarantees and letters of credit granted	1 331	10
guarantees granted under a contract for the supply of electricity and finance lease liabilities of the Sierra Gorda S.C.M.	770	-
security of the liabilities of the Company in case the need arises to cover the costs of decommissioning of Żelazny Most tailings pond	320	-
security granted for the payment of future environmental liabilities of the Robinson mine	236	-
- disputed issues, pending court proceedings	16	16
- liabilities due to implementation of projects and inventions	129	123
- real estate tax on mining facilities	56	42
Liabilities not recognised in the statement of financial position		
- liabilities towards local government entities due to expansion of the tailings pond	211	187
- liabilities due to operating leases	18	19

34. Subsequent events

Extension of the validity of the guarantee for the Lower Silesia Voivodeship

On 7 July 2014, at the request of KGHM Polska Miedź S.A., the bank cooperating with the Company extended the validity of a guarantee in the amount of PLN 320 million by a further three months. The new term of validity of the guarantee expires on 31 October 2014. This guarantee secures the liabilities of the Company towards the Lower Silesia Voivodeship.

The guarantee was issued in connection with art. 32 sec. 1 of the Act dated 10 July 2008 on mining tailings, aimed at ensuring proper execution, by an owner of tailings which operates a mining tailings treatment pond, of obligations respecting the closure of the mining tailings treatment pond and restoration of the terrain.

Credit agreement

On 11 July 2014, the Company signed an agreement for an unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion for a five-year tenor incorporating a two-year extension option.

The financial resources from the above mentioned credit facility will be used in financing general corporate purposes, including expenditures related to the continued advancement of investment projects and for refinancing of the financial debt of KGHM INTERNATIONAL LTD.

The Company plans to gradually utilise the credit. The flexible structure of the transaction gives the possibility of multiple borrowing and repaying of the loan instalments, depending on the current liquidity needs of the Group.

The credit facility was granted to the Company by a group of banks, amongst which are the largest Polish banks (i.e. PKO BP, Pekao SA, BZ WBK, Bank Handlowy, ING Bank Śląski, BGK and mBank) as well as banks from Europe, Canada, the United States of American and Japan, which have cooperated thus far with KGHM Polska Miedź S.A.

34. Subsequent events (continued)

Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA financial ratio.

The credit facility agreement obliges the Company to maintain the Net Debt/EBITDA ratio at a particular level. Such an obligation is a standard in these types of transactions.

On 8 August 2014 the first tranche of the syndicated credit was drawn in the amount of USD 100 million.

Loan agreement

On 1 August 2014, KGHM Polska Miedź S.A. signed an agreement for an unsecured loan in the amount of PLN 2 billion with the European Investment Bank.

The funds acquired through this loan will be used to finance Company investment projects related to modernisation of metallurgy and development of the Żelazny Most mining tailings treatment pond.

The agreement was entered into for a period of 12 years. The loan is available for a period of 22 months from the date of signing. The loan will be utilised to a maximum of 7 instalments, each of which in the minimum amount of PLN 300 million. For each of these loan instalments the Company has the option of drawing the instalment in PLN, USD or EUR, with either a fixed or variable interest rate. The remaining terms of the Agreement are standard terms for this type of transaction.

Commencement of production at the Sierra Gorda mine in Chile

On 30 July 2014 the Sierra Gorda mine in Chile started their production. Following the ramp-up period, which will be completed in early 2015, the Sierra Gorda mine will produce approximately 120 thousand tonnes of copper, 50 million pounds of molybdenum and 60 thousand ounces of gold annually in the first years of operations.
The commencement of production at the Chilean mine will decrease the weighted average cost of copper production in the KGHM Polska Miedź S.A. Group and will decrease its sensitivity to changes in the copper price, enhancing the Company's operational security. Forecasted annual average production by the mine over the 20 year period of mine life, taking into account the commencement of the second phase of the project, will amount to 220 thousand tonnes of copper, 25 million pounds of molybdenum and 64 thousand ounces of gold.

The Sierra Gorda mine belongs to a joint venture company, whose shareholders are: an indirect subsidiary of KGHM Polska Miedź S.A. – KGHM INTERNATIONAL LTD. (55%), Sumitomo Metal Mining (31.5%) and Sumitomo Corporation (13.5%).

Judgment of the Supreme Court of Chile concerning the environmental permits for the Sierra Gorda project

On 4 August 2014, the Supreme Court of Chile issued a final and favorable judgment in a case concerning compliance of the environmental permits with environmental laws to transport copper concentrate from Sierra Gorda to the Port of Antofagasta.

The Supreme Court's judgment recognized that the Sierra Gorda project has been permitted in compliance with Chilean environmental laws.

Sierra Gorda S.C.M. is coordinating with the logistics partners, ATI and FCAB, to finalize the construction of a dedicated world-class warehouse and loading facilities to transport copper concentrate via the Port of Antofagasta. The Company has also prepared a short term transport-related contingency plan to ensure all concentrate production can be delivered to the customers.

The Management Board of KGHM Polska Miedź S.A. reaffirms the long-term commitment to the investment in Chile and the Antofagasta Region, ensuring that the Sierra Gorda S.C.M. operation will be an important community contributor to the development of the Region and the country as a whole. Since the start of the Sierra Gorda project KGHM Polska Miedź S.A. has made every effort to ensure that the project meets the highest Chilean and world-class standards.

Liquidation of KGHM Kupferhandelsges m.b.H.i.L

Due to the liquidation of KGHM Kupferhandelsges m.b.H.i.L. on 6 August 2014, the company was de-registered from the Commercial Court in Vienna.

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

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

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

KGHM POLSKA MIEDŹ S.A.

REPORT OF THE MANAGEMENT BOARD ON THE COMPANY'S ACTIVITIES IN THE FIRST HALF OF 2014

Lubin, August 2014

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

1. Company profile

KGHM Polska Miedź S.A. is the parent entity of a Group which is a world-class producer of copper and silver with over half a century of experience. As a major global copper producer the Group is aiming to increase its production to around 700 thousand tonnes of copper annually while at the same time respecting business ethics, environmental protection and social responsibility.

KGHM Polska Miedź S.A. owns one of the largest copper ore deposits in the world, guaranteeing continuity of production in Poland for the next 40 years. The Group owns development projects in Poland, Canada, Chile and in Greenland. Thanks to the friendly takeover of the Canadian company Quadra FNX Ltd., today KGHM INTERNATIONAL LTD., the KGHM Group has become a global company, whose brand is recognised around the world.

KGHM started its mining operations in the 1950s, when three old copper mines were reactivated (currently inactive), and, to process the ore extracted from them, the Legnica smelter was built, which has been in operation since 1953. The discovery of vast copper deposits by Jan Wyżykowski led to the construction of the Lubin mine (1960), the oldest of KGHM's existing mines. In the years 1962-1980 two more mines were built – Polkowice-Sieroszowice and Rudna, as well as the Concentrators, two additional metallurgical plants and a wire rod facility.

1.1. Production

Mine production

In the first half of 2014 KGHM Polska Miedź S.A. increased its ore extraction (dry weight) versus the same period in 2013. This was due to an increase in the daily extraction rate, as well as due to optimisation of work during statutory bank holidays. At the same time copper content in extracted ore during the first half of 2014 decreased to 1.55% from 1.58% in the corresponding period in 2013. As a result, recovery of copper from ore decreased by 1 016 tonnes or by 0.4% when compared to the corresponding period in 2013.

The production of copper in concentrate decreased by 641 tonnes versus the first six months of 2013, and is due to the lower copper content in ore.

Table 1. Mine production

	Unit	6M'13	6M'14	Change 6M'13=100
Copper ore (dry weight)	Mt	15.5	15.7	101.3
Copper content in ore	%	1.58	1.55	98.1
Copper content in ore	kt	244.6	243.6	99.6
Silver content in ore	t	699	701	100.3
Copper concentrate (dry weight)	kt	939	935	99.6
Copper content in concentrate	kt	216.6	216.0	99.7
Silver content in concentrate	t	599	599	100.0

Metallurgical production

In the first half of 2014, electrolytic copper production decreased by 3.1 kt or by 1% when compared to the same period in 2013. This was due to lower processing of own concentrate and to an increase in anode inventories which are required to maintain production during the planned maintenance shutdown at the Legnica smelter (planned maintenance schedule: from 29 August 2014 to 6 October 2014).

The production of metallic silver in the first half of 2014 increased by 62 tonnes or by 11% versus the comparative prior year period mainly due to the maintenance carried out in April and May 2013 at the Precious Metals Plant of the Głogów smelter.

The more-than-doubled volume of gold production is due to the processing of a greater amount of purchased concentrates with a significantly higher gold content than in the case of own concentrates.

The level of production of copper products (i.e. wire rod, round billets, oxygen-free rod and copper grains) is based on market demand.

Table 2. Metallurgical production

	Unit	6M'13	6M'14	Change 6M'13=100
Electrolytic copper, of which:	kt	286.0	282.9	98.9
- from purchased copper-bearing materials	kt	72.7	73.1	100.6
- including from customer-provided material	kt	-	8.0	x
- from own concentrates	kt	213.3	209.9	98.4
Wire rod, OFE and CuAg rod	kt	124.5	134.7	108.2
Round billets	kt	8.2	1.8	22.0
Metallic silver	t	543.8	605.5	111.3
Metallic gold	kg	353	812	x2.3
Refined lead	kt	14.2	12.7	89.4

1.2. Sales by product

In the first half of 2014, versus the comparable prior year period, the Company recorded a decrease in the volume of sales:

- copper by 23.2 kt or by 8% mainly due to the need to restock and to slightly lower copper production in the first half of 2014,
- silver by 24 tonnes or by 4%,
- refined lead by 2 kt or by 14%

At the same time gold sales increased by 395.6 kg or by 98%.

Table 3. Sales volume for basic products

	Unit	6M'13	6M'14	Change 6M'13=100
Cathodes and cathode parts	kt	165.7	136.4	82.3
Copper wire rod and OFE rod	kt	125.2	132.2	105.6
Other copper products	kt	6.9	6.0	87.0
Total copper and copper products	**kt**	**297.8**	**274.6**	**92.2**
Metallic silver	t	596.1	572.1	96.0
Metallic gold	kg	404.9	800.5	×2.0
Refined lead	kt	14.1	12.1	85.8

Table 4. Revenues from the sale of products (in PLN million)

	6M'13	6M'14	Change 6M'13=100
Cathodes and cathode parts	4 081	3 043	74.6
Copper wire rod and OFE rod	3 143	3 010	95.8
Other copper products	171	120	70.2
Total copper and copper products	**7 395**	**6 174**	**83.5**
Metallic silver	1 704	1 145	67.2
Metallic gold	60	102	170.0
Refined lead	105	83	79.0
Other goods and services	171	142	83.0
Total revenues from the sale of products	**9 436**	**7 647**	**81.0**

In the first half of 2014, total revenues from the sale of KGHM Polska Miedź S.A. products amounted to PLN 7 647 million, and were lower by 19% as compared to revenues achieved in the first half of 2013. This was mainly due to lower metals prices: copper on the London Metal Exchange (LME) by 8 % and silver on the London Bullion Market (LBM) by 25%, as well as in the USD/PLN exchange rate impact and a decrease in sales volumes.
These factors led to a decrease in revenues from sales of copper and copper products and of silver by 17% and 33%. Revenues from sales of gold were higher by 70% as compared to the same period in 2013. This was due to a higher sales volumes.
Revenues from sales in the first half of 2014 reflect the positive result from the settlement of hedging instruments in the amount of PLN 264 million (in the comparable prior-year period, PLN 166 million).

Geographical breakdown of sales

In the first half of 2014, the volume of sales of copper and copper products outside Poland and to the European Union represented 77% of total copper sales. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and France.

Similarly, sales of silver outside Poland and to the European Union represented 99% of total silver sales. The largest foreign customers for silver were the United Kingdom, Australia and Belgium.

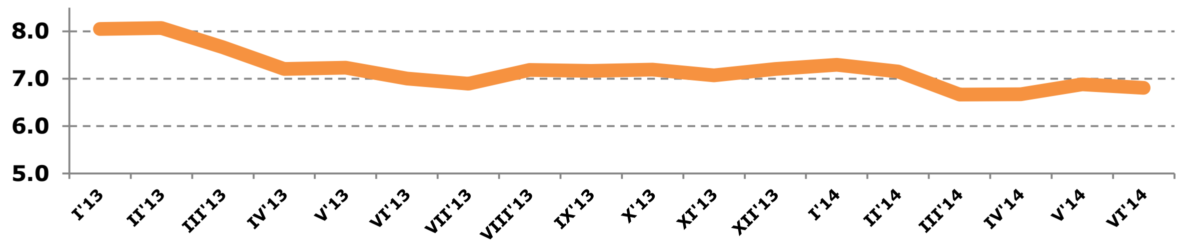
Macroeconomic conditions

The *cash settlement* price of copper on the LME in the first half of 2014 ranged from 6 400 – 7 450 USD/t. Lower than expected copper prices recorded during the first and second quarters of 2014 were mainly the result of fears about continued growth in China, and therefore about the level of demand for base metals, of the reduction in positions in financial transactions hedged by metals related to the investigation in the Chinese port of Qingdao and also of expectations concerning the possible surplus in copper production in the years 2014-2016.

On the silver market prices ranged from 18.5 – 22 USD/ounce, with substantially reduced volatility versus prior years. Geopolitical events related to the political crises in Ukraine and the Middle East as well as the return of liquidity problems for the government of Argentina resulted in increased uncertainty in financial markets, which led to increased interest in the precious metals segment.

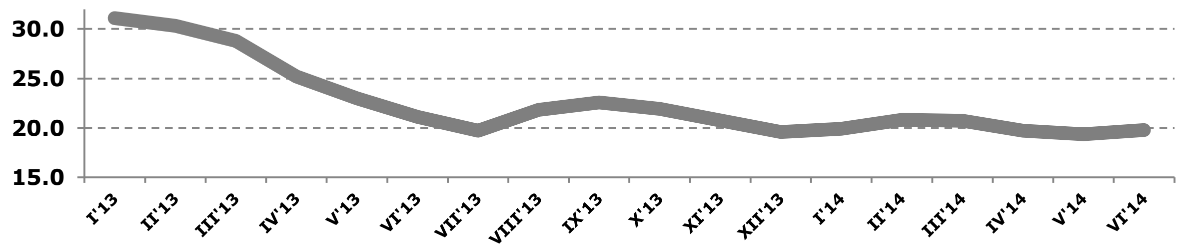
The average *cash settlement* price of copper in the first half of 2014 on the London Metal Exchange (LME) amounted to 6 916 USD/t and was 8% lower than in the first half of 2013, when it amounted to 7 540 USD/t.

Chart 1. Copper prices on the London Metal Exchange ('000 USD/t)



The average price of silver on the London Bullion Market in the first half of 2014 amounted to 20.05 USD/troz (645 USD/kg), a decrease by 25% versus the average price of silver in the corresponding period in 2013 – 26.63 USD/troz (856 USD/kg).

