POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PS 2014

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

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

for the first half of financial year **2014** comprising the period from **1 January 2014** to **30 June 2014** containing the condensed consolidated 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.	**Basic materials**
(name of issuer in brief)	(issuer branch title per the Warsaw Stock Exchange)
59 - 301	**LUBIN**
(postal code)	(city)
M. Skłodowskiej – Curie	**48**
(street)	(number)
(48 76) 74 78 200	**(48 76) 74 78 500**
(telephone)	(fax)
ir@kghm.pl	**www.kghm.pl**
(e-mail)	(website address)
692–000–00-13	**390021764**
(NIP)	(REGON)

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

SELECTED FINANCIAL DATA	in 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	9 528	12 518	2 280	2 971
II. Operating profit	1 643	2 671	393	634
III. Profit before income tax	1 544	2 540	370	603
IV. Profit for the period	1 101	1 822	263	433
V. Profit for the period attributable to shareholders of the Parent Entity	1 100	1 824	263	433
VI. Profit for the period attributable to non-controlling interests	1	(2)	-	-
VII. Other comprehensive income	(8)	956	(2)	227
VIII. Total comprehensive income	1 093	2 778	261	660
IX. Total comprehensive income attributable to the shareholders of the Parent Entity	1 093	2 780	261	660
X. Total comprehensive income attributable to non-controlling interest	-	(2)	-	-
XI. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	5.50	9.12	1.32	2.16
XIII. Net cash generated from operating activities	2 495	3 106	597	737
XIV. Net cash used in investing activities	(2 574)	(2 305)	(616)	(547)
XV. Net cash generated from/(used in) financing activities	200	(1 126)	48	(267)
XVI. Total net cash flow	121	(325)	29	(77)
	At 30 June 2014	**At 31 December 2013**	**At 30 June 2014**	**At 31 December 2013**
XVII. Non-current assets	28 606	26 488	6 875	6 387
XVIII. Current assets	7 868	7 977	1 891	1 923
XIX. Total assets	36 474	34 465	8 766	8 310
XX. Non-current liabilities	7 619	6 714	1 832	1 619
XXI. Current liabilities	5 694	4 687	1 368	1 130
XXII. Equity	23 161	23 064	5 566	5 561
XXIII. Equity attributable to shareholders of the Parent Entity	22 953	22 841	5 516	5 508
XXIV. Equity attributable to non-controlling interest	208	223	50	53

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. GROUP

CONSOLIDATED HALF-YEAR REPORT PS 2014 COMPRISES:

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

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

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

4. **INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

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

Lubin, August 2014

KGHM POLSKA MIEDŹ S.A.

GROUP

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

Lubin, August 2014

Independent registered auditor's report on the review of the interim condensed consolidated 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 consolidated financial statements of KGHM Polska Miedź Spółka Akcyjna Group (hereinafter called *the Group*) of which KGHM Polska Miedź Spółka Akcyjna is the parent company (hereinafter called *the Parent Company*) with its registered office in Lubin, M. Skłodowskiej-Curie 48 Street, comprising the interim consolidated statement of financial position as at 30 June 2014, the interim consolidated statement of profit or loss, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity, the interim consolidated statement of cash flows for the period from 1 January to 30 June 2014 and selected explanatory notes to the interim condensed consolidated financial statements.

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

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

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

Independent registered auditor's report
on the review of the interim condensed consolidated 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 consolidated financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34 'Interim Financial Reporting'.

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

Marcin Sawicki

Group's Auditor, Key Registered Auditor
No. 11393

Wrocław, 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.
GROUP

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

Lubin, August 2014

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

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

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

GROUP

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

Lubin, August 2014

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

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

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

INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE FIRST HALF OF 2014

Lubin, August 2014

Table of contents

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

Interim consolidated statement of financial position

	Note	At 30 June 2014	At 31 December 2013
ASSETS			
Non-current assets			
Property, plant and equipment	6	15 759	15 128
Intangible assets	7	2 476	2 175
Investment property	8	67	65
Investments accounted for using the equity method	9	3 677	3 720
Deferred tax assets	22	468	451
Available-for-sale financial assets	10	954	810
Financial assets for mine closure and restoration of tailings storage facilities	11	335	323
Derivatives	12	178	357
Trade and other receivables	13	4 692	3 459
		28 606	**26 488**
Current assets			
Inventories	14	3 842	3 397
Trade and other receivables	13	2 468	3 119
Current corporate tax receivables		93	54
Available-for-sale financial assets	10	66	58
Financial assets for mine closure	11	-	1
Derivatives	12	385	476
Cash and cash equivalents	15	1 007	864
Non-current assets held for sale		7	8
		7 868	**7 977**
TOTAL ASSETS		**36 474**	**34 465**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Parent Entity			
Share capital	16	2 000	2 000
Revaluation reserve from measurement of financial instruments	17	534	522
Exchange differences from the translation of foreign operations statements	17	(159)	(267)
Actuarial gains/losses on post-employment benefits	17	(255)	(132)
Retained earnings	18	20 833	20 718
		22 953	**22 841**
Non-controlling interest	19	**208**	**223**
TOTAL EQUITY		**23 161**	**23 064**
LIABILITIES			
Non-current liabilities			
Trade and other payables	20	895	774
Borrowings, debt securities and finance lease liabilities	21	2 075	1 714
Derivatives	12	57	17
Deferred tax liabilities	22	1 740	1 726
Employee benefits liabilities	23	1 739	1 563
Provisions for other liabilities and charges	24	1 113	920
		7 619	**6 714**
Current liabilities			
Trade and other payables	20	3 976	3 094
Borrowings, debt securities and finance lease liabilities	21	1 142	1 215
Current corporate tax liabilities		136	128
Derivatives	12	193	7
Employee benefits liabilities	23	133	131
Provisions for other liabilities and charges	24	114	112
		5 694	**4 687**
TOTAL LIABILITIES		**13 313**	**11 401**
TOTAL EQUITY AND LIABILITIES		**36 474**	**34 465**

The accounting policies and other explanatory information presented on pages 9 to 73 represent an integral part of these interim condensed consolidated financial statements

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

Interim consolidated statement of profit or loss

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Continued operations			
Sales	25	9 528	12 518
Cost of sales	26	(7 297)	(8 987)
Gross profit		**2 231**	**3 531**
Selling costs	26	(193)	(227)
Administrative expenses	26	(469)	(470)
Other operating income	28	310	522
Other operating costs	29	(236)	(685)
Operating profit		**1 643**	**2 671**
Finance costs	30	(99)	(131)
Profit before income tax		**1 544**	**2 540**
Income tax expense	33	(443)	(718)
Profit for the period		**1 101**	**1 822**
Profit/(Loss) for the period attributable to:		1 100	1 824
shareholders of the Parent Entity		1	(2)
non-controlling interest			
Earnings per share from continued operations attributable to the shareholders of the Parent Entity during the period (in PLN per share)	35		
- basic		5.50	9.12
- diluted		5.50	9.12

The accounting policies and other explanatory information presented on pages 9 to 73 represent an integral part of these interim condensed consolidated financial statements

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

Interim consolidated statement of comprehensive income

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Profit for the period		**1 101**	**1 822**
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		156	77
Income tax related to available-for-sale financial assets		(28)	(3)
Cash flow hedging instruments		(143)	392
Income tax related to cash flow hedging instruments		27	(74)
Total other comprehensive income from measurement of financial instruments	**17**	**12**	**392**
Exchange differences from the translation of foreign operations statements		107	649
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met		**119**	**1 041**
Other comprehensive income, which will not be reclassified to profit or loss:			
Actuarial losses		(157)	(105)
Income tax related to actuarial gains/losses		30	20
Total other comprehensive income which will not be reclassified to profit or loss	**17**	**(127)**	**(85)**
Other comprehensive net income for the financial period		**(8)**	**956**
TOTAL COMPREHENSIVE INCOME		**1 093**	**2 778**
Total comprehensive income attributable to:			
shareholders of the Parent Entity		1 093	2 780
non-controlling interest		-	(2)

The accounting policies and other explanatory information presented on pages 9 to 73 represent an integral part of these interim condensed consolidated financial statements

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

Interim consolidated statement of changes in equity

		Equity attributable to shareholders of the Parent Entity							
	Note	**Share capital**	**Revaluation reserve from measurement of financial instruments**	**Exchange differences from the translation of foreign operations statements**	**Actuarial gains/losses on post-employment benefits**	**Retained earnings**	**Total**	**Equity attributable to non-controlling interest**	**Total equity**
At 1 January 2014		**2 000**	**522**	**(267)**	**(132)**	**20 718**	**22 841**	**223**	**23 064**
Dividends from profit for 2013 resolved but unpaid	36	-	-	-	-	(1 000)	**(1 000)**	-	**(1 000)**
Offsetting of profit from prior years with the reserves arising from actuarial gains and losses		-	-	-	4	(4)	**-**	-	**-**
Total comprehensive income		**-**	**12**	**108**	**(127)**	**1 100**	**1 093**	**-**	**1 093**
Profit for the period		**-**	**-**	-	-	1 100	**1 100**	1	**1 101**
Other comprehensive income	17	-	12	108	(127)	-	**(7)**	(1)	**(8)**
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19.1	-	-	-	-	19	**19**	(15)	**4**
At 30 June 2014		**2 000**	**534**	**(159)**	**(255)**	**20 833**	**22 953**	**208**	**23 161**
At 1 January 2013		**2 000**	**235**	**19**	**(543)**	**19 971**	**21 682**	**232**	**21 914**
Dividends from profit for 2012 resolved but unpaid		-	-	-	-	(1 960)	**(1 960)**	-	**(1 960)**
Offsetting of profit from prior years with actuarial gains and losses		-	-	-	356	(356)	**-**	-	**-**
Total comprehensive income		**-**	**392**	**649**	**(85)**	**1 824**	**2 780**	**(2)**	**2 778**
Profit for the period		-	-	-	-	1 824	**1 824**	(2)	**1 822**
Other comprehensive income	17	-	392	649	(85)	-	**956**	-	**956**
Changes in ownership shares in subsidiaries which do not lead to a loss of control	19.1	-	-	-	-	18	**18**	(7)	**11**
At 30 June 2013		**2 000**	**627**	**668**	**(272)**	**19 497**	**22 520**	**223**	**22 743**

The accounting policies and other explanatory information presented on pages 9 to 73 represent an integral part of these interim condensed consolidated financial statements

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

Interim consolidated statement of cash flows

	For the period	
	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	1 101	1 822
Adjustments to profit for the period:	**1 854**	**2 246**
Income tax recognised in profit or loss	443	718
Amortisation/Depreciation	793	694
Losses on the sale of property, plant and equipment and intangible assets	10	14
Impairment loss on property, plant and equipment, intangible assets and available-for-sale financial assets	1	237
Reversal of impairment loss on property, plant and equipment and intangible assets	(4)	(9)
Dividends and interest	(61)	(63)
Foreign exchange (gains)/losses	(1)	23
Change in provisions	31	9
Change in assets/liabilities due to derivatives	617	411
Reclassification of other comprehensive income to profit or loss as a result of realisation of derivatives	(264)	(167)
Other adjustments	19	2
Changes in working capital:	270	377
Inventories	(440)	(41)
Trade and other receivables	605	309
Trade and other payables	105	109
Income tax paid	(460)	(962)
Net cash generated from operating activities	**2 495**	**3 106**
Cash flow from investing activities		
Purchase of interest in a joint venture	-	(5)
Purchase of property, plant and equipment and intangible assets	(1 625)	(1 401)
Advances granted for purchase of property, plant and equipment and intangible assets	(41)	(42)
Proceeds from sale of property, plant and equipment and intangible assets	8	14
Purchase of available-for-sale financial assets	-	(42)
Proceeds from sale of available-for-sale financial assets	-	25
Purchase of financial assets from mine closure fund and tailings storage facilities restoration fund	(26)	(45)
Proceeds from sale of financial assets purchased from mine closure fund	16	3
Termination of deposits	5	39
Loans granted	(911)	(885)
Dividends received	-	37
Other investment expenses	-	(3)
Net cash used in investing activities	**(2 574)**	**(2 305)**

The accounting policies and other explanatory information presented on pages 9 to 73 represent an integral part of these interim condensed consolidated financial statements

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

Interim consolidated statement of cash flows (continued)

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Cash flow from financing activities			
Proceeds from increase in share capital by holders of non-controlling interest		5	12
Acquisition of non-controlling interest		(14)	(19)
Proceeds from bank and other loans		579	15
Repayments of bank and other loans		(291)	(1 052)
Payments of liabilities due to finance leases		(8)	(6)
Interest paid		(77)	(70)
Other financial proceeds/(expenses)		6	(6)
Net cash generated from financing activities		**200**	**(1 126)**
Total net cash flow		**121**	**(325)**
Exchange gains on cash and cash equivalents		22	119
Movements in cash and cash equivalents		**143**	**(206)**
Cash and cash equivalents at beginning of the period	**15**	**864**	**2 629**
Cash and cash equivalents at end of the period	**15**	**1 007**	**2 423**
including restricted cash and cash equivalents		130	103

The accounting policies and other explanatory information presented on pages 9 to 73 represent an integral part of these interim condensed consolidated financial statements

Accounting policies and other explanatory information

1. General information

Company name, registered office, business activities

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

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

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

Going concern assumption

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

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

Since 1 January 2014, the Parent Entity has continued its core operations based on the new concessions, new mining usufruct agreements and mine operating plans for the five basic deposits. The concessions and mining usufruct agreements for all five deposits are in force to 31 December 2063 and the mining operating plans for three mines are approved for the years from 2014 to 2016 (to 31 December 2016).

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

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

1. General information (continued)

KGHM AJAX MINING INC. conducts its operations based on granted surface rights and mineral claims, based on which permits were received which are required in the process of preparing environmental assessment applications and identifying additional ore potential.

KGHM Kupfer AG holds a concession from the Saxon Mining Office (SOBA) which is valid to 31 December 2016 to explore for minerals in the „Weisswasser" area.

Period of operation
KGHM Polska Miedź S.A. has been conducting its business since 12 September 1991. The Parent Entity has an unlimited period of operation.

The legal antecedent of KGHM Polska Miedź S.A. was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin transformed into a State-owned joint stock company in accordance with principles set forth in the law dated 13 July 1990 on the privatisation of State-owned enterprises.

Management Board of the Parent Entity

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

Up to the date of signing these interim condensed consolidated financial statements, the composition of the Management Board had not changed.

Supervisory Board of the Parent Entity

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
- Józef Czyczerski	
- Leszek Hajdacki.	

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

1. General information (continued)

Signing of the interim condensed consolidated financial statements

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

Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

2. Basis of preparing consolidated financial statements

2.1 Accounting principles

These consolidated financial statements have been prepared in accordance with IAS 34 Interim financial reporting and, for a full understanding of the financial situation and the results of the Group, should be read together with the consolidated financial statements for the financial year ended 31 December 2013 which are an element of the Consolidated Annual Report RS 2013 available at the website www.kghm.pl.

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

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

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

2.2 Standards and interpretations binding for the Group from 1 January 2014

- 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 Group with respect to assets and liabilities owned by the Group's companies at the end of the reporting period and comparable periods and on transactions realised by the companies of the Group during the reporting period and comparable periods or on these financial statements.

3. Important estimates and assumptions

In the consolidated financial statements certain estimates are used 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 consolidated financial statements of the Group are presented below.

(a) Joint ventures (jointly controlled entities)

In the current period the Group classified three projects as joint ventures under IFRS 11:

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

The classification of Sierra Gorda S.C.M. and "Nano Carbon Sp. z o.o" as joint venture agreements despite the respective 55% and 49% share of the Group, was made based on analysis of the terms of the agreements between the parties and contractual stipulations which in both cases indicated a jointly controlled relationship.

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

(b) Useful lives of property, plant and equipment

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

The adopted depreciation methods reflect the way of using the economic benefits received from a given asset.

For assets which, in the opinion of companies management boards, are used on a systematic basis, the straight-line method of depreciation is applied. The depreciation charges are set through the estimation of periods of use and equal distribution of the amounts to be depreciated. It is estimated that the periods of use of assets acquired by Group companies for purposes of depreciation reflect the expected periods in which these assets will provide economic benefits in the future. The net value of property, plant and equipment subject to depreciation using the straight line method as at 30 June 2014 amounted to PLN 9 440 million (as at 31 December 2013, PLN 8 929 million).

For assets the utilisation of which, in the opinion of companies' management boards, is directly related to the amount of mineral extracted from ore or the amount of cathodes produced, and extraction or production is not equally distributed during their useful lives, the natural depreciation method (units of production method) is applied. The depreciation charges are estimated based on the expected amount of mineral reserves tonnage to be extracted, or based on the expected amount of copper cathodes to be produced. Production budgets for the planned amounts of mineral reserves to be extracted or the expected amount of copper cathode tonnage to be produced, which are the basis for natural depreciation, are subject to periodic reassessment. The net value of property, plant and equipment subject to depreciation using the units of production method as at 30 June 2014, amounted to PLN 3 039 million (as at 31 December 2013, PLN 3 015 million).

(c) Stripping costs

In the reporting period the Group recognised as property, plant and equipment (mining and metallurgical assets) costs incurred in the first half of 2014 to access ore through the stripping of overburden during the production phase in open-pit mines belonging to KGHM INTERNATIONAL LTD. in the amount of PLN 150 million. These assets will be depreciated over periods conforming to the periods of use of the identified orebody, access to which improved as a result of this work. The balance of non-current assets due to stripping costs as at 30 June 2014 amounted to PLN 449 million, i.e. USD 147 million (as at 31 December 2013: PLN 340 million, i.e. USD 113 million).

3. Important estimations and assumptions (continued)

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

As at 30 June 2014, in accordance with accounting policy, the Group analysed evidence for the impairment of shares classified to the category of available-for-sale financial assets. Analysis of the value of shares with regard to their acquisition cost is performed at the end of each quarter. In the first half of 2014, the most important changes concerned the shares of Tauron Polska Energia S.A. 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 impairment loss recognised previously in the amount of PLN 146 million, which increased other comprehensive income.
As at 30 June 2014 the carrying amount of available-for-sale financial assets amounted to PLN 1 020 million (as at 31 December 2013, PLN 868 million).

(e) Valuation of inventories

As at 30 June 2014, in accordance with approved accounting policy, the Group performed a measurement of inventories. For inventories whose acquisition cost or manufacturing cost at the end of the reporting period was higher than their net recoverable sale price, an impairment loss was recognised in the amount of PLN 46 million (as at 30 June 2013, PLN 40 million) which was recognised in cost of sales. In the reporting period there was a reversal of a write-down of inventories in the Carlota mine (write-down recognised in 2010) due to the development of a new leaching methodology for inventories for which an impairment loss was made, in the amount of PLN 35 million.
In the consolidated financial statements the amount of the inventories of the KGHM INTERNATIONAL LTD. Group, which arise from the leaching process, is determined based on the estimated recovery of metal from ore. The nature of the process of leaching copper from ore restricts the precision of monitoring the level of inventories arising during this process. In subsequent reporting periods, adjustments are made to the estimated recovery of copper from the leaching of ore in a given reporting period to the level of production achieved in the subsequent period. As at 30 June 2014, the provisionally-set value of inventories amounted to PLN 280 million (as at 31 December 2013 PLN 276 million).

(f) Measurement of future employee benefits liabilities

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

One of the basic assumptions for setting the amount of these liabilities is the discount rate. At the end of the reporting period, an independent actuary applies an appropriate discount rate, used for setting the present value of estimated future cash flow due to these benefits. When setting the discount rate, IAS 19 requires that reference be made to the market yields of corporate bonds or, if there is no deep market for such bonds, the market yields of treasury bonds should be used. The Group used the discount rate calculated based on the yield of treasury bonds with the maturities nearest to planned financial outflow.

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

As at 30 June 2014 the carrying amount of employee benefits liabilities was PLN 1 872 million (as at 31 December 2013, PLN 1 694 million).

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

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

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

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

As at 30 June 2014 the carrying amount of provision for decommissioning costs of mines and other technological facilities was PLN 1 153 million (as at 31 December 2013, PLN 960 million).

3. Important estimations and assumptions (continued)

(h) Deferred tax assets/liabilities

The deferred tax assets/liabilities are measured using the tax rates which are expected to apply at the moment when the asset is realised or the liability is settled, based on tax laws that have been enacted or substantively enacted at the end of the reporting period in the given country.
The probability of realising the deferred tax asset with future tax income is based on the budgets of Group companies. The companies of the Group recognised in their accounts deferred tax assets in amounts to which it is probable that they will achieve taxable profit which will enable the deduction of deductible temporary differences.
As at 30 June 2014, the Group did not recognise a deferred tax asset on unused tax losses and tax allowances representing the amount of PLN 928 million (as at 31 December 2013: PLN 1 016 million), as it is unlikely that a taxable profit would be generated in the future against which the carryforward of unused tax losses and tax allowances can be utilised.
Companies of the Group which historically have generated losses, and whose financial projections do not foresee the achievement of taxable profit enabling the deduction of deductible temporary differences, do not recognise deferred tax assets in their accounts.

(i) Testing for impairment

IAS 36 requires annual testing for impairment of intangible assets with unspecified periods of use and cash-generating units to which goodwill was allocated. In the opinion of the Parent Entity's Management Board, no evidence arose during the reporting period which would justify the performance of such tests (including changes in key assumptions adopted for the tests performed in 2013) in either goodwill or intangible assets with an unspecified period of use. The Parent Entity's Management Board also analysed the question of the arising of evidence of impairment amongst the Group's remaining assets (including the investments Sierra Gorda, KGHM AJAX Mining and Victoria) as well of key assumptions adopted for the tests performed in 2013. As a result of the analyses performed no evidence was identified which could result in the impairment of assets, and consequently no tests of impairment were performed. In accordance with the accounting policy of the KGHM Polska Miedź S.A. Group, required testing will be performed on 31 December 2014.