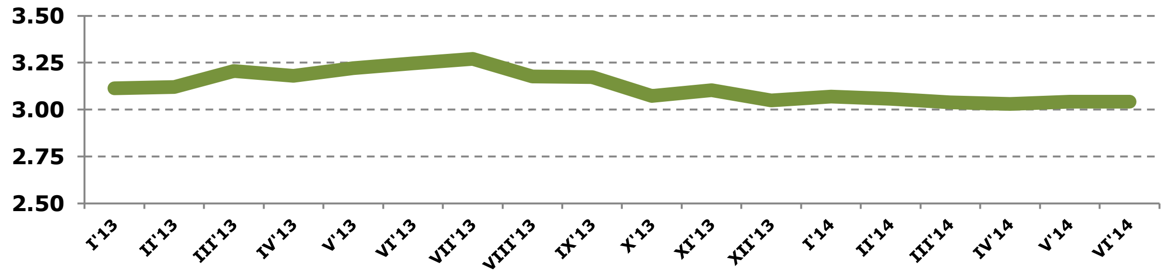
Chart 2. Silver prices per the London Bullion Market Association (USD/troz)



In the first half of 2014, macroeconomic data demonstrated the good condition of the Polish economy, with low inflationary pressure (inflation and the inflation projection being substantially lower than the NBP's goal), which despite the geopolitical problems in the region, resulted in stabilisation of the Polish zloty versus the USD within the range 3.00-3.14.

The average USD/PLN exchange rate (per the NBP) in the first half of 2014 amounted to 3.05 USD/PLN and was lower versus the first half of the prior year by 4% (3.18 USD/PLN).

Chart 3. USD/PLN exchange rate announced by the National Bank of Poland



Factors impacting the Company's operations are presented in Table 5.

Table 5. Macroeconomic factors of importance for the Company's operations

	Unit	6M'13	6M'14	Change 6M'13=100
Average copper prices on the LME	USD/t	7 540	6 916	91.7
Average silver prices on the LBM	USD/troz	26.63	20.05	75.3
Average USD/PLN exchange rate per the NBP	PLN/USD	3.18	3.05	95.9

1.3. Significant commercial contracts

In the first half of 2014, the Company entered into one significant contract – this was an appendix signed on 30 January 2014 to a comprehensive contract for the purchase of fuel gas, entered into on 30 July 2010 with Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG), as announced by the Company in a current report dated 30 July 2010.

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:

- a contract entered into by the Legnica Smelter Division dated 25 September 2001,
- a contract entered into by the Głogów Smelter Division dated 4 January 1999,
- a contract entered into by the Concentrators Division 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 and exceeds 10 % of the Company's equity value. The highest-value contract is the contract entered into on 4 January 1999. The estimated value of this contract is approx. PLN 1.8 billion.

In the first half of 2014, there was no instance of dependence on a single or multiple customers or suppliers. Similarly as in the comparable prior period of 2013, the share of no customer exceeded 10% of the revenues from sales of the Company.

The only supplier whose share of supply exceeded 10% of the revenues from sales of KGHM Polska Miedź S.A. is the subsidiary KGHM Metraco S.A. in Legnica, whose sales to KGHM Polska Miedź S.A. amounted to PLN 1 136 million, representing 15% of the revenues from sales of KGHM Polska Miedź S.A.

The high level of supplies from this company is related to the operating model of the Group, based on which a business goal of KGHM Metraco S.A. is the comprehensive servicing of KGHM Polska Miedź S.A., with respect to the supply of specific raw materials and products ensuring continuity of the production line of KGHM Polska Miedź S.A., based on its own logistical and expediting operations.

1.4. Disputed issues

As at 30 June 2014, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. and its subsidiaries amounted to PLN 381 million, including receivables of PLN 117 million and liabilities of PLN 264 million. The total value of the above disputes did not exceed 10% of the equity of the Company.

The value of disputed issues both by and against KGHM Polska Miedź S.A. amounted to PLN 237 million, including receivables of PLN 58 million and liabilities of PLN 179 million. The largest on-going proceedings involving the receivables and liabilities of KGHM Polska Miedź S.A. are presented in Table 6.

Table 6. Largest on-going proceedings involving the liabilities and receivables of KGHM Polska Miedź S.A.

Relating to liabilities due to:	
Additional amount of royalties for the extraction of copper ore for the period from the start of 2006 to the end of the 3rd quarter of 2011	The municipalities (Gminas) of Polkowice, Lubin, the City of Lubin, Radwanice and Jerzmanowa submitted requests to the Minister of the Environment to open administrative proceedings to set royalties for the extraction by KGHM Polska Miedź S.A., for the period from the start of 2006 to the end of the 3rd quarter of 2011, of copper ore from deposits located in these municipalities and to allow them to participate as parties in these proceedings. The municipalities have charged that the Company lowered the amount of royalties paid on extracted non-balance copper ore in the total amount of PLN 90 million, including that portion payable to the municipalities in the amount of PLN 54 million, with the remainder representing payments to the National Fund for Environmental Protection and Water Management. The Minister of the Environment, in decisions dated 11 April 2012, discontinued the proceedings as they were considered to be groundless. The municipalities submitted appeals dated 26 April 2012 to the Minister of the Environment to reopen these proceedings. By decisions from August 2012 the Minister of the Environment upheld the appealed decisions. The municipalities submitted claims against the decisions of the Minister of the Environment to the Regional Administrative Court, which in judgments dated 31 January 2013 dismissed the charges of the municipalities. In April 2013 the municipalities of Polkowice, Jerzmanowa, Lubin and the City of Lubin submitted cassation appeals to the judgments to the Supreme Administrative Court. A hearing date for the cassation appeals has not been set. The judgment of the Regional Administrative Court dated 31 January 2013, dismissing the claims by the municipality of Radwanice, became legally binding on 12 April 2013. In the Company's opinion the cassation appeals of the four municipalities are groundless, and consequently should not have a financial impact on KGHM Polska Miedź S.A.
Royalties for use of invention project no. 1/97/KGHM	Value of amount under dispute: PLN 42 million. The claim was filed with the District Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received the suit on 14 January 2008. Each of the plaintiffs in this suit is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8th period of the project's application (calendar year 2006). In accordance with a judgment of the District Court in Legnica, in June 2012 a court expert issued a further opinion regarding the methodology for calculating the economic effects by the plaintiffs and the Company for 2006, being the basis for setting potential royalties. As the Company questioned the opinion, the Court experts prepared a supplementary opinion. The Court ordered the Company to respond to the opinion by 22 January 2014, which the Company did prior to the deadline set. At a hearing on 15 July 2014, the Court ordered the parties to submit all evidentiary documents within 3 weeks. The Court will set the date for the next hearing. In the Company's opinion the royalties being pursued through the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project.
Return of costs related to protection against mining damages	Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the District Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of protecting against mine damages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA" in Lubin. The District Court, by a judgment dated 26 February 2013, ordered KGHM Polska Miedź S.A. to pay the amount of PLN 307 thousand. Both parties filed appeals: the defendant in respect of the amount of PLN 307 thousand, and the plaintiff in respect of the amount of PLN 16 million. The Appeals Court appointed a court expert. In the opinion of the defendant, the correspondence presenting the positions of the parties with respect to the issued expert opinion and to supplementary opinions as well as the exchange of court letters related to the proceedings does not exclude the preparation of a further opinion by a scientific institution. In the Company's opinion the claim is unfounded and should be dismissed. However, due to the complex nature of the matter and the judgment made by the District Court, it is difficult to foresee the final resolution. Proceedings are in progress.
Relating to receivables due to:	
Return of undue royalties for use of invention project no. 1/97/KGHM	In January 2008 the Company filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 million for use of invention project no. 1/97/KGHM in the 6th and 7th periods (calendar years 2004 – 2005). The court has combined both these matters: the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, with the claims of the Company for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in

	the amount of PLN 25 million, for joint hearing. Proceedings are in progress. In the the Company's opinion the payment of royalties to the project's authors was unfounded.

1.5. Company structure

In the first half of 2014, the multi-divisional organisational structure of the Company, acting under the name KGHM Polska Miedź S.A., comprised a Central Office and 10 Divisions.

Diagram 1. Organisational structure of the Company as at 30 June 2014

Divisions of KGHM Polska Miedź S.A.			
Mining		**Metallurgy**	**Other**
Lubin Mine Division	Concentrators Division	Głogów Smelter Division	Central Office
Polkowice-Sieroszowice Mine Division	Tailings Division	Legnica Smelter Division	Mine-Smelter Emergency Rescue Division
Rudna Mine Division		Cedynia Wire Rod Division	Data Center Division

Supervisory Board

In accordance with the Statutes of the Company the Members of the Supervisory Board are appointed and dismissed by the General Meeting. As at 1 January 2014, the composition of the 8th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows:

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

as well as the following employee-elected member:

– Bogusław Szarek.

On 23 June 2014, following the expiry of the 8th-term, the Ordinary General Meeting appointed the 9th-term Supervisory Board as follows:

– Tomasz Cyran,
– Bogusław Stanisław Fiedor,
– Andrzej Kidyba,
– Marcin Moryń,
– Jacek Poświata,
– Barbara Wertelecka-Kwater,

as well as the following employee-elected members:

– Józef Czyczerski,
– Leszek Hajdacki,
– Bogusław Szarek.

At a meeting on 15 July 2014 the Supervisory Board selected a Chairman, Deputy Chairman and Secretary:

– Marcin Moryń Chairman,
– Tomasz Cyran Deputy Chairman,
– Bogusław Szarek Secretary.

Management Board

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Management Board are appointed and dismissed by the Supervisory Board. The composition of the 8th-term Management Board of KGHM Polska Miedź S.A. at 1 January 2014 was as follows:

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

From 1 January to 30 June 2014, and after the end of the reporting period to the date of signing of this report, there were no changes in the composition of the Management Board of KGHM Polska Miedź S.A.

As per Supervisory Board directives, the duties of individual members of the Management Board are as follows:

President of the Management Board - coordinates the work of the Management Board, directs the shaping of company personnel policy. The duties of the President of the Management Board also include the initiation and direct supervision of the process of developing and updating the Company Strategy; supervision over designing, planning and conducting strategic studies in the current and future areas of Company activities, as well as supervision of activities with respect to comprehensive risk management at the corporate level. The President of the Management Board also supervises activities with respect to building relations with institutions of public administration, government departments and business partners, manages communication with the public, and supervises activities related to development of the Company's resource base.

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

Vice President of the Management Board (Production) - manages activities with respect to the manufacture of Company products and services and supervises manufacturing activities in Group subsidiaries, including core mining and metallurgical production, as well as with respect to the acquisition, construction and readiness of production assets, with particular regard to the issues of workplace safety and control of environmental risks.

Vice President of the Management Board (Corporate Affairs) - manages business relations and issues related to the creation and conduct of the Group with respect to the implementation of and adherence to corporate governance principles and of best business practice, including determining the manner of organising the Group and its legal forms; manages or coordinates activities related to the appropriate shaping of relations with the external business environment of the Company.

Vice President of the Management Board (Development) - responsible for coordinating activities related to implementation of the Core Strategy in all of the Group's operational areas, and manages the Company's capital investments as approved in the Company Budget as well as research and development work.

1.6. Employment and remuneration

Employment structure

Company employment is at the level assumed in the plans of individual Divisions – this arises from executed tasks, indicated goals and also from the Company's strategic goals. The decrease in employment in the first half of 2014 is due solely to natural movements in staff.

Table 7. End-of-period employment

	6M'13	6M'14	Change 6M'13=100
Mines	12 606	12 399	98.4
Metallurgical plants	3 720	3 556	95.6
Other divisions	2 240	2 250	100.5
Total	**18 566**	**18 205**	**98.1**

Remuneration

Table 8. Total remuneration (in PLN million)

	6M'13	6M'14	Change 6M'13=100
Total remuneration, of which:	1 021	1 034	101.3
- annual bonus	171	157	91.8

Table 9. Total average monthly remuneration (PLN/person)

	6M'13	6M'14	Change 6M'13=100
Mines	9 058	9 182	101.4
Metallurgical plants	7 761	8 167	105.2
Total	**8 837**	**9 009**	**101.9**

The increase in total remuneration and average remuneration is due to the increase from 1 January 2014 of basic wage rates by 2.4%.

Relations with the trade unions

On 28 January 2014, the parties to the Collective Labour Agreement (CLA) signed Additional Protocol No. 15 to the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A., based on which, apart from the aforementioned increase in basic remuneration, the following was introduced:

- a 4.5% increase in the additional contribution to the social fund, most of which is to be used for financing day care and pre-school fees,
- a change in Appendix no. 11 to the CLA regarding changes in the method of calculating the annual bonus on profit earned – currently, when the Company earns a profit above one billion PLN, an additional 0.5% bonus will be calculated following each additional PLN 80 million in profit earned (until now PLN 100 million).

On 17 June 2014, an agreement was entered into between KGHM Polska Miedź S.A. and the trade unions regarding equalisation of the wage factor for 2013 by payment of an annual bonus for 2013, increased by 0.8 percentage points, thereby equalising the wage increase factor for 2013. In realisation of this agreement, on 27 June 2014 a compensating annual bonus was paid for 2013 in the amount of PLN 226 million, of which PLN 14 million related to the aforementioned increase in the annual bonus by 0.8 percentage points.

The signing of the aforementioned additional protocol and agreement also enabled the conclusion of the collective dispute initiated last year by the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego.

2. Execution of Company Strategy

2.1. Company Strategy

The Strategy of KGHM Polska Miedź S.A. for the years 2009-2018, currently in force and being pursued, was approved by the Company's Management Board, and subsequently approved by the Company's Supervisory Board on 23 February 2009. This vision of strategic development of the Company is the result of the approved mission, calling for an increase in the Company's value by maximising the value of natural resources. By realising the Strategy, KGHM Polska Miedź S.A. has joined the group of large global copper producers and is aiming to increase production by the KGHM Group to around 700 kt of copper annually.

Due to the sale of the Company's telecom assets (100% of the shares of Telefonia DIALOG S.A. and 24.4% of the shares of Polkomtel S.A.) the Supervisory Board of the Company, on 10 October 2011, approved the updated Strategy of KGHM Polska Miedź S.A. for the years 2009-2018 with respect to Pillar III – Diversification of revenue sources and independence from energy prices – by removing the strategic goal „Continued investment in the telecommunications sector". The strategic assumptions for the remaining pillars of the Strategy remained unchanged.

The 2009-2018 KGHM strategy is based on the following five pillars:

- **Pillar I - Improving productivity -** aimed at reversing/halting the trend of rising unit production costs through:

– investments in new technology,
– modernisation of infrastructure, and
– optimisation of production procedures and organisation.

- **Pillar II - Developing the resource base -** aimed at increasing the production of mined copper to 700 thousand tonnes annually, through:

– developing the system for mining deep ore,
– mining new regional ore deposits,
– acquisitions in the mining sector, and
– intensifying the processing of scrap.

- **Pillar III - Diversifying revenues and gaining independence from energy prices**

Strategy in this area is being reviewed – the Company will concentrate on ensuring continuity of energy supply at an optimum price.

- **Pillar IV - Supporting regional development –** aimed at supporting development of social activities through:

The support of regional sport, protecting health, supporting the arts and sciences and environmental protection.

- **Pillar V - Developing organisational know-how and capabilities –** aimed at building capabilities in the organisation through:

– management through goals,
– transparent information and data, and
– employee development.