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

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

Entity	Head office	Scope of activities	% of Group's share as at 30 June 2014	% of Group's share as at 31 December 2013
"BIOWIND" sp. z o.o. in liquidation	Lubin	generation, transfer and distribution of electricity	100	100
BIPROMET S.A.	Katowice	construction and urban planning, technology design; erection of complete facilities or parts thereof; civil and water engineering; property leasing	66	66
Bipromet Ecosystem Sp. z o.o.	Katowice	execution of central heating and ventilation installations	47.41	47.41
CBJ sp. z o.o.	Lubin	technical research and analyses; measurement of imissions and emissions; industrial research	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	purchase/sale of scrap: steel, coloured metals and steel alloys, sale of metallurgical products and construction reinforcing materials, waste recycling	99.28	98.64
Ecoren DKE sp. z o.o. in liquidation	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	-	100
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat; water-sewage management	100	100
Fermat 1 S.á r.l.	Luxembourg	foundation, development, management or exercise of control over other companies	100	100
Fermat 2 S.á r.l.	Luxembourg	foundation, development, management or exercise of control over other companies	100	100
Fermat 3 S.á r.l.	Luxembourg	foundation, development, management or exercise of control over other companies	100	100
Fundusz Hotele 01 Sp. z o.o.	Wrocław	financial activities, buying and selling of real estate on its own account, management consulting	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Wrocław	financial activities, retail and wholesale of different merchandise and products	100	100
INOVA Spółka z o.o.	Lubin	inspections and control of machinery, R&D work	100	100
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	67.71	67.71
Interferie Medical SPA Sp. z o.o.	Lubin	hotel services, recreation, rehabilitation, health tourism and wellness	89.46	89.46
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	80	80
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100
KGHM Ecoren S.A.	Lubin	production of ammonium perrhenate and road-building material; sale of raw materials for the production of abrasives; the processing and recovery of metals from ores, mineral resources and industrial waste	-	100
KGHM Kupfer AG	Berlin	exploration for and evaluation of deposits of copper and other metals in Europe	100	100
KGHM I FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM III FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100

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

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

Entity	Head office	Scope of activities	% of Group's share as at 30 June 2014	% of Group's share as at 31 December 2013
KGHM IV FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM V FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM Kupferhandelsges. m.b.H.i L.	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation; technology transfer; operation of a technology park; property sale and rental	84.93	88.58
KGHM Metraco S.A.	Legnica	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt, spedition services	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	wholesale activities, import/export of copper/silicon products and chemicals, mechanical and electrical equipment, office materials, commercial consulting services	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
KGHM ZANAM Sp. z o.o. (formerly DFM ZANAM - LEGMET Sp. z o.o.)	Polkowice	repair and construction of machinery	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	hospital services; physician practice; activities related to protecting human health; occupational medicine	100	100
NITROERG S.A.	Bieruń	production of explosives and detonation agents used in mining	85	85
NITROERG SERWIS Sp. z o.o. (formerly BAZALT-NITRON Sp. z o.o.)	Wilków	sales and transport of blasting materials, drilling and blasting services	85	85
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
PB Katowice S.A. in liquidation	Katowice	construction of complete facilities or parts thereof, general and specialty construction	58.14	58.14
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
Sugarloaf Ranches Limited	Vancouver	agricultural activity	100*	100*

* actual Group share

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

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

Entity	Head office	Scope of activities	% of Group's share as at 30 June 2014	% of Group's share as at 31 December 2013
PMT Linie Kolejowe Sp. z o.o.	Polkowice	management over railway infrastructure	100	100
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	railway and road transportation services; trade in fuels	100	100
Polska Grupa Uzdrowisk Sp. z o.o.	Wrocław	financial holding activities, financial services, trade and real estate services	100	100
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.	Warsaw	financial activities, retail and wholesale of different merchandise and products	100	100
„Uzdrowisko Cieplice" Sp. z o.o. – Grupa PGU	Jelenia Góra	spa services	97.37	92.66
Uzdrowiska Kłodzkie S.A. – Grupa PGU	Polanica Zdrój	spa services, production and sale of mineral water	99.17	92.57
Uzdrowisko Połczyn S.A. – Grupa PGU	Połczyn Zdrój	spa services	97.74	91.38
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o. – Grupa PGU	Świeradów Zdrój	spa services	96.11	87.74
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics	98.5	98.5
WMN "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	84.96	84.96
WPEC w Legnicy S.A.	Legnica	generation, transfer and distribution of heat	85.2	85.2
Zagłębie Lubin S.A.	Lubin	management of football section, organisation of professional sporting events	100	100
0929260 B.C U.L.C.	Vancouver	management or exercise of control over other companies	100	100
KGHM INTERNATIONAL LTD. Group				
KGHM INTERNATIONAL LTD.	Vancouver	foundation, development, management or exercise of control over other companies	100	100
Malmbjerg Molybdenum A/S	Greenland	management and development of the Malmbjerg project with respect to molybdenum mining	100	100
International Molybdenum Plc	United Kingdom	financial activities	100	100
KGHMI Holdings (Barbados) Ltd.	Barbados	management and exercise of control over other companies	100	100
Quadra FNX Chile (Barbados) Ltd.	Barbados	management and exercise of control over other companies	100	100
Quadra FNX Holdings Chile Limitada	Chile	management and exercise of control over other companies	100	100
Quadra FNX SG (Barbados) Ltd.	Barbados	management and exercise of control over other companies	100	100
Aguas de la Sierra Limitada	Chile	ownership and exercise of water rights in Chile	100	100

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

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

Entity	Head office	Scope of activities	% of Group's share as at 30 June 2014	% of Group's share as at 31 December 2013
Quadra FNX FFI Ltd.	Barbados	financial activities	100	100
Robinson Holdings (USA) Ltd.	Nevada, USA	technical and management services for subsidiaries in the USA	100	100
Wendover Bulk Transhipment Company	Nevada, USA	loading services for the Robinson mine	100	100
Robinson Nevada Mining Company	Nevada, USA	copper ore mining, copper production and sale	100	100
Carlota Holdings Company	Arizona, USA	management and exercise of control of other companies	100	100
Carlota Copper Company	Arizona, USA	leaching of copper ore, copper production and sale	100	100
FNX Mining Company Inc.	Ontario, Canada	copper and nickel ore mining, copper and nickel production and sale, Victoria project development	100	100
DMC Mining Services Ltd.	Ontario, Canada	mining services contracting	100	100
Quadra FNX Holdings Partnership	British Columbia, Canada	management and exercise of control of other companies	100	100
Raise Boring Mining Services, S.A. de C.V.	Mexico	mining services contracting	100	100
FNX Mining Company USA Inc.	USA	management and exercise of control of other companies	100	100
DMC Mining Services Corporation	USA	mining services contracting	100	100
Centenario Holdings Ltd.	British Virgin Islands	management and exercise of control of other companies	100	100
Pan de Azucar (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	-	100
Minera Carrizalillo Limitada	Chile	management and exercise of control of other companies	100	100
Volcanes (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	-	100
Mineria y Exploraciones KGHM International SpA	Chile	exploration services for the Sierra Gorde project and the Franke mine	100	100
Frankie (BVI) Ltd.	British Virgin Islands	management and exercise of control of other companies	100	100
Sociedad Contractual Minera Franke	Chile	leaching of copper ore, production and sale of copper	100	100
Centenario Copper (BVI) Ltd.	British Virgin Islands	financial activities	-	100
0899196 B.C. Ltd.	British Columbia, Canada	management and exercise of control of other companies	100	100

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

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

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

Combination of jointly controlled companies

On 21 January 2014 the General Meeting of KGHM Metraco S.A. and the General Meeting of KGHM Ecoren S.A. decided to combine the companies through the acquisition of KGHM Ecoren S.A. by KGHM Metraco S.A. KGHM Polska Miedź S.A. owned 100% of the shares in both companies at the moment the decision to combine the companies was made. On 31 January 2014 an entry about the combination was made in the National Court Register. After the combination, KGHM Polska Miedź S.A. remains the owner of 100% of the shares of KGHM Metraco S.A., as it acquired all of the newly-issued shares in the increased share capital of KGHM Metraco S.A., covering them with the assets of KGHM Ecoren S.A. As at the date of combination KGHM Metraco S.A. continued the activities previously carried out by KGHM Ecoren S.A. Due to the finalised transaction's character (the combination of entities under common control) it did not have a significant impact on the Group's consolidated financial statements as at 30 June 2014.
On 22 January 2014 there was a combination of subsidiaries of the KGHM INTERNATIONAL LTD. Group: Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd., and subsequently their acquisition by Centenario Holdings Ltd. These actions were undertaken in order to simplify the KGHM INTERNATIONAL LTD. Group structure by dissolving subsidiaries whose activities are not related to the core business operations of KGHM INTERNATIONAL LTD. As at 30 June 2014, this transaction did not have a significant impact on the consolidated financial statements.

Acquisition of employee shares

In the first half of 2014, the Group performed an acquisition of employee shares in the following subsidiaries:
- Uzdrowiska Kłodzkie S.A. – Grupa PGU, representing 6.60% of the company's share capital,
- Uzdrowisko Połczyn Grupa PGU S.A., representing 6.36% of the company's share capital,
- Uzdrowisko Cieplice Sp. z o.o. - Grupa PGU, representing 4.71% of the company's share capital,
- Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU, representing 8.37% of the company's share capital,
- CENTROZŁOM WROCŁAW S.A., representing 0.64% of the company's share capital,

The total value of shares purchased is PLN 14 million and decreased put option liabilities for employee shares in the consolidated financial statements.
Simultaneously, a decrease in equity attributable to non-controlling interest of PLN 19 million was performed by a settlement of capital from valuation of the put option for employee shares in the amount of PLN 19 million (equity from initial recognition of put option liabilities in retained earnings).

Acquisition of these shares is an execution of obligation arising from a sales agreement with the State Treasury to submit an irrevocable purchase offer for all remaining employee shares during the privatisation process of the aforementioned companies.

Other changes in the Group's structure in the first half of 2014 were immaterial with regards to the consolidated financial statements.

Significant changes in the structure of the KGHM Polska Miedź S.A. Group during the period from 1 January 2013 to 31 December 2013

Acquisition of employee shares

In 2013 KGHM Ecoren S.A. acquired 1 500 590 employee shares, in accordance with the provisions of contracts to purchase the shares entered into between KGHM Ecoren S.A. and non-controlling shareholders of CENTROZŁOM WROCŁAW S.A., representing 13.64 % of the company equity.
The total value of the shares acquired is PLN 27 million, and decreased put option liabilities for employee shares in the consolidated financial statements. As at 31 December 2013, the Group held 98.64% of the share capital of CENTROZŁOM WROCŁAW S.A.

Acquisition of these shares is an execution of obligation arising from a sales agreement with the State Treasury to submit an irrevocable purchase offer for all remaining employee shares during the privatisation process of the aforementioned companies.

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

Acquisition of investment certificates of Closed-end Investment Funds

In 2013, KGHM Polska Miedź S.A. acquired investment certificates of the following investment funds:

- on 9 September 2013 and on 20 December 2013, 696 investment certificates and 2 225 investment certificates of KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN), respectively for PLN 10 629.40 per certificate and PLN 9 886.71 per certificate, paid in cash in the amount of PLN 29 million.
- on 19 April 2013, 4 970 investment certificates of KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN), for PLN 8.5 thousand per certificate, paid in cash in the amount of PLN 42.2 million.
- on 3 June 2013, 4 210 investment certificates of KGHM V Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM V FIZAN), for PLN 10 thousand per certificate, paid in cash in the amount of PLN 42.1 million.

The managing body of the KGHM closed-end non-public investment funds is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The share of the KGHM Polska Miedź S.A. Group in the capital of the investment fund is 100%. The investment objective of the KGHM V FIZAN Fund is to invest capital in attractive sectors (apart from those in which the other funds managed by KGHM TFI S.A. have invested), creating synergy for the KGHM Polska Miedź S.A. Group based on the benefits arising from the diversification of activities.

The aforementioned transactions did not have a significant impact on the consolidated financial statements.

Liquidation of KGHM II FIZAN

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

The aforementioned transaction did not have a significant impact on the consolidated financial statements.

Other changes in the structure of the Group in 2013 were immaterial with regards to the consolidated financial statements.

5. Information on operating segments

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

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

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

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

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

5. Information on operating segments (continued)

Reporting segments of the KGHM Polska Miedź S.A. Group at 30 June 2014

KGHM Polska Miedź S.A.

KGHM INTERNATIONAL LTD. Group

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

Sierra Gorda project

- Sierra Gorda S.C.M.

Resource base development

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

Support of the core business

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

Other segments

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

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

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

5. Information on operating segments (continued)

	For the period from 1 January 2014 to 30 June 2014								
	KGHM Polska Miedź S.A.	**KGHM INTERNATIONAL LTD.**	**Sierra Gorda project*****	**Resource base development**	**Support of the core business**	**Other segments**	**Adjustment restating to measurement/ principles under IFRS**	**Consolidation adjustments**	**Total**
Sales	7 727	996	-	-	2 030	1 184	-	(2 409)	**9 528**
Inter-segment sales	140	-	-	-	1 812	473	-	(2 425)	**-**
External sales	7 587	996	-	-	218	711	-	16	**9 528**
Operating costs	(6 127)	(1 055)	-	(2)	(2 232)	(1 178)	(53)	2 688	**(7 959)**
Depreciation/Amortisation	(419)	(202)	-	-	(81)	(35)	(59)	3	**(793)**
Operating profit/(loss)	1 546*	94*	-	(1)	68*	115*	(53)	(126)	**1 643**
Profit/(loss) before income tax	**1 531**	**7**	**-**	**(1)**	**61**	**112**	**(52)**	**(114)**	**1 544**
Income tax expense	(412)	(2)	-	(1)	(16)	(5)	8	(15)	**(443)**
Profit/(loss) for the period	**1 119***	**5***	**-**	**(2)**	**45***	**107***	**(44)**	**(129)**	**1 101**
	At 30 June 2014								
Segment assets, including:	**30 626**	**12 234**	**8 918**	**519**	**2 849**	**2 091**	**(6 285)**	**(14 478)**	**36 474**
Investments accounted for using the equity method	33	1 420**	-	-	-	2	2 222	-	**3 677**
Liabilities	**7 330**	**4 082**	**7 347**	**46**	**1 037**	**553**	**(6 346)**	**(736)**	**13 313**
Other information	**For the period from 1 January 2014 to 30 June 2014**								
Capital expenditures	1 026	330	1 761	67	60	30	(1 761)	(9)	**1 504**
EBITDA (operating profit plus depreciation/amortisation)	**1 965***	**296***			**149***				
% of sales to KGHM Polska Miedź S.A.					**85%**				
Production and cost data									
Payable copper (kt)	282.9	41.5							
- including from purchased copper-bearing materials (kt)	73.1	-							
Nickel (kt)	-	1.6							
Molybdenum (kt)	-	0.2							
Silver (t)	605.5	0.9							
Gold (k troz)	26.1	15.4							
Platinum (k troz)	-	5.2							
Palladium (k troz)	-	12.9							
C1 cash cost of copper in concentrate production(USD/lb)****	1.79	2.35							

„Adjustment restating to measurement/principles under IFRS" – respecting adjustment to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 30 June 2014 for an item in the consolidated statement of financial position and from 1 January to 30 June 2014 for an item of the consolidated statement of profit or loss.

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

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

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

	KGHM Polska Miedź S.A.	KGHM INTERNATIONAL LTD.	Sierra Gorda project ***	Resource base development	Support of the core business	Other segments	Adjustment restating to measurement/ principles under IFRS	Consolidation adjustments	Total continued operations
	For the period from 1 January 2013 to 30 June 2013								
Sales	9 503	1 886	-	-	2 696	1 443	-	(3 010)	**12 518**
Inter-segment sales	138	-	-	-	2 336	523	-	(2 997)	**-**
External sales	9 365	1 886	-	-	360	920	-	(13)	**12 518**
Operating costs	(6 925)	(1 680)	-	(3)	(2 663)	(1 422)	(117)	3 126	**(9 684)**
Depreciation/Amortisation	(418)	(221)	-	-	(66)	(39)	(140)	190	**(694)**
Operating profit/(loss)	2 391*	209*	-	(2)	56*	20*	(117)	114	**2 671**
Profit/(loss) before income tax	**2 346**	**136**	**-**	**(2)**	**43**	**12**	**(117)**	**122**	**2 540**
Income tax expense	(621)	(83)	-	-	(11)	(5)	40	(38)	**(718)**
Profit/(loss) for the period	**1 725***	**53***	**-**	**(2)**	**32***	**7***	**(77)**	**84**	**1 822**
	At 31 December 2013								
Segment assets, including:	**29 038**	**11 270**	**7 381**	**484**	**2 647**	**2 365**	**(4 726)**	**(13 994)**	**34 465**
Investments accounted for using the equity method	32	1 488**	-	-	-	2	2 198	-	**3 720**
Liabilities	**5 740**	**3 652**	**5 828**	**33**	**1 234**	**573**	**(4 727)**	**(932)**	**11 401**
Other information	**For the period from 1 January 2013 to 30 June 2013**								
Capital expenditures	893	191	1 479	51	124	36	(1 479)	(8)	**1 287**
EBITDA (operating profit plus depreciation/amortisation)	**2 809***	**430***			**122***				
% of sales to KGHM Polska Miedź S.A.					**79%**				
Production and cost data									
Payable copper (kt)	286.0	55.1							
- including from purchased copper-bearing materials (kt)	73.0	-							
Nickel (kt)	-	2.3							
Molybdenum (kt)	-	0.2							
Silver (t)	544.0	1.2							
Gold (k troz)	11.3	34.9							
Platinum (k troz)	-	6.6							
Palladium (k troz)	-	11.5							
C1 cash cost of copper in concentrate production (USD/lb)****	1.73	2.13							

„Adjustment restating to measurement/principles under IFRS" – respecting adjustment to fair value due to final accounting for the acquisition of KGHM INTERNATIONAL LTD. at the consolidation level including accumulated adjustment from the acquisition date to 31 December 2013 for an item in the consolidated statement of financial position and from 1 January to 30 June 2013 for an item of the consolidated statement of profit or loss.

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

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

5. Information on operating segments (continued)

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

The geographical breakdown reflects the location of end clients.

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Poland		2 352	2 410
Germany		1 782	2 340
China		943	1 399
The Czech Republic		727	830
The United Kingdom		709	1 387
France		417	406
Italy		391	354
Canada		375	647
Hungary		308	379
Australia		278	-
Turkey		222	263
The USA		209	757
Switzerland		160	232
Austria		125	142
Belgium		89	110
Japan		76	149
Romania		69	88
Slovakia		60	53
Spain		49	2
Bulgaria		38	22
Netherlands		26	1
Finland		22	7
Denmark		-	63
South Korea		-	40
Other countries (dispersed sale)		101	437
Total	**25**	**9 528**	**12 518**

Main customers

During the period from 1 January 2014 to 30 June 2014, and in the comparable prior year period, the revenues from no single customer exceeded 10% of the revenues of the Group.

60.31% of the non-current assets of the Group are located in Poland. The remaining 39.69% of the non-current assets are located in : Chile – 18.67%; Canada - 13.52%; the USA – 4.66%; other countries – 2.84%.

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

6. Property, plant and equipment

	At	
	30 June 2014	**31 December 2013**
Mining and metallurgical assets, of which:	**12 726**	**12 229**
Buildings and land	5 547	5 270
Technical equipment and machinery, motor vehicles and other fixed assets	4 174	4 057
Fixed assets under construction	3 005	2 902
Other assets not related to mining and metallurgical activities, of which:	**3 033**	**2 899**
Buildings and land	1 614	1 513
Technical equipment and machinery, motor vehicles and other fixed assets	1 293	1 239
Fixed assets under construction	126	147
Total	**15 759**	**15 128**

There were no significant impairment losses on property, plant and equipment during the reporting period.

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

	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

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	1 166	3 060	1 190
Net sale	4	18	8

Capital commitments not recognised in the consolidated statement of financial position

	At	
	30 June 2014	**31 December 2013**
Capital commitments due to purchase of:		
- property, plant and equipment	2 830	2 711
- intangible assets	18	38

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

7. Intangible assets

	At	
	30 June 2014	**31 December 2013**
Development costs	10	11
Goodwill	39	39
Software	25	29
Acquired concessions, patents, licenses*	254	106
Other intangible assets, of which:	387	392
- water rights**	183	181
- intangible assets due to service sales contracts**	49	52
- management fee for Sierra Gorda S.C.M.**	23	24
Intangible assets not yet available for use, of which:	1 761	1 598
- exploration and evaluation assets	1 696	1 529
- other intangible assets not yet available for use	65	69
Total	**2 476**	**2 175**

* Increase in the position of acquired concessions, patents and licences results from the recognition in intangible assets of mining usufruct rights due to agreements concluded by the Parent Entity for the establishment of mining usufruct rights for the extraction of copper ore (carrying amount as at 30 June 2014 – PLN 147 million).

** Relates to the KGHM INTERNATIONAL LTD. Group

As at 30 June 2014, the largest item within intangible assets not yet available for use is exploration and evaluation assets regarding the following projects:

- Victoria, located in the Sudbury Basin in Canada, expenditures related to exploration work performed by KGHM INTERNATIONAL LTD. in preparation for accessing a deposit of copper, nickel and precious metals,
- Afton – Ajax, carried out by a company of the KGHM AJAX MINING INC. Group,

There were no significant impairment losses on intangible assets during the reporting period.

8. Investment property

	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**
Beginning of financial period	**65**	**59**	**59**
Purchase of subsidiaries	-	1	1
Fair value measurement	-	3	4
Reclassification from properties for internal use to investment properties	2	7	7
Reclassification to assets held for sale	-	(4)	(4)
Other	-	(1)	(2)
End of financial period	**67**	**65**	**65**

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

9. Investments accounted for using the equity method

	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**
Beginning of financial period	**3 720**	**3 911**	**3 911**
Purchase of shares	-	9	9
Elimination of unrealised profits	(86)	(93)	-
Exchange differences from the translation of foreign operation shares at the end of the reporting period	43	(107)	271
End of financial period	**3 677**	**3 720**	**4 191**

Sierra Gorda S.C.M.

a) The value of the investment in the joint venture Sierra Gorda S.C.M. as at 30 June 2014 amounted to PLN 3 644 million.

b) As at 30 June 2014 the share of the KGHM Polska Miedź S.A. Group (55%) in the contractual obligations of Sierra Gorda S.C.M. related to investments and operations amounted to USD 1 782 million, i.e. PLN 5 430 million (as at 31 December 2013: USD 1 861 million, i.e. PLN 5 605 million),

c) The share of the Group in the amount of future minimal payments due to use of mining equipment, based on lease agreements signed by Sierra Gorda S.C.M. as at 30 June 2014 amounted to USD 159 million, i.e. PLN 489 million (as at 31 December 2013: USD 34.3 million, i.e. PLN 103 million).

d) On 26 February 2014, at the request of the local community, the Appeals Court in Antofagasta invalidated the environmental permits issued by the Environmental Office of Region II for the transportation and storage of copper concentrate belonging to Sierra Gorda S.C.M. at the port of Antofagasta. An appeal was submitted to this decision. 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. The Supreme Court's judgment recognized that the Sierra Gorda project has been permitted in compliance with Chilean environmental laws.

10. Available-for-sale financial assets

	Note	At	
		30 June 2014	**31 December 2013**
Shares in unlisted companies		10	11
Shares in listed companies		944	799
Non-current available-for-sale financial assets		**954**	**810**
Shares in unlisted companies		1	1
Shares in listed companies		65	57
Current available-for-sale financial assets		**66**	**58**
Total available-for-sale financial assets:	**31**	**1 020**	**868**

The largest increase in the carrying amount of available-for-sale financial assets in the reporting period was the result of the reversal of impairment losses on shares of listed companies in the amount of PLN 146 million due to an increase in the companies' quoted share price.

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

11. 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 Facilities Restoration Fund		282	254
Debt securities		53	69
Non-current financial assets for mine closure and restoration of tailings storage facilities		**335**	**323**
Cash held in the Mine Closure Fund		-	1
Current financial assets for mine closure		**-**	**1**
Financial assets for mine closure and restoration of tailings storage facilities, total:	**31**	**335**	**324**

As at 30 June 2014, cash held for mine closure and restoration of tailings storage facilities comprised the following:

(a) Cash accumulated by the Parent Entity in separate bank accounts of the Mine Closure Fund (MCF) based on obligations resulting from the Law on Geology and Mining, dated 9 June 2011 (Journal of Laws No. 11.163.981) and the Tailings Storage Facilities Restoration Fund (TSFRF) resulting from the Waste Act, dated 14 December 2012 (Journal of Laws 2013.21) to cover future decommissioning costs of mines and other technological facilities and restoration of tailings storage facilities.
(Balance of the Fund as at 30 June 2014 – PLN 205 million, as at 31 December 2013 – PLN 179 million).

(b) Cash accumulated by KGHM INTERNATIONAL LTD. to cover the costs of restoration of areas degraded by the activities of mines of this group.
(balance as at 30 June 2013 – PLN 77 million, as at 31 December 2013 – PLN 76 million).

As at 30 June 2014, debt securities in the amount of PLN 53 million (as at 31 December 2013: PLN 69 million) represented funds to cover the mine decommissioning costs of the KGHM INTERNATIONAL LTD. Group. In accordance with the laws in force in the United States of America and Canada, the KGHM INTERANTIONAL LTD. Group is obliged to purchase government environmental bonds in the amount of estimated provision for decommissioning of mines and other technological facilities.

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

12. Derivatives

	Note	At 30 June 2014	31 December 2013
Non-current assets			
Hedging instruments		107	342
Trade and embedded instruments		16	15
Instruments initially designated as hedging instruments excluded from hedge accounting		55	-
Total non-current assets due to derivatives, total		**178**	**357**
Current assets			
Hedging instruments		186	472
Trade and embedded instruments		6	4
Instruments initially designated as hedging instruments excluded from hedge accounting		193	-
Current assets due to derivatives, total		**385**	**476**
Total assets due to derivatives	**31**	**563**	**833**
Non-current liabilities			
Hedging instruments		1	15
Trade and embedded instruments		56	2
Non-current liabilities due to derivatives, total		**57**	**17**
Current liabilities			
Hedging instruments		-	3
Trade and embedded instruments		193	4
Current liabilities due to derivatives, total		**193**	**7**
Total liabilities due to derivatives	**31**	**250**	**24**
Derivatives, net assets/(liabilities)	**31**	**313**	**809**
including:			
Derivatives – currency – net		**77**	**538**
Derivatives – metals – net		**216**	**255**
Embedded derivatives		**20**	**16**

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

13. Trade and other receivables

	Note	At 30 June 2014	At 31 December 2013
Trade and other non-current receivables			
Deposits of over 12 months		2	2
Loans granted*		4 523	3 378
Other financial receivables		95	51
Total loans and financial receivables, net	**31**	**4 620**	**3 431**
Other non-financial receivables		51	5
Prepayments		21	23
Total non-financial receivables, net		**72**	**28**
Trade and other non-current receivables, net		**4 692**	**3 459**
Trade and other current receivables			
Trade receivables		1 679	2 281
Amount retained (collateral) due to long-term construction contracts		36	65
Unsettled derivative receivables		19	41
Loans granted		2	2
Deposits of over 3 up to 12 months		1	6
Other financial receivables		102	63
Impairment allowances		(87)	(90)
Total loans and financial receivables, net	**31**	**1 752**	**2 368**
Other non-financial receivables, including:		549	687
- due to taxes and other charges		498	585
- advances granted		42	-
Prepayments		184	89
Impairment allowances		(17)	(25)
Total non-financial receivables, net		**716**	**751**
Trade and other current receivables, net		**2 468**	**3 119**
Total trade and other non-current and current receivables, net		**7 160**	**6 578**

* The amount PLN 4 523 million relates to a loan granted by KGHM INTERNATIONAL LTD. to Sierra Gorda S.C.M. As at 30 June 2014 the balance of the principal of the loan amounted to PLN 4 030 million and the total accrued interest amounted to PLN 493 million as at 30 June 2014 (including accrued interest for the half-year period ended on 30 June 2014 in the amount of PLN 195 million).

Details in note 32.2.4 and 32.1.7.

There are long-term construction contracts in the entities of the Group. As at 30 June 2014, the gross amount due from clients due to work based on construction contracts amounted to PLN 96 million (as at 31 December 2013, PLN 44 million).

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

14. Inventories

	At	
	30 June 2014	**31 December 2013**
Materials	824	727
Half-finished products and work in progress	2 192	1 967
Finished goods	684	438
Merchandise	142	265
Total carrying amount of inventories, net	**3 842**	**3 397**

	Note	For the period	
Write-down of inventories in the financial period		**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	26	(46)	(40)
Reversal of write-down recognised in cost of sales	26	36	1

15. Cash and cash equivalents

	Note	At	
		30 June 2014	**31 December 2013**
Cash in hand		1	1
Cash at bank		566	524
Other cash		30	68
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		410	271
Total cash and cash equivalents	**31**	**1 007**	**864**

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

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

16. Share capital

As at 30 June 2014, the share capital of the Parent Entity, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Parent Entity has not issued preference shares. Each share gives the right to one vote at the general meeting. The Parent Entity does not have treasury shares.

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

In the first half of 2014 and in 2013 there were no changes in the registered share capital or in the number of shares.

In the first half of 2014 and in 2013 there were no changes in significant packets of shares of KGHM Polska Miedź S.A.

The only shareholder of the Parent Entity, owning as at 30 June 2014 number of shares granting the right to at least 5% of the share capital and total number of votes was the State Treasury.

At 30 June 2014 and at the date of signing of these financial statements, the shareholder structure of the Parent Entity is as follows:

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

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

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

		Revaluation reserve from measurement of financial instruments					
	Note	**Revaluation reserve from measurement of available-for-sale financial assets**	**Revaluation reserve from measurement of cash flow hedging instruments**	**Total**	**Exchange differences from the translation of foreign operations statements**	**Actuarial gains/losses on post-employment benefits**	**Retained earnings**
At 1 January 2014		**23**	**499**	**522**	**(267)**	**(132)**	**20 718**
Dividends from profit for 2013 resolved but unpaid		-	-	**-**	-	-	**(1 000)**
Offsetting of profit from prior years with the reserves arising from actuarial gains and losses		-	-	**-**	-	4	(4)
Total comprehensive income		**128**	**(116)**	**12**	**108**	**(127)**	**1 100**
Profit for the period		-	-	**-**	-	-	1 100
Other comprehensive income		128	(116)	**12**	108	(127)	-
Fair value gains on available-for-sale financial assets		10	-	**10**	-	-	-
Profit from measurement after prior impairment		146	-	**146**	-	-	-
Impact of effective cash flow hedging transactions	32	-	121	**121**	-	-	-
Amount transferred to profit or loss due to the settlement of hedging instruments	32	-	(264)	**(264)**	-	-	-
Actuarial losses on post-employment benefits		-	-	**-**	-	(157)	-
Exchange differences from the translation of foreign subsidiaries statements		-	-	**-**	108	-	**-**
Deferred income tax	22	(28)	27	**(1)**	-	30	-
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	**-**	-	-	19
At 30 June 2014		**151**	**383**	**534**	**(159)**	**(255)**	**20 833**

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

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

	Note	Revaluation reserve from measurement of financial instruments					
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging instruments**	**Total**	**Exchange differences from the translation of foreign operations statements**	**Actuarial gains/losses on post-employment benefits**	**Retained earnings**
At 1 January 2013		**(51)**	**286**	**235**	**19**	**(543)**	**19 971**
Dividends paid from profit for 2012		-	-	**-**	-	-	**(1 960)**
Offsetting of profit from prior years with actuarial gains and losses		-	-	**-**	-	356	**(356)**
Total comprehensive income		**74**	**213**	**287**	**(286)**	**55**	**3 035**
Profit for the period		-	-	**-**	-	-	3 035
Other comprehensive income		74	213	**287**	(286)	55	-
Profit from measurement after prior impairment		18	-	**18**	-	-	-
Amount transferred to profit or loss due to the impairment of available-for-sale financial assets		61	-	**61**	-	-	-
Impact of effective cash flow hedging transactions		-	713	**713**	-	-	-
Amount transferred to profit or loss due to the settlement of hedging instruments		-	(450)	**(450)**	-	-	-
Actuarial gains on post-employment benefits		-	-	**-**	-	68	-
Exchange differences from the translation of foreign subsidiaries statements		-	-	**-**	(286)	-	-
Deferred income tax	22	(5)	(50)	**(55)**	-	(13)	-
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	**-**	-	-	28
At 31 December 2013		**23**	**499**	**522**	**(267)**	**(132)**	**20 718**

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

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

	Note	Revaluation reserve from measurement of financial instruments					
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging instruments**	**Total**	**Exchange differences from the translation of foreign operations statements**	**Actuarial gains/losses on post-employment benefits**	**Retained earnings**
At 1 January 2013		**(51)**	**286**	**235**	**19**	**(543)**	**19 971**
Dividends from profit for 2012 resolved but unpaid		-	-	**-**	-	-	**(1 960)**
Offsetting of profit from prior years with actuarial gains and losses		-	-	**-**	-	356	**(356)**
Total comprehensive income		**74**	**318**	**392**	**649**	**(85)**	**1 824**
Profit for the period		-	-	**-**	-	-	1 824
Other comprehensive income		74	318	**392**	649	(85)	-
Losses due to change in fair value of available-for-sale financial assets		9	-	**9**	-	-	-
Amount transferred to profit or loss due to the impairment of available-for-sale financial assets		68	-	**68**	-	-	-
Impact of effective cash flow hedging transactions		-	558	**558**	-	-	-
Amount transferred to profit or loss due to the settlement of hedging instruments		-	(166)	**(166)**	-	-	-
Actuarial losses from the measurement of post-employment benefits		-	-	**-**	-	(105)	-
Exchange differences from the translation of foreign subsidiaries statements		-	-	**-**	649	-	-
Deferred income tax	22	(3)	(74)	**(77)**	-	20	-
Change in ownership shares in subsidiaries which do not result in a loss of control		-	-	**-**	-	-	18
At 30 June 2013		**23**	**604**	**627**	**668**	**(272)**	**19 497**

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

18. Retained earnings

	At	
	30 June 2014	**31 December 2013**
Undistributed profit/(loss) from prior years	(790)	(679)
including valuation of the employee shares put option	(32)	(47)
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	727	720
Reserve capital created and utilised in accordance with the Statutes of Group entities	19 795	17 642
Profit for the current period	1 101	3 035
Total retained earnings	**20 833**	**20 718**

Based on the Commercial Partnerships and Companies Code, the Group companies are required to create reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
As at 30 June 2014, this statutory reserve capital in the Group entities amounts to PLN 727 million, of which PLN 660 million relates to the Parent Entity.

19. Changes in equity attributable to non-controlling interest

		For the period		
	Note	**from 1 January 2014 to 30 June 2014**	**from 1 January 2013 to 31 December 2013**	**from 1 January 2013 to 30 June 2013**
As at beginning of the period		**223**	**232**	**232**
Non-controlling interest in profits of subsidiaries		1	(2)	(2)
Changes in ownership shares in subsidiaries which do not result in loss of control	19.1	(15)	-	(7)
Changes in equity attributable to non-controlling interest due to exchange differences from the translation of foreign operations statements		(1)	(7)	-
At end of the period		**208**	**223**	**223**

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

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

19.1 Transactions with non-controlling interest

For the period from 1 January 2014 to 30 June 2014	Note	Net assets at the date of change in % held	% of non-controlling interest in respect of changes	Net assets attributable to non-controlling interest in respect of changes	Transaction value	Impact on equity attributable to non-controlling interest	Impact on equity attributable to the Parent Entity
Changes in ownership shares in subsidiaries which do not result in loss of control	**19**			**23**	**23**	**(15)**	**19**
Acquisition of employee shares of Centrozłom Wrocław S.A. and the PGU Group companies		469	26.68%	19	19	(19)	19
Increase in the share capital of KGHM AJAX MINING INC.		431	-	4	4	4	-

For the period from 1 January 2013 to 31 December 2013	Note	Net assets at the date of change in % held	% of non-controlling interest in respect of changes	Net assets attributable to non-controlling interest in respect of changes	Transaction value	Impact on equity attributable to non-controlling interest	Impact on equity attributable to the Parent Entity
Changes in ownership shares in subsidiaries which do not result in loss of control	**19**			**58**	**58**	**-**	**28**
Acquisition of employee shares of Centrozłom Wrocław S.A.		201	13.64%	27	27	(27)	27
Acquisition of employee shares of the PGU Group companies		258	0.77%	2	2	(2)	1
Increase in the share capital of KGHM AJAX MINING INC.		364	-	29	29	29	-

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

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

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

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

20. Trade and other payables

	Note	At 30 June 2014	At 31 December 2013
Trade and other non-current payables			
Trade payables		157	16
including trade payables due to mining usufruct agreements entered into		149	9
Put option liabilities for employee shares		7	27
Other financial liabilities		13	11
Total financial liabilities (scope of IFRS 7)	**31**	**177**	**54**
Deferred income		718	720
including liabilities due to Franco Nevada streaming contract		457	668
Total non-financial liabilities		**718**	**720**
Total trade and other non-current payables		**895**	**774**
Trade and other current payables			
Trade payables, including:		1 194	1 275
payables due to mining usufruct agreements entered into		8	-
payables due to purchase, construction of property, plant and equipment and intangible assets		190	414
Payables due to unsettled derivatives		-	19
Put option liabilities for employee shares		3	3
Other financial liabilities, including:		1 084	120
liabilities due to resolved but unpaid Parent Entity shareholders dividend from appropriation of profit for financial year 2013		1 000	-
Total financial liabilities (under IFRS 7)	**31**	**2 281**	**1 417**
Employee benefits liabilities		116	213
Liabilities due to taxes and social security		554	486
Other non-financial liabilities		45	61
Special funds		222	206
Deferred income		64	47
Accruals		694	664
of which bonus paid on a one-off basis together with the related surcharges accounted for in the costs of the financial year		398	343
Total non-financial liabilities		**1 695**	**1 677**
Total trade and other current payables		**3 976**	**3 094**
Total trade and other non-current and current payables		**4 871**	**3 868**

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

20. Trade and other payables (continued)

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

Companies, whose employees have the right to receive shares free of charge pursuant to the Act dated 30 August 1996 on the commercialisation and privatisation of companies	Number of employee shares	Share price (PLN)	Amount of liability at 30 June 2014	Amount of liability at 31 December 2013
WPEC w Legnicy S.A.	1 745 973	3.00	5	5
"Uzdrowisko Cieplice" Sp. z o.o.	4 142	141.08	1	3
Uzdrowiska Kłodzkie S.A.	39 142	26.04	1	13
Uzdrowisko Połczyn S.A.	42 398	14.86	1	3
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	596	769.04	1	3
CENTROZŁOM WROCŁAW S.A.	79 320	18.87	1	3
Put option liabilities for employee shares			**10**	**30**

21. Borrowings, debt securities and finance lease liabilities

	Note	At 30 June 2014	At 31 December 2013
Bank loans		511	162
Loans		4	5
Finance lease liabilities		28	34
Debt securities*		1 532	1 513
Total non-current borrowings, debt securities and finance lease liabilities		**2 075**	**1 714**
Bank loans**		1 117	1 186
Loans		3	3
Finance lease liabilities		16	17
Debt securities - interest		6	9
Total current borrowings, debt securities and finance lease liabilities		**1 142**	**1 215**
Total borrowings, debt securities and finance lease liabilities	**31**	**3 217**	**2 929**

* relates to senior notes issued by KGHM INTERNATIONAL LTD. (details in note 32.1.5).
** including the amount of PLN 1 069 million as at 30 June 2014 (as at 31 December 2013: PLN 1 123 million), which relates to bank loans of KGHM Polska Miedź S.A.

Detailed information on the balance of bank loans and debt securities is presented in note 32.3 Financial risk management.

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

22. Deferred tax

	Note	At 30 June 2014	At 31 December 2013	At 30 June 2013
Net deferred tax liabilities at the beginning of the period, of which:		**(1 275)**	**(1 207)**	**(1 207)**
Deferred tax assets at the beginning of the period		**451**	**565**	**565**
Deferred tax liabilities at the beginning of the period		**(1 726)**	**(1 772)**	**(1 772)**
(Charged)/Credited to profit	33	(8)	(42)	17
(Decrease)/Increase in other comprehensive income	17	29	(68)	(57)
Exchange differences from the translation of deferred tax of foreign operations		(18)	42	(109)
Net deferred tax liabilities at the end of the period, of which:		**(1 272)**	**(1 275)**	**(1 356)**
Deferred tax assets at the end of the period		**468**	**451**	**548**
Deferred tax liabilities at the end of the period		**(1 740)**	**(1 726)**	**(1 904)**

Deferred tax assets prior to offsetting

	At 30 June 2014	At 31 December 2013
Short-term accruals for remuneration	76	64
Provision for decommissioning of mines and other technological facilities	136	106
Measurement of forward transactions	284	310
Difference between the carrying amount of depreciation and depreciation for tax purposes	261	265
Realisation of adjustment due to fair value measurement of KGHM INTERNATIONAL LTD.	(38)	(34)
Future employee benefits liabilities	354	320
Unpaid remuneration with surcharges	22	18
Measurement of available-for-sale financial assets	1	1
Other	270	266
Total	**1 366**	**1 316**

The deferred tax asset and deferred tax liability are offset in the statements of financial position at the level of the financial statements of subsidiaries.

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

22. Deferred tax (continued)

Deferred tax liabilities prior to offsetting

	At	
	30 June 2014	**31 December 2013**
Measurement of forward transactions	122	163
Re-measurement of hedging instruments	90	118
Difference between the carrying amount of depreciation and depreciation for tax purposes	1 009	954
Adjustment due to fair value measurement of KGHM INTERNATIONAL LTD. including realisation of adjustment to the end of the reporting period	228	227
Temporary differences from dividends income of the Sierra Gorda investment	697	689
Measurement of available-for-sale financial assets	33	5
Other	459	435
Total	**2 638**	**2 591**

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

23. Employee benefits

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

Change in liabilities due to future employee benefits

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
At 1 January 2014	**1 694**	**328**	**250**	**1 050**	**66**
Total amount of costs recognised in profit or loss due to verification of assumption:	**82**	**38**	**10**	**32**	**2**
Interest costs	**36**	6	5	24	1
Current service cost	**25**	11	5	8	1
Actuarial losses recognised in profit or loss	**21**	21	-	-	-
Actuarial losses recognised in other comprehensive income	**157**	-	18	132	7
Benefits paid	**(61)**	(13)	(11)	(36)	(1)
At 30 June 2014	**1 872**	**353**	**267**	**1 178**	**74**
of which:					
Carrying amount of non-current liabilities	**1 739**	306	230	1 134	69
Carrying amount of current liabilities	**133**	47	37	44	5

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

23. Employee benefits (continued)

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
At 1 January 2013	**1 748**	**348**	**258**	**1 077**	**65**
Total costs recognised in profit or loss:	**126**	**30**	**25**	**62**	**9**
Interest costs	**74**	14	12	45	3
Current service cost	**53**	18	13	17	5
Past service cost	**-**	(1)	-	-	1
Actuarial losses recognised in profit or loss	**(1)**	(1)	-	-	-
Actuarial losses recognised in other comprehensive income	**(68)**	-	(14)	(49)	(5)
Benefits paid	**(112)**	(50)	(19)	(40)	(3)
At 31 December 2013	**1 694**	**328**	**250**	**1 050**	**66**
of which:					
Carrying amount of non-current liabilities	**1 563**	281	213	1 008	61
Carrying amount of current liabilities	**131**	47	37	42	5

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

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

23. Employee benefits (continued)

Main actuarial assumptions 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 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 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)

24. Provisions for other liabilities and charges

		TOTAL	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
Provisions at 1 January 2014	**Note**	**1 032**	**964**	**68**
Provisions recognised in other operating costs		7	-	7
Changes in provisions arising from updating of estimates recognised in other operating costs		4	4	-
Changes in provisions arising from updating of estimates recognised in fixed assets		180	180	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	30	20	20	-
Utilisation of provisions		(6)	(3)	(3)
Release of provisions and recognition in other operating income		(3)	(1)	(2)
Adjustment due to transfer to Mine Closure Fund and to Tailings Storage Facilities Restoration Fund		(12)	(12)	-
Other changes		5	6	(1)
Provisions at 30 June 2014		**1 227**	**1 158**	**69**
of which:				
Non-current provisions		**1 113**	**1 100**	**13**
Current provisions		**114**	**58**	**56**

	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	**1 079**	**1 021**	**58**
Provisions recognised in other operating costs	23	-	23
Changes in provisions arising from updating of estimates recognised in other operating income	(26)	(26)	-
Decrease in provisions arising from updating of estimates recognised in fixed assets	(170)	(170)	-
Increase in provisions arising from updating of estimates recognised in fixed assets	170	170	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	42	42	-
Utilisation of provisions	(28)	(21)	(7)
Release of provisions and recognition in other operating income	(5)	(1)	(4)
Adjustment due to transfer to Mine Closure Fund and to Tailings Storage Facilities Restoration Fund	(33)	(33)	-
Other changes	(20)	(18)	(2)
Provisions at 31 December 2013	**1 032**	**964**	**68**
of which:			
Non-current provisions	**920**	**906**	**14**
Current provisions	**112**	**58**	**54**

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

24. 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	**Note**	**1 079**	**1 021**	**58**
Provisions recognised in other operating costs		10		10
Changes in provisions arising from updating of estimates recognised in other operating income		(1)	(1)	
Changes in provisions arising from updating of estimates recognised in fixed assets		57	57	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	30	20	20	-
Utilisation of provisions		(11)	(8)	(3)
Release of provisions and recognition in other operating income		(3)	(1)	(2)
Adjustment due to transfer to Mine Closure Fund and to Tailings Storage Facilities Restoration Fund		(12)	(12)	-
Other changes		17	20	(3)
Provisions at 30 June 2013		**1 156**	**1 096**	**60**
of which:				
Non-current provisions		**1 090**	**1 076**	**14**
Current provisions		**66**	**20**	**46**

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

25. 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		8 370	10 807
Salt		17	58
Energy		47	59
Services		420	691
Mining machinery, transport vehicles for mining and other		4	20
Electro-mechanical products		46	53
Merchandise – smelting products		145	288
Other merchandise		90	77
Scrap and materials		115	96
Other finished goods		274	369
Total	**5**	**9 528**	**12 518**

	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)	6 915	7 540
Average exchange rate (USD/PLN) per NBP	3.05	3.18

Group companies recognise revenues due to realisation of construction contracts. Income due to these contracts is presented below:

	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Income due to realisation of contracts	196	452

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

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

	At 30 June 2014	At 31 December 2013
Total revenues due to realisation of contracts	1 379	1 214
Total costs incurred so far due to realisation of contracts	1 169	1 033
Gains due to realisation of contracts	**210**	**181**

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

26. Expenses by nature

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Depreciation of property, plant and equipment and amortisation of intangible assets		793	694
Employee benefits expenses	27	2 297	2 284
Materials and energy		3 744	4 190
External services		884	1 227
Taxes and charges		985	1 276
including the minerals extraction tax*		748	1 021
Advertising costs and representation expenses		32	28
Property and personal insurance		16	17
Other costs, of which:		55	151
Impairment losses on property, plant and equipment and intangible assets**		-	54
Write-down of inventories	14	45	40
Allowance for impairment of receivables	31	1	3
Reversal of impairment losses on property, plant and equipment, intangible assets		(4)	(9)
Reversal of write-down of inventories	14	(36)	(1)
Reversal of allowance for impairment of receivables	31	(2)	-
Losses from the disposal of financial instruments	31	3	4
Other operating costs		48	60
Total expenses by nature		**8 806**	**9 867**
Cost of merchandise and materials sold (+), of which:		253	420
Allowance for impairment of receivables	31	-	4
Write-down of inventories	14	1	-
Reversal of allowance for impairment of receivables	31	(1)	-
Change in inventories of finished goods and work in progress (+/-)		(434)	(103)
Cost of manufacturing products for internal use (-)		(666)	(500)
Total cost of sales, selling costs and administrative expenses		**7 959**	**9 684**
of which:			
Cost of sales		7 297	8 987
Selling costs		193	227
Administrative expenses		469	470

* The minerals extraction tax in the Parent Entity 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 basic product manufacturing costs and is not deductible for corporate income tax purposes.

** Relates to the impairment loss on property, plant and equipment of Carlota mine in KGHM INTERNATIONAL LTD.

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

27. Employee benefits expenses

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Remuneration		1 672	1 687
Costs of social security		604	595
Costs of future employee benefits		21	2
Total	26	**2 297**	**2 284**

28. 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 from financial instruments classified under other operating activities, resulting from:	31	229	437
Measurement and realisation of derivatives		59	255
Interest		134	124
Foreign exchange gains		-	19
Dividends received		35	37
Reversal of allowance for impairment of loans and receivables		1	2
Increase in fair value of investment property	8	-	4
Interest on non-financial receivables		1	1
Reversal of allowance for impairment of other non-financial receivables		1	1
Government grants and other donations received		4	6
Release of unused provisions due to:		3	4
Decommissioning of mines		1	2
Disputed issues, pending court proceedings		1	1
Other		1	1
Surpluses identified in current assets		1	1
Penalties and compensation received		5	6
Management fee for Sierra Gorda S.C.M.*		23	40
Other operating income/gains		43	22
Total other operating income		**310**	**522**

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

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

29. 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:	31	171	624
Measurement and realisation of derivatives		163	437
Interest		1	-
Foreign exchange losses		6	-
Impairment losses on available-for-sale financial assets		1	183
Other		-	4
Losses on the sale of property, plant and equipment, and intangible assets		10	14
Donations granted		17	17
Provisions for:		11	10
Decommissioning of mines		4	-
Disputed issues, pending court proceedings		3	1
Other		4	9
Penalties and compensation		3	2
Contributions to a voluntary organisation		7	9
Other operating costs/losses		17	9
Total other operating costs		**236**	**685**

30. Finance costs

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Interest on:	31	77	69
Bonds		59	62
Bank and other loans		17	6
Finance leases		1	1
Foreign exchange (gains)/losses on borrowings	31	(8)	29
Changes in provisions for decommissioning of mines arising from the approach of the maturity date of a liability (unwinding of the discount)	24	20	20
Changes in liabilities due to measurement of put option for employee shares arising from the approach of maturity date of a liability (unwinding of the discount)		-	1
Changes in other liabilities arising from the approach of the maturity date of liabilities (unwinding of the discount)	31	4	5
Other finance costs		6	7
Total		**99**	**131**

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

31. Financial instruments

31.1 Carrying amount

		At 30 June 2014 Categories of financial instruments							
						Other financial liabilities			
Classes of financial instruments	**Note**	Available-for-sale financial assets	Financial assets at fair value through profit or loss*	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities beyond the scope of IAS 39	Hedging instruments	**Total**
Debt securities- financial assets for mine closure	11	-	-	53	-	-	-	-	**53**
Listed shares	10	1 009	-	-	-	-	-	-	**1 009**
Unlisted shares	10	11	-	-	-	-	-	-	**11**
Trade receivables (net)	13	-	-	1 625	-	-	-	-	**1 625**
Cash and cash equivalents and deposits		-	-	1 292	-	-	-	-	**1 292**
Financial assets for mine closure	11	-	-	282	-	-	-	-	**282**
Trade and other receivables	13	-	-	3	-	-	-	-	**3**
Cash and cash equivalents	15	-	-	1 007	-	-	-	-	**1 007**
Loans granted (net)		-	-	4 523	-	-	-	-	**4 523**
Other financial assets (net)		-	-	221	-	-	-	-	**221**
Derivatives – Currency (net)	12	-	250	-	(249)	-	-	76	**77**
Derivatives - Commodity contracts – metals (net)	12	-	-	-	-	-	-	216	**216**
Embedded derivatives	12	-	20	-	-	-	-	-	**20**
Trade payables	20	-	-	-	-	(1 351)	-	-	**(1 351)**
Borrowings	21	-	-	-	-	(1 635)	-	-	**(1 635)**
Debt securities – issued bonds	21	-	-	-	-	(1 538)	-	-	**(1 538)**
Other financial liabilities		-	-	-	-	(1 107)	(44)	-	**(1 151)**
Trade and other payables	20	-	-	-	-	(1 107)	-	-	**(1 107)**
Finance lease liabilities	21	-	-	-	-	-	(44)	-	**(44)**
Total		**1 020**	**270**	**7 714**	**(249)**	**(5 631)**	**(44)**	**292**	**3 372**

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

The fair value of individual classes of financial instruments did not differ significantly from their carrying amount both at 30 June 2014 and at 31 December 2013.