Realisation of the Strategy and of major projects

KGHM Polska Miedź S.A. is continuing the implementation of its approved development strategy. Key Company development initiatives are focused around three key areas:

– improving the productivity of the core copper production line,
– actions taken to secure access to the resource base, and
– projects in the energy sector, mainly in the power generation segment.

Taking into account the existing achievements in the realisation of the adopted Strategy of KGHM Polska Miedź S.A., the mobilisation of internal resource potential and also the macroeconomic conditions facing the global mining sector, the Company continued work related to a multi-directional strategic analysis of the perspectives for the further development and building of value of the KGHM Polska Miedź S.A. Group. The conclusions reached as a result of this analysis will form the basis for determining the foundations for building a new vision for the Company and preparing a draft updated strategy for the KGHM Polska Miedź S.A. Group.

Improving productivity

Of key significance to building the value of the Company over the long term is the continuation of activities in the copper sector as the primary source of its revenues. Of significance in this regard in terms of the scale of Company development are initiatives aimed at reducing production costs, mainly through the implementation of innovative and effective technological solutions in mining and metallurgy.

Projects currently underway in this area:

- **„Development and implementation of mechanical mining in the conditions prevalent in the mines of KGHM Polska Miedź S.A."** During the reporting period work begun in 2013 was continued involving operational trials using the ACT mining complex in a prepared pilot section of the Polkowice-Sieroszowice mine. The work performed involved developing construction elements for the mining complex. Positive results from the completion of these trials will form the basis for taking a decision as to the implementation of this mechanical mining technology.

- **„Drilling of drifts using combines".** During the reporting period in the Polkowice-Sieroszowice mine, as part of the work to access the „Głogów Głęboki Przemysłowy" (Deep Głogów) deposit, mine drift preparatory work begun in 2013 was continued using a team of three combines. Experience was also gained along with technical and economic assessments 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".** With respect to construction of the flash furnace at Głogów I, contracts were signed for the main equipment of the production line. Construction is in progress on the main elements of the flash furnace production line, including the foundations and framework of the Flash Furnace Hall complex, the power switching station for the main facilities and installations and the Electrical Furnace slag pouring unit. Simultaneously work continued on installation design and tendering contracts for construction and assembly work for individual elements of the production line. Contracts were signed for the execution, delivery and assembly of elements and equipment of the Flash Furnace and Electrical Furnace.

  As part of Stage II of the intensification of smelting at the Głogów II smelter, construction and assembly work continues on areas of the production line such as the Scrubber, the Sulphuric Acid Warehouse, and the 110/6kV GSTII Power Station, whose conclusion is planned in the fourth quarter of 2014.

- **„CuBR Sector Program"** performed on the basis of an Agreement signed in 2012 and an Executory Contract signed in 2013 between the the National Centre for Research and Development and KGHM Polska Miedź S.A., involving the support of scientific research and development work for the non-ferrous metals industry. While this venture encompasses the full scope of the mining industry, its goal is to increase the competitiveness of the Polish economy, and to support the development potential of Polish science and industry. Pursuing projects involving the challenges related to the production line of KGHM Polska Miedź S.A. through scientific-industrial consortiums enables the selection of promising watershed ideas for KGHM Polska Miedź S.A. in terms of technology or innovative equipment to improve the production line, and also enables the development of new, profitable materials and products which can be utilised by the Company.

  The Agreement is in force for a period of 10 years, with a program budget of PLN 200 million, with each of the parties having a 50% interest. In January 2014 the first edition commenced of the competition to perform research work in the following areas:

- innovative technology for rapidly accessing deposits deeper than 1300 m,
- innovative technology for the efficient reduction of non-ferrous metal ores for concentration to reduce the energy consumption of the most expensive part of the production process by 30%,
- new, alternative hydrometallurgical technology to produce non-ferrous metals from the concentrates of KGHM Polska Miedź S.A., enabling technology to be acquired for the processing of ore which is of poor quality and is difficult to process metallurgically, and
- innovative technological solutions for the decopperisation of slag using the flash furnace process to obtain copper, thereby increasing metal recovery and ensuring better quality products from the pyrometallurgical process.

  Conclusion of the competition is planned for the second half of 2014, while two subsequent competitions will be announced and carried out in the years 2014 and 2015.

Developing the resource base

With respect to actions to secure the resource base, the Company carried out projects aimed at exploring the resource base in the region, i.e. south-west Poland and in the area of Lusatia (Saxony in Germany) and developing the mining assets held. In the case of the KGHM INTERNATIONAL LTD. Group, exploratory work is being performed directly adjacent to the mining assets. This approach gives the KGHM Group the opportunity to join the leading group of copper producers by diversifying its core business in geographical terms and by increasing the production of copper and other metals at lower unit costs.

The main resource projects being pursued in the region are:

- Gaworzyce – Radwanice

  In the first half of 2014, in the concessioned areas of the Gaworzyce–Radwanice project, which borders on the west of the areas currently being worked by the Polkowice-Sieroszowice mine, geophysical work was performed, and analysis and interpretation of the results is underway. In terms of documentation work, actions are also underway to calculate ore resources and associated elements. All of the documentation work will be compiled under the geological documentation of the Gaworzyce-Radwanice deposit in the fourth quarter of 2014. Assessing the possibilities of mining the copper ore deposit in this region may enable prolongation of the mine life of the Polkowice-Sieroszowice mine.

- Synklina Grodziecka

  With respect to realisation of work aimed at assessing the concessioned area Synklina Grodziecka, located within the so-called Old Copper Belt near Bolesławiec, the Company continued geological work under Stage II of the project. In the first half of 2014, 3 drillholes were executed. Altogether as part of Stage II, 7 of the planned 9 drillholes have been executed to date. Completion of all planned drillholes is scheduled in 2014.

- Konrad

  Based on a request submitted in 2013, in January 2014, the Company received a concession for exploration and assessment of the Konrad copper ore deposit. This concessioned area is directly adjacent to the Synklina Grodziecka concession and comprises the mining area of the old Konrad mine. Work on this area is enabling a comprehensive assessment of hydrogeological conditions for the project of de-watering the deposit and determining geological-mining conditions for future mining.

- Stojanów

  On 15 May 2014, the Company received concession no. 21/2014/p for exploration of the copper-silver ore deposit in the Stojanów area, for a period of 3 years and 5 months. The Stojanów area covers 551.3 km^2 and is an extension into Poland of the geological structures located within the Weisswasser area. Preparations are underway to commence the work specified in the concession.

- Retków Ścinawa and Głogów

  With respect to work on exploration projects in the areas of Retków Ścinawa and Głogów, for which the Company received a concession in 2013, in the first half of 2014 preparatory and organisational work was performed prior to the planned commencement of geological work.

- Bytom Odrzański and Kulów – Luboszyce

  With respect to requests submitted in 2012 by KGHM Polska Miedź S.A. for the granting of concessions for the exploration and assessment of the Bytom Odrzański and Kulów – Luboszyce areas, on 28 January 2014 the Minister of the Environment issued the following decisions:

  - declining to grant a concession for the exploration and assessment of the Bytom Odrzański copper ore deposit,
  - granting concession no. 5/2014/p for the exploration of the Kulów–Luboszyce copper ore deposit, in that part covered by the request of KGHM Polska Miedź S.A. from 2012.

  On 13 February 2014, KGHM Polska Miedź S.A. submitted a request to the Minister of the Environment to re-hear the matter. As a result of the appeal proceedings, the Minister of the Environment on 29 July 2014 issued a decision reversing in entirety the concessions dated 28 January 2014 for exploration and evaluation of the Bytom Odrzański and Kulów-Luboszyce areas, and ordered the matter to be re-heard.

- Weisswasser

  With respect to work on the Weisswasser project (Saxony in Germany) performed by KGHM Kupfer AG, a 100% subsidiary of KGHM Polska Miedź S.A., in May 2014, based on previously received permits, geological surface work was completed (seismic measurements). At present a geological report is being developed along with recommendations for further actions under the Weisswasser Project.

- Szklary

  On 30 April 2014, in response to a request previously submitted by KGHM Polska Miedź S.A., the Minister of the Environment, based on an issued decision, acknowledged the expiry of the concession dated 3 February 2006 for the exploration and assessment of the „Szklary I" nickel ore deposit near Ząbkowice Śląskie.

The decision to cease work on the „Szklary" area was dictated by the fact that the project does not meet internal project criteria with respect to economic analysis of the project. Total expenditures incurred on the project amounted to PLN 5 million.

– Zatoka Pucka

Administrative proceedings are underway with respect to granting a concession for the exploration for and assessment of deposits of potassium-magnesium salt, phosphorous minerals, rock salt and non-ferrous metals in the Zatoka Pucka region. The Company expects the concession proceedings to be concluded in the third quarter of 2014 (the final date for conclusion of the proceedings depends on the decision of the Ministry of the Environment). In January 2014, the Company signed an Agreement with Gdańskie Zakłady Nawozów Fosforowych FOSFORY Sp. z o.o. and the company Grupa Azoty Zakłady Azotowe „Puławy" S.A. regarding assumptions for cooperation with respect to exploration for, evaluation and extraction of deposits of potassium-magnesium salts with associated minerals.

With respect to the development of mining assets outside Poland, in the first half of 2014 KGHM Polska Miedź S.A. continued to advance key mining projects, realised through KGHM INTERNATIONAL LTD., which arose in 2012 as a result of the takeover by the KGHM Polska Miedź S.A. Group of the Canadian company Quadra FNX:

– The Sierra Gorda Project in Chile (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%)

With respect to the first stage of the project, work continued on construction and preparations for the technical handover and commissioning of individual installations of the open pit mine. As at 30 June 2014, more than 95% of the project had been completed.

In the first half of 2014 work on pre-stripping was completed (including of the oxide ore) required to access the target ore deposit. In addition, construction of the 143 km sea water pipeline was completed, as well as of installations comprising the processing plant.

On 28 May 2014 the first batch of ore was sent to the initial crusher which commenced operation. On 30 July 2014 the Sierra Gorda mine commenced production.

At the end of June 2014, approx. 7.5 thousand employees and subcontractors worked on the project site, with gradual demobilisation planned in subsequent weeks. At the end of the second quarter around 1 000 people involved in the operations stage were employed.

In addition, work continued on the Sierra Gorda Oxide project, which foresees 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, comprising 18 thousand tonnes of high-grade copper ore and 8 thousand tonnes each of medium and low grade copper ore. Stacking tests are also being conducted. In March 2014, work began on a feasibility study which will incorporate the results of the tests.

With respect to preparing the second investment stage aimed at increasing the capacity of the processing plant from 110 kt to 190 kt of ore per day, design work was performed related to development of the processing plant infrastructure.

– Victoria Project in the Sudbury Basin of Canada (KGHM INTERNATIONAL LTD. 100%)

In the second quarter of 2014 work was performed on the adit for the first mine shaft. In addition, work continued on an Integrated Development Study (equivalent to a feasibility study) for the Victoria project, 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 Canada (KGHM Polska Miedź S.A. 80%, Abacus Mining and Exploration Corp. 20%)

On 29 May 2014, KGHM AJAX MINING INC. published a new mine plan which moves the infrastructure of the future Afton-Ajax open pit mine away from the nearest buildings of the town of Kamloops, and which also reduces the mine's environmental impact.

The new schedule for the Afton-Ajax project foresees the submission of the application for an environmental permit at the end of the first quarter of 2015. The approved schedule enables construction of the mine facilities to commence in mid-2016. The Company foresees that production of the first copper concentrate from the Afton-Ajax mine will occur at the end of 2018.

Projects in the energy sector

With respect to **increasing energy production for its own needs,** KGHM Polska Miedź S.A. continued projects whose execution will secure approx. 30% of the Company's energy needs, and will diversify the generation portfolio and substantially reduce the Company's exposure to risks associated with climate policy and changes in fuel and electricity prices.

- **„Construction of gas-steam blocks at the Głogów and Polkowice power plants"** – on 8 July 2014 the second gas-steam block, in the Głogów power plant, was handed over for operation. The project enables optimisation of power and heating costs in KGHM Polska Miedź S.A. through the associated generation of power using internal generation capacity at the level of 560 000 MWh, all of which is designated to meet the power needs of the Company.
- **„Construction of a research installation for the underground gasification of brown coal in the Legnica-Głogów Copper Belt LGOM".** Comprehensive analysis and interpretation was performed on the results of geological work and specialty and laboratory research acquired as part of Stage II of the project. Deposit selection criteria were developed as well as algorithms for assessing the deposit in terms of the technical possibilities of advancing the UCG (Underground Coal Gasification) project, taking into account the susceptibility of the brown coal to gasification and the existing geological conditions. Work was performed related to setting the schedule for further geological work (Stages III and IV) which foresees the conducting of hydrogeological research and the modeling of conditions related to the coal gasification process.

With respect to cooperation with partners from the energy sector, KGHM Polska Miedź S.A. continued to **participate in the realistion of the most important energy projects on a national scale.** It is expected that participation in these projects will lead to secure energy supplies for the Company at an optimum price.

- One of the most important energy projects is the **„Preparation for the construction and operation of the first Polish nuclear power plant".** In the first half of 2014, the parties to the draft Shareholders Agreement 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 for the construction of a nuclear power plant in Poland by preparing an updated text of the draft Shareholders Agreement together with appendices. The parties have agreed the final text of the draft Shareholders Agreement, and as at the date of preparation of this report were in the possession of corporate permission to sign the draft Shareholders Agreement.

  In addition, 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.

2.2. Equity investments

As at 30 June 2014, KGHM Polska Miedź S.A. directly owned shares of 21 subsidiaries, 1 joint venture company, 2 other companies (in which the share is less than 20%) and investment certificates in 4 closed-end non-public investment funds. Nine direct subsidiaries held majority interests in at least one subsidiary. The largest Group was KGHM INTERNATIONAL LTD.

The entities in which as at 30 June 2014, KGHM Polska Miedź S.A. directly owned shares are presented in Diagram 2.

At the end of the first half of 2014, the entire KGHM Polska Miedź S.A. Group consisted of 76 entities engaged in various businesses. Amongst them are companies engaged in the Group's core business, i.e.: mine production of metals (such as copper, nickel, gold, platinum, palladium), exploring for and mining deposits of copper ore and other metals and companies working on behalf of the core production business, i.e.: providing services in mine construction, transport, the manufacture of mining machinery and equipment, electricity and heat generation, the production of explosives and research and development. The remaining entities, unrelated to the core business of the Company, provide services among others in health and cash investing.

Diagram 2. Entities in which KGHM Polska Miedź S.A. directly held shares and investment certificates as at 30 June 2014 *

KGHM Polska Miedź S.A.