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

31. Financial instruments (continued)

At 31 December 2013

Categories of financial instruments

Classes of financial instruments	Note	Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities beyond the scope of IAS 39	Hedging instruments	**Total**
Debt securities - financial assets for mine closure	11	-	-	69	-	-	-	-	**69**
Listed shares	10	856	-	-	-	-	-	-	**856**
Unlisted shares	10	12	-	-	-	-	-	-	**12**
Trade receivables (net)	13	-	-	2 219	-	-	-	-	**2 219**
Cash and cash equivalents and deposits		-	-	1 127	-	-	-	-	**1 127**
Financial assets for mine closure	11	-	-	255	-	-	-	-	**255**
Trade and other receivables	13	-	-	8	-	-	-	-	**8**
Cash and cash equivalents	15	-	-	864	-	-	-	-	**864**
Loans granted (net)		-	-	3 378	-	-	-	-	**3 378**
Other financial assets (net)		-	-	194	-	-	-	-	**194**
Derivatives – Currency (net)	12	-	3	-	(4)	-	-	539	**538**
Derivatives - Commodity contracts – metals (net)	12	-	-	-	(2)	-	-	257	**255**
Embedded derivatives	12	-	16	-	-	-	-	-	**16**
Trade payables	20	-	-	-	-	(1 291)	-	-	**(1 291)**
Borrowings	21	-	-	-	-	(1 356)	-	-	**(1 356)**
Debt securities – issued bonds	21	-	-	-	-	(1 522)	-	-	**(1 522)**
Other financial liabilities		-	-	-	-	(180)	(51)	-	**(231)**
Trade and other payables		-	-	-	-	(180)	-	-	**(180)**
Finance lease liabilities	21	-	-	-	-	-	(51)	-	**(51)**
Total		**868**	**19**	**6 987**	**(6)**	**(4 349)**	**(51)**	**796**	**4 264**

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

31. Financial instruments (continued)

31.2 Items of income, costs, profit 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: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	**Total**
Dividends received	28	-	35	-	-	-	-	**35**
Interest income/(costs) recognised in:		**-**	**-**	**134**	**(77)**	**(1)**	**-**	**56**
Other operating income	28	-	-	134	-	-	-	134
Other operating costs	29	-	-	-	(1)	-	-	(1)
Finance costs	30	-	-	-	(76)	(1)	-	(77)
Foreign exchange gains/(losses) recognised in:		**-**	**-**	**69**	**(67)**	**-**	**-**	**2**
Other operating income	28	-	-	71	(71)	-	-	-
Other operating costs	29	-	-	(2)	(4)	-	-	(6)
Finance costs	30	-	-	-	8	-	-	8
Losses on measurement of non-current liabilities	30	**-**	**-**	**-**	(4)	**-**	**-**	**(4)**
Impairment allowances recognised in:		**-**	**(1)**	**(1)**	**-**	**-**	**-**	**(2)**
Expenses by nature	26	-	-	(1)	-	-	-	(1)
Other operating costs	29	-	(1)	-	-	-	-	(1)
Reversal of impairment losses recognised in:		**-**	**-**	**4**	**-**	**-**	**-**	**4**
Expenses by nature	26	-	-	3	-	-	-	3
Other operating income	28	-	-	1	-	-	-	1
Adjustment to sales due to hedging transactions	32.1.4	-	-	-	-	-	264	**264**
Losses from disposal of financial instruments	26	-	-	(3)	**-**	**-**	**-**	**(3)**
Gains on measurement and realisation of derivatives	28	59	-	-	**-**	**-**	**-**	**59**
Losses on measurement and realisation of derivatives	29	(163)	-	-	**-**	**-**	**-**	**(163)**
Total net gain/(loss)		**(104)**	**34**	**203**	**(148)**	**(1)**	**264**	**248**

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

31. 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	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	**Total**
Dividends received	28	-	37	-	-	-	-	**37**
Interest income/(costs) recognised in:		**-**	**111**	**13**	**(68)**	**(1)**	**-**	**55**
Other operating income	28	-	111	13	-	-	-	124
Finance costs	30	-	-	-	(68)	(1)	-	(69)
Foreign exchange gains/(losses) recognised in:		**-**	**-**	**86**	**(96)**	**-**	**-**	**(10)**
Other operating income	28	-	-	86	(67)	-	-	19
Finance costs	30	-	-	-	(29)	-	-	(29)
Losses on measurement of non-current liabilities recognised in:		**-**	**-**	**-**	**(6)**	**-**	**-**	**(6)**
Other operating costs	29	-	-	-	(1)	-	-	(1)
Finance costs	30	-	-	-	(5)	-	-	(5)
Impairment allowances recognised in:		**-**	**(183)**	**(9)**	**-**	**-**	**-**	**(192)**
Expenses by nature	26	-	-	(7)	-	-	-	(7)
Other operating costs	29	-	(183)	(2)	-	-	-	(185)
Reversal of impairment losses	28	-	-	2	**-**	**-**	**-**	**2**
Adjustment to sales due to hedging transactions	32.1.4	-	-	-	-	-	166	**166**
Losses from disposal of financial instruments recognised in:		**-**	**(1)**	**(4)**	**-**	**-**	**-**	**(5)**
Expenses by nature	26	-	-	(4)	-	-	-	(4)
Other operating income	29	-	(1)	-	-	-	-	(1)
Gains on measurement and realisation of derivatives	28	255	**-**	**-**	**-**	**-**	**-**	**255**
Losses on measurement and realisation of derivatives	29	(437)	**-**	**-**	**-**	**-**	**-**	**(437)**
Total net gain/(loss)		**(182)**	**(36)**	**88**	**(170)**	**(1)**	**166**	**(135)**

31. Financial instruments (continued)

31.3 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 31.1) are classified by the Group under level 2 of the fair value hierarchy. The manner and techniques for measuring instruments which are measured to fair value have not changed in comparison to the manner and techniques for measurement as at 31 December 2013.
In both the reporting and the comparable periods, there were no transfers in the Group 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.

32. Financial risk management

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

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

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

The Parent Entity based on the Market Risk Management Policy, the Financial Liquidity Management Policy and the Credit Risk Management Policy, in a conscious and responsible manner, manages the identified types of financial risk. The process of financial risk management in the Parent Entity is supported by the work of the Market Risk Committee and the Credit Risk Committee.

In March 2014, a new Market Risk Management Policy in the KGHM Polska Miedź S.A. Group was approved, and KGHM INTERNATIONAL LTD. representatives 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 (including KGHM INTERNATIONAL LTD.). 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.

Liquidity risk management in the Parent Entity is based on the Financial Liquidity Management Policy approved by the Management Board. In KGHM INTERNATIONAL LTD. the liquidity risk management principles are described in the Investment Policy. These documents describe the financial liquidity management process, taking into account the specific character of the Group companies, indicating best practise procedures and instruments. The Parent Entity supervises the process of managing liquidity and acquiring external financing in the Group.

32.1 Market risk

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

32.1.1 Commodity risk

The Parent Entity is exposed to the risk of changes in market prices of the metals it sells: copper, lead, silver and gold. The KGHM INTERNATIONAL LTD. Group is exposed to the risk of changes in market prices of copper, gold, nickel, molybdenum, platinum and palladium.

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

32. Financial risk management (continued)

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

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 Group's benchmark profile, in particular in terms of the reference prices and the quotation periods.

On the metals market, the Group has a so-called long position, which means it has higher sales than purchases. The analysis of the Group's exposure to market risk should be performed on a net basis, i.e. by deducting the volume of metals' contained in materials purchased from external sources, from the volume of sales.

Strategic exposure of the Group to commodity risk is presented below[1]:

	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]	**233 199**	309 567	76 368	**265 115**	356 231	91 116
Silver [tonnes]	**557**	571	14	**583**	596	13
Nickel [tonnes]	**1 655**	1 655	-	**2 257**	2 257	-

Exposure to risk of changes in other metal prices was not presented in the table due to its lower significance.

32.1.2 Currency risk

Regarding the risk of changes in market foreign exchange rates, KGHM Polska Miedź S.A. Group identifies the following types of exposures:

- the transaction exposure concerning volatility of cash flows in the base currency,
- the balance sheet exposure concerning volatility of selected items of consolidated statements of financial position in the base currency (functional currency),
- the net investment exposure concerning volatility of consolidated equity in the Group's base currency (presentation currency).

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. Cash flows exposed to currency risk may present the following characteristics:

- denomination in the foreign currency - cash flows are settled in the foreign currencies other than the functional currency,
- indexation to the foreign currency - cash flows are settled in the base currency, 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 the Parent Entity are the revenues from sales of products (metals prices, processing and producer margins).

The source of balance sheet exposure to currency risk are items denominated in foreign currencies in the consolidated statement of financial position, which under the existing accounting regulations must be, upon settlement or periodic valuation, converted by applying the current exchange rate of the foreign currencies versus the base (functional) currency. Changes in the carrying amounts of such items between valuation dates result in the volatility of net income/loss.

The balance sheet exposure includes in particular:
- receivables and payables related to foreign currency denominated purchases and sales,
- financial liabilities in foreign currencies,
- cash and cash equivalents in foreign currencies.

[1] Tonnage relates to the amounts of payable metal in sold and purchased products.
[2] It is widely accepted on commodity markets that physical delivery contracts of metals are settled in USD or indexed in USD.

32. Financial risk management (continued)

The exposure from net investments in foreign operations is related exclusively to the effects of accounting translations in the consolidated financial statements of the Group, whose subsidiaries have functional currencies other than the presentation currency of the Group. The financial statements of the consolidated entity must be converted applying the current exchange rate to the presentation currency of the Group. This results in volatility in the Group's consolidated equity/other comprehensive income.

When managing risk, the Group concentrates on transaction exposure. Other types of exposure are of secondary importance from the market risk management perspective.

32.1.3 Commodity and currency risk management

In order to reduce the market risk related to changes in commodity prices and in foreign exchange rates the Parent Entity, KGHM INTERNATIONAL LTD. and some other domestic companies of the Group make use of derivatives. However, only the Parent Entity applies hedging strategies, as understood by hedge accounting.

Taking into account the exposure to market risk, the most significant impact on the Group's results is from the activities of the Parent Entity and KGHM INTERNATIONAL LTD.

Commodity and currency risk management in the Parent Entity

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 Parent Entity. 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 metals sales realised by the Parent Entity.

In the first half of 2014, the Parent Entity 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 a 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 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 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 notional as they were before restructuring.

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

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

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

32. Financial risk management (continued)

Condensed table of open transaction in derivatives of the Parent Entity[4]

COPPER MARKET

	Instrument	Volume [tonnes]	Option strike price [USD/t]			Average weighted premium [USD/t]	Effective hedge price [USD/t]	Limitations [USD/t]	
			Sold call option	Purchased put option	Sold put option [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]	Option strike price [USD/PLN]			Average weighted premium [PLN for USD 1]	Effective hedge price [USD/PLN]	Limitations [USD/PLN]	
			Sold call option	Purchased put option	Sold put option[4]			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[5]	**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**							

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[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)

32. Financial risk management (continued)

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

Commodity and currency risk management in selected mining companies

Due to the fact that a portion of the expenditures on the Sierra Gorda project are incurred in the Chilean peso, in January 2014, KGHM INTERNATIONAL LTD. purchased put options with a strike exchange rate of USD/CLP 525 for the notional amount of USD 200 million for the first quarter of 2014. The purpose of entering into derivatives transactions was to limit the risk of a strengthening of the Chilean peso versus the USD. These options expired unrealised.
As at 30 June 2014, KGHM INTERNATIONAL LTD. did not hold open derivatives on commodity or currency markets.

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

The impact of derivatives on the profit or loss items in the current and comparable periods is presented in the table below:

	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Impact on sales	**31**	**264**	**166**
Impact on other operating activities:		**(104)**	**(182)**
Due to realisation of derivatives		(17)	(45)
Due to measurement of derivatives		(87)	(137)
Total impact of derivatives on profit or loss:		**160**	**(16)**

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**	**At 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 revaluation reserve from measurement of cash flow hedging financial instruments in the effective part, in the amount of PLN 121 million,
- the amount of PLN 264 million, which decreased the 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.

32. Financial risk management (continued)

The fair value of derivatives of the Group and receivables and liabilities due to unsettled derivatives is presented in the table below[7].

	At 30 June 2014		At 31 December 2013	
	Derivatives	**Receivables due to unsettled derivatives[8]**	**Derivatives**	**Receivables/(liabilities) due to unsettled derivatives[9]**
Financial assets	563	19	833	41
Financial liabilities	(250)	-	(24)	(19)
Fair value	**313**	**19**	**809**	**22**

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

TRADE INSTRUMENTS			At 30 June 2014 [PLN '000]			
Type of derivative	**Volume/ Notional** Cu [t] Currency [USD '000] [EUR '000]	**Weighted average price/exch. rate** Cu [USD/t] Currency [USD/PLN]	**Financial assets**		**Financial liabilities**	
			Current	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - - Metals – Copper:						
Options						
Sold put options	82 500	4 618	-	-	(12)	(244)
TOTAL			**-**	**-**	**(12)**	**(244)**
Derivatives – Currency contracts						
Forwards/swaps						
Forwards – sold USD	650	3.0514	6	-	(4)	-
Forwards – sold EUR	12 900	4.2925	817	207	(66)	(5)
Options						
Collar - EUR	9 900	4.2517-4.4585	681	361	(189)	(222)
Purchased put options - EUR	500	4.1000	8	-	-	-
Purchased call options – USD	360 000	4.5000	-	-	-	-
Purchased put options – USD	180 000	2.7000	27	-	-	-
Sold put options – USD	900 000	3.2800	-	-	(192 815)	(55 325)
TOTAL			**1 539**	**568**	**(193 074)**	**(55 552)**
TOTAL TRADE INSTRUMENTS			**1 539**	**568**	**(193 086)**	**(55 796)**

[7] Including: embedded derivatives, whose fair value amounted to PLN 20 million as at 30 June 2014, and as at 31 December 2013 PLN 16 million.
[8] Settlement date falls on 2 July 2014.
[9] Settlement date falls on 3 January 2014.

32. Financial risk management (continued)

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		Period of profit/loss impact		Financial assets		Financial liabilities	
			From	To	From	To	Current	Non-current	Current	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 options	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		Period of profit/loss impact		Financial assets		Financial liabilities	
			From	To	From	To	Current	Non-current	Current	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)**

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

Type of derivative	Financial assets		Financial liabilities	
	Current	Non-current	Current	Non-current
Embedded financial instruments – based on copper price:				
Long-term contracts for the supply of sulphuric acid and water	4 354	15 896	-	-
EMBEDDED INSTRUMENTS - TOTAL	**4 354**	**15 896**	**-**	**-**

32.1.5 Price risk related to investments in debt securities

As at 30 June 2014, the Group held government bonds in the amount PLN 53 million, i.e. USD 17 million (as at 31 December 2013 PLN 69 million). This amount is represented by environmental bonds denominated in USD under the mine closure assets of KGHM INTERNATIONAL LTD., whose issuer is the United States of America government.

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

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

32. Financial risk management (continued)

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

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

Due to investments in listed companies the Group 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 Group 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, held by the Group, was PLN 1 009 million.

32.1.7 Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the Group's results. The Group is exposed to such risk mainly due to deposits and use of external sources of financing.

As at 30 June 2014, the balances of the items are as follows:

- cash and cash equivalents - PLN 1 007 million, and
- bank loans – PLN 1 628 million.

The Group financed its current operations by drawing bank loans, in the form of investment bank loans and working capital loans, as well as from an overdraft facility, with the interest based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

The following table presents the currency and age structure of the Group's liabilities resulting from bank loans as at 30 June 2014.

BANK LOANS LIABILITIES

Bank loan currency	Balance of bank loan in the original currency [million]	Balance of bank loan in PLN [million]	Of which bank loans:	
			Short-term	Long-term
PLN	126	126	42	84
USD	471	1 435	1 069	366
EUR	16	67	6	61
	-	**1 628**	**1 117**	**511**

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

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

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

32. Financial risk management (continued)

32.2 Credit risk

Credit risk is defined as the risk that the Group's 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.

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

- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- loans granted,
- debt securities,
- guarantees granted.

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

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

All entities with which deposit transactions are entered into by the Group operate in the financial sector. These are solely banks with the highest[10], medium-high[11] and medium[12] credit ratings, an appropriate level of equity and a strong, stable market position. In the Parent Entity and KGHM INTERNATIONAL LTD. credit risk in this regard is continuously monitored through the on-going review of the financial standing and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the level of concentration respectively:

- as at 30 June 2014 of 95%
- as at 31 December 2013 of 94%

of the 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	30%	36%
Medium-high	48%	51%
Medium	22%	13%

As at 30 June 2014, the maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounted to 24% (as at 31 December 2013 – 22%).

32.2.2 Credit risk related to derivative transactions

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

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

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

[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)

32. Financial risk management (continued)

Taking into consideration the fair value of open derivative transactions entered into by the Group 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%).

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

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

The fair value of open derivatives of the Group and receivables and liabilities due to unsettled derivatives by counterparty are presented in the table below[15].

	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	110	(147)	**(37)**	229	(10)	**219**
Total	**562**	**(250)**	**312**	**858**	**(43)**	**815**
Open derivatives	543	(250)	293	817	(24)	793
Unsettled derivatives	19	-	19	41	(19)	22

33.2.3 Credit risk related to trade and other financial receivables

Group companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade and other receivables.

Geographical concentration of credit risk for trade receivables[16]:

	At					
	30 June 2014			31 December 2013		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net trade receivables	34%	30%	36%	22%	28%	50%

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

Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments. The Parent Entity has secured the majority of its receivables by promissory notes[17], frozen funds on bank accounts, registered pledges[18], bank guarantees, corporate guarantees, mortgages, documentary collection and a letter of credit.

[15] Excluding embedded derivatives, whose fair value amounted to PLN 20 million as at 30 June 2014, and as at 31 December 2013 PLN 16 million.
[16] Data concerning the 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.
[17] In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.
[18] At the end of the reporting period, the Parent Entity held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer's trade accounts.

32. Financial risk management (continued)

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[19].
To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with 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 Parent Entity had secured 93% of its trade receivables (as at 31 December 2013: 74%).

The concentration of credit risk in the Group 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 largest clients, in terms of trade receivables at the end of the reporting period, represented 40% of the trade receivables balance (as at 31 December 2013: 49%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with clients, as well as to the hedging used, the level of credit risk is low.

The following Group companies have significant trade receivables: KGHM Polska Miedź S.A. PLN 1 003 million, the KGHM INTERNATIONAL LTD. Group PLN 378 million, CENTROZŁOM WROCŁAW S.A. PLN 90 million, NITROERG S.A. PLN 36 million, KGHM Metraco S.A. PLN 18 million, WMN "ŁABĘDY" S.A. PLN 16 million, Zespół Uzdrowisk Kłodzkich S.A. PLN 14 million, POL-MIEDŹ TRANS Sp. z o.o. PLN 13 million, „MIEDZIOWE CENTRUM ZDROWIA" S.A. PLN 13 million, PHP "MERCUS" Sp. z o.o. PLN 11 million.

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

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

32.2.4 Credit risk related to loans granted

As at 30 June 2014, the balance of loans granted by the Group amounted to PLN 4 523 million, i.e. USD 1 489 million (as at 31 December 2013: PLN 3 378 million, i.e. USD 1 122 million).

This item is mainly represented by long term loans based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group for the financing of the joint mining venture in Chile.

Credit risk related to the loans granted is dependent on the risk connected with mine project realisation and is considered by the Parent Entity to be moderate.

32.2.5 Credit risk related to investments in debt securities

As at 30 June 2014, the Group held US government bonds in the amount PLN 53 million, i.e. USD 17 million. These are environmental bonds denominated in USD representing the mine closure assets of KGHM INTERNATIONAL LTD.

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

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

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

32. Financial risk management (continued)

32.2.6 Other information related to credit risk

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

	At 30 June 2014					
	Total value	**Up to 1 month**	**From 1 up to 3 months**	**From 3 up to 6 months**	**From 6 up to 12 months**	**Over 1 year**
Trade receivables	**76**	41	21	8	4	2
Other financial receivables	**1**	-	1	-	-	-

	At 31 December 2013					
	Total value	**Up to 1 month**	**From 1 up to 3 months**	**From 3 up to 6 months**	**From 6 up to 12 months**	**Over 1 year**
Trade receivables	**81**	60	9	5	5	2
Other financial receivables	**1**	1	-	-	-	-

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

32.3 Liquidity risk and capital management

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

32.3.1 Financial liquidity management

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

In order to support financial liquidity, in the first half of 2014 the Group benefited from external sources of financing to a substantial degree in the form of bank loans, including investment loans, working capital facilities, overdraft facilities and from issued bonds.

At the end of the reporting period, the Parent Entity held open lines of credit, of which the available bank loan limits balances were as follows:

Open credit lines of the Parent Entity 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 on the open lines of credit 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 KGHM INTERNATIONAL LTD. Group as at 30 June 2014 held an open line of credit in the amount of USD 200 million (PLN 609 million), based on a variable interest rate, set as the total of the reference rate LIBOR and a margin dependant on the ratio net debt/EBITDA. At the end of the reporting period USD 120 million (PLN 336 million) had been drawn. In the reporting period KGHM INTERNATIONAL LTD. fulfilled the obligations assigned to the Group due to a signed credit agreement.

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

32. Financial risk management (continued)

KGHM INTERNATIONAL LTD. also benefits from external financing in the form of issued long-term senior notes with a carrying amount of PLN PLN 1 538 million (nominal value of the senior notes: USD 493 million; fair value due to final accounting for the acquisition: USD 505 million) with maturity falling in 2019. These notes, issued in 2011 in a private placement, give KGHM INTERNATIONAL LTD. the opportunity for early repurchase at their nominal price, plus a premium if repurchase is made prior to 15 June 2017.

The Parent Entity 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 amounted to PLN 613 million. The funds available under this service bear variable interest rates.

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

As at 30 June 2014, 26 companies and the Parent Entity, serving as the coordinator, participated in the cash pool. This function is based on establishing the conditions for functioning of the system, particularly including the principles of interest calculation and representation of the entire Group in relations with the bank with respect to services. The Parent Entity also acts as a participant of the cash pool system, in which it deposits its financial surpluses and, in case of need, benefits from financing.

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 Group held contingent liabilities due to guarantees granted in the total amount of PLN 1 339 million.

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

32.3.2 Capital management

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

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

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

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

The following table presents indicators for the Group:

	At	
Ratios	**30 June 2014**	**31 December 2013**
Net Debt/EBITDA	0.97	0.37
Equity ratio	0.57	0.61

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

KGHM INTERNATIONAL LTD. periodically monitors basic debt ratios and manages liquidity risk by:
- preparing and monitoring current forecasts of undiscounted cash flow at the earliest possible maturity dates,
- managing capital structure and financial leverage in order to ensure appropriate sources for the financing of its operations and development projects.

33. Income tax

Income tax	Note	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Current income tax		445	740
Deferred income tax	22	8	(17)
Adjustments to income tax from prior periods		(10)	(5)
Total		**443**	**718**

34. Mineral extraction tax

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

	Area	Name of tax due to extraction in a given country	Amount charged due to the tax for the period from 01.01.14 to 30.06.14	Amount charged due to the tax for the period from 01.01.13 to 30.06.13
1	Poland	Minerals extraction tax:		
		- copper	592	783
		- silver	156	238
2	USA (Nevada)	Nevada Net proceeds tax	-	7
3	Canada (Ontario)	Ontario Mining tax	-	3
		Total	**748**	**1 031**

35. Earnings per share

	For the period from 1 January 2014 to 30 June 2014	For the period from 1 January 2013 to 30 June 2013
Profit from continued operations attributable to shareholders of the Parent Entity	1 100	1 824
Weighted average number of ordinary shares (million)	200	200
Basic/diluted earnings per share (PLN/share)	5.50	9.12

There are no dilutive potential ordinary shares.

36. Dividend 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)

37. Related party transactions

As the Polish State Treasury has control over KGHM Polska Miedź S.A., the State Treasury companies (in accordance with the list published by the State Treasury) as at 30 June 2014 meet the definition of related entities. Turnover and balances with these entities have been reflected in the information presented in this note, in those items respecting other related entities.

	For the period	
Operating income from related entities	**from 1 January 2014 to 30 June 2014**	**from 1 January 2013 to 30 June 2013**
- associates and joint ventures	149	139
- other related entities	10	14
Total income from sale to related entities	**159**	**153**

During the period from 1 January to 30 June 2014 and the comparable period there were no sales of property, plant and equipment, intangible assets and investment property to other related entities of the Group.
Significant transactions between related entities, recognised in other operating income:

- services rendered to support the process of management of Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD. in the amount of PLN 23 million (in the comparable period: PLN 40 million),
- interest income on a loan granted to Sierra Gorda S.C.M. by KGHM INTERNATIONAL LTD. in the amount of PLN 126 million (in the comparable period: PLN 98 million).

	For the period from 1 January 2014 to 30 June 2014	
Purchases from related entities	**Purchase of services, merchandise and materials**	**Other purchase transactions**
- from other related entities	7	9

	For the period from 1 January 2013 to 30 June 2013	
Purchases from related entities	**Purchase of services, merchandise and materials**	**Other purchase transactions**
- from other related entities	22	1

		At	
Trade and other receivables from related entities	**Note**	**30 June 2014**	**31 December 2013**
- from jointly-controlled entity Sierra Gorda S.C.M. due to a loan granted	32	4 523	3 378
- from associates		-	1
- from other related entities		10	2
Total receivables from related entities		**4 533**	**3 381**

	At	
Trade and other payables towards related entities	**30 June 2014**	**31 December 2013**
- towards other related entities	8	6
Total trade payables towards related entities	**8**	**6**

37. Related party transactions (continued)

	At	
Contingent liabilities	**30 June 2014**	**31 December 2013**
Guarantees granted under a contract for the supply of electricity and finance lease liabilities of the Sierra Gorda S.C.M.	770	414
Security granted for the payment of future environmental liabilities of the Robinson mine	236	184
Total contingent liabilities	**1 006**	**598**

In the current reporting period, no individual transactions were identified between the Group and the government and with entities controlled or jointly controlled by the government, or over which the government has significant influence, which would be considered as significant in terms of unusual scope and amount.
The remaining transactions, which were collectively significant, between the Group and the government and with entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions involved the purchase by companies of the Group of materials and services to meet the needs of their current operating activities (fuel, energy, transport services). Turnover from these transactions in the current period amounted to PLN 444 million (for the period from 1 January 2013 to 30 June 2013: PLN 536 million), and the unsettled balance of liabilities from these transactions as at 30 June 2014 amounted to PLN 240 million (at 31 December 2013: PLN 36 million). Trade payables due to mining usufruct agreements entered into represent a significant amount of this balance and amounted to PLN 172 million, of which PLN 15 million is due to variable fee.