„Energetyka" sp. z o.o.	100%	„MCZ" S.A.	100%	KGHM Kupferhandelsges.m.b.H.i L. (in liquidation)	100%
PeBeKa S.A.	100%	Zagłębie Lubin S.A.	100%	KGHM (SHANGHAI) COPPER TRADING CO., LTD.	100%
KGHM ZANAM Sp. z o.o.	100%	KGHM TFI S.A.	100%	TUW CUPRUM	97%
INOVA Spółka z o.o.	100%	KGHM I FIZAN	100%	KGHM LETIA S.A.	85%
POL-MIEDŹ TRANS Sp. z o.o.	100%	KGHM III FIZAN	100%	NITROERG S.A.	85%
CBJ sp. z o.o.	100%	KGHM IV FIZAN	100%	BIPROMET S.A.	66%
KGHM CUPRUM sp. z o.o. - CBR	100%	KGHM V FIZAN	100%	„Elektrownia Blachownia Nowa" sp. z o.o.	50%
KGHM Metraco S.A.	100%	Fermat 1 S.à r.l.	100%	TAURON Polska Energia S.A.	10%
PHP „MERCUS" sp. z o.o.	100%	KGHM Kupfer AG	100%	Abacus Mining & Exploration Corporation	7%

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

The Fermat 1 S.à r.l. Group includes entities realising the strategy of resource base development, i.e. KGHM INTERNATIONAL LTD. and KGHM AJAX MINING INC.

Main equity investments of KGHM Polska Miedź S.A.

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

The most important production assets of the KGHM INTERNATIONAL LTD. Group are the mines Robinson, Levack/Morrison and Franke.

Robinson Mine

Location	Nevada, USA
Ownership	100% Robinson Nevada Mining Company - 100% owned by KGHM INTERNATIONAL LTD.
Type of mine	open pit
Main ore type	copper ore
Associated metals	gold
Type of orebody	porphyry/skarn
Mine life	2021
End product	copper concentrate
Production (1st half 2014)	19 kt Cu; 12.1 koz TPM*
Employment (30 June 2014)	578

**TPM – total precious metals: gold, platinum, palladium*

The mine is located in White Pine County, Nevada, USA, around 11 km west of Ely (approx. 400 km north of Las Vegas), in the Egan Range, at an average altitude of 2 130 m a.s.l., near Highway 50.

The mine is comprised of 3 mine pits: Liberty, Tripp-Veteran and Ruth, which is currently in operation. The ore is extracted by conventional open-pit methods, and is then processed into a copper and gold concentrate in a processing plant.

Levack / Morrison Mine

Location	Sudbury Basin, Ontario, Canada
Ownership	100% FNX Mining Company - 100% owned by KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper ore
Associated metals	nickel, platinum, palladium, gold
Type of orebody	footwall/contact Ni
Mine life	2023
End product	copper ore
Production (1st half 2014)	7.4 kt Cu, 1.3 kt Ni, 19.8 koz TPM*
Employment (30 June 2014)	330

**TPM – total precious metals: gold, platinum, palladium*

This mine is part of the Levack complex, which comprises two mines: McCreedy West and Levack (with the Morrison deposit). The mine is located at the edge of the town of Sudbury, Ontario, Canada. The Levack mine, to which the Morrison deposit which lies at a lower depth belongs, is located on the western border of the richly-mineralised North Range complex of the Sudbury Igneous Complex (SIC) in the Sudbury Basin. This is an elliptical structure 60 km long and 30 km wide, which is related to substantial economic resources of nickel, copper, platinum, palladium, gold, and other metals. The mine is connected to the eastern part of the McCreedy West mine.

The ore is accessed and mined with the aid of leased infrastructure belonging to the adjacent Craig mine owned by Xstrata Nickel. Mineralisation in the Morrison deposit most commonly occurs in the form of ore veins. Mining is carried out at the 4030 level (approx. 1228 m) using mining techniques adapted to the deposit's geometry - mainly this is a mechanised method of selective extraction using undercutting of successive levels from bottom to top. Drilling is being carried out to define the lower portions of the orebody above the 4700 level (approx. 1433 m).

All of the ore exracted from the mine is processed by Vale's Clarabelle plant in Sudbury.

Franke Mine

Location	Antofagasta Region, Chile
Ownership	100% Sociedad Contractual Minera Franke - 100% owned by KGHM INTERNATIONAL LTD.
Type of mine	open pit
Main ore type	copper ore
Associated metals	none
Type of orebody	IOCG (iron oxide, copper, gold)
Mine life	2020
End product	copper cathodes
Production (1st half 2014)	9.3 kt Cu
Employment (30 June 2014)	556

This mine is located in a desert area of northern Chile, in the Altamira region, near the southern boundary of the Antofagasta region, near a public road connecting the mine with the Pan-American highway.

Mining is conducted by conventional open-pit methods from two orebodies: China (part of the larger Pelusa mine area) and Franke. Due to the nature of the ore, it is processed using the heap leach, solvent-extraction and electrowinning method. The end product is electrolytic copper in the form of cathodes.

DMC – mining services

Under the DMC Mining Services brand, the group of companies FNX Mining Company Inc., Raise Boring Mining Services S.A. de C.V. and DMC Mining Services Corporation provide services in shaft sinking, development work, above-ground and underground mine facilities, drilling, civil underground construction, and feasibility analyses and design work.

The most important existing assets of KGHM Polska Miedź S.A. at the development stage are the projects Sierra Gorda and Victoria.

Sierra Gorda Project

Location	Region II, Chile
Ownership	55% KGHM INTERNATIONAL LTD, 45% Sumitomo group companies- Sumitomo Metal Mining Co., Ltd. (31.5%) and Sumitomo Corporation (13.5%)
Type of mine	open pit

Main ore type	copper ore
Associated metals	molybdenum, gold
Mine life	23 years
End product	copper concentrate, molybdenum concentrate
Forecasted production	approx. 220 kt Cu, 11 kt Mo, 2 t Au
Start of production	2014

KGHM INTERNATIONAL LTD. acquired the project in 2008. Since September 2011 the Sierra Gorda project has been a joint venture (under the company JV Sierra Gorda S.C.M.) of KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group. This is a key development project in the KGHM Group due to its scale – construction of one of the world's largest mines of copper, molybdenum and gold is being created, which will improve the Group's position on the cost curve.

The Sierra Gorda project is located in the Atacama desert, in the Sierra Gorda administrative area in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The project is situated at an altitude of 1 700 m a.s.l. and 4 km from the town of Sierra Gorda, having a communications network with direct access to a highway and railway connections. Power for the project is through a power line from Mejillones, as well as from a local power plant. Desalinated sea water for the project is pumped through a steel pipeline. The copper and molybdenum concentrates produced will be transported to the port of Antofagasta, and from there by sea to smelters around the world.

The Sierra Gorda orebody is one of the largest deposits of copper and molybdenum in the world, comprising both sulphide copper ore as well as oxide copper ore located above the sulphide level. Development of the Sierra Gorda project assumes two investment stages. The first stage comprises the construction of a conventional open-pit mine (extraction using blasting materials and dump trucks, loading and ore transport to a processing plant), infrastructure (among others a tailings pond, power line, salt water pipeline) and a processing plant with an installation to separate the molybdenum concentrate (high-pressure crushers, ball mills and conventional flotation) with processing capacity of 110 thousand tonnes of ore per day. In the second stage, the capacity of the processing plant is planned to be increased to 190 thousand tonnes of ore per day. The project also has exploration potential in neighbouring areas.

Oxide ore is stored separately for later heap leaching as part of the Sierra Gorda Oxide project. Under this project, stacking tests are being conducted as well as semi-industrial tests using 44 kt of ore, whose results will enable selection of an optimum means of utilising all of the oxide ore.

On 30 July 2014 the Sierra Gorda mine commenced production. Following the ramp-up period which will be completed in early 2015, it is planned that the mine will produce annually around 120 kt of copper, 50 million pounds of molybdenum and 60 thousand ounces of gold in its first years of operation.

On 26 February 2014, due to a suit filed by several of the inhabitants of the town of Antofagasta, the Appeals Court in Antofagasta invalidated the environmental permits issued by the Environmental Office of Region II for the transportation and storage of copper concentrate belonging to Sierra Gorda S.C.M. at the port of Antofagasta. The defendants, i.e. the Environmental Office of Region II in Chile, Antofagasta Railway Company PLC and Sierra Gorda S.C.M., as well as the International Port of Antofagasta, holding the position that the environmental permits were acquired in accordance with the law in Chile, and that the claims of the plaintiffs are legally unjustified, have appealed this judgment. The Supreme Court of Chile issued a final and favorable judgment dated 4th August 2014 in a case concerning compliance with environmental laws to transport copper concentrate from Sierra Gorda to the Port of Antofagasta, upholding the defendants' position. Half of the copper concentrate produced will be sent to the Japanese smelters of the Sumitomo Group, while the remaining production will be sold on other markets.

Victoria Project

Location	Sudbury Basin, Ontario, Canada
Ownership	100% owned by KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper-nickel ore
Associated metals	precious metals (gold) and platinum group metals (platinum, palladium)
Mine life	around 14 years
End product	copper concentrate, nickel concentrate
Forecasted production	16 kt Ni, 15 kt Cu
Start of production	2018-2019, full capacity 2023

This project is located in the Canadian province of Ontario, around 35 km west of the town of Sudbury. In 2002 KGHM INTERNATIONAL LTD. acquired rights to the Victoria mineral deposits and commenced a campaign of exploration in this terrain. Based on the data obtained from drilling to the end of 2011, 14.5 million tonnes of ore were documented in the category inferred resources, with average grade of 2.5% Cu, 2.5% Ni and 7.6 g/t of precious metals.

In August 2013, KGHM INTERNATIONAL LTD. and FNX Mining Company Inc. signed an agreement with Vale Canada Limited, under which Vale waived its buy back right, and KGHM INTERNATIONAL LTD. became the owner of 100% of the project in exchange for a Net Smelter Return royalty of 2.25% on all future production from the mine. The current scenario foresees realisation of the project in two stages. The first of these, currently being realised, is of key importance and is based on the sinking of an exploration shaft, which will enable the conduct of accessing work and necessary drilling as part of an advanced exploration campaign, aimed at confirming and documenting copper and nickel resources in the appropriate category.

All of the ore extracted from the mine will be processed in the Clarabelle plant in Sudbury, owned by Vale.

Other important investments

From the point of view of securing the operational continuity of the core production business of KGHM Polska Miedź S.A., investments in domestic companies operating on its behalf are critical, including among others:

- PeBeKa S.A. – a mine work contractor,
- KGHM ZANAM Sp. z o.o. – a supplier and service provider for mining machinery, also provides production-related services in various areas,
- KGHM Metraco S.A. – a supplier of copper scrap,
- „Energetyka" sp. z o.o. – the company secures a portion of the energy needs of KGHM Polska Miedź S.A.

In terms of the amount invested, a significant investment is in the shares of TAURON Polska Energia S.A., listed on the WSE.

Equity investments in the first half of 2014, changes in the Group's structure

In the first half of 2014, equity investments were carried out within the Group aimed at ensuring funds for the execution of resource base development projects, including the key project Sierra Gorda and the projects Victoria and Afton-Ajax. Financing for these projects was through a loan granted by KGHM Polska Miedź S.A. to the company Fermat 1 S.à r.l. (a direct subsidiary) in the amount of USD 255 million (PLN 777 million at the average exchange rate of the NBP from 30 June 2014), and subsequently through an increase in the share capital of special purpose companies within the holding structure.

Changes in Group structure

As a result of actions taken within the KGHM Polska Miedź S.A. Group aimed at improving and simplifying its structure, in the first half of 2014 the following subsidiaries were combined:

- **KGHM Metraco S.A. with KGHM Ecoren S.A.** - combined through the acquisition of KGHM Ecoren S.A. by KGHM Metraco S.A. The company KGHM Metraco S.A. continues the activities previously carried out by KGHM Ecoren S.A.;

- **PHP „MERCUS" sp. z o.o. with „Mercus Software" sp. z o.o.** - combined through the acquisition by the company PHP „MERCUS" sp. z o.o. of the company „Mercus Software" sp. z o.o. (PHP „MERCUS" sp. z o.o. owned 100% of the shares of „Mercus Software" sp. z o.o.). This combination was aimed at terminating the activities of „Mercus Software" sp. z o.o., whose primary domain – providing IT services – was acquired prior to the combination as an organised part of the company by the COPI Division of KGHM Polska Miedź S.A., which provides IT services for the Group;

- **Centenario Holdings Ltd., Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd.** – combination of subsidiaries with their registered head offices on the British Virgin Islands belonging to the KGHM INTERNATIONAL LTD. Group, whose activities are not related to the core business operations of KGHM INTERNATIONAL LTD. These companies were acquired by Centenario Holdings Ltd.

In addition, in the first half of 2014, as the result of liquidation, the indirect subsidiary Ecoren DKE sp. z o.o. was removed from the court register, and all of the shares held in the indirect associate PHU „Mercus Bis" sp. z o.o. (a 32.3% interest) were disposed of as a result of voluntary redemption.

Due to the liquidation of KGHM Kupferhandelsges m.b.H.i.L. on 6 August 2014, the company was de-registered from the Commercial Court in Vienna.

Future equity considerations

Intentions as regards equity investments result from the main assumptions of the Strategy of KGHM Polska Miedź S.A., comprising development of the resource base to increase copper production.

Investments as regards development of the resource base are aimed acquiring selective exploration projects related with copper and associated metals. In the near term it is not expected that there will be significant activity in the area of mergers and acquisitions of mining assets at a more advanced stage of development.

The activities of the Group will be focused on advancement of the projects in its portfolio – above all of the projects Sierra Gorda (stage II of the project as well as the oxide ore management project), Victoria and Afton-Ajax.

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

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

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

Related party transactions

In the first half of 2014, neither KGHM nor its subsidiaries entered into related party transactions under other than arm's length conditions.

2.3. Capital expenditure

In the first half of 2014, capital expenditures amounted to PLN 1 021 million and were higher by 18% as compared to the corresponding prior period of 2013. These expenditures, together with those incurred on uncompleted development work, amounted to PLN 1 026 million.

Chart 4. Structure of capital expenditures (in PLN million)

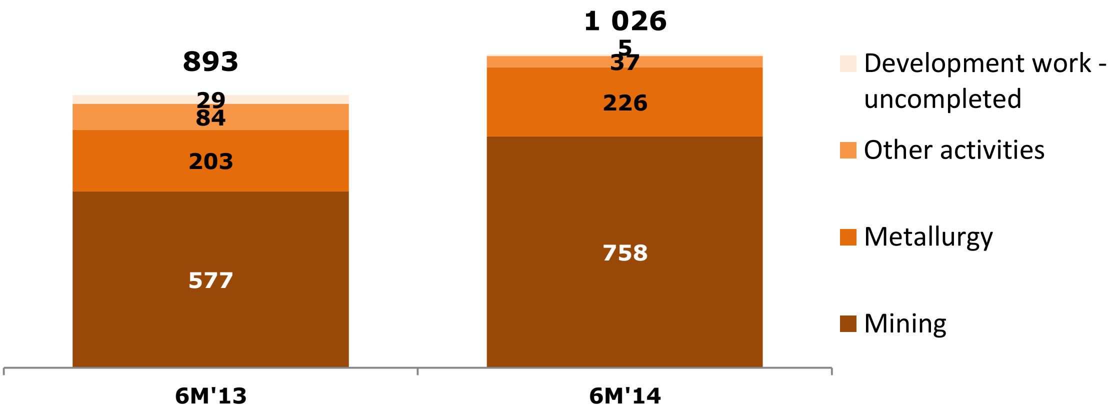


Table 10. Major projects in progress in the first half of 2014

Mining
„Construction of the SW-4 shaft" – to access the deposit lying at a depth of below 1000 m in the mining area of the Polkowice-Sieroszowice mine and GGP (Deep Głogów). Shaft sinking was completed in December 2013 - since the start of the investment 1 219 m were sunk and a total of 17.0 km of drifts and shaft-area workings for a future ventilators station (including in the first half of 2014 – 1.4 km of shaft-area workings) were excavated.
„Głogów Głęboki – Przemysłowy" (Deep Głogów) – grants access to a deposit with estimated resources of 6 728 kt of copper. Work continues on the sinking of the GG-1 ventilation (input) shaft as well as work related to shaft site infrastructure. As at 30 June 2014, the shaft had reached a depth of 206.8 m using tubing construction. It is being built in stages and will be completed in 2019. Work continued on the main drifts with supporting technical infrastructure – in the first half of 2014, 4.7 km of drifts were excavated (since 2005 a total of 53.7 km of the planned 129.9 km of drifts have been excavated, representing 41%). Work begun in 2010 was completed, comprising access and preparatory work related to opening the first mine field in the Deep Głogów area for operations. On 1 April 2014, the G-25 mining section was the first to commence operations. Design work was completed on a modern surface-based ventilation station with target power of 25 MW at the R-11 shaft, and the worksite was passed to the General Contractor. Completion of construction is planned for the fourth quarter of 2015.
„Modernisation of the R-III mine shaft skip with renovation of loading and ore retention at the 950 level" A Decision was obtained from the President of WUG (the Polish State Mining Authority) allowing mine production tests to be conducted of hoisting machinery and control-signaling equipment. The shaft hoisting guides and shaft top for the R-III shaft were rebuilt in order to adapt the mine shaft hoisting unit to the working requirements of skip equipment of a higher hoisting capacity (23 tonnes).
The replacement of spent assets, guaranteeing the achievement of production tasks, including replacement of the machinery park - in the first half of 2014, 144 mining machines were purchased, representing 61% of planned purchases of mining machinery in 2014.

Projects were carried out related to maintaining production to ensure production at planned levels in accordance with mine plans. In the mines, work was carried out on investments related to development of the infrastructure of the mining sections, ventilation and cooling equipment and investments in the conveyor belts and pipelines.

„Modernisation of classification units" - 78 hydrocyclone batteries were replaced with new-generation equipment in all concentrator plants to increase the precision of the classification units from 60% to 82% (increased annual copper production from 2018 by 1.4 kt, increased annual silver production from 2018 by 3.5 t, lower energy consumption successively in subsequent years of replacement to the level of 19.9 thousand MWh).

In 2013 part 1 of stage I was completed, under which 12 hydrocyclone batteries were built of the total planned 78 units. Selection procedures are underway for suppliers for subsequent project stages.

Under the Resource base development program the following was performed:

- „Investigation and documentation of the Synklina Grodziecka region" – an increase in the quality and size of the mineable resources of copper ore versus previously documented resources for this deposit, and preparation of a decision to mine the deposit.

  In the first half of 2014, geological work was continued under stage II of the project. In terms of drilling, 3 holes were executed. Altogether as part of Stage II, 7 of the planned 9 drillholes have been executed to date. Completion of all planned drillholes is scheduled in 2014.
- „Assessment of the possibility of mining the Radwanice–Gaworzyce deposit - stage I - III" – an increase in the existing copper ore resource base in the concessioned areas of Radwanice and Gaworzyce – a preliminary estimated increase in resources by approx. 84.2 million tonnes of ore.
  In the first half of 2014, in the concessioned areas of the Gaworzyce–Radwanice project, geophysical work was performed, with ongoing analysis and interpretation of the results obtained. In terms of documention, work is also underway aimed at calculating ore resources of copper and associated minerals. All of the documentation work will be compiled under the geological documentation of the Gaworzyce-Radwanice deposit in the fourth quarter of 2014.
- „Exploration and assessment of the Konrad copper ore deposit" - based on a request submitted in 2013, in January 2014 the Company received a concession for exploration and assessment of the Konrad copper ore deposit. This concessioned area is directly adjacent to the Synklina Grodziecka concession and comprises the mining area of the old Konrad mine. Work on this area is enabling a comprehensive assessment of hydrogeological conditions for the project of de-watering the deposit and determining geological-mining conditions for future mining.

Facilities were realised related to improving and maintaining the operational safety of the Żelazny Most mining tailings treatment pond and to eliminate its environmental impact.

Realisation was continued on the project „Development of the Żelazny Most mining tailings treatment pond to ensure the ability to store flotation tailings after 2016":
- the second stage of geological work was completed on the terrain of the Southern Quarter and geological documentation was developed,
- permission was received to change the designated usage of forest and agricultural terrain,
- a Study of Conditions and Directions for Area Management was approved for the municipality of Polkowice,
- a Municipal Area Management Plan (MAMP) was approved for the municipalities of Rudna and Grębocice,
- a change is in progress to the MAMP for terrain of the Polkowice municipality,
- design work is in progress to develop the Main Facility and the Southern Quarter,
- a stock survey was developed to prepare for clearing the forest from the Southern Quarter,
- environmental reports are being prepared,
- an agreement was signed for the project and delivery of installations for the segregation and thickening of tailings in the Żelazny Most tailings pond.

As part of the Mechanical Extraction of Ore Program, in the first half of 2014 the following were continued:
- the project „Development of mining technology using the ACT mining complex by KGHM" under which operational trials of the ACT mining complex, which commenced in 2013, were continued in a prepared pilot section of the Polkowice-Sieroszowice mine. Work continued on developing the construction elements of the mining complex. The positive completion of these trials will form the basis for making a decision as to implementation of this mechanical mining technology.
- the project „Drilling of drifts using combines"- in the first half of 2014 preparatory drift work was performed using the team of three combines in the Polkowice-Sieroszowice mine as part of the work to access the Deep Głogów deposit. Experience was also gained along with technical and economic assessments of the implemented technology, as well as work related to optimising the technical and organisational structure of the combine section.

Metallurgy

As part of the Pyrometallurgy Modernisation at the Głogów I and Głogów II smelters, being performed in order to create a functionally-integrated, cost-effective and environmentally-friendly metallurgical structure in KGHM as well as technology ensuring continuation of the present concentrate processing capacity for own and purchased concentrates to operate on the copper producers market, at least for the next several decades, the following was continued:

- The „Pyrometallurgy Modernisation Program" with respect to building a flash furnace at Głogów I. The process of signing contracts for the main equipment of the production line was completed. Construction is in progress on the main elements of the flash furnace production line, including the foundations and framework of the Flash Furnace Hall complex, the power switching station for the main facilities and installations and the Electrical Furnace slag pouring unit. Simultaneously work continued on installation design and tendering contracts for construction and assembly work for individual elements of the production line. Contracts were signed for the execution, delivery and assembly of elements and equipment of the Flash Furnace and Electrical Furnace.

- The project „Intensification of smelting at the Głogów II smelter". Construction and assembly work continues on areas of the production line such as the Scrubber, the Sulphuric Acid Warehouse, and the Power Station 110/6kV GSTII), whose conclusion is planned in the fourth quarter of 2014.

Other
Under the project „Construction of gas-steam blocks at the Głogów and Polkowice power plants" final handover and commissioning work was carried out. On 8 July 2014, the second gas-steam block, in the Głogów power plant, was handed over for operation. The project enables optimisation of power and heating costs in KGHM Polska Miedź S.A. through the associated generation of power using internal generation capacity at the level of 560 GWh, all of which is designated to meet the power needs of the Company.

Basic investment directions

Investments are aimed at locally-realised and centrally-realised projects:

- centrally-realised projects – these are development- and replacement-related investments of greater difficulty, size and risk having a substantial impact on the development of the Company and the realisation of its strategy, which represent around 55% of total expenditures in 2014,
- locally-realised projects – these are replacement-related projects, and typical/repeatable development projects, minor conformatory and purchases, which represent around 42% of total expenditures in 2014.

The capital expenditures plan includes „Investments at the studies and analyses stage" – while this is a reserve for projects at the preliminary stage of assessment, due to the potential benefits for the Company a financial provision has been created for them, representing 3% of total expenditures in 2014.

To ensure the uniformity, completeness and efficiency of the planned and performed enterprises which are crucial for achieving the designated strategic goals of the Company, since 2014 every project has been classified to one of three catagories:

- **Development projects** aimed at increasing production by the core business and maintaining production costs, as well as conformatory projects aimed at adapting the Company's activities to changing standards, legal norms and regulations, including those related to protecting the environment, represent 61% of total planned expenditures,

- **Replacement projects** aimed at maintaining production assets at a stable state, one guaranteeing the achievement of production tasks, represent 25% of total planned expenditures,

- **Projects in the maintenance category** ensuring critical infrastructure in accordance with mining work advances as well as continuity of tailings deposition to ensure production is achieved at the expected level in accordance with mining plans, represent 14% of total planned expenditures.

2.4. Risk management in the Company

Comprehensive Risk Management System

The KGHM Polska Miedź S.A. Group defines risk as uncertainty, being an integral part of the activities conducted and having the potential to result in both opportunities and threats to realisation of the business goals. The current, future, actual and potential impact of risk on the Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risks.

Under the Corporate Risk Management Policy and Procedure as well as the Rules of the Corporate Risk Committee approved in 2013, the process of corporate risk management in the KGHM Polska Miedź S.A. Group is consistently performed. Risks in the various operating areas of the Group are continuously identified, assessed and analysed in terms of their possible limitation.

Key risks undergo comprehensive analysis in order to develop a Plan of Risk Response and Corrective Actions. Other risks undergo constant monitoring by the Corporate Risk Management and Conformity Department, and in terms of financial risk by the Market and Credit Risk Management Department, the Treasury Department and the Financial Instruments Unit.

The management of individual risks (including among others market risk) is the subject of separate individual regulations in KGHM Polska Miedź S.A. and is covered by the following documents:

- Market Risk Management Policy and the Rules of the Market Risk Management Committee,
- Credit Risk Management Policy and the Rules of the Credit Risk Committee,
- Financial Liquidity Management Policy.

Presented below is the organisational structure of risk management in the Company. The breakdown of rights and responsibilities applies best practice principles for Corporate Governance and the generally recognised model of three lines of defense.

Diagram 3. Organisational structure of risk management in KGHM Polska Miedź S.A.

Supervisory Board (Audit Committee)
Performs annual assessment of the effectiveness of the risk management process and monitors the level of key risks and ways to address them.

Management Board
Has ultimate responsibility for the risk management system and supervision of its individual elements.

1st line of defense	**2nd line of defense**				**3rd line of defense**
Management	**Risk Committees** – Supports effective risk management and ongoing supervision of key risks.			Management of liquidity risk, understood as the ability to pay financial liabilities on time and to gain resources to finance its activities	**Internal Audit**
Management staff is responsible for identifying, assessing and analysing risk and for the implementation, within their daily duties, of responses to risk. The task of the management staff is ongoing supervision of the application of appropriate responses to risk within the tasks realised, to ensure the expected level of risk is not exceeded.	**Market Risk Committee**	**Credit Risk Committee**	**Corporate Risk Committee**		The Internal Audit Plan is based on assessing risk and subordinated business goals, assessed is the current level of individual risks and the degree of efficiency with which they are managed.
	Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of debtors to meet their obligations	Manages corporate risk and continuously monitors key risks		
	Market Risk Management Policy	*Credit Risk Management Policy*	*Corporate Risk Management Policy*	*Liquidity Management Policy*	*Internal Audit Rules*
	Market and Credit Risk Management Department ***Reports to the I Vice President of the Management Board (Finance)***		Corporate Risk Management and Compliance Department ***Reports to the President of the Management Board***	Treasury Department ***Reports to the Executive Director, Finance***	Internal Audit and Control Department ***Reports to the President of the Management Board***

Financial risk

The goal of financial risk management in KGHM Polska Miedź S.A. is to restrict the undesired impact of financial factors on cash flow and Company results in the short and medium terms and to build Company value over the long term. Financial risk management includes both the processes of risk identification and measurement as well as its restriction to acceptable levels. The process of risk management is supported by an appropriate policy, organisational structure and procedures applied in the Company.

In the first half of 2014, the Company was exposed to the main financial risks i.e. market risks, credit risk and liquidity risk.

In March 2014, a new Market Risk Management Policy in the KGHM Polska Miedź S.A. Group was approved, and representatives of KGHM INTERNATIONAL Ltd. were added to the composition of the Market Risk Committee. These changes were aimed at setting principles and procedures with respect to market risk management in selected mining companies of the Group (KGHM Polska Miedź S.A., KGHM INTERNATIONAL Ltd., FNX Mining Company inc., Robinson Nevada Mining Company, KGHM Ajax Mining Inc., Sociedad Contractual Minera Franke). The Policy concerns exposure to the following market risks: volatility in metals prices, volatility in exchange rates, volatility in interest rates and volatility in prices of commodities other than metals.

The goals of market risk management at the Group level are achieved through their realisation in individual Group companies, through the coordination of these activities at the Parent Entity level, i.e. KGHM Polska Miedź S.A. Key tasks were centralised in the Company related to the process of market risk management in the Group (such as coordination of the identification of sources of exposure to market risk, proposing hedging strategies, contacting financial institutions in order to sign, confirm and settle derivatives transactions, and calculating measurement to fair value).

Market risk management

Market risk is understood as the possible negative impact on the results of KGHM Polska Miedź S.A. resulting from changes in the market prices of commodities, exchange rates and interest rates, as well as the share prices of listed companies.

The Management Board is responsible for market risk management in the Company and for adherance to policy in this regard. The main body involved in realising market risk management is the Market Risk Committee, which makes recommendations to the Management Board in this area. The primary technique for market risk management is the use of hedging strategies involving derivatives. Apart from this, natural hedging is also used.

Commodity risk, Currency risk

In the first half of 2014, the Company was mainly exposed to the risk of changes in the prices of metals it sells: copper and silver. In addition, of major significance for KGHM Polska Miedź S.A. was the risk of changes in currency rates, in particular the USD/PLN exchange rate.

In accordance with the Market Risk Management Policy, in the first half of 2014 the Company continuously identified and measured market risk related to changes in metals prices and exchange rates. Monitoring the size of market risk in the Company is based on analyses of the impact of market risk factors on the Company's operations (profit, balance sheet, cash flow), among others using the market risk measure Earnings-at-Risk, based on Corporate Metrics methodology. This measure indicates, for a given probability, the bottom level of net profit (e.g. with 95% probability, net profit in a given year will not be lower than…). EaR methodology allows the calculation of net profit reflecting the impact of changes in market prices of copper, silver and exchange rate in the context of planned budgets.

The Company in addition continuously analysed the metals and currency markets. These analyses, along with assessment of the Company's internal situation, represented the basis for taking decisions on the appliaction of hedging strategies on the metals and currency markets.

In the first half of 2014, the Company did not implement any copper and silver price hedging strategies.

However, in the reporting period favourable market conditions on the currency market 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 with a total notional amount of USD 540 million. The closure of the position and un-designation of the hedging transactions was reflected in revenues from sales in the second quarter of 2014 in the amount of PLN 72 million and 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 period from July to December 2014. Simultaneously put options were purchased with a strike exchange rate of USD/PLN 2.85, hedging revenues from sales in the same periods (in the second quarter and the second half of 2014) and for the same notional amount (in total USD 540 million).