Remuneration of the key management personnel members

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

	For the period	
Remuneration of the Management Board of the Parent Entity	**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

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

	For the period	
Remuneration of the Supervisory Board of the Parent Entity	**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	677	515

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

	For the period	
Remuneration and other benefits of other key management personnel	**from 1 January 2014 to 30 June 2014**	**from 1 January 2013 to 30 June 2013**
Salaries and other short-term employee benefits	3 268	3 237
Total	**3 268**	**3 237**

As a result of the acquisition of KGHM INTERNATIONAL LTD. and significant changes in the structure of the Group, the duties of management bodies of the Group were reviewed. Based on the definition of key management personnel according to IAS 24 and based on an analysis of the rights and scope of responsibilities of management personnel of the Group arising from corporate documents and from management contracts, the members of the Board of Directors of KGHM INTERNATIONAL LTD. and the President of the Management Board of KGHM INTERNATIONAL LTD. were recognised as other key management personnel of the Group.

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

38. 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	**31 December 2013**
Contingent assets	**485**	**529**
- disputed State Budget issues	22	22
- guarantees received	231	248
- promissory notes receivables	94	126
- real estate tax on mining facilities	81	87
- inventions, implementation of projects	52	44
- other	5	2
Contingent liabilities	**1 592**	**892**
- guarantees of which:	1 339	620
guarantees granted under a contract for the supply of electricity and finance lease liabilities of the Sierra Gorda S.C.M.	770	414
security for the payment of future environmental liabilities of the Robinson mine	236	184
security of the liabilities of the Parent Entity in case the need arises to cover the costs of decommissioning of Żelazny Most tailings pond	320	-
- promissory note liabilities	2	15
- disputed issues, pending court proceedings	49	74
- liabilities due to implementation of projects, inventions	129	123
- real estate tax on mining facilities	56	42
- other	17	18
Liabilities not recognised in the statement of financial position	**321**	**308**
- liabilities towards local government entities due to expansion of the tailings pond	211	187
- liabilities due to operating leases	110	121

39. Subsequent events

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

On 7 July 2014, at the request of KGHM Polska Miedź S.A., the bank cooperating with the Parent Entity 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 Parent Entity 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 Parent Entity 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 Parent Entity 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.

39. Subsequent events (continued)

The credit facility was granted to the Parent Entity 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 America and Japan, cooperating up to now with KGHM Polska Miedź S.A.
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 Parent Entity 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 the Parent Entity's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings pond.
The agreement was concluded 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 Parent Entity 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 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 Group and will decrease its sensitivity to changes in the copper price, enhancing the Parent Enitity'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 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 Parent Entity 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 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.

GROUP

REPORT ON THE ACTIVITIES OF THE GROUP IN THE FIRST HALF OF 2014

Lubin, August 2014

Contents of the Report on the activities of the Group in the first half of 2014 Page

1. Introduction

The KGHM Polska Miedź S.A. Group is engaged in mining operations on an international scale. Of watershed importance in the Group's development was the friendly takeover in 2012 of the Canadian company Quadra FNX Mining Ltd. (today KGHM INTERNATIONAL LTD.). As a result of this event the KGHM Polska Miedź S.A. Group has become a global company, with significant resource and production assets on three continents.

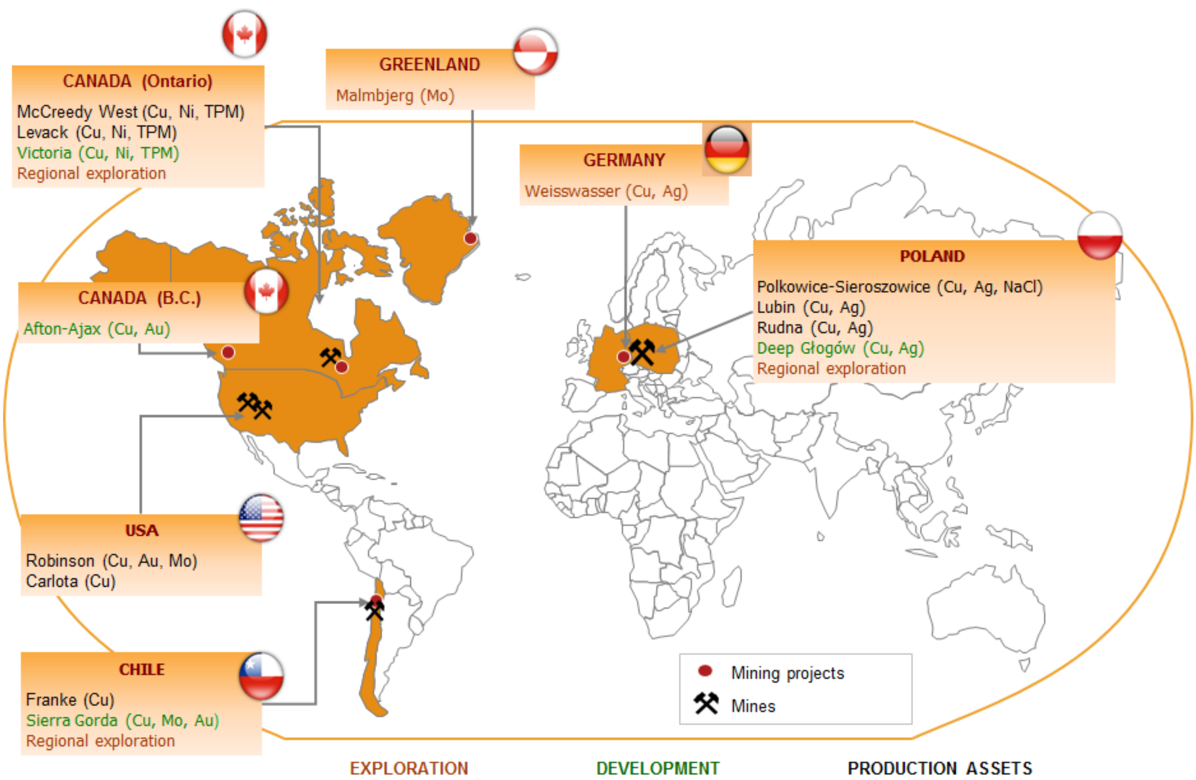
The Parent Entity of the Group is KGHM Polska Miedź S.A, which has been conducting its business, as a joint stock company, since 12 September 1991. Its legal antecedent was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin. It is a company with great traditions, rich experience and substantial achievements. The Parent Entity is an issuer of securities which have been admitted to trading on the Warsaw Stock Exchange.

The Group is one of the world leaders in the production of copper and silver. In addition, it produces gold, nickel, platinum, palladium, lead, sulphuric acid and rock salt.

Today the KGHM Polska Miedź S.A. Group holds geographically diversified mining assets located in low-risk countries. The copper ore mines operated by the Parent Entity and its projects in the pre-production stage are located in south-west Poland. Exploration projects (such as Weisswasser in Germany) are also under way in this region. The copper, nickel and precious metals mines belonging to the KGHM INTERNATIONAL LTD. Group are located in the USA, Chile and Canada. In addition, in Chile, Canada and Greenland are mine projects at the preproduction phase at varied stages of development, as well as exploration projects. The most important development project is the world-class mining project Sierra Gorda, located in Chile, comprising construction of an open-pit mine and processing plant on one of the world's largest deposits of copper ore. Sierra Gorda is a joint venture of KGHM INTERNATIONAL LTD. and companies of the Sumitomo Group.

The strategic goal of the KGHM Polska Miedź S.A. Group is to increase mined copper production to around 700 thousand tonnes annually, while respecting business ethics and corporate social responsibility, in the most environmentally-friendly manner possible.

LOCATION OF MINING ASSETS OF THE KGHM POLSKA MIEDŹ S.A. GROUP



TPM – total precious metals (gold, platinum, palladium)

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

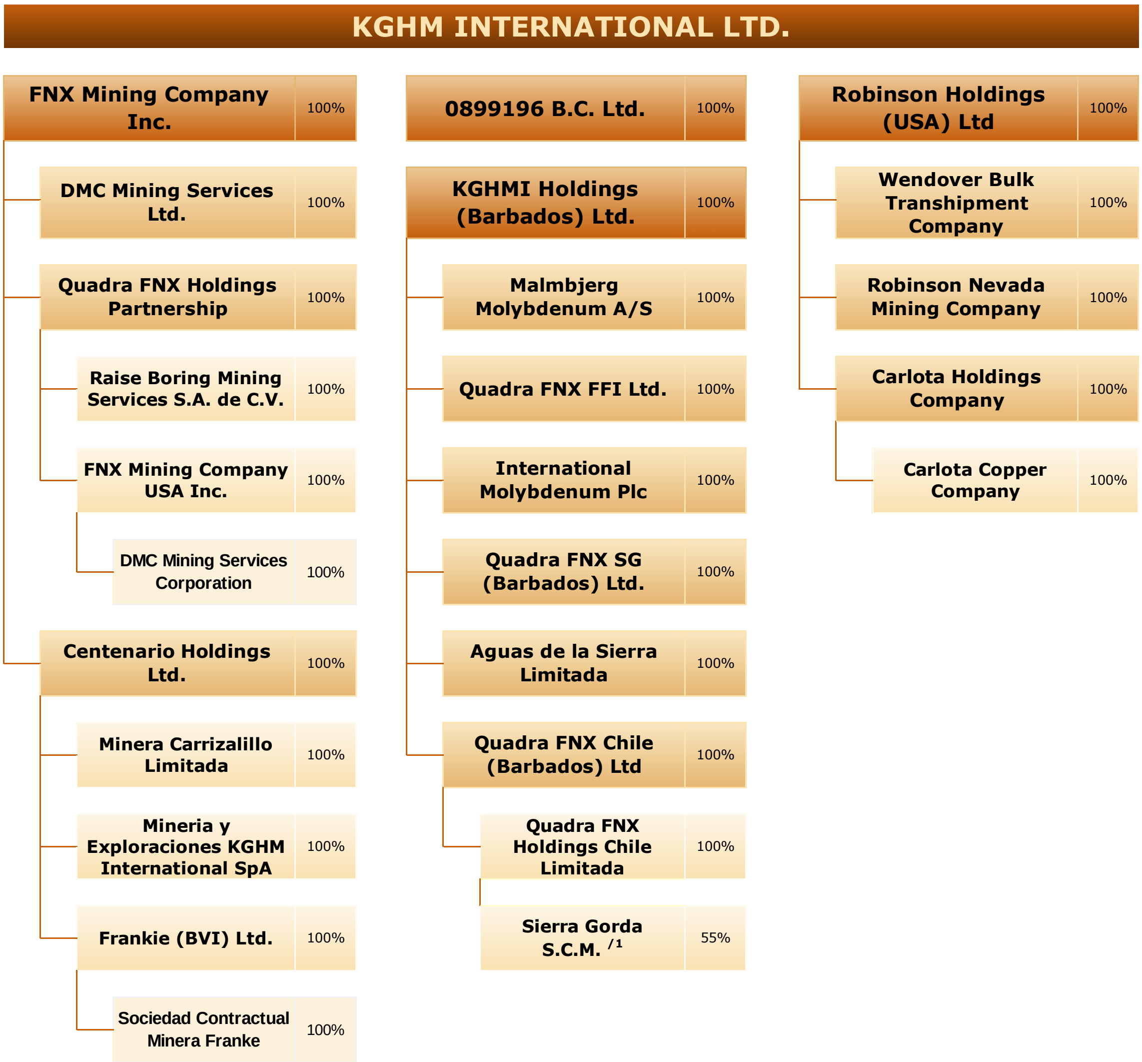
2.1. Composition of the Group

The diagram below shows the composition of the Group as at 30 June 2014. The percentage ownership shown represents the total share of the Group in the share capital of the given company. In each of the Group's companies, the share capital owned is equal to the share of the total number of votes.

Diagram 1. *KGHM Polska Miedź S.A. Group structure as at 30 June 2014*

1/ *unconsolidated subsidiary*
2/ *joint venture accounted for using the equity method*
3/ *actual Group share*

Diagram 2. *KGHM INTERNATIONAL LTD. Group structure as at 30 June 2014*



1/ joint venture accounted for using the equity method

As at 30 June 2014, the Group was composed of KGHM Polska Miedź S.A. – the Parent Entity – and 75 subsidiaries (including four closed-end, non-public investment funds). Some of these subsidiaries formed their own groups. The largest of these, both in terms of number of entities as well as amount of capital, was KGHM INTERNATIONAL LTD. It was comprised of 26 subsidiaries. At the end of the reporting period the KGHM Polska Miedź S.A. Group owned shares in three joint ventures.
During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of the Group, consolidated 74 subsidiaries, and used the equity method to account for the shares of three co-jointly-controlled entities - „Elektrownia Blachownia Nowa” sp. z o.o., Sierra Gorda S.C.M. and NANO CARBON Sp. z o.o.
The subsidiary TUW–CUPRUM was not consolidated, as the assets, revenues and financial result of this entity do not materially impact the consolidated statement of financial position and the consolidated statement of comprehensive income.

Detailed principles adopted when preparing the Consolidated Financial Statements for the first half of 2014 were presented in Note 2 of this document.

2.2. Management principles of the Group

In the first half of 2014, there were no changes in the principles for managing the Group. In terms of functioning of the management model, the following five main operating segments were identified as being subject to detailed analysis by management bodies. The identified operating segments are also reporting segments.

- **KGHM Polska Miedź S.A.**
- **KGHM INTERNATIONAL LTD. Group**

- **Sierra Gorda Project -** segment comprised of the joint venture Sierra Gorda S.C.M.,
- **Development of the resource base -** segment comprised of companies involved in the exploration for and evaluation of mineral resources, whose purpose is to conduct mining operations,
- **Support of the core business –** segment comprised of companies related to the core business of the Parent Entity,
- **Other segments -** all remaining Group companies, unrelated to the mining industry.

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

2.3. Scope of activities of Group companies

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

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

Table 1. *Scope of activities of Group companies*

Entity	Head Office Country	Activities
KGHM Polska Miedź S.A.	Poland	mining of copper ore, excavation of salt, production of copper and precious metals
„Energetyka” sp. z o.o.	Poland	generation, transmission and distribution of electrical and heating energy, water-sewage management; this company secures part of the energy supply for KGHM Polska Miedź S.A.
PeBeKa S.A.	Poland	mine construction (construction of shafts and drifts), construction of roadway/railway tunnels; specialist construction, drilling services (geological-exploration drilling); this company is the main performer of mining work for KGHM Polska Miedź S.A.
KGHM ZANAM Sp. z o.o.	Poland	production of mining machinery and equipment, construction machinery; machinery repairs; production maintenance services; execution of steel constructions; this company is a significant supplier and service provider of mining machinery for KGHM Polska Miedź S.A., and also provides production maintenance services in selected areas
KGHM CUPRUM sp. z o.o. - CBR	Poland	R&D activities; this company performs a substantial part of the design-related work for KGHM Polska Miedź S.A.
CBJ sp. z o.o.	Poland	research and chemical-physical analysis; measurement of imissions and emissions; industrial research; this company mainly provides industrial research services for KGHM Polska Miedź S.A.
INOVA Spółka z o.o.	Poland	design and production – innovative solutions in electronics, automated equipment and communication systems; certification and attestation of machinery and equipment; this company is a supplier and service provider for the underground radio communication system for the mines of KGHM Polska Miedź S.A.
KGHM Metraco S.A.	Poland	wholesale of scrap and waste, lead, non-ferrous metals, chemicals and salt; the processing of industrial acid waste to produce rhenium-based products (metallic rhenium and ammonium perrhenate), production of road-building material; the processing and recovery of metals and the processing of electrical/electronic waste; this company secures supplies of copper scrap for KGHM Polska Miedź S.A., manages and processes the industrial waste of KGHM Polska Miedź S.A. and sells to external markets the by-products of the Parent Entity's core business production
POL-MIEDŹ TRANS Sp. z o.o.	Poland	railway cargo transport, passenger and cargo road transport; trade in fuels; this company is the leading railway and roadway carrier and supplier of fuels to KGHM Polska Miedź S.A.
NITROERG S.A.	Poland	production of explosives and Nitrocet 50 as well as of detonation agents; this company supplies most of the explosives needed by the mines of KGHM Polska Miedź S.A.
PHP „MERCUS” sp. z o.o.	Poland	trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables; this company coordinates supplies for the core business of KGHM Polska Miedź S.A. in materials and spare parts

Entity	Head Office Country	Activities
NITROERG SERWIS Sp. z o.o.	Poland	comprehensive drilling and blasting work for mines, sale of explosives and detonators
CENTROZŁOM WROCŁAW S.A.	Poland	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling, sale of steel and aluminium and production of reinforcing building materials
Walcownia Metali Nieżelaznych „ŁABĘDY" S.A.	Poland	production of pressed goods from copper and its alloys; rolling services
WFP Hefra SA	Poland	production and sale of rust-proof, silver-plated and semi-silver-plated table settings
PHU „Lubinpex" Sp. z o.o.	Poland	gastronomic, commercial and catering services
PMT Linie Kolejowe Sp. z o.o.	Poland	management of railway infrastructure, maintenance of railway infrastructure, repair services
KGHM TFI S.A.	Poland	creation and management of investment funds; the company manages the closed-end investment funds in which KGHM Polska Miedź S.A. participates
INTERFERIE S.A.	Poland	sale of tourism services, including tourism-recreation, sanatorium-healing and hotel services
Interferie Medical SPA Sp. z o.o.	Poland	services respecting hotels, recreation, rehabilitation, health tourism and wellness
„BIOWIND" sp. z o.o. in liquidation	Poland	generation, transmission and distribution of electricity
WPEC w Legnicy S.A.	Poland	production of heat from its own sources, transmission and distribution of heat, servicing
Uzdrowiska Kłodzkie S.A. – Grupa PGU	Poland	spa-healing, sanatorium and tourism-recreation services; these companies are participating in the project to build a Polish Spa Group, realised by KGHM I FIZAN
Uzdrowisko Połczyn Grupa PGU S.A.		
Uzdrowisko Cieplice sp. z o.o. – Grupa PGU		
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU		
Fundusz Hotele 01 Sp. z o.o.	Poland	varied scope of activities, including: acting as holding companies, management of special purpose companies, whose subject of activities is the providing of holiday, sanatorium and spa services as well as others related to improving fitness; these companies operate within the structures of KGHM I FIZAN
Fundusz Hotele 01 Sp. z o.o. S.K.A.		
Polska Grupa Uzdrowisk Sp. z o.o.		
Polska Grupa Uzdrowisk Sp. z o.o. S.K.A.		
KGHM I FIZAN	Poland	cash investing; these funds manage the non-core assets of the Group and serve as a corporate tool to build and develop projects aimed at increasing the value of the KGHM Polska Miedź S.A. Group
KGHM III FIZAN		
KGHM IV FIZAN		
KGHM V FIZAN		
„MCZ" S.A.	Poland	hospital services; physician practice; activities related to protecting human health; occupational medicine
Zagłębie Lubin S.A.	Poland	management of a football club, organisation of professional sporting events
KGHM LETIA S.A.	Poland	operation of a technology park; promotion of scientific achievements; technology transfer; property sale and leasing
BIPROMET S.A.	Poland	design services, consulting, technical conceptual work; general realisation of investments; the company executes technical documentation for the pyrometallurgy modernisation program of KGHM Polska Miedź S.A.
Przedsiębiorstwo Budowlane Katowice S.A. in liquidation	Poland	comprehensive construction work, incl. specialist
Bipromet Ecosystem Sp. z o.o.	Poland	production, design, servicing and commercial activities; R&D and popularisation respecting heating, water-plumbing and other installations
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	China	commercial activities involving copper/silicon merchandise, mine products (copper/silicon) etc., and related services; this company is a commercial intermediary for KGHM Polska Miedź S.A. on the Chinese market
KGHM Kupferhandelsges. m.b.H.i.L	Austria	copper trade; company in liquidation

Entity	Head Office Country	Activities
KGHM Kupfer AG	Germany	exploration for and evaluation of deposits of copper and other metals; this company is realising a resource project – exploring/assessing the Weisswasser copper deposit in Germany
Fermat 1 S.à r.l.	Luxembourg	the founding, development, management or control of other companies; holding structure companies, founded in order to acquire the shares of KGHM INTERNATIONAL LTD.
Fermat 2 S.à r.l.		
Fermat 3 S.à r.l.		
KGHM AJAX MINING INC.	Canada	the exploration for and evaluation of mineral deposits; this company is realising the Afton-Ajax copper and gold resource project in British Columbia, Canada
0929260 B.C. U.L.C.	Canada	the management and control of other companies
Sugarloaf Ranches Ltd.	Canada	agricultural activities; this company owns assets in the form of land designated for future mining activities related to the Afton–Ajax project
KGHM INTERNATIONAL LTD. Group		
KGHM INTERNATIONAL LTD.	Canada	the founding, development, management or control of other companies
FNX Mining Company Inc.	Canada	mining of copper and nickel ore, production and sale of copper and nickel, this company owns underground mines: Levack/Morrison, McCreedy West in Ontario, Canada, and is realising the Victoria exploration project
DMC Mining Services Ltd.	Canada	contracted mining services
Quadra FNX Holdings Partnership	Canada	the management and control of other companies
0899196 BC Ltd.		
Quadra FNX Holdings Chile Limitada	Chile	the management and control of other companies
Minera Carrizalillo Limitada		
Aguas de la Sierra Limitada	Chile	the ownership and exercise of water rights in Chile
Mineria y Exploraciones KGHM International SpA	Chile	exploration services for the Sierra Gorda project
Sociedad Contractual Minera Franke	Chile	copper ore leaching, production and sale of copper; this company owns the open pit mine Franke in Chile,
Robinson Holdings (USA) Ltd	USA	technical and management services – for subsidiaries in the USA
Wendover Bulk Transhipment Company	USA	shipment services; this company provides shipping services for the Robinson mines
Robinson Nevada Mining Company	USA	copper ore mining, production and sale of copper; this company owns the open pit mine Robinson in Nevada
Carlota Holdings Company	USA	the management and control of other companies
FNX Mining Company USA Inc.		
Carlota Copper Company	USA	copper ore leaching, production and sale of copper; this company owns the open pit mine Carlota in Arizona
DMC Mining Services Corporation	USA	contract mining activities
KGHMI Holdings (Barbados) Ltd.	Barbados	the management and control of other companies
Quadra FNX Chile (Barbados) Ltd		
Quadra FNX SG (Barbados) Ltd.		
Quadra FNX FFI Ltd.	Barbados	financial services
Raise Boring Mining Services S.A. de C.V	Mexico	mine drilling services
Centenario Holdings Ltd.	British Virgin Islands	the management and control of other companies
Frankie (BVI) Ltd.		
Malmbjerg Molybdenum A/S	Greenland	operation and development of the Malmbjerg project involving molybdenum extraction (the company holds permits and a mining concession for the project)
International Molybdenum Plc	United Kingdom	financial services

2.4. Employment in the Group

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

Table 2. *Average employment by period (positions)*

Description	6M'2013	2013	6M' 2014	Change 2013=100
White collar employees	9 782	10 033	10 184	101.5
Blue collar employees	24 669	24 419	24 014	98.3
Total	**34 451**	**34 452**	**34 198**	**99.3**

In the first half of 2014, average employment in the KGHM Polska Miedź S.A. Group was lower versus 2013 by 254 positions, mainly due to a decrease in employment in the Parent Entity (by 183 positions) due to natural movements in staff.

Relations with the trade unions in the Group

KGHM Polska Miedź S.A.

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, the following was introduced:

- an increase by 2.4% of the basic wage rates from 1 January 2014,
- 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 salary factor for 2013 by payment of an annual bonus for 2013 increased by 0.8 percentage points, thereby equalising the salary increase factor for 2013. In realisation of this agreement, on 27 June 2014 an additional equalising annual bonus was paid for 2013 in the amount of PLN 226 million, of which PLN 14 million was in respect of the aforementioned increase in the 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.

Other Group companies

In the first half of 2014, in other domestic Group companies, there were no significant events in terms of relations with the trade unions. Companies such as: „MCZ" S.A., PeBeKa S.A. NITROERG S.A. and POL-MIEDŹ TRANS Sp. z o.o., remain in collective disputes initiated in prior years. During the reporting period actions were undertaken aimed at reaching agreements with the parties and finally concluding the collective disputes.

In the Franke mine belonging to the KGHM INTERNATIONAL LTD. Group, negotiations concluded with trade union no. 1, and a collective labour agreement was signed. Negotiations with the trade union were conducted without interruptions to the operations.

2.5. Changes in the structure of the Group, equity investments

In the first half of 2014, actions were continued within the KGHM Polska Miedź S.A. Group aimed at improving and simplifying its structure, in terms of both domestic and foreign companies. Three groups of companies were combined and the process of liquidating one entity was concluded.

Table 3. *Changes in the Group structure in the first half of 2014*

Combinations
Combination of KGHM Metraco S.A. with KGHM Ecoren S.A.
In January 2014 two domestic direct subsidiaries of KGHM Polska Miedź S.A. were 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.

Combination of companies: Centenario Holdings Ltd., Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd

In January 2014 there was a combination of four subsidiaries with their registered head offices on the British Virgin Islands belonging to the KGHM INTERNATIONAL LTD. Group: Centenario Holdings Ltd., Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd., whose activities are not related to the core business operations of KGHM INTERNATIONAL LTD. These companies were acquired by Centenario Holdings Ltd. These actions were undertaken in order to simplify the Group structure.

Combination of PHP „MERCUS" sp. z o.o. and „Mercus Software" sp. z o.o.

In March 2014 there was a combination of two subsidiaries 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 business by the COPI Division of KGHM Polska Miedź S.A., which provides IT services for the Group.

Liquidations

Liquidation of Ecoren DKE sp. z o.o.

In April 2014 the liquidation, commenced in April 2013, was completed of the indirect subsidiary Ecoren DKE sp. z o.o. along with its deregistration from the court register. (Ecoren DKE sp. z o.o. in liquidation was an indirect subsidiary of KGHM Metraco S.A.).

Equity investments

In the first half of 2014, equity investments undertaken within the Group were aimed at ensuring resources for the realisation of asset base development projects, including the key project Sierra Gorda and the projects Victoria and Afton-Ajax. Financing for these projects was through loans 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 announced by the NBP on 30 June 2014), and subsequently through an increase in the capital of companies within the holding structure.

Table 4. *Increases of share capital of Group companies in the first half of 2014*

Company	Amount*	Description
Fermat 2 S.à r.l.		During the first half of 2014 the share capital of the company was increased several times.
	USD 0.4 million (PLN 1.3 million)	Fermat 3 S.à r.l. (an indirect subsidiary of KGHM Polska Miedź S.A.) acquired shares in the increased share capital of the company in exchange for receivables on the loan granted. Next, Fermat 3 S.à r.l. sold these shares to Fermat 1 S.à r.l. (a direct subsidiary of KGHM Polska Miedź S.A.).
	USD 105.9 million (PLN 320.5 million) USD 76 million (PLN 230.2 million) USD 68 million (PLN 208.2 million)	Fermat 1 S.à r.l. acquired shares in three subsequent increases in the share capital of this company. The shares were paid for in cash. The funds obtained from this capital increase were used to increase the share capital of the company 0929260 B.C. Unlimited Liability Company, as described below. Fermat 1 S.à r.l. owns 100% of the shares of Fermat 2 S.à r.l.
0929260 B.C. Unlimited Liability Company	CAD 117.3 million (PLN 319.4 million) CAD 89.4 million (PLN 245.4 million) CAD 74.1 million (PLN 208.5 million)	During the first half of 2014 the share capital of the company was increased three times. All of the shares in the increased share capital were acquired by Fermat 2 S.à r.l. (the sole owner of 0929260 B.C. Unlimited Liability Company). The shares were paid for in cash. The funds obtained from this capital increase were used to increase the share capital of the company KGHM INTERNATIONAL LTD. and of the company AJAX MINING INC., as described below.

KGHM INTERNATIONAL LTD.	CAD 83.8 million (PLN 230.0 million) CAD 74.1 million (PLN 208.5 million)	During the first half of 2014 the share capital of the company was increased twice. All of the shares in the increased share capital were acquired by 0929260 B.C. Unlimited Liability Company (an indirect subsidiary of KGHM Polska Miedź S.A., being the sole owner of the company KGHM INTERNATIONAL LTD.). The shares were paid for in cash. The funds obtained from this capital increase were used to advance the projects Sierra Gorda and Victoria.
KGHM AJAX MINING INC.	CAD 5.6 million (PLN 15.4 million)	The share capital of the company was increased by CAD 7 million. Proportionally to the amount of share capital held, the company 0929260 B.C. Unlimited Liability Company acquired 80% of the shares in the increased share capital for the amount of CAD 5.6 million, while the remaining 20% was acquired by the company Abacus Mining & Exploration for the amount of CAD 1.4 million. The shares were paid for in cash. The funds obtained from this capital increase were used to advance the Afton-Ajax project.

* *amount of capital paid by Group companies*

In execution of obligations arising from a sales agreement with the State Treasury to submit an irrevocable purchase offer for all remaining employee shares acquired by employees during the privatisation process, all employee shares were purchased in spa companies and in CENTROZŁOM WROCŁAW S.A.

Table 5. *Acquisition of employee shares of Group companies in the first half of 2014*

Acquisition of shares
Acquisition by KGHM I FIZAN of shares from employees of spa companies
In the first half of 2014, KGHM I FIZAN acquired shares from employees of spa companies, increasing its ownership interest in the following manner: – Uzdrowiska Kłodzkie S.A. - Grupa PGU - an increase to 99.2% (i.e. by 6.6%), – Uzdrowisko Połczyn Grupa PGU S.A. - an increase to 97.7% (i.e. by 6.4%), – Uzdrowisko Cieplice Sp. z o.o. – Grupa PGU - an increase to 97.4% (i.e. by 4.7%), – Uzdrowisko Świeradów-Czerniawa Sp. z o.o. – Grupa PGU - an increase to 96.1% (i.e. by 8.4%).
Acquisition by KGHM Metraco S.A. of employee shares of CENTROZŁOM WROCŁAW S.A.
In the first half of 2014, KGHM Metraco S.A. acquired shares from employees of the company CENTROZŁOM WROCŁAW S.A. representing 0.64 % of the share capital of this company, increasing its interest from 98.64% to 99.28%. In addition, KGHM Metraco S.A. acquired a small block of shares belonging to the State Treasury.

With respect to other changes in the Group, in the first half of 2014 the company PHP „MERCUS" sp. z o.o. sold all of the shares it held in the associate PHU „Mercus Bis" sp. z o.o. (32.3 %), as a result of voluntary redemption for remuneration. PHU „Mercus Bis" sp. z o.o. was not consolidated due to its immaterial impact on the consolidated financial statements.

3. Strategy of KGHM Polska Miedź S.A.

3.1. Strategic assumptions

The Strategy of KGHM Polska Miedź S.A. for the years 2009-2018, currently in force and being pursued, was approved by the Parent Entity'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 through the optimum utilisation of natural resources. By realising the Strategy, KGHM Polska Miedź S.A. has joined the group of large global copper producers and is aiming to increase production by the KGHM Group to around 700 kt of copper annually.

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

The Strategy of KGHM Polska Miedź S.A. for the years 2009-2018 is based on five pillars, describing the main strategic initiatives:

I PILLAR

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.

II PILLAR

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.

III PILLAR

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.

IV PILLAR

Regional support

Development of social activities through the support of regional sport, protecting health, supporting the arts and sciences and environmental protection

V PILLAR

Developing organisational know-how and capabilities

through:

- management through goals,
- transparent information and data, and
- employee development in KGHM Polska Miedź S.A.

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.

3.2. Realisation of the Strategy

KGHM Polska Miedź S.A. is consistently executing its approved development strategy. Key company development initiatives are focused around three strategic 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.

IMPROVING PRODUCTIVITY

Of key significance to building the value of KGHM Polska Miedź S.A. over the long term is the continuation of activities in the copper sector as the primary source of its revenues. Of significance in terms of the Group's scale of development in this regard 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 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 the production lines whose conclusion is planned at the end of 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 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. The goal of this venture 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 core business of KGHM Polska Miedź S.A. through scientific-industrial consortiums enables the selection of promising watershed ideas for the company in terms of technology or innovative equipment to improve the core production business, and also enables the development of new, profitable materials and products which can utilised by KGHM Polska Miedź S.A. 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. Conclusion of the competition is planned for the start of 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, KGHM Polska Miedź S.A. 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 KGHM INTERNATIONAL LTD. exploratory work is being performed directly adjacent to the mining assets. This approach gives the KGHM Polska Miedź S.A. 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 resources of copper ore 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. Demonstrating the possibilities of mining the copper ore deposit in this region will 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 Parent Entity 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 KGHM Polska Miedź S.A. 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, KGHM Polska Miedź S.A. 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, to which KGHM Polska Miedź S.A. 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 terrain 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, KGHM Polska Miedź S.A. signed an Agreement with Gdańskie Zakłady Nawozów Fosforowych FOSFORY Sp. z o.o. and the company Grupa Azoty Zakłady Azotowe „Puławy" S.A. regarding assumptions for cooperation with respect to exploration for, evaluation and extraction of deposits of potassium-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.:

- **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) 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 primary 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 first half of 2014 around 1 thousand employees involved in the operations stage were employed.

In addition, work continued on the Sierra Gorda Oxide project, involving the processing of the oxide ore set aside during construction and development of the Sierra Gorda mine in an installation for recovering metal using SX/EW technology. In the first quarter of 2014, testing began on the leaching of material stored in heaps on a semi-industrial scale. The tests comprise 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 on its website, which provides for relocation of the infrastructure of the future Afton-Ajax open pit mine further away from the town of Kamloops, as well as for reduced environmental impact by the mine. The new project schedule foresees the submission of the application for an environmental permit at the end of the first quarter of 2015. It is assumed that construction of the mine will commence in mid-2016, with production of the first copper concentrate from the Afton-Ajax mine 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, 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 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.

- 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. As at the date of preparation of this report the parties were in possession of corporate permission to sign the 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 remains the receipt of a decision regarding the unconditional approval by the President of the Office of Competition and Consumer Protection (UOKiK) to carry out the concentration.

4. Activities of the Group

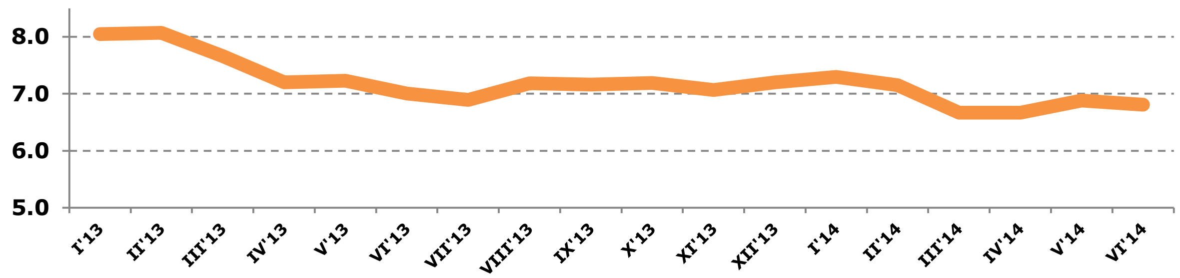
4.1. Macroeconomic sales conditions

The cash settlement price of copper on the LME in the first half of 2014 ranged from 6 400 – 7 450 USD/t. The lower prices recorded at the turn of the first and second quarters of 2014 were mainly the result of fears about continued growth in China, and therefore to the level of demand for base metals, to the reduction in positions in financial transactions hedged by metals related to the investigation in the Chinese port of Qingdao and also to 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.

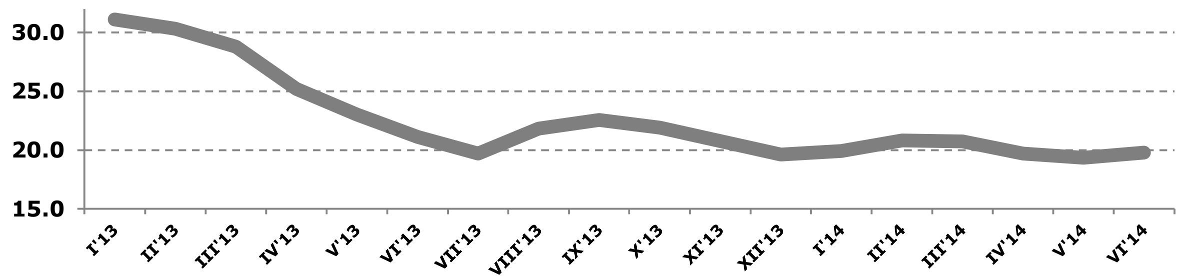
The average cash settlement price of copper in the first half of 2014 on the London Metal Exchange (LME) amounted to 6 916 USD/t and was 8% lower than in the first half of 2013, when it amounted to 7 540 USD/t.

Chart 1. *Copper prices on the LME ('000 USD/t)*



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

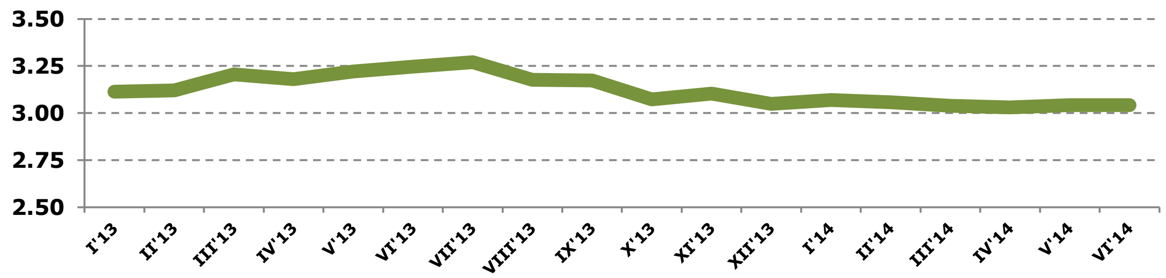
Chart 2. *Silver prices on the LBM (USD/troz)*



Macroeconomic data in the first half of 2014 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 per the NBP*



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

Table 6. *Macroeconomic factors of importance for the operations of KGHM Polska Miedź S.A.*

	Unit	2013	6M'13	6M'14	Change 6M'13=100
Average copper prices on the LME	USD/t	7 322	7 540	6 916	91.7
Average silver prices on the LBM	USD/troz	23.79	26.63	20.05	75.3
Average USD/PLN exchange rate per the NBP	PLN/USD	3.17	3.18	3.05	95.9

4.2. Basic products

The largest share in the sales of the KGHM Polska Miedź S.A. Group (88%) is from sales of the basic products produced by the Parent Entity and companies of the KGHM INTERNATIONAL LTD. Group.

Table 7. *Revenues from sales of the basic products of the KGHM Polska Miedź S.A. Group (PLN million)*

	2013	6M'2013	6M'2014	Change 6M'2013=100
KGHM Polska Miedź S.A.				
Cathodes and cathode parts	7 707	4 081	3 043	74.6
Copper wire rod and OFE rod	6 174	3 143	3 010	95.8
Other copper products	478	171	120	70.2
Total copper and copper products	**14 360**	**7 395**	**6 174**	**83.5**
Metallic silver	3 191	1 704	1 145	67.2
Metallic gold	144	60	102	170.0
Refined lead	194	105	83	79.0
Total	**17 890**	**9 264**	**7 504**	**81.0**
KGHM INTERNATIONAL LTD. Group				
Copper *	2 317	1 252	721	57,6
Nickel	211	106	97	91.5
Precious metals (gold, platinum, palladium)	385	208	106	51.0
TC/RC	(229)	**(113)**	(90)	79.6
Total	**2 683**	**1 453**	**834**	**57.4**

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

Table 8. *Volume of sales of the basic products of the KGHM Polska Miedź S.A. Group*

	Unit	2013	6M'2013	6M'2014	Change 6M'2013=100
KGHM Polska Miedź S.A.					
Cathodes and cathode parts	kt	323.2	165.7	136.4	82.3
Copper wire rod and OFE rod	kt	250.7	125.2	132.2	105.6
Other copper products	kt	20.6	6.9	6.0	87.0
Total copper and copper products	**kt**	**594.5**	**297.8**	**274.6**	**92.2**
Metallic silver	t	1 250.4	596.1	572.1	96.0
Metallic gold	kg	1 057.0	404.9	800.5	197.7
Refined lead	kt	26.7	14.1	12.1	85.8
KGHM INTERNATIONAL LTD. Group					
Copper*	kt	100.8	53.9	35.1	65.1
Nickel	kt	4.7	2.3	1.6	69.6
Precious metals (gold, platinum, palladium)	k troz	99.6	53.1	31.3	58.9

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

In the first half of 2014, total revenues from the sale of KGHM Polska Miedź S.A. basic products amounted to PLN 7 504 million and were lower by 19% than revenues achieved in the first half of 2013, mainly as a result of lower metals prices: copper on the London Metal Exchange (LME) by 8% and silver on the London Bullion Market (LBM) by 25%, to a decrease in the USD/PLN exchange rate and also to a decrease in sales volumes.

These factors led to a decrease in revenues from sales of copper and copper products and of silver respectively by 17% and 33%. Revenues from gold sales versus their level in the comparable period of 2013 were higher by 70%, due to a doubling in volume sold.

The 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 prior period PLN 166 million).

In the first half of 2014 revenues from sales of the basic products of companies belonging to the KGHM INTERNATIONAL LTD. Group, such as copper, nickel and precious metals (gold, platinum, palladium), represent 10% of revenues from metals sales by the KGHM Polska Miedź S.A. Group.

The decrease in revenues from metals sales by the KGHM INTERNATIONAL LTD. Group by 42.6% versus the comparable prior year period, was mainly due to the decrease in metals prices and in the volume of metals produced and sold.

A large portion of the remaining Polish companies of the KGHM Polska Miedź S.A. Group provide services and supply products, merchandise and materials to the Parent Entity. The largest sales outside the Group in the first half of 2014 were earned by CENTROZŁOM WROCŁAW S.A. (3.4% of Group sales). Sales of other companies did not exceed 1%.

4.3. Sales markets

60.31% of the non-current assets of the KGHM Polska Miedź S.A. Group are located in Poland. The remaining 39.69% of the non-current assets are located in the following countries: Chile – 18.67%, Canada – 13.52%, the United States – 4.66%, other countries – 2.84%.

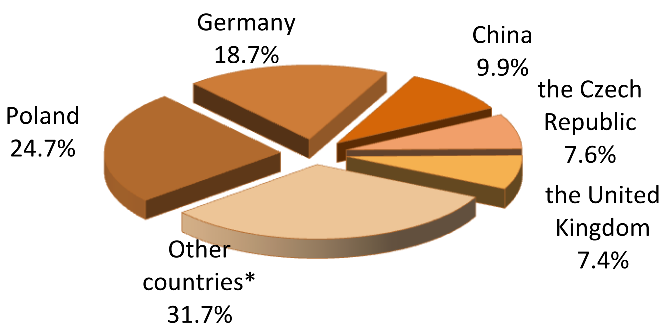
Geographical structure of sales markets

The largest part, i.e. 24.7% of the revenues from sales earned by the Group in the first half of 2014, was from the Polish market. The largest foreign recipients of the products, merchandise and services offered by Group companies were Germany, China, the Czech Republic and the United Kingdom.
Revenues from sales of the Group to external customers by geographic region are presented in the following table.

Table 9. *Group revenues from sales by market (PLN million)*

	2013	6M'2013	6M'2014	Change 6M"2013=100
Poland	4 837	2 410	2 352	97.6
Germany	4 315	2 340	1 782	76.2
China	3 379	1 399	943	67.4
the Czech Republic	1 547	830	727	87.6
the United Kingdom	2 581	1 387	709	51.1
Other countries	7 451	4 152	3 015	72.6
Total	**24 110**	**12 518**	**9 528**	**76.1**

Chart 4. *Structure of revenues by sales market in the first half of 2014*



** sales to each of the remaining countries did not exceed 5%*

<u>Sales on the Polish market</u>
Around 67% of the revenues from Group sales in the first half of 2014 on the Polish market were realised by the Parent Entity. The sales volume of copper and copper products by KGHM Polska Miedź S.A. on the Polish

market accounted for 23% of total copper sales. Silver sales on the Polish market accounted for 1% of the total volume of silver sales.

Revenues of other companies which are significant in the revenues of the KGHM Polska Miedź S.A. Group on the Polish market are from CENTROZŁOM WROCŁAW S.A. (12%), whose business involves trade in scrap and smelter products. The share of other companies did not exceed 3%.

Sales to other countries
Around 84% of revenues from sales of the KGHM Polska Miedź S.A. Group to other countries in the first half of 2014 were realised by the Parent Entity. The sales volume of copper and copper products accounted for 77% of total copper sales. During the analysed period, the largest recipients of the copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and France. Silver sales accounted for 99% of the total volume of silver sales. The largest recipients of the silver produced by KGHM Polska Miedź S.A. were the United Kingdom, Australia and Belgium.

Companies belonging to the KGHM INTERNATIONAL LTD. Group realised altogether approx. 13.9% of revenues from sales of the KGHM Polska Miedź S.A. Group to other countries. The main recipients of the products produced by these entities were Canada, China and the USA.

Suppliers to and customers of Group companies

In the first half of 2014, there was no recorded dependence in the Group on a single or multiple customers or suppliers - revenues from no single contracting party exceeded 10% of the Group’s revenues.

4.4. Contracts of significance for the Group

In the first half of 2014, Group companies entered into one contract, whose value exceeded 10% of the equity of KGHM Polska Miedź S.A. On 30 January 2014 an appendix was signed to a comprehensive contract for the purchase of fuel gas, entered into on 30 July 2010 between KGHM Polska Miedź S.A. and Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG). The contract from 2010 involves the purchase of natural gas for power generation purposes – to supply two gas-steam blocks, each of approx. 45 MWe, and is valid to 30 June 2033. Based on the annex, the annual volume to be supplied was reduced from 266 million m^3 to 41.5 million m^3. This change is due to the limitation by KGHM Polska Miedź S.A. in the generation of electricity in association with heat production due to changes in the system of support for cogeneration in 2013 as well as to low electricity prices. The estimated value of this contract after signing the annex is approx. PLN 830 million. The parties do not preclude a return to the initial volume of supply following improvements in the regulatory environment and in macroeconomic conditions.

Also, annexes were signed for three other contracts for the purchase of fuel gas by KGHM Polska Miedź S.A. from PGNiG: a contract dated 25 September 2001, a contract dated 4 January 1999, and a contract dated 1 October 1998. The only change in these contracts involved their period of validity, which was changed from being undefined to 30 June 2033. The estimated value of the three contracts during their period of validity is approx. PLN 2.8 billion and exceeds 10 % of the Parent Entity'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.

This change secures long term cooperation with the main supplier of fuel gas, i.e. PGNiG with respect to the purchase of nitrogen-rich natural gas.

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

In the first half of 2014, neither the Parent Entity nor subsidiaries entered into transactions between related entities under other than arm’s length conditions.

4.5. 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 disputed issues did not exceed 10% of the equity of the Parent Entity.

Value of proceedings involving receivables in the first half of 2014:

- proceedings by KGHM Polska Miedź S.A. amounted to PLN 58 million,
- proceedings by subsidiaries amounted to PLN 59 million.

Value of proceedings involving liabilities in the first half of 2014:

- proceedings against KGHM Polska Miedź S.A. amounted to PLN 179 million,
- proceedings against subsidiaries amounted to PLN 85 million.

The largest on-going proceedings involving the receivables and liabilities of KGHM Polska Miedź S.A. and subsidiaries are presented in the following table.

Table 10. *Largest on-going proceedings by and against KGHM Polska Miedź S.A. and its subsidiaries at the end of the first half of 2014*

Proceedings involving liabilities
Setting additional royalties for the extraction of copper ore for the period from the start of 2006 to the end of the 3rd quarter of 2011 The municipalities (Gminas) of Polkowice, Lubin, the City of Lubin, Radwanice and Jerzmanowa submitted requests to the Minister of the Environment to open administrative proceedings to set royalties for the extraction by KGHM Polska Miedź S.A., for the period from the start of 2006 to the end of the 3rd quarter of 2011, of copper ore from deposits located in these municipalities and to allow them to participate as parties in these proceedings. The municipalities have charged that KGHM Polska Miedź S.A. lowered the amount of royalties paid on extracted non-balance copper ore in the total amount of PLN 90 million, including that portion payable to the municipalities in the amount of PLN 54 million, with the remainder representing payments to the National Fund for Environmental Protection and Water Management. The Minister of the Environment, in decisions dated 11 April 2012, discontinued the proceedings on the grounds that they were groundless. The municipalities submitted appeals dated 26 April 2012 to the Minister of the Environment to reopen these proceedings. By decisions from 2012 the Minister of the Environment upheld the appealed decisions. The municipalities submitted claims against the decisions of the Minister of the Environment to the Regional Administrative Court, which in judgments dated 31 January 2013 dismissed the charges of the municipalities. In April 2013 the municipalities Polkowice, Jerzmanowa, Lubin and the City of Lubin submitted cassation appeals to the judgments to the Supreme Administrative Court. A hearing date for the cassation appeals has not been set. The judgment of the Regional Administrative Court dated 31 January 2013, dismissing the claims by the municipality of Radwanice, became legally binding on 12 April 2013. In the company's opinion the cassation appeals of the four municipalities 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. 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 by the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project.
Payment of remuneration or contractual penalties Value of amount under dispute: PLN 20 million. In a claim from April 2012, filed against „Energetyka" sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.), liquidation receiver Gross-Pol Sp. z o. o. is demanding payment of remuneration or contractual penalties due to the execution of five contracts entered into in the years 2007, 2008 and 2009. „Energetyka" sp. z o.o., in a response to the claim dated 10 September 2012, requested the dismissal of the claim in its entirety, citing their claim and evidence for its support. The parties petitioned for evidence to be presented in the form of testimony by witnesses and in the form of court experts from various fields. The Court set the date for the next hearing at 19 August 2014. In the company's opinion the probability of the claims being adjudicated against the company is very low.
Payment of contractual penalties Amount under dispute: PLN 19 million. The Capital City Warsaw, in a suit filed 12 March 2013, is seeking the payment of contractual penalties from Przedsiębiorstwo Robót Górniczych „Metro" Sp. z o. o. and from PeBeKa S.A. (a subsidiary of KGHM Polska Miedź S.A.) – as leader of the consortium due to failure to perform remediation work during construction of a Metro station on time. PeBeKa S.A. has charged that the Capital City Warsaw cannot act as plaintiff in the suit as the entity Metro Warszawskie is the actual investor, and has requested the court to order the company BEM Brudniccy z o. o. (subcontractors) to take part in the proceedings, as it was this company which performed the remediation work. In the opinion of PeBeKa S.A. it is possible that the imposition of contractual penalties may be waived due to the lack of possibility remediating defects caused by unfavourable atmospheric conditions, or that contractual penalties may be imposed in an amount up to PLN 0.5 million, representing 10% of the value of the faulty work. At a hearing on 12 November 2013 the District Court ordered the appointment of a court expert. The opinion of the court expert confirmed the lack of possibility to remediate the defects due to the unfavourable atmospheric conditions. The parties to the proceedings decided to work out an agreement. The terms of this agreement are currently being determined. Proceedings are in progress.