In addition, a restructure was performed of the hedging position for 2015 by reselling purchased put options with a strike exchange rate of USD/PLN 3.40 from the collar structure, 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 amount (USD 360 million) and for the same period (2015). The 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 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.

In the first half of 2014, the impact of derivatives Company profit or loss was PLN 160 million, of which:

- PLN 264 million was recognised in revenues from sales,
- PLN 104 million decreased other operating activities (wherein: the loss from realisation of derivatives amounted to PLN 13 million, and the loss from the measurement of derivatives amounted to PLN 91 million).

The loss from the measurement of derivatives transactions, recognised in other operating activities, is mainly due to changes in the time value of options, which in accordance with hedge accounting policy is recognised in profit or loss.

As at 30 June 2014, the fair value of open positions in derivatives (on the copper and currency markets) amounted to PLN 292 million, while PLN 474 million was recognised in the revaluation reserve from the measurement of financial instruments.

With respect to managing currency risk whose source are bank loans, the Company applies natural hedging, based on the drawing of credit in those currencies in which it receives revenues.

Interest rate risk

Interest rate risk is the possibility of the negative impact of changes in interest rates on the Company's results. In the first half of 2014, the Company was exposed to such risk due to loans granted, unallocated cash invested on deposits, participating in zero-balance cash-pool services and loans.

As at 30 June 2014, the balance of the positions exposed to interest rate risk were as follows:

- loans granted with a variable interest rate: PLN 32 million,
- bank deposits: PLN 534 million, including deposits of the Social Fund, Mine Closure Fund and Tailings Storage Facility Restoration Fund,
- receivables due to participation in a cash pool service: PLN 140 million,
- payables due to participation in a cash pool service: PLN 116 million,
- liabilities due to bank loans: PLN 1 069 million (i.e. USD 351 million).

Price risk related to the purchase of shares of listed companies

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

As at 30 June 2014, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 944 million.

Credit risk management

Credit risk is defined as the risk that counterparties of the Company will not be able to meet their contractual obligations.

In the first half of 2014, KGHM Polska Miedź S.A. was exposed to this risk, mainly in four areas, related to:

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

The Management Board is responsible for managing credit risk in the Company and for adhering to policy in this regard. The main body involved in realising activities in this respect is the Credit Risk Committee.

Credit risk related to trade receivables

The Company limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial standing of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Company is the on-going monitoring of receivables and the internal reporting system. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments. In the first half of 2014, the Company secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages, documentary collection and letters of credit. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain.

To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 30 June 2014 the Company had secured 93% of its trade receivables (as at 31 December 2013: 74%).

The concentration of credit risk in the Company is related to the terms of payment granted to key clients. Consequently, as at 30 June 2014 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 75% of the trade receivables balance (as at 31 December 2013: 64%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as above all due to the hedging used, the level of credit risk is low.

Credit risk related to cash and cash equivalents and bank deposits

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

Credit risk related to bank deposits is continuously monitored by the on-going review of financial standing and by maintaining an appropriately low level of concentration in individual financial institutions.

Credit risk related to derivative transactions

All of the entities with which the Company enters into derivative transactions operate in the financial sector. These are mainly financial institutions, with the highest and medium-high ratings. According to fair value as at 30 June 2014, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Company and from unsettled derivatives amounted to 34%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

Credit risk related to loans granted

As at 30 June 2014, the balance of loans granted by KGHM Polska Miedź S.A. amounted to PLN 1 047 million, of which PLN 1 042 million were long-term loans, and PLN 5 million were short-term loans.

The most important items are loans granted to companies of the KGHM Polska Miedź S.A. Group related to the realisation of mining projects. Credit risk related to the loans granted depends on the risk related to the realisation of projects, and is estimated by the Company to be moderate.

To limit risk due to loans granted, the Company continuously monitors the assets and financial results of its borrowers.

Financial liquidity management

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

Financial liquidity is managed in accordance with the Management Board-approved „Financial Liquidity Management Policy". This document describes in a comprehensive manner the process of managing financial liquidity in the Company, indicating best practice procedures and instruments.

The basic principles resulting from this document are:

- the investment of financial surpluses in safe financial instruments,
- limits for individual financial investment categories,
- limits for the concentration of resources for financial institutions,
- assuring the appropriate financial sources.

In the first half of 2014, the Company benefited from the external financing in the form of bank loans, both working capital facilities and overdraft facilities.

As at 30 June 2014, the Company held borrowing liabilities in the amount of PLN 1 069 million (i.e. USD 351 million). Interest on the loans is based on variable LIBOR plus a margin.

As at 30 June 2014, the Company held open lines of credit in PLN, USD and EUR. Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

The Company continues to add additional companies to the cash management service of the KGHM Polska Miedź S.A. Group (zero-balance cash pool).

In the first half of 2014, KGHM INTERNATIONAL Ltd. among others was included in the cash management service. The total available limit under this service as at 30 June 2014 amounted to PLN 613 million. The funds available under this service bear interest rates based on variable WIBOR and LIBOR respectively for PLN and USD.

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

In order to maintain the ability to operate, taking into consideration the realisation of planned investments, the Company manages capital so as to be able to generate returns for shareholders and provide benefits for other stakeholders.

The Company assumes that the equity ratio shall be maintained at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.

3. Review of financial position

The principles applied in preparing the Financial Statements are presented in Note 2 of this document.

3.1. Assets

As at 30 June 2014, total assets amounted to PLN 30 626 million, an increase by PLN 1 588 million or by 5% with respect to the end of 2013. The most important changes in assets are presented in Table 11.

Table 11. Current and non-current assets (in PLN million)

	31.12.2013	30.06.2014	Change 31.12.13=100	Structure %
Property, plant and equipment	9 744	10 324	106.0	33.7
Intangible assets	273	456	167.0	1.5
Shares and investment certificates in subsidiaries and interest in joint ventures	11 777	11 779	100.0	38.5
Deferred tax asset	98	131	133.7	0.4
Available-for-sale financial assets	809	954	117.9	3.1
Financial assets for mine closure and restoration of tailing storage facilities	179	205	114.5	0.7
Derivatives	814	541	66.5	1.8
Trade and other receivables	2 789	2 987	107.1	9.8
Inventories	2 432	2 924	120.2	9.5
Cash and cash equivalents	123	325	×2.6	1.1
Total assets	**29 038**	**30 626**	**105.5**	**100.0**

Table 12. Major changes in assets (in PLN million)

Asset	Increase (+) /decrease (-)	Main cause of change
Property, plant and equipment	+ 580	Capital expenditures amounted to PLN 1 021 million, 47% of which concerned development-related investments
Inventories	+ 492	The increase mainly concerned semi-products and work in progress (+PLN 216 million) due to higher anode inventories by 18.6 kt dry weight and inventories of finished products (+PLN 147 million) – an increase by 6.3 kt
Derivatives	- 273	A decrease resulting from a lower volume of derivatives transactions (instruments settled in the period) and from the passage of time to maturity for unsettled transactions. Of less importance was the change in market conditions (such as forward copper prices and the forward USD/PLN exchange rate). For the copper market there was a decrease in assets by PLN 52 million, and for the currency market by PLN 221 million.
Cash and cash equivalents	+ 202	An increase in cash and cash equivalents from PLN 123 million at the end of 2013 to PLN 325 million as at 30 June 2014 results from cash generated by operating activities (+PLN 2 210 million), which was higher than the outflows from: – investment activities (-PLN 1 976 million, of which -PLN 1 119 million due to property, plant and equipment and intangible assets, and -PLN 796 million due to loans granted) – finance activities and exchange differences (-PLN 32 million, of which -PLN 45 million due to repayment of bank loans)
Trade and other receivables	+ 198	The increase mainly concerned receivables resulting from loans granted to Group companies, including mainly those granted for financing of the investment projects Sierra Gorda, Victoria and Ajax. The carrying amount of the loans granted increased by PLN 788 million. There was also a decrease of PLN 567 million in trade receivables. In addition other receivables decreased by PLN 23 million
Intangible assets	+ 183	The largest changes concerned purchased concessions, patents and licenses (an increase by PLN 147 million resulting from the recognition in this item of mining usufruct rights due to agreements concluded by the Company setting mining usufruct rights to extract copper ore) and assets due to the exploration for and evaluation of mineral resources (an increase by PLN 36 million)
Available-for-sale financial assets	+ 145	An increase resulting from measurement of the shares of the company Tauron Polska Energia S.A., whose quotations on the WSE since the start of 2014 increased by 18%
Deferred tax assets	+ 33	The increase in the asset (after offsetting the tax asset and tax liability) was mainly caused by: – an increase in the deferred tax asset due to the provision for decommissioning of mines and other technological facilities, and to the measurement of future employee benefits liabilities, – a decrease in the deferred tax asset due to the measurement of forward transactions, – a decrease in the deferred tax liability due to the measurement of forward

transactions and the remeasurement of hedging instruments,
- an increase in the deferred tax liability due to differences between the carrying amount of depreciation and depreciation for tax purposes and to the measurement of available-for-sale financial assets.

3.2. Equity and liabilities

Table 13 presents the carrying amount as at 30 June 2014 of equity and current and non-current liabilities, while Table 14 presents in brief the changes with regard to the end of 2013.

Table 13. Equity and liabilities (in PLN million)

	31.12.2013	30.06.2014	Change 31.12.13=100	Structure %
Equity	**23 298**	**23 296**	**100.0**	**76.1**
Share capital	2 000	2 000	100.0	6.5
Other capital	400	279	69.8	0.9
Retained earnings	20 898	21 017	100.6	68.6
Current and non-current liabilities	**5 740**	**7 330**	**127.7**	**23.9**
Trade and other payables	2 457	3 526	143.5	11.5
Borrowings	1 123	1 069	95.2	3.5
Derivatives	23	249	×10.8	0.8
Current corporate tax liabilities	50	60	120.0	0.2
Employee benefits liabilities	1 533	1 704	111.2	5.6
Provisions for other liabilities and charges	554	722	130.3	2.4
Total equity and liabilities	**29 038**	**30 626**	**105.5**	**100.0**

Table 14. Major changes in equity and liabilities (in PLN million)

Liabilities	Increase (+) /decrease (-)	Main cause of change
Trade and other payables	+1 069	An increase in payables resulting from: – liabilities due to payment of the dividend for 2013 in the amount of PLN 1 000 million, – an increase by PLN 189 million resulting from trade payables, – a decrease by PLN 133 million resulting from the purchase and construction of property, plant and equipment, – an increase in other payables by PLN 13 million.
Derivatives	+226	An increase mainly resulting from the restructuring of a hedged position on the currency market, and also – to a lesser degree – to a change in market conditions (among others in forward copper prices and the forward USD/PLN exchange rate). For the copper market there was a decrease in the liability by PLN 12 million (among others due to a decrease in the volume of derivatives transactions), while for the currency market there was an increase in liabilities by PLN 238 million.
Employee benefits liabilities	+171	The increase mainly concerned the liabilities resulting from the coal equivalent, as well as to jubilee bonuses, retirement or disability benefits and post-mortem benefits. The parameters selected in measuring employee benefits liabilities are presented in note 19 of the Financial Statements for the first half of 2014
Provisions for other liabilities and charges	+168	The increase concerned of the provision for decommissioning costs of mines and other technological facilities (an increase by PLN 169 million). Other provisions decreased slightly with regard to the amounts recorded as at 31 December 2013
Borrowings	-54	As at 30 June 2014, Company debt due to bank loans and a overdraft facility amounted to PLN 1 069 million (PLN 1 123 million at the end of 2013).
Current corporate tax liability	+10	In 2013 and in the first half of 2014 the monthly prepayments were determined by decisions of the tax office, while the basis for setting the amounts of these prepayments was the data contained in the Company Budget. Profit earned in the first half of 2014 was not substantially different than the amount foreseen in the Company Budget.
Equity	-2	The decrease in equity in the first half of 2014 resulted from the following factors: – profit for the first half of 2014, +PLN 1 119 million, – the approved dividend from profit for 2013, -PLN 1 000 million, – other comprehensive income, -PLN 121 million

In the first half of 2014, equity remained the basic source of financing assets. However, it should be stressed that there was a percentage decrease in the share of equity in total equity and liabilities from 80% at the end of 2013 to 76% as at 30 June 2014.

3.3. Contingent assets and liabilities

As at 30 June 2014, contingent assets of the Company amounted to PLN 455 million and related mainly to guarantees received (PLN 195 million), concerning the securities to cover potential claims by the Company resulting from the non-execution or improper execution of agreements by contractors. Other contingent assets primarily involve promissory note receivables (PLN 127 million) and overpayment of the tax on underground mines (PLN 81 million).

Contingent liabilities as at 30 June 2014 amounted to PLN 1 532 million, including PLN 1 331 million which concern guarantees granted. The most significant items are:

- guarantees granted under a contract for the supply of electricity and liabilities due to leasing in Sierra Gorda S.C.M. in the amount of PLN 770 million,
- security of the liabilities of the Company in case the need arises to cover the costs of decommissioning of Żelazny Most facility in the amount of PLN 320 million,
- security granted for the repayment of environmental liabilities of the Robinson mine in the amount of PLN 236 million.

In addition, as at 30 June 2014, the Company held liabilities not recognised in the statement of financial position in the amount of PLN 229 million, including PLN 211 million towards local government units related to development of the Mining Tailings Treatment Pond.

3.4. Financial resources of the Company

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

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

	31.12.2013	30.06.2014	Change 31.12.2013=100
Cash*	21	63	×3.0
Other monetary assets with a maturity up to 3 months	102	262	×2.6
Total	**123**	**325**	×2.6

** in hand and in on-demand bank deposits*

Borrowings

As at 30 June 2014, the Company benefited from external financing in the form of bank loans, using both a working capital facility as well as an overdraft facility. Borrowings as at 30 June 2014 amounted to PLN 1 069 million.

Table 16. Liabilities due to bank loans drawn down (in million)

Type of bank loan	Currency	Balance in original currency	Balance in PLN	Maturity
Working capital facility	USD	17	52	30.07.2014
Working capital facility	USD	162	493	06.08.2014
Overdraft facility	USD	96	293	30.04.2015
Overdraft facility	USD	68	208	14.10.2015
Overdraft facility	USD	8	23	21.10.2015
Total		**351**	**1 069**	

Interest on these bank loans is based on variable LIBOR, plus a margin.

In addition, as at 30 June 2014, the Company held the following open lines of credit:

Table 17. Open lines of credit (in million)

Type of bank loan	Currency	Balance available in original currency	Balance available in PLN
Working capital facility and overdraft facility	USD	285	-
Overdraft facility	EUR	50	-
Working capital facility and overdraft facility	PLN	-	2 600

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

On 11 July 2014, the Company entered into an unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion for a 5 year tenor incorporating a two-year extension option.

The financial resources from the credit facility will be used in financing general corporate purposes, including expenditures related to the continued advancement of investment projects and for refinancing of the financial debt of KGHM INTERNATIONAL LTD.

The Company plans to gradually utilise the credit. The flexible structure of the transaction gives the possibility of multiple borrowing and repaying of the loan instalments, depending on the current liquidity needs of the KGHM Group.

The credit was granted to the Company by a group of banks, amongst which are the largest Polish banks (including PKO BP, Pekao SA, BZ WBK, Bank Handlowy, ING Bank Śląski, BGK and mBank) as well as banks from Europe, Canada, the USA and Japan, which have cooperated thus far with KGHM.

Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA financial ratio.

On 8 August 2014 the first tranche of the syndicated credit was drawn in the amount of USD 100 million.

Loans granted

As at 30 June 2014, the Company held the following loans granted to the Group's companies:

Table 18. Loans granted to the Group's companies

Company	Loan principal	Interest	Repayment
"Energetyka" Sp. z o.o.	PLN 28 million	WIBOR 1M + 1.49%	Instalments to 2019
Zagłębie Lubin S.A.	PLN 5 million	WIBOR 3M + 3.00%	Instalments to 2022
Fermat1 S.a r.l.	USD 35 million	fixed – 4.46%	In full by 2018
Fermat1 S.a r.l.	USD 4 million	fixed – 4.46%	In full by 2018
Fermat1 S.a r.l.	USD 33 million	fixed – 4.46%	In full by 2018
Fermat1 S.a r.l.	USD 106 million	fixed – 4.27%	In full by 2024
Fermat1 S.a r.l.	USD 149 million	fixed – 4.27%	In full by 2024

Financial guarantees granted and received

As at 30 June 2014, the Company held contingent liabilities due to guarantees granted in the total amount of PLN 1 331 million. The most important items are discussed in section 3.3 of this report.

The Company did not hold any received financial guarantees.

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

The cash and cash equivalents currently held by the Company, as well as the financing received, guarantee the realisation of its investment goals, both in terms of equity investments as well as capital expenditures.

3.5. Financial results

In the first half of 2014, the Company realised a profit in the amount of PLN 1 119 million. The decrease regarding the result achieved in the first half of 2013 amounted to PLN 606 million (by 35%) and resulted mainly from market factors (metals prices, exchange rate), over which the Company did not have a significant impact.

Table 19. Basic items in the statement of profit or loss (in PLN million)

	6M 2013	6M 2014	Change 6M'13=100
Sales	9 503	7 727	81.3
Operating costs	6 925	6 127	88.5
Profit from operations	**2 578**	**1 600**	**62.1**
Result on other operating activities	**(187)**	**(54)**	**28.9**
– Measurement and realisation of derivatives	(201)	(104)	51.7
– Exchange differences	70	(5)	x
– Impairment losses/reversal of impairment losses on assets	(87)	0	x
– Dividends	36	45	125.0
– Other	(5)	10	x
Operating profit (EBIT)	2 391	1 546	64.7
Finance costs (net)	45	15	33.3
Profit before taxation	**2 346**	**1 531**	**65.3**
Profit for the period	**1 725**	**1 119**	**64.9**
EBITDA (EBIT + depreciation/amortisation)	2 809	1 965	70.0

The most important factors impacting changes of profit for the period between the first half of 2014 and the first half of 2013 are presented in Table 20.

Table 20. Main factors impacting the financial result

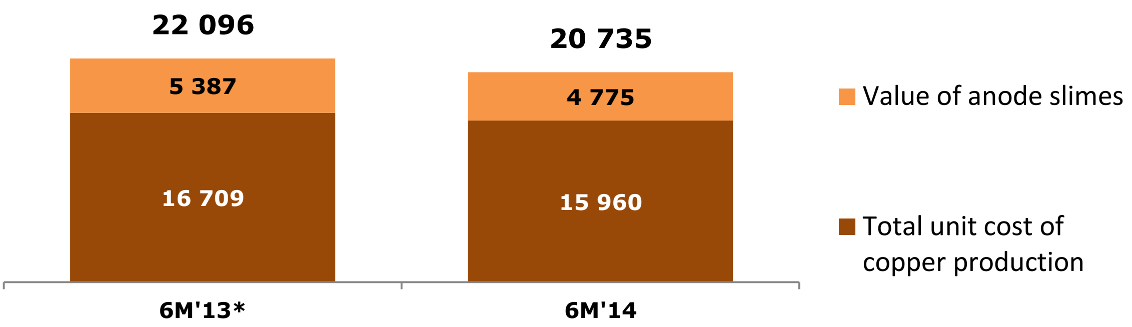
Item	Impact on result (in PLN million)	Description
Change in prices of basic products (Cu,Ag,Au)*	-905	A decrease in the price of copper by 8%, silver by 25%, gold by 15%.
Change in volume of sales of basic products (Cu,Ag,Au)*	-576	A decrease in the volume of copper sales by 23.2 kt and silver by 24.0 tonnes alongside higher gold sales by 396 kg
Basic operating costs (excluding the minerals extraction tax)	+620	A decrease in costs, excluding the minerals extraction tax, mainly due to lower costs of purchased Cu-bearing materials measured based on lower metals prices and USD/PLN exchange rate.
Change in exchange rate*	-354	A change in the exchange rate from 3.18 USD/PLN to 3.05 USD/PLN
Income tax	+209	The lower tax results from the lower tax base
Impact of hedging	+195	Including a change in the result on other operating activities due to the measurement and realisation of derivatives (+PLN 97 million) and a change in adjustment to sales due to hedging transactions (+PLN 98 million)
Minerals extraction tax	+178	The minerals extraction tax (including the amount of the tax impacting the valuation of inventories at the end of each reporting periods) amounted to PLN 770 million and was lower than for the first 6 months of 2013 (PLN 948 million) due to lower copper prices, alongside a similar level of production of Cu in concentrate.
Impairment losses and reversal of impairment on available-for-sale financial assets	+87	In the first half of 2013, an impairment loss was recognised on investments in the total amount of PLN 89 million, PLN 85 million of which concerned Tauron Polska Energia S.A. As at 30 June 2014, due to the reversal of an impairment loss of the shares of Tauron Polska Energia S.A., this impairment loss amounted to less than PLN 1 million.
Exchange differences	-75	In the first half of 2014, the result on exchange differences amounted to PLN (5) million, while in the previous year it amounted to PLN 70 million

* *Impact on sales*

3.6. Operating costs

The Company's operating costs are mainly impacted by the costs of electrolytic copper production, which are about 96% of total operating costs.

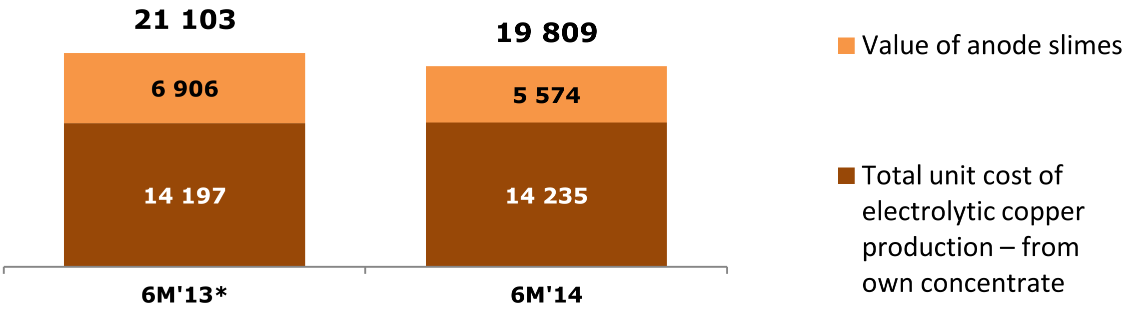
Chart 5. Pre-precious metals credit unit cost of electrolytic copper production – total (PLN/t)



* *Restated to 2014 – 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).*

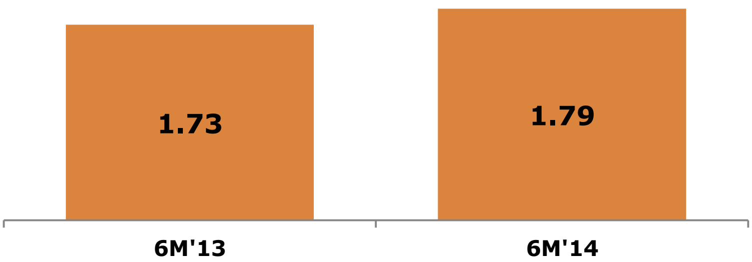
The pre-precious metals credit unit cost of copper production (unit cost prior to decrease by the value of anode slimes containing among others silver and gold) in the first half of 2014, with regard to the comparable prior year period of 2013, decreased by 1 361 PLN/t, i.e. by 6%, mainly due to a decrease in the value of the minerals extraction tax (lower by 583 PLN/t) alongside a lower utilisation of purchased copper-bearing materials by approx. 4 kt Cu (lower by 685 PLN/t).

Chart 6. Pre-precious metals credit unit cost of electrolytic copper production – from own concentrate (PLN /t)



** Restated to 2014*

Chart 7. Cost of production of copper in concentrate – C1 (USD/lb)



The pre-precious metals credit unit cost of copper production from own concentrate decreased by 1 294 PLN/t, i.e. by 6%, mainly due to the minerals extraction tax (lower by 763 PLN/t) and to the decrease in expenses by nature described below (excluding the value of purchased copper-bearing materials), alongside the negative impact of a lower volume of copper production from own concentrate (lower by 2% with regard to the first half of 2013).

C1 cost *(cash cost of producing payable copper, reflecting costs of ore extraction and processing, the minerals extraction tax, transport costs, administrative costs during the mining stage, and smelter treatment and refining charges (TC/RC), less the value of by-products)* was as follows: in the first half of 2013 1.73 USD/lb, and in the first half of 2014, 1.79 USD/lb. There was a negative impact on the C1 cost expressed in USD/lb from the strengthening of the PLN versus the USD from a level of 3.18 USD/PLN in the first half of 2013 to 3.05 USD/PLN in 2014, as well as to the decrease in the silver price by 25% and gold by 15%. Under the metals prices and USD exchange rate from the first half of 2013, the cost in 2014 would be 1.62 USD/lb and would be 6% lower than achieved in the prior year.

In the first half of 2014, total expenses by nature versus the comparable prior year period of 2013 were lower by PLN 494 million, i.e. by 7%, mainly due to the lower value of the minerals extraction tax by PLN 273 million and to the lower value of purchased copper-bearing materials consumed by PLN 162 million due to the decrease in metal prices and to the strengthening of the PLN versus the USD.

Expenses by nature excluding the minerals extraction tax and purchased copper-bearing materials decreased by PLN 59 million. The decrease in expenses by nature was due to:

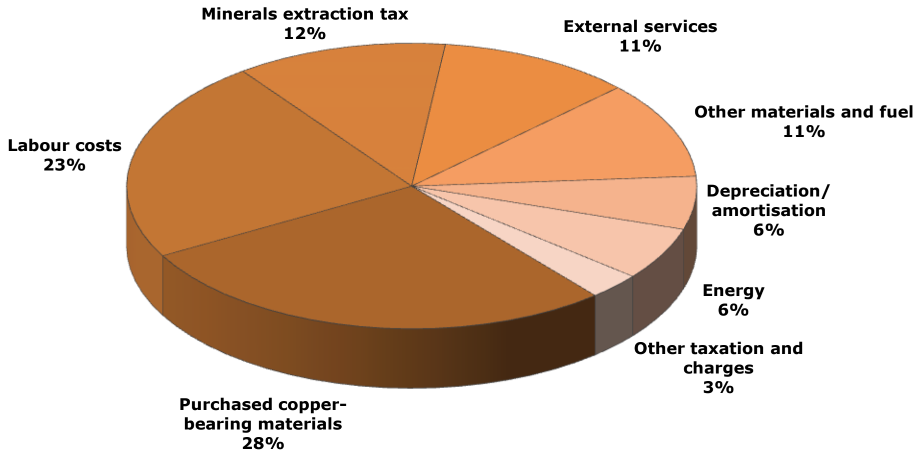
- lower costs of external services (by PLN 58 million) – mainly due to a planned decrease in the scope of preparatory mine development (by PLN 64 million),
- lower energy costs (by PLN 36 million) – mainly due to a decrease in the price of electricity by 5% and to lower consumption of heating energy,

alongside an increase in:

- labour costs (by PLN 38 million) – due to an increase in the provision for future employee benefits by PLN 15 million and to an increase in average remuneration by 2% alongside a lower accrual for the annual bonus (in 2013 20% of the value of remuneration; in 2014 18%).

The structure of expenses by nature in the first half of 2014 is shown in Chart 8. With respect to the first half of 2013, the change in the structure mainly results from a decrease in the share of taxation, with respect to the minerals extraction tax (in the first half of 2013: 15%, in the first half of 2014: 12%).

Chart 8. Structure of expenses by nature in the first half of 2014



3.7. Execution of assumptions for 2014

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2014.

In the annual report for 2013, the Company published its Budget assumptions for 2014. Realisation of these assumptions after the first half of 2014 are presented in Table 21.

Table 21. Company Budget assumptions for 2014

	Unit	Budget 2014	Execution 6M'14	Realisation (%)
Production of copper in concentrate	kt	420.0	216.0	51.4
Production of silver in concentrate	t	1 112	599	53.9
Electrolytic copper production	kt	567.5	282.9	49.9
- of which from purchased copper-bearing materials**	kt	142.6	65.1	45.7
Metallic silver production	t	1 140	605	53.1
Average annual copper price	USD/t	7 100	6 916	97.4
Average annual silver price	USD/troz	22.00	20.05	91.1
Exchange rate	USD/PLN	3.05	3.05	100.0
Sales volume of copper products	kt	562.8	274.6	48.8
Sales volume of silver products	t	1 115	572	51.3
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	PLN/t	20 906	19 809	94.8
Total unit cost of electrolytic copper production from own concentrate	PLN/t	15 435	14 235	92.2
C1 cash cost of producing copper in concentrate	USD/lb	1.94	1.79	92.3
Capital expenditures	M PLN	2 565	1 021	39.8
Equity investments *	M PLN	1 686	777	46.1

* *Total expenditure on equity investments as well as loans*.

** excluding from customer-provided material

Production results achieved in the first half of 2014 are slightly above assumptions – the Company does not anticipate a failure to achieve its planned targets for 2014 in this regard.

The lower-than-assumed metals prices, in particular silver, were compensated by a higher sales volume and the maintenance of cost discipline.

4. Ownership structure and Company quotations

4.1. The Company on the stock exchange

In July 1997 KGHM Polska Miedź S.A. was floated on the Warsaw Stock Exchange (WSE). The shares of the Company are traded on the WSE primary market in a continuous trading system and are a component of the WIG, WIG20 and WIG30 indices. KGHM Polska Miedź S.A. is also amongst the group of socially-responsible companies traded on the RESPECT Index. The Company's shares are additionally included in the WIG-SUROWCE index as well as the WIGdiv.

In the first half of 2014 the main indices of the WSE increased in value. The Warsaw Stock Exchange index WIG increased by 1.27%, the WIG20 by 0.33% and the WIG30 by 1.89%. The share price of KGHM Polska Miedź S.A. during this same period increased by 5.47%, and at the close of the trading session on 30 June 2014 amounted to PLN 124.45.