Return of costs of protecting against mining damage

Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the 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 respecting the amount of PLN 307 thousand, and the plaintiff respecting 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.

Proceedings involving receivables

Return of undue royalties for use of invention project no. 1/97/KGHM

In January 2008 KGHM Polska Miedź S.A. filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 million for use of invention project no. 1/97/KGHM in the 6th and 7th periods (calendar years 2004 – 2005). The court has combined both these matters: the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, with the claims of KGHM Polska Miedź S.A. for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 million, for joint hearing.

In the Parent Entity's opinion the payment of royalties to the project's authors was unfounded.

Proceedings are in progress.

Return of excise tax

Value of amount under dispute: PLN 18 million. „Energetyka" sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Regional Administrative Court against a decision of the Director of the Customs Office setting excise taxation from January 2006 to February 2009. The Regional Administrative Court, in a judgment from October 2011, reversed the decision appealed by the subsidiary, and ordered compensation to be paid to the subsidiary in the amount of PLN 107 thousand.

The Director of the Customs Office and „Energetyka" sp. z o. o. in December 2011 filed cassation appeals to the Supreme Administrative Court. The court upheld the cassation appeal of „Energetyka" sp. z o.o. In a judgment dated 27 November 2013, it reversed the appealed judgment and ordered the matter to be re-heard by the Regional Administrative Court.

Proceedings are in progress.

Return of excise tax

Amount under dispute: PLN 13 million. POL-MIEDŹ TRANS Sp. z o. o. (a subsidiary of KGHM Polska Miedź S.A.) filed a claim with the Regional Administrative Court against a decision of the Director of the Customs Office setting excise taxation for individual months from March to December 2003.

The Regional Administrative Court, in judgments from April, May and June 2011, dismissed the claims. POL-MIEDŹ TRANS Sp. z o.o. filed cassation appeals against the judgments to the Supreme Administrative Court, which reversed the judgments of the Regional Administrative Court and ordered the matter to be re-heard by the Regional Administrative Court.

The Regional Administrative Court, in a hearing on 16 January 2014, reversed all of the judgments of the Director of the Customs Office for the period from March to December 2003.

As at 30 June 2014, the Director of the Customs Office had not issued an opinion in matters regarding excise tax liabilities for the months from March to November 2003. In the matter regarding December 2003, the Director of the Customs Office, by a decision dated 28 May 2014, reversed the decision of the Head of the Customs Office and set tax liabilities for December 2003 in the amount of PLN 127 thousand.

On 27 June 2014, POL-MIEDŹ TRANS Sp. z o. o. submitted a complaint to the Regional Administrative Court on the aforementioned decision of the Director of the Customs Office regarding excise tax for December 2003.

4.6. Capital expenditure

In the first half of 2014, capital expenditures in the Group amounted to PLN 1 504 million, and were higher by PLN 217 million (by 17%) than those incurred in relation to the comparable prior year period. This was mainly due to the increase in capital expenditures in the KGHM INTERNATIONAL LTD. Group by PLN 139 million (73%) and in the Parent Entity by PLN 133 million (15%). The scope of realised investments is presented below.

In addition, the most important project realised by the Group was the Sierra Gorda project in Chile, being developed as a joint venture of KGHM INTERNATIONAL LTD. (55%) and companies of the Sumitomo Group (45%). The share of KGHM INTERNATIONAL LTD. in the capital expenditures incurred on this project in the first half of 2014 amounted to PLN 1 761 million. Detailed information on realisation of this project may be found in points 3.2 and 5.1. of this report.

The following table shows those Group subsidiaries which incurred the highest capital expenditures in the first half of 2014.

Table 11. *Highest capital expenditures in KGHM Polska Miedź S.A. Group in the first half of 2014 (PLN million)*

Company	expenditures	task/facility
KGHM Polska Miedź S.A.	1 026	— Construction of the SW 4 shaft, — Głogów Głęboki–Przemysłowy (Deep Głogów), — Modernisation and replacement of the machinery park in the mines, — Development of the infrastructure of the mining sections, — Modernisation of classification units, — Tasks performed under resource base development: Exploration and documentation of the Synklina Grodziecka area, Assessment of the possibility of mining the Radwanice-Gaworzyce deposit, Exploration and assessment of the Konrad copper ore deposit, — Realisation of facilities related to improving and maintaining the operational safety of the Żelazny Most tailings pond and to eliminating its environmental impact, — Development of the Żelazny Most mining tailings treatment pond (to ensure the ability to store floatation tailings after 2016), — Mechanical ore mining program, — Pyrometallurgy Modernisation Program, — Construction of Gas-Steam Blocks at the power plants in Głogów and Polkowice,
KGHM INTERNATIONAL LTD. Group	330	— Robinson mine – pre-stripping to access ore, — Development of lower areas of Morrison deposit in the Levack/Morrison mine in Canada – development work and drilling, — Victoria project – exploration project on an ore deposit of copper, nickel and precious metals in the Sudbury Basin in Canada, realised by FNX Mining Company Inc. (project described in point 5.1. of this report),
AJAX MINING INC.	65	— Afton-Ajax project – project to mine a copper and gold deposit in Canada (project described in point 5.1. of this report).

4.7. Risk management

Comprehensive Risk Management System in the KGHM Polska Miedź S.A. Group

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 applied in terms of responses to individual risks.

Under the Corporate Risk Management Policy and Procedure and 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 various areas of the Group's operations are continuously identified, assessed and analysed in terms of their possible limitation.

Key risks undergo in-depth analysis in order to develop a Risk Response Plan 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 Section.

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, and
– Financial Liquidity Management Policy.

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

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

Management

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.

2nd line of defense

Risk Committees

Supports effective risk management and ongoing supervision of key risks.

Market Risk Committee	Credit Risk Committee	Corporate Risk Committee	
Manages risk of changes in metals prices (e.g.: copper and silver) as well as exchange and interest rates	Manages risk of failure of debtors to meet their obligations	Manages corporate risk and continuously monitors key risks	Management of liquidity risk, understood as the ability to pay financial liabilities on time and to gain resources to finance its activities
Market Risk Management Policy	*Credit Risk Management Policy*	*Corporate Risk Management Policy*	*Liquidity Management Policy*
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***

3rd line of defense

Internal Audit

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.

Internal Audit Rules

Internal Audit and Control Department

Reports to the President of the Management Board

Financial risk management

The goal of financial risk management in the KGHM Polska Miedź S.A. Group is to restrict the undesired impact of financial factors on cash flow and results in the short and medium terms and to build Group 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. In the first half of 2014, the Group was exposed to the main financial risks i.e. market risk, credit risk and liquidity risk.

The Parent Entity, based on the adopted Market Risk Management Policy, Liquidity Risk Management Policy and Credit Risk Management Policy, manages the identified types of financial risk in a conscious and responsible manner. The process of financial risk management in the Parent Entity is supported by the Market Risk Committee and the Credit Risk Committee.

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, in which key tasks were centralised related to the process of market risk management (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).

Management of financial liquidity in the Parent Entity is performed pursuant to the Management Board-approved Liquidity Risk Management Policy. In KGHM INTERNATIONAL LTD., the principles of financial risk management have been set forth in the Investment Policy. These documents describe the process of financial liquidity management considering the nature of Group companies, based on best practice for the procedures and instruments. The Parent Entity supervises the process of liquidity management and arranging external financing in the Group.

In the remaining Group companies, financial risk management is regulated by internal policies which are in conformance with the documents in force in the Parent Entity.

Market risk management

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

Commodity risk, Currency risk

In the first half of 2014, the companies of the Group were mainly exposed to the risk of changes in the prices of metals sold: copper, silver, lead, nickel, gold, platinum, palladium, and molybdenum. The market risk related to changes in metals prices is the result of the formulas for setting prices in physical metals sales contracts, which are usually based on average monthly exchange prices from the respective 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 addition, the companies of the Group were exposed to currency risk, related to volatility in cash flows or carrying amounts in the functional currency. A key source of exposure to currency risk in the business operations of the Parent Entity are flows from the sale of products (in that part related to metals prices and to producer and processing premiums).

In accordance with the Market Risk Management Policy, in the first half of 2014 the Parent Entity continuously identified and measured market risk related to changes in metals prices and exchange rates. Monitoring the size of market risk in the Parent Entity is based on analyses of the impact of market risk factors on the results, among others using the market risk measure Earnings-at-Risk, based on Corporate Metrics methodology. For selected mining companies of the Group, EBITDA-at-Risk analysis is performed.

The Parent Entity in addition continuously analysed the metals and currency markets. These analyses, along with assessment of the Parent Entity's internal situation as well as that of selected mining companies, represented the basis for taking decisions on the appliction of hedging strategies on the metals and currency markets.

In the first half of 2014, the Parent Entity 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 of the Parent Entity for 2015 by reselling purchased put options with a strike exchange rate of USD/PLN 3.40 from the collar structure, in 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 transactions was reflected in the revaluation reserve from the measurement of derivatives in the amount of PLN 93 million, which will increase revenues from sales for 2015. In case of a significant strengthening of the Polish currency, revenues from sales will still be hedged for the same notional as they were before restructuring.

Due to the fact that a portion of the expenditures on the Sierra Gorda project are incurred in the Chilean peso, in January 2014, KGHM INTERNATIONAL Ltd. purchased put options with a strike exchange rate of USD/CLP 525 for the notional amount of USD 200 million for the first quarter of 2014. The purpose of entering into derivatives transactions was to limit the risk of a strengthening of the Chilean peso versus the USD. These options expired unrealised.

Some of the Polish companies managed their currency risk related to their core business by entering into derivatives transactions on the USD/PLN and EUR/PLN markets.

In the first half of 2014, the total impact of derivatives on profit or loss in the Group amounted to 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 17 million, and the loss from the measurement of derivatives amounted to PLN 87 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 amounted to PLN 313 million (of which: embedded derivatives in contracts for the supply of acid and water, PLN 20 million), while PLN 474 million was recognised in the revaluation reserve from the measurement of derivatives.

Interest rate risk

Interest rate risk is the possibility of the negative impact of changes in interest rates on the Group's results. In the first half of 2014, the Group was exposed to this risk mainly due to bank loans drawn and to cash invested on deposits.

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

- cash and cash equivalents PLN 1 007 million,
- bank loans PLN 1 628 million,

The Group financed its activities using bank credit, in the form of investment bank loans as well as working capital facilities and overdraft facilities, with interest based on variable WIBOR, LIBOR, EURIBOR plus a margin.

The Group, in the reporting and comparable periods, did not use instruments to hedge against interest rate risk.

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

As at 30 June 2014, the Group held United States government bonds in the amount of PLN 53 million, i.e. USD 17 million, which are only minimally exposed to price risk.

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

Due to investments in listed companies the Group 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 Group is exposed to the risk of changes in profit or loss.

As at 30 June 2014, the carrying amount of the shares of companies held by the Group which are listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 1 009 million.

Credit risk management

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

In the first half of 2014, the Group 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.

Credit risk related to trade receivables

Group companies have been cooperating for many years with a large number of customers, which affects the geographical diversification of trade receivables.

The Parent Entity 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 Parent Entity 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 Parent Entity 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 Parent Entity 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 Parent Entity had secured 93% of its trade receivables (as at 31 December 2013: 74%).

The concentration of credit risk in the Group 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 Group's largest clients, in terms of trade receivables at the end of the reporting period, represented 40% of the trade receivables balance (as at 31 December 2013: 49%). Despite the concentration of this type of risk, it is believed that due to the availability of historical data and the many years of experience cooperating with its clients, as well as due to the hedging used, the level of credit risk is low.

Credit risk related to derivative transactions

All of the entities with which the Group enters into derivative transactions operate in the financial sector. These are mainly financial institutions, with the higher 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 Group 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 Group is not materially exposed to credit risk as a result of derivative transactions entered into.

Credit risk related to cash and cash equivalents and bank deposits

The Group 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.

In the Parent Entity and KGHM INTERNATIONAL LTD. credit risk related to the allocation of cash and cash equivalents is continuously monitored through the on-going review of financial standing and by maintaining an appropriately low level of concentration in individual financial institutions.

Credit risk related to loans granted

As at 30 June 2014, the balance of loans granted by the Group amounted to PLN 4 523 million (i.e. USD 1 489 million). These are mainly long-term loans based on a fixed interest rate, granted by the KGHM INTERNATIONAL LTD. Group for the financing of a joint mining venture in Chile.

Credit risk related to the loan granted is dependent on the risk connected with mine project realisation and is considered to be moderate.

Credit risk related to investments in debt securities

As at 30 June 2014, under the mine closure assets of KGHM INTERNATIONAL LTD., the Group held United States government bonds with a carrying amount of PLN 53 million (i.e. USD 17 million).

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

Financial liquidity and capital management

Capital management is aimed at maintaining continuous financial liquidity in each period. The Group 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 management

Financial liquidity is managed in the Parent Entity in accordance with the Management Board-approved Financial Liquidity Management Policy. In KGHM INTERNATIONAL LTD., the principles of liquidity management have been set forth in the Investment Policy. These documents describe the process of financial liquidity management considering the nature of Group companies, indicating best practice procedures and instruments.

The basic principles resulting from these documents 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.

To support financial liquidity, in the first half of 2014 the Group benefited from the external financing to a substantial degree in the form of bank loans, including investment bank loans, working capital facilities and overdraft facilities as well as issued bonds.

As at the end of the reporting period, the Group held open lines of credit available in PLN, USD and EUR. Interest is based on variable WIBOR, LIBOR and EURIBOR rates plus a margin.

As at 30 June 2014, borrowing liabilities of the Group amounted to PLN 1 628 million.

KGHM INTERNATIONAL LTD. uses external financing in the form of long term debt bonds with a carrying amount of PLN 1 538 million (nominal value of the bonds: USD 493 million) with maturity falling in 2019, and with the opportunity for early redemption at their nominal price, plus a premium if redemption is made prior to 15 June 2017.

The Parent Entity 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.

As at 30 June 2014, 26 companies and the Parent Entity as coordinator were participants in the cash pool structure, while the total available facility limit under this service amounted to PLN 613 million.

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

Capital management

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

The Group assumes that the equity ratio will 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.

5. Review of financial position

5.1. Operating segments

Within the activities of the KGHM Polska Miedź S.A. Group five operating segments have been identified which are analysed in detail by management bodies. The identified operating segments are simultaneously reporting segments:

1/ **KGHM Polska Miedź S.A.**,

2/ **KGHM INTERNATIONAL LTD. Group**,

3/ **Sierra Gorda Project,**

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

5/ **Support of the core business** - segment comprised of companies directly related to the core business of the Parent Entity,

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

KGHM POLSKA MIEDŹ S.A.

The Parent Entity represents the most important production segment in the Group. At the end of the first half of 2014 the assets of KGHM Polska Miedź S.A. represented 84% of the assets of the Group.

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

The mining assets of KGHM Polska Miedź S.A. are comprised of deposits of copper ore which are extracted by the following mines: ”Lubin”, ”Polkowice-Sieroszowice” and ”Rudna”, as well as a pre-production mine project: “Głogów Głęboki Przemysłowy” (Deep Głogów). KGHM Polska Miedź S.A. also owns exploration projects involved in the exploration for and evaluation of deposits of copper ore in the region.

Processing of the copper ore extracted and the production of copper concentrate is performed by the Concentrator Division, comprised of three installations located at each of the mines “Lubin”, “Polkowice-Sieroszowice” and “Rudna”. The production of electrolytic copper, silver and other products produced from copper concentrate takes place at two metallurgical facilities, the Głogów and Legnica smelters, while numerous products are produced at the Cedynia wire rod plant from the electrolytic copper, including various types of wire rod and granulate.

KGHM Polska Miedź S.A. conducts mining and exploration activities on one of the largest copper ore deposits in the world. The copper ore owned ensures continuity of operations in Poland for the next 40 years.

Production and operating results

Table 12. *Production results (metallurgical production) of KGHM Polska Miedź S.A.*

	Unit	2013	6M'2013	6M'2014	Change 6M'2013=100
Payable copper	kt	565.2	286.0	282.9	98.9
- incl. from purchased copper-bearing materials	kt	134.8	72.7	73.1	100.6
Wire rod, OFE and CuAg rod	kt	243.7	124.5	137.4	108.2
Round billets	kt	17.0	8.2	1.8	22.0
Metallic silver	t	1 161	543.8	605.5	111.3
Metallic gold	kg	1 066	353	812	x 2.3
	k troz	34.3	11.3	26.1	x 2.3
Refined lead	kt	26.6	14.2	12.7	89.4

In the first half of 2014, in relation to the comparable prior year period, electrolytic copper production decreased by 3.1 kt (1.1%) due to lower processing of own concentrate and to an increase in anode inventories which are crucial for maintaining production during the maintenance shutdown at the Legnica smelter (maintenance scheduled from 29 August to 6 October 2014).
The production of metallic silver in the first half of 2014 versus the comparable prior year period was higher by 62 t (11%) 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 results from the processing of a greater amount of imported purchased concentrates with a significantly higher gold content than in the case of own concentrates.
The level of production of copper products – wire rod, round billets, oxygen-free rod and copper grains – is based on market demand.

Table 13. *Cash cost of producing copper in KGHM Polska Miedź S.A.*

	Unit	2013	6M'2013	6M'2014	Change 6M'2013=100
Cash cost of producing copper – C1*	USD/lb	1.78	1.73	1.79	103.5
Production of payable copper in concentrate	kt	428.9	216.6	216.0	99.7

* *unit cost of producing copper C1 - 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*

C1 cost expressed in USD/lb was adversely impacted by the strengthening of the zloty versus the USD from a level of 3.18 USD/PLN in the first half of 2013 to 3.05 USD/PLN in the first half of 2014 and the decrease in silver prices by 25% and gold by around 15%. Under the metals prices and USD exchange rate from the first half of 2013, the cost in the first half of 2014 would be 1.62 USD/lb and would be 6% lower than achieved in the prior year.

Table 14. *Results of the operating segment KGHM Polska Miedź S.A. (PLN million)*

	2013	6M'2013	6M'2014	Change 6M'2013=100
Sales	18 579	9 503	7 727	81.3
Operating costs	(13 970)	(6 925)	(6 127)	88.5
Operating profit	4 208	2 391	1 546	64.7
Profit for the period	**3 058**	**1 725**	**1 119**	**64.9**
Depreciation	768	418	419	100.2
Capital expenditure*	2 356	893	1 026	114.9
EBITDA	**4 976**	**2 809**	**1 965**	**70.0**

* *expenditures on property, plant and equipment and intangible assets*

In the first half of 2014, revenues from the sale of KGHM Polska Miedź S.A. products were lower than revenues achieved in the comparable prior year period by PLN 1 776 million, i.e. by 19%, mainly as a result of lower copper and silver prices, a lower USD/PLN exchange rate and a lower 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).

The decrease in basic operating costs by PLN 798 million (11.5%) was mainly caused by the lower costs of purchased copper-bearing materials, the value of which was based on lower metals prices and the lower USD/PLN exchange rate as well as to the lower minerals extraction tax due to the decrease in the price of copper, alongside a similar level of production of copper in concentrate.

In the first half of 2014, KGHM Polska Miedź S.A. realised a profit in the amount of PLN 1 119 million, meaning a decrease by PLN 606 million (35%) with regard to the result achieved in the comparable prior year period. This result was mainly caused by market factors.

KGHM INTERNATIONAL LTD. GROUP

This segment comprises the company KGHM INTERNATIONAL LTD. and its 25 subsidiaries, presented in diagram 2 of this report. In this group, apart from companies fulfilling an operational role, are also companies created to optimise functionality.

KGHM INTERNATIONAL LTD. has been a subsidiary of KGHM Polska Miedź S.A. since March 2012. Until control was gained by KGHM Polska Miedź S.A. the company had been listed on the Toronto stock exchange (its previous name Quadra FNX Mining Ltd).

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

This segment comprises the operation of functioning mines extracting copper (and other metals) located in Canada (McCreedy West, Levack – with the Morrison deposit), in the USA (Robinson and Carlota) and in Chile (Franke), pre-operational mining projects at various stages of development (Victoria in Canada and Malmbjerg in Greenland) as well as exploration projects (Kirkwood, Falconbridge and Foy in the Sudbury region of Canada).

Companies of the KGHM INTERNATIONAL LTD. Group also provide services under the brand DMC Mining Services in shaft sinking, development work, above-ground and underground mine facilities, drilling, civil underground construction, and feasibility analyses and design work.

Under the segment KGHM INTERNATIONAL LTD., as an investment accounted for using the equity method, was shown the share of the Group (55%) in the Sierra Gorda project. This project, due to its importance, represents a separate operating segment.

Production and operating results

Table 15. *Production results of KGHM INTERNATIONAL LTD.*

	Unit	2013	6M'2013	6M'2014	Change 6M'2013=100
Robinson mine					
Payable copper	kt	48.9	30.5	18.9	62.2
Precious metals (gold)	k troz	45.1	30.4	12.1	39.8
Carlota mine					
Payable copper	kt	9.7	5.2	5.2	100.0
Franke mine					
Payable copper	kt	19.9	8.8	9.3	105.7
Levack/Morrison mine					
Payable copper	kt	18.8	7.8	7.4	94.9
Nickel	kt	2.9	1.2	1.3	108.3
Precious metals*	k troz	44.5	15.7	19.8	126.1
McCreedy mine					
Payable copper	kt	1.4	0.9	0.6	66.7
Nickel	kt	1.7	1.0	0.3	30.0
Precious metals*	k troz	4.0	2.7	1.7	63.0
Podolsky mine**					
Payable copper	kt	2.1	1.9	-	X
Nickel	kt	0.1	0.1	-	X
Precious metals*	k troz	4.7	4.2	-	X
Total Mines					
Payable copper	kt	100.8	55.1	41.5	75.3
Nickel	kt	4.7	2.3	1.6	69.6
Precious metals*	k troz	98.3	53.0	33.6	63.4

**precious metals – gold, platinum, palladium*

*** mine closed in 2013*

The decrease in copper production by 13.6 kt (24.7%) with regard to the first half of 2013 was mainly due to the Robinson mine, which accounts for nearly half of the production by the KGHM INTERNATIONAL LTD. Group. At the beginning of 2014 the mine had to deal with numerous problems of a geological and technical nature. Moreover, due to a delay in the granting of water and environmental permits, the Robinson mine excavated lower quality ore from the Kimbley pit. These factors led to a significant deterioration in flotation and processing parameters, and consequently to a drastic decrease in the amount of concentrate produced. It should be noted that as a result of actions taken, based among others on the mixing of copper-bearing material from various pits, there was a substantial improvement in parameters, and consequently there was an increase in the production of payable copper by Robinson of 44%, i.e. from 7.8 kt in the first quarter to 11.2 kt in the second quarter of 2014.

When comparing comparable periods, it is important to note that at the start of 2013 the Robinson mine was working the rich orebody in the Ruth pit, which led to the achievement of high production results, substantially above those achieved in the first half of 2014.

With respect to the other mines, the volume of copper production remained at either a similar level or at one only slightly lower than in the prior year. The exception was the Podolsky mine, which at the end of the first quarter of 2013 ceased extraction operations due to the exhaustion of economically viable resources.

The decrease in precious metals production by 19 ktroz (36.6%), including mainly gold, was also due to the aforementioned situation at Robinson.

The decrease in nickel production by 0.7 kt (30%) was due to the lack of sufficient processing capacity by a customer of the McCreedy mine and the cessation of extraction by the Podolsky mine, alongside an increase in extraction by the Levack/Morrison mine.