Chart 9. Share price of KGHM Polska Miedź S.A. versus the WIG Index

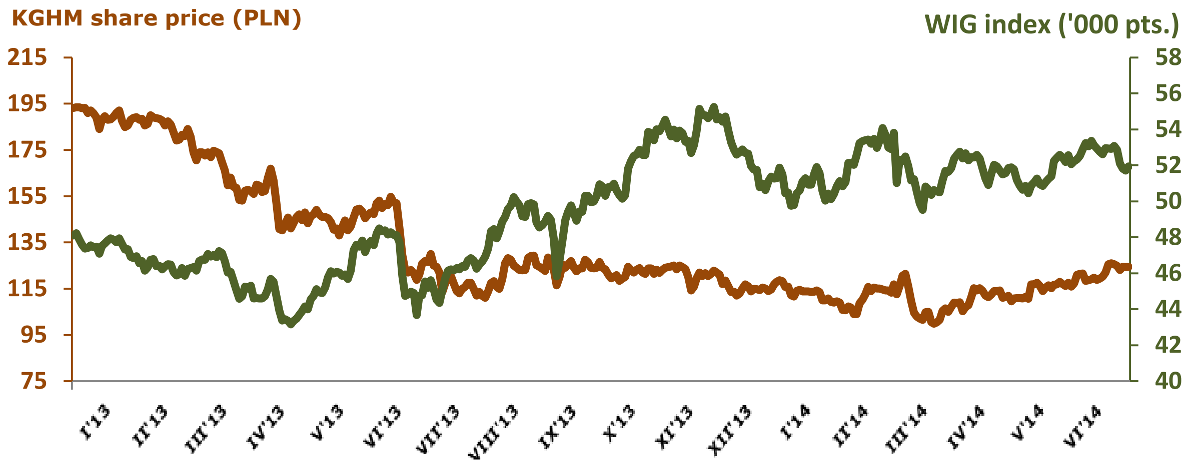


Table 22. Key share price data of the Company on the Warsaw Stock Exchange

	Unit	6M'13	6M'14
Number of shares issued	M	200	200
Closing price from the last day of trading of the period	PLN	121.00	124.45
Market capitalisation of the Company at the end of the period	M PLN	24 200	24 890
Highest trading price in the period	PLN	194.80	127.40
Lowest trading price in the period	PLN	116.50	98.70
Average trading volume per session	'000	966	966
Share in turnover (trading sessions)	%	16.58	12.52

Source: WSE Statistic Bulletin

In accordance with Resolution No. 5/2014 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 23 June 2014, the amount of PLN 1 000 million was allocated from profit for financial year 2013 as a shareholder dividend, amounting to PLN 5.00 per share. The dividend date was set at 8 July 2014 with the dividend being paid in two instalments: 18 August 2014 – PLN 2.50 per share and 18 November 2014 – PLN 2.50 per share.

4.2. Ownership structure and the shares issued by the Company

As at 30 June 2014, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The Company has not issued preference shares.

In the first half of 2014 there was no change in either registered share capital or in the number of issued shares.

As far as the Management Board is aware, during this same time there was also no change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The only shareholder who as at 1 January 2014 as well as at 30 June 2014 held a number of shares granting the right to 5% or more of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the Polish State Treasury. The shareholder structure of the Company as at 30 June 2014 and at the date of preparation of this report is as follows:

Table 23. KGHM's main shareholders (as at 30 June 2014 and at the date of preparation of this report)

shareholder	number of shares/votes	% of share capital	share in total number of votes
State Treasury*	63 589 900	31.79%	31.79%
Other shareholders	136 410 100	68.21%	68.21%
Total	200 000 000	100.00%	100.00%

**based on announcement received by the Company dated 12 January 2010*

The Company does not hold any of its own shares. The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Based on the information held by KGHM Polska Miedź S.A., as at 30 June 2014 and at the date of preparation of this report, the following Members of the Management Board of KGHM Polska Miedź S.A. held shares of KGHM Polska Miedź S.A.:

Table 24. KGHM Polska Miedź S.A. shares held by the Members of the Management Board of KGHM Polska Miedź S.A. (as at 30 June 2014 and at the date of preparation of this report)

position /function	name	number of shares	nominal value of shares (PLN)
President of the Management Board	Herbert Wirth	1 900	19 000
I Vice President of the Management Board	Jarosław Romanowski	1 900	19 000
Vice President of the Management Board	Marcin Chmielewski	1 993	19 930
Vice President of the Management Board	Jacek Kardela	1 900	19 000
Vice President of the Management Board	Wojciech Kędzia	1 900	19 000

At the beginning of April 2014 each Member of the Management Board purchased 1 900 shares of the Company during normal trading sessions on the Warsaw Stock Exchange. The number of shares held by the Members of the Company's Management Board did not change versus the state at the date of publication of the consolidated quarterly report for the first quarter of 2014.

Based on information held by KGHM Polska Miedź S.A., the number of KGHM Polska Miedź S.A. shares held by KGHM Polska Miedź S.A. Supervisory Board Members as at 30 June 2014 and at the date of preparation of this report was as follows:

Table 25. KGHM Polska Miedź S.A. shares held by the Members of the Supervisory Board of KGHM Polska Miedź S.A. (as at 30 June 2014 and at the date of preparation of this report)

position /function	name	number of shares	nominal value of shares (PLN)
Member of the Supervisory Board	Józef Czyczerski	10	100
Member of the Supervisory Board	Leszek Hajdacki	1	10

At the date of publication of the consolidated quarterly report for the first quarter of 2014, the Members of the Supervisory Board of KGHM Polska Miedź S.A. did not hold KGHM Polska Miedź S.A. shares or rights to them. The change in the number of shares of the Company held by the Members of the Supervisory Board versus the date of publication of the consolidated report for the first quarter of 2014 is a result of changes in the composition of the Supervisory Board carried out on 23 June 2014.

Members of the Company's Management Board and Supervisory Board do not hold shares of the related entities of KGHM Polska Miedź S.A.

The Company does not have an employee share incentive program.

Appendix A: Selected quarterly financial data

Interim statement of profit or loss

	For the period			
	from 01.04.14 to 30.06.14	**from 01.01.14 to 30.06.14**	**from 01.04.13 to 30.06.13**	**from 01.01.13 to 30.06.13**
Sales	3 927	7 727	4 397	9 503
Cost of sales	(2 905)	(5 727)	(3 168)	(6 561)
Gross profit	**1 022**	**2 000**	**1 229**	**2 942**
Selling costs	(32)	(62)	(29)	(62)
Administrative expenses	(166)	(338)	(171)	(302)
Other operating income	84	151	157	382
Other operating costs	(80)	(205)	(268)	(569)
Operating profit	**828**	**1 546**	**918**	**2 391**
Finance costs	(9)	(15)	(10)	(45)
Profit before income tax	**819**	**1 531**	**908**	**2 346**
Income tax expense	(207)	(412)	(242)	(621)
Profit for the period	**612**	**1 119**	**666**	**1 725**
Earnings per share (in PLN per share)				
– basic	3.06	5.60	3.33	8.63
– diluted	3.06	5.60	3.33	8.63

Interim statement of comprehensive income

	For the period			
	from 01.04.14 to 30.06.14	**from 01.01.14 to 30.06.14**	**from 01.04.13 to 30.06.13**	**from 01.01.13 to 30.06.13**
Profit for the period	**612**	**1 119**	**666**	**1 725**
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	(14)	146	5	5
Income tax related to available-for-sale financial assets	2	(28)	(1)	(1)
Cash flow hedging instruments	(229)	(143)	452	392
Income tax related to cash flow hedging instruments	43	27	(86)	(74)
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	**(198)**	**2**	**370**	**322**
Other comprehensive income, which will not be reclassified to profit or loss:				
Actuarial losses	(160)	(152)	(55)	(105)
Income tax related to actuarial losses	30	29	11	20
Total other comprehensive income which will not be reclassified to profit or loss	**(130)**	**(123)**	**(44)**	**(85)**
Other comprehensive net income for the financial period	**(328)**	**(121)**	**326**	**237**
TOTAL COMPREHENSIVE INCOME	**284**	**998**	**992**	**1 962**

Sales

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

	For the period			
	from 01.04.14 to 30.06.14	**from 01.01.14 to 30.06.14**	**from 01.04.13 to 30.06.13**	**from 01.01.13 to 30.06.13**
Copper, precious metals, smelter by-products	3 849	7 576	4 325	9 351
Salt	5	21	17	42
Merchandise	33	48	16	35
Services	20	43	18	37
Scrap and materials	16	32	18	32
Other finished goods	4	7	3	6
Total	**3 927**	**7 727**	**4 397**	**9 503**

Expenses by nature

	For the period			
	from 01.04.14 to 30.06.14	**from 01.01.14 to 30.06.14**	**from 01.04.13 to 30.06.13**	**from 01.01.13 to 30.06.13**
Depreciation of property, plant and equipment and amortisation of intangible assets	213	419	209	418
of which:				
Depreciation of property, plant and equipment	210	413	207	414
Amortisation of intangible assets	3	6	2	4
Employee benefits expenses	737	1 487	737	1 448
Materials and energy	1 413	2 909	1 499	3 126
including purchased copper-bearing materials	874	1 826	941	1 988
External services	347	688	376	746
Taxes and charges	442	935	539	1 194
including the minerals extraction tax	353	748	452	1 021
Advertising costs and representation expenses	19	22	17	19
Property and personal insurance	6	11	5	12
Research and development costs not capitalised in intangible assets	4	4	1	1
Other costs, of which:	**5**	**11**	**11**	**16**
Write-down of inventories	1	1	3	4
Losses from the disposal of financial instruments	2	3	4	4
Business trips	2	5	3	5
Other operating costs	-	2	1	3
Total expenses by nature	**3 186**	**6 486**	**3 394**	**6 980**
Cost of merchandise and materials sold (+)	49	79	30	61
Change in inventories of finished goods and work in progress (+/-)	(95)	(364)	(11)	(32)
Cost of manufacturing products for internal use (-)	(37)	(74)	(45)	(84)
Total cost of sales, selling costs and administrative expenses	**3 103**	**6 127**	**3 368**	**6 925**

Appendix B: Information on current reports published after the end of the reporting period – to the date of signing of the half-year report

Syndicated credit facility agreement (11 July 2014)

On 11 July 2014, KGHM Polska Miedź S.A. signed an Agreement for an unsecured, revolving credit facility in the amount of USD 2.5 billion (approximately PLN 7.6 billion at the average exchange rate for USD/PLN, announced by the National Bank of Poland dated 10 July 2014) with an international syndicate of banks ("Agreement"). The Agreement has an initial five-year tenor incorporating two one-year extension options. The credit facility was arranged with a relational banks group of the KGHM Polska Miedź S.A. Group.

The credit facility may be drawn in USD in the form of up to 25 renewable tranches. The financial resources acquired from the credit facility may be used in financing general corporate purposes (including capital expenditures) of the KGHM Polska Miedź S.A. Group and for refinancing of the financial debt of KGHM INTERNATIONAL LTD. in the amount of USD 700 million. Interest on the credit facility was calculated based on LIBOR plus a margin, depending on the net debt/EBITDA financial ratio. Other credit facility agreement terms and conditions are similar to the standard terms of these types of transactions.

The syndicate banks with which the agreement was entered into comprise: Crédit Agricole Corporate and Investment Bank, Credit Agricole Bank Polska S.A., Bank Zachodni WBK S.A., Santander Bank N.A., Bank Polska Kasa Opieki S.A., Bank Handlowy w Warszawie S.A., Powszechna Kasa Oszczędności Bank Polski S.A., BNP Paribas, HSBC Bank plc, ING Bank Śląski S.A., ING Bank N.V., Intesa Sanpaolo S.p.A., Société Générale Corporate&Investment Banking as Mandated Lead Arrangers and Bookrunners; Bank Gospodarstwa Krajowego, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Scotiabank (Ireland), The Royal Bank of Scotland as Mandated Lead Arrangers; Barclays Bank plc, Bank of Montreal, mBank S.A., Mizuho Bank Nederland N.V., Sumitomo Mitsui Banking Corporation Europe Limited as Lead Arrangers. Bank Polska Kasa Opieki S.A. is the Facility Agent.

Commencement of production at the Sierra Gorda mine in Chile (31 July 2014)

On 30 July 2014 the Sierra Gorda mine in Chile commenced production. Following the ramp-up period, which will be completed in early 2015, the Sierra Gorda mine will produce approximately 120 thousand tonnes of copper, 50 million pounds of molybdenum and 60 thousand ounces of gold annually in the first years of operations.

The commencement of production at the Chilean mine will decrease the weighted average cost of copper production in the KGHM Group and will decrease its sensitivity to changes in the copper price, enhancing the Company's operational security. Forecasted annual average production by the mine over the 20 year period of mine life, taking into account the commencement of the second phase of the project, will amount to 220 thousand tonnes of copper, 25 million pounds of molybdenum and 64 thousand ounces of gold.

The Sierra Gorda mine belongs to a joint venture company, whose shareholders are: an indirect subsidiary of KGHM Polska Miedź S.A. - KGHM International (55%), Sumitomo Metal Mining (31.5%) and Sumitomo Corporation (13.5%).

Loan agreement signed with the European Investment Bank (1 August 2014)

On 1 August 2014, KGHM Polska Miedź S.A. signed an agreement for an unsecured loan in the amount of PLN 2 billion with the European Investment Bank.

The funds acquired through this loan will be used to finance Company investment projects related to modernisation of metallurgy and development of the Żelazny Most mining tailings treatment pond.

The agreement was entered into for a period of 12 years. The loan is available for a period of 22 months from the date of signing. The loan will be utilised to a maximum of 7 instalments, each of which in the minimum amount of PLN 300 million. For each of these loan instalments the Company has the option of drawing the instalment in PLN, USD or EUR, with either a fixed or variable interest rate.

The remaining terms of the Agreement are standard terms for this type of transaction.

Judgment of the Supreme Court of Chile concerning the environmental permits for the Sierra Gorda project (5 August 2014)

On 4 August 2014, the Supreme Court of Chile issued a final and favorable judgment in a case concerning compliance with environmental laws to transport copper concentrate from Sierra Gorda to the Port of Antofagasta.

The Supreme Court's judgment recognized that the Sierra Gorda project has been permitted in compliance with Chilean environmental laws.

Sierra Gorda S.C.M. is coordinating with the logistics partners, ATI and FCAB, to finalise the construction of a dedicated world-class warehouse and loading facilities to transport copper concentrate via the Port of Antofagasta. The Company has also prepared a short term transport-related contingency plan to ensure all concentrate production can be delivered to the customers.

The Management Board of KGHM Polska Miedź S.A. reaffirms the Company's long-term commitment to the investment in Chile and the Antofagasta Region, ensuring that the Sierra Gorda operation will be an important community contributor to the development of the Region and the country as a whole. Since the start of the Sierra Gorda project the Company has made every effort to ensure that the Project meets the highest Chilean and world-class standards.

In addition, current reports were published concerning the following: Members of the Supervisory Board appointed on 23 June 2014 by the Ordinary General Meeting of KGHM Polska Miedź S.A. (1 July 2014) and changes in the dates of publication of periodic reports in 2014 (10 July 2014).

Appendix C: List of tables, diagrams and charts

TABLES

CHARTS

DIAGRAMS

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
12 August 2014	Herbert Wirth	President of the Management Board	
12 August 2014	Jarosław Romanowski	I Vice President of the Management Board	
12 August 2014	Marcin Chmielewski	Vice President of the Management Board	
12 August 2014	Jacek Kardela	Vice President of the Management Board	
12 August 2014	Wojciech Kędzia	Vice President of the Management Board	