Table 16. *Cash cost of producing copper in KGHM INTERNATIONAL LTD.*

	Unit	2013	6M’2013	6M’2014	Change 6M’2013=100
Cash cost of producing copper – C1*	USD/lb	2.15	2.13	2.35	110.3
Production of payable copper sold	kt	100.8	53.9	35.1	65.1

*** -** *unit cost of producing copper C1 - 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*

After the first six months of 2014 the C1 cost in KGHM INTERNATIONAL LTD. amounted to 2.35 USD/lb and was higher by 10% than that achieved in the comparable prior year period of 2013. Amongst the main causes of this increase in unit cost were the following:

– the aforementioned deterioration of technological parameters at Robinson, adversely impacting the amount of production sold and the cost of processing ore,
– the decrease in revenues from sales of precious metals due to lower metals prices and to lower gold production at Robinson (the value of by-products decreases the cost of Cu production).

At the Robinson mine, which has the greatest impact on the level of unit cost in the KGHM INTERNATIONAL LTD. Group, C1 cost increased from 1.71 USD/lb in the first half of 2013 to 2.82 USD/lb in the first half of 2014. However, aggregate C1 cost for the remaining mines decreased by 23.5%.

Table 17. *Results of the operating segment KGHM INTERNATIONAL LTD. (PLN million)**

	2013	6M’2013	6M’2014	Change 6M’2013=100
Sales	3 364	1 886	996	52.8
Operating costs	(3 287)	(1 680)	(1 055)	62.8
Operating profit	212	209	94	45.0
Profit for the period	**30**	**53**	**5**	**9.4**
Depreciation	536	221	202	91.4
Capital expenditure**	577	191	330	172.8
EBITDA	**748**	**430**	**296**	**68.8**

** data do not reflect adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD.*

*** expenditures on property, plant and equipment and intangible assets*

In the first half of 2014, KGHM INTERNATIONAL LTD. recorded a profit for the period of PLN 5 million. The main reason for the decrease in profit was the decrease in sales versus the comparable prior year period of 2013 which amounted to PLN 890 million and mainly resulted from:

- a decrease in production and sales volume by the Robinson mine, as described in the section on the production results of KGHM INTERNATIONAL LTD.,
- a decrease in metals prices, including copper from 7 540 USD/t to 6 916 USD/t,
- a decrease in revenues from mining services performed by the company DMC Mining Services Ltd. from PLN 433 million for the first half of 2013 to PLN 162 million in the first half of 2014.

The decrease in basic operating costs by PLN 625 million was mainly due to the lower production of copper and to the cost initiatives undertaken. Meanwhile costs were adversely impacted by the deterioration in operating parameters at Robinson related to the processing of low-quality ore.

It should be stressed that, in quarterly terms, there was an improvement in operating parameters at the Robinson mine, and consequently the operating segment result for the second quarter of 2014 versus the operating result for the first quarter of 2014 increased by nearly PLN 158 million, i.e. from PLN (32) million in the first quarter of 2014 to PLN 126 million in the second quarter of 2014.

In terms of other operating activities, the company earned a profit for the period of PLN 152 million (PLN 3 million in the first half of 2013). The increase in the financial result by PLN 149 million mainly resulted from:

- the increase in accrued interest income on a loan granted to finance the Sierra Gorda project in Chile, which in the first half of 2014 amounted to PLN 126 million (PLN 97 million in the first half of 2013),
- impairment losses on available-for-sale financial assets, which did not occur in the first half of 2014 (because of this, in the first half of 2013 costs of other operating activities decreased by PLN 113 million),
- changes in result due to exchange differences, which amounted to PLN (1.5) million in the first half of 2014 (PLN (49.5) million in the first half of 2013).

Major production assets

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

Robinson Mine	
Location	Nevada, USA
Ownership	100% Robinson Nevada Mining Company
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
Employment (30 June 2014)	578

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 mining areas: Liberty, Tripp-Veteran and Ruth, from which production currently comes. The ore is extracted by conventional open-pit methods, and is then processed into a copper and gold concentrate in a concentrating plant.

Levack / Morrison Mine	
Location	Sudbury Basin, Ontario, Canada
Ownership	100% FNX Mining Company
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
Employment (30 June 2014)	330

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

The mine is connected to the eastern part of the McCreedy West mine. The ore is accessed and mined with the aid of leased infrastructure belonging to the Craig mine owned by Xstrata Nickel. Mineralisation in the Morrison deposit most commonly occurs in the form of ore veins. Mining is carried out at the 4 030 level (approx. 1 228 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 4 700 level (approx. 1 433 m).

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

Franke Mine	
Location	Antofagasta Region, Chile
Ownership	100% Sociedad Contractual Minera Franke
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
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.

One of the most important assets at the pre-production stage is the Victoria project.

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

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

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

Information on the realisation of this project in the first half of 2014 may be found in point 3.2 of this report.

SIERRA GORDA PROJECT, CHILE

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 Polska Miedź S.A. Group due to its scale - one of the world's largest mines of copper, molybdenum and gold is being created, which will improve the Group's position on the cost curve.

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 tonnes Au
Start of production	2014

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, loaders and ore transport to a processing plant), infrastructure (among others a tailings pond, power line, salt water pipeline) and a processing plant with an installation to separate the molybdenum concentrate (high-pressure crushers, ball mills and conventional flotation) with processing capacity of 110 thousand tonnes of ore per day. 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. Currently 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, according to the assumptions the Sierra Gorda 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 citizens 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, hold 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. The defendants 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.

The value of the investment in the joint venture Sierra Gorda S.C.M. as at 30 June 2014 amounted to PLN 3 644 million. As at 30 June 2014 the share of the Group in the contractual obligations of Sierra Gorda S.C.M. related to investments and operations amounted to USD 1 782 million, i.e. PLN 5 430 million (as at 31 December 2013: USD 1 861 million, i.e. PLN 5 605 million). The share of the Group in the amount of future minimal payments due to use of mining equipment, based on lease agreements signed by Sierra Gorda S.C.M. as at 30 June 2014 amounted to USD 159 million, i.e. PLN 489 million (as at 31 December 2013: USD 34.3 million, i.e. PLN 103 million).

DEVELOPMENT OF THE RESOURCE BASE

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

- KGHM AJAX MINING INC. — this company is realising the Afton-Ajax copper and gold resource project in British Columbia, Canada,
- KGHM Kupfer AG — this company is realising a resource project – exploration for a copper deposit in Weisswasser in Germany,

- Sugarloaf Ranches Ltd. — this company owns land designated for future mining activities related to the Afton–Ajax project.

Due to the current stages of work by the aforementioned projects, this segment does not generate income, and the companies are of a cost-generating nature. The net result of this segment for the first half of 2014 was PLN (2) million.

Capital expenditure in this segment in the first half of 2014 amounted to PLN 67 million and was mainly due to realisation of the Afton-Ajax project.

The Afton-Ajax project is located south of the town of Kamloops in British Columbia, Canada, and assumes the construction and operation of an open-pit copper and gold mine and an ore concentrating plant, with associated infrastructure.

The Weisswasser project is located on the German side of the Nysa Łużycka river, in the vicinity of the town of Weisswasser (Saxony, Germany). The project is being realised by a direct subsidiary of KGHM Polska Miedź S.A. - KGHM Kupfer AG.

Information on realisation of the aforementioned projects may be found in point 3.2 of this report.

SUPPORT OF THE CORE BUSINESS

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

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

  WPEC w Legnicy S.A. and „BIOWIND” sp. z o.o. in liquidation

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

Operating results

Table 18. *Operating results of the segment Support of the core business (PLN million)*

	2013	6M’2013	6M’2014	Change 6M’2013=100
Sales	5 174	2 696	2 030	75.3
Operating costs	(5 159)	(2 663)	(2 232)	83.8
Operating profit	87	56	68	121.4
Profit for the period	**62**	**32**	**45**	**140.6**
Depreciation	137	66	81	122.7
Capital expenditure*	277	124	60	48.4
EBITDA	**227**	**122**	**149**	**122.1**

** expenditures on property, plant and equipment and intangible assets*

Sales of this segment for the first half of 2014 were lower versus the prior year period by PLN 666 million, i.e. 24.7% (mainly due to a decrease in sales by KGHM Metraco S.A. of copper scrap to KGHM Polska Miedź S.A.).

In the first half of 2014, 85% of the segment's revenues were earned from sales to the Parent Entity (in the first half of 2013, 79%). Altogether around 89.3% of the segment's revenues for the first half of 2014 involved sales to other segments of the Group. Consequently, the results of this segment do not have a material impact on the consolidated results of the KGHM Polska Miedź S.A. Group.

OTHER SEGMENTS

This segment is comprised of all other companies of the KGHM Polska Miedź S.A. Group (30 entities), unrelated to the mining industry. This group of entities are very diversified in their operations. Among others they are of an equity investment nature, as well as fulfilling corporate social responsibility. This group includes among others closed-end investment funds and their portfolio companies (including those forming the Polish Spa Group (Polska Grupa Uzdrowisk).
A large part of the assets of this segment are significant from the point of view of possible benefits to be gained at the moment of exit from these investments.

Operating results

Table 19. *Operating results of other segments (PLN million)*

	2013	6M'2013	6M'2014	Change 6M'2013=100
Sales	2 880	1 443	1 184	82.1
Operating costs	(2 859)	(1 422)	(1 178)	82.8
Operating profit	11	20	115	x5.8
Profit for the period	**3**	**7**	**107**	**x15.3**
Depreciation	79	39	35	89.7
Capital expenditure*	100	36	30	83.3

** expenditures on property, plant and equipment and intangible assets*

5.2. Assets

At the end of the first half of 2014, total assets in the consolidated statement of financial position increased versus the end of 2013 by PLN 2 009 million (i.e. by 5.8%).

Table 20. *Assets (PLN million)*

	31.12.2013	30.06.2014	Structure %	Change 31.12.13=100
Non-current assets	**26 488**	**28 606**	**78.4**	**108.0**
Property plant and equipment	15 128	15 759	43.2	104.2
Intangible assets	2 175	2 476	6.8	113.8
Investment property	65	67	0.2	103.1
Investments accounted for using the equity method	3 720	3 677	10.1	98.8
Deferred tax assets	451	468	1.3	103.8
Available-for-sale financial assets	810	954	2.6	117.8
Financial assets for mine closure and restoration of tailings storage facilities	323	335	0.9	103.7
Derivatives	357	178	0.5	49.9
Trade and other receivables	3 459	4 692	12.9	135.6
Current assets	**7 977**	**7 868**	**21.6**	**98.6**
Inventories	3 397	3 842	10.5	113.1
Trade and other receivables	3 119	2 468	6.8	79.1
Current corporate tax receivables	54	93	0.3	172.2
Available-for-sale financial assets	58	66	0.2	113.8
Financial assets for mine closure	1	-	-	-
Derivatives	476	385	1.1	80.9
Cash and cash equivalents	864	1 007	2.8	116.6
Non-current assets held for sale	8	7	-	87.5
TOTAL ASSETS	**34 465**	**36 474**	**100.0**	**105.8**

The most important changes in the value of assets as at 30 June 2014 versus the end of 2013 were in respect of the following items:

- trade and other non-current receivables – an increase by PLN 1 233 million, mainly in respect of a loan granted by KGHM INTERNATIONAL LTD. to finance the Sierra Gorda project; as at 30 June 2014 the carrying amount of receivables due to this granted loan amounted to PLN 4 523 million (at the end of 2013, PLN 3 378 million);
- property, plant and equipment – an increase by PLN 631 million, mainly in respect of realisation of investments – total expenditures in the Group amounted to PLN 1 504 million, of which the highest expenditures, in the amount of PLN 1 026 million, were incurred by the Parent Entity (detailed information in point 4.6 of this report);
- inventories – an increase by PLN 445 million in respect of an increase of inventories of semi-products, work in progress and finished products mainly in KGHM Polska Miedź S.A.;
- intangible assets – an increase by PLN 301 million, mainly due to an increase in assets due to the exploration for and evaluation of mineral resources, by PLN 167 million (with respect to the Victoria and Afton-Ajax projects) and to an increase in the value of purchased concessions, patents and licenses by PLN 148 million (with respect to agreements entered into by the Parent Entity setting mining usufruct rights to extract copper ore);
- available-for-sale financial assets (current and non-current) – an increase by PLN 152 million, impacted by a partial reversal of impairment losses of shares of TAURON Polska Energia S.A. in the amount of PLN 146 million due to an increase in the company's quoted share price;
- cash and cash equivalents – an increase by PLN 143 million, due to the drawing by KGHM INTERNATIONAL LTD. of a long term working capital facility,
- trade and other receivables (current) – a decrease by PLN 651 million, including a decrease in current trade receivables by PLN 602 million.
- derivatives (current and non-current) – a decrease by PLN 270 million in the Parent Entity, due to a decrease in the volume of derivatives transactions (settlement of instruments during the year) and to the passage of time for unsettled transactions, as well as to 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.

5.3. Equity and liabilities

Equity at the end of the first half of 2014 did not substantially change versus the end of 2013, while the share of equity in total equity and liabilities decreased from 66.9% to 63.5%.).

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

	31.12.2013	30.06.2014	Structure %	Change 31.12.13=100
EQUITY	**23 064**	**23 161**	**63.5**	**100.4**
Share capital	2 000	2 000	5.5	100.0
Revaluation reserve from measurement of financial instruments	522	534	1.5	102.3
Exchange differences from the translation of foreign operations	(267)	(159)	(0.4)	59.6
Actuarial gains/losses on post-employment benefits	(132)	(255)	(0.7)	193.2
Retained earnings	20 718	20 833	57.1	100.6
Equity attributable to shareholders of the Parent Entity	**22 841**	**22 953**	**62.9**	**100.5**
Non-controlling interest	**223**	**208**	**0.6**	**93.3**
LIABILITIES (current and non-current)	**11 401**	**13 313**	**36.5**	**116.8**
Trade and other payables	3 868	4 871	13.4	125.9
Borrowings, debt securities and finance lease liabilities	2 929	3 217	8.8	109.8
Current corporate tax liability	128	136	0.4	106.3
Derivatives	24	250	0.7	x10.4
Deferred tax liabilities	1 726	1 740	4.8	100.8
Employee benefits liabilities	1 694	1 872	5.1	110.5
Provisions for other liabilities and charges	1 032	1 227	3.4	118.9
TOTAL EQUITY AND LIABILITIES	**34 465**	**36 474**	**100.0**	**105.8**

There were significant changes in equity and liabilities as at 30 June 2014 versus the end of 2013 with respect to the following items:

- trade and other payables (current and non-current) - an increase by PLN 1 003 million, including PLN 1 000 million due to the approved and unpaid dividend for shareholders of the Parent Entity from the appropriation of profit for 2013 (payment in two instalments, in August and November 2014);
- borrowings, debt securities and finance lease liabilities (current and non-current) – an increase by PLN 288 million (described in pt. 5.4);
- derivatives (current and non-current) – an increase by PLN 226 million (in the Parent Entity), mainly due to 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;
- provisions for other liabilities and charges (current and non-current) – an increase by PLN 195 million, including PLN 194 million in respect of the provision for decommissioning costs of mines and other technological facilities and of fixed assets;
- employee benefits liabilities – an increase by PLN 178 million, of which the largest increase, i.e. by PLN 128 million, was in respect of liabilities due to the coal equivalent, as well as liabilities due to jubilee awards, retirement and disability rights and post-mortem rights;
- equity from actuarial gains and losses due to measurement of post-employment employee benefits – a decrease by PLN 123 million;
- exchange differences from the translation of foreign operations – a decrease in the loss by PLN 108 million.

5.4. Borrowings and debt securities

Total debt of the Group due to borrowings and debt securities at the end of the first half of 2014 amounted to PLN 3 173 million and increased versus the end of 2013 by PLN 295 million (10.3%). This increase was due to the drawing by KGHM INTERNATIONAL LTD. of a long term working capital facility in the amount of USD 200 million, of which at the end of the first half of 2014, USD 120 million (PLN 366 million per the average exchange rate announced by the NBP on 30 June 2014) had been drawn. Also in the Parent Entity, at the end of the first half of 2014 versus the end of 2013, there was a decrease in loan debt by PLN 54 million.

Table 22. *Liabilities of the Group due to borrowings and debt securities (PLN million)*

	30.06.2013	31.12.2013	30.06.2014	Change 31.12.2013=100
Non-current borrowings	**1 873**	**1 680**	**2 047**	**121.8**
– bank loans	168	162	511	x3.2
– other loans	6	5	4	80.0
– debt securities	1 699	1 513	1 532	101.3
Current borrowings	**56**	**1 198**	**1 126**	**93.99**
– bank loans	48	1 186	1 117	94.2
– other loans	3	3	3	100.0
– debt securities (interest)	5	9	6	66.7
Total	**1 929**	**2 878**	**3 173**	**110.3**

The item debt securities refers to the senior notes issued by KGHM INTERNATIONAL LTD. in 2011, with maturity in 2019.

Interest on the bank loans drawn by Group companies is based on variable WIBOR, LIBOR and EURIBOR, plus a bank margin.

The following table presents the bank and other loans of Group companies which at the end of the first half of 2014 held debt balances of over PLN 10 million.

Table 23. *Borrowings in the Group as at 30 June 2014*

Company	Loan currency	Type of bank/other loan	Maturity	Balance as at 30.06.2014
KGHM INTERNATIONAL LTD.	USD	Working capital facility	19.06.2017	USD 120 million (PLN 366 million)
KGHM Polska Miedź S.A.	USD	Working capital facility	30.07.2014	USD 17 million (PLN 52 million)
	USD	Working capital facility	06.08.2014	USD 162 million (PLN 493 million)
	USD	Overdraft facility	30.04.2015	USD 96 million (PLN 293 million)
	USD	Overdraft facility	14.10.2015	USD 68 million (PLN 208 million)
	USD	Overdraft facility	21.10.2015	USD 8 million (PLN 23 million)
Interferie Medical SPA Sp. z o.o.	EUR	Investment bank loan	31.12.2021	EUR 13 million (PLN 53 million)
„Energetyka" sp. z o.o.	PLN	Investment bank loan	31.08.2018	PLN 24 million
PeBeKa S.A.	PLN	Investment bank loan	29.09.2015	PLN 15 million
POL-MIEDŹ TRANS Sp. z o.o.	PLN	Investment bank loan	31.08.2021	PLN 14 million
	PLN	Overdraft facility	22.10.2014	PLN 4 million
KGHM Metraco S.A.	PLN	loan from WFOŚiGW	31.03.2016	PLN 5 million
	PLN	Investment bank loan	30.09.2014	PLN 1 million
	PLN	Investment bank loan	18.10.2016	PLN 5 million
KGHM CUPRUM sp. z o.o. - CBR	PLN	Investment bank loan	30.09.2021	PLN 14 million
INTERFERIE S.A.	EUR	Investment bank loan	30.11.2021	EUR 3 million (PLN 10 million)
	EUR	Investment bank loan	04.06.2018	EUR 0.4 million (PLN 2 million)
	EUR	Investment bank loan	28.12.2017	EUR 0.4 million (PLN 2 million)
KGHM LETIA S.A.	PLN	Investment bank loan	30.06.2026	PLN 13 million
Uzdrowiska Kłodzkie S.A. – Grupa PGU	PLN	Investment bank loan	25.12.2019	PLN 9 million
	PLN	Investment bank loan	28.12.2018	PLN 2 million
Uzdrowisko Świeradów-Czerniawa Sp. z o.o. - Grupa PGU	PLN	Investment bank loan	30.11.2020	PLN 5 million
	PLN	Investment bank loan	31.12.2020	PLN 2 million
	PLN	Investment bank loan	14.10.2017	PLN 0.6 million
	PLN	Investment bank loan	30.11.2020	PLN 0.4 million
	PLN	Overdraft facility	04.12.2014	PLN 2 million
	PLN	Overdraft facility	31.01.2015	PLN 1 million

On 11 July 2014, KGHM Polska Miedź S.A. entered into an unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion for 5 year tenor with the option to extend for a further 2 years.

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

The Company foresees the gradual utilisation of this 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 Polska Miedź S.A. 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 Polska Miedź S.A. On 8 August 2014 the first tranche of the syndicated credit was drawn in the amount of USD 100 million.

Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA financial ratio. Detailed information on the subject of credit may be found in point 7 of this report.

In the first half of 2014, the process continued of adding additional companies to the cash management service of the KGHM Polska Miedź S.A. Group (zero-balance cash pool). KGHM INTERNATIONAL Ltd. among others was included in the cash management service. As at 30 June 2014, the total available limit under this service amounted to PLN 613 million.

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

Contingent assets and liabilities

As at 30 June 2014, contingent liabilities amounted to PLN 1 592 million, and related mainly to:

- guarantees – PLN 1 339 million, of which: guarantees granted under a contract for the supply of electricity and finance lease liabilities of the Sierra Gorda S.C.M. in the amount of PLN 770 million; security granted against the payment of future environmental liabilities of the Robinson mine in the amount of PLN 236 million; security on the liabilities of the Parent Entity in case the need arises to cover the costs of decommissioning of the Żelazny Most tailings pond in the amount of PLN 320 million.
- contracts on the implementation of projects and inventions – PLN 129 million.

Contingent assets as at 30 June 2014 amounted to PLN 485 million and related mainly to:

- guarantees received by the Group (mainly in respect of the proper execution of contracts) – PLN 231 million,
- promissory note receivables – PLN 94 million.

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

As at 30 June 2014, the Group held liabilities not recognised in the statement of financial position in the amount of PLN 321 million, including liabilities of the Parent Entity towards local government units related to development of the tailings pond in the amount of PLN 211 million and liabilities due to operational leasing in the amount of PLN 110 million.

5.5. Statement of profit or loss

Table 24. *Consolidated statement of profit or loss (PLN million)*

	6M'2013	6M'2014	Change 6M'2013=100
Sales	12 518	9 528	76.1
Cost of sales	(8 987)	(7 297)	81.2
Gross profit	**3 531**	**2 231**	**63.2**
Selling costs	(227)	(193)	85.0
Administrative expenses	(470)	(469)	99.8
Other operating income	522	310	59.4
Other operating costs	(685)	(236)	34.5
Operating profit	**2 671**	**1 643**	**61.5**
Finance costs	(131)	(99)	**75.6**
Profit before income tax	**2 540**	**1 544**	**60.8**
Income tax expense	(718)	(443)	61.7
Profit for the period	**1 822**	**1 101**	**60.4**

In the first half of 2014, versus the comparable prior year period, there was a decrease in revenues from sales by PLN 2 990 million (24%) and in basic operating costs by PLN 1 725 million (17.8%), due to the situation in the Parent Entity and in the KGHM INTERNATIONAL LTD. Group, which is described in the analysis of the results of these segments in point 5.1.

The result on other operating activities amounted to PLN 74 million, which was mainly due to interest gains in the amount of PLN 133 million (mainly due to the loan granted to relaise the Sierra Gorda project) and the loss due to the measurement and realisation of derivatives in the amount of PLN 104 million.

In the first half of 2014, total expenses by nature were lower versus the comparable prior year period by PLN 1 061 million, i.e. by 10.8%.

Chart 5. *Structure of expenses by nature in the Group in the first half of 2014*

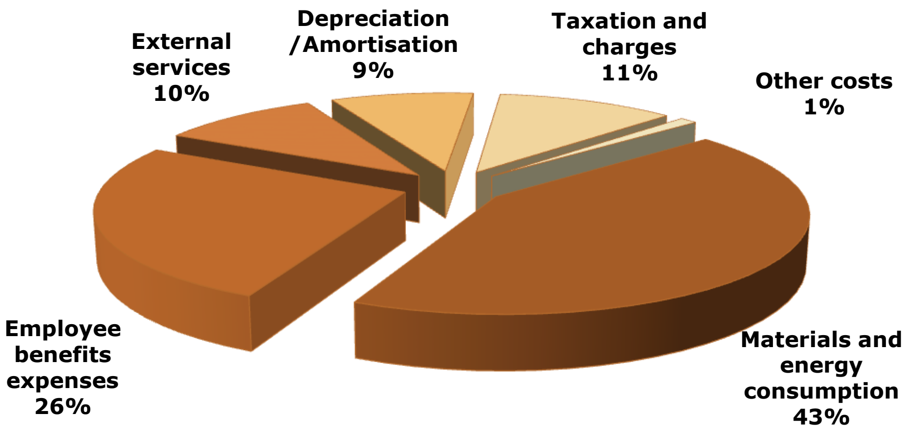


Table 25. *Structure of profit for the period * (PLN million)*

Details	Profit for the first half of 2014
KGHM Polska Miedź S.A.	**1 119**
Subsidiaries	**4**
of which:	
KGHM INTERNATIONAL LTD. Group	5
Other KGHM Polska Miedź S.A. Group companies	(1)
Total profit of Group entities	**1 123**
Consolidation adjustment	(23)
Group profit attributable to shareholders of the Parent Entity	**1 100**
Profit attributable to non-controlling interest	1
Total profit for the period	**1 101**

* *data do not reflect adjustment due to final accounting for the acquisition of KGHM INTERNATIONAL LTD.*

5.6. Execution of assumptions for 2014

The largest impact on the results of the KGHM Polska Miedź S.A. Group is from the Parent Entity and, to a lesser degree, from the KGHM INTERNATIONAL LTD. Group. The future results of the Group will be significantly impacted by the major development project within the KGHM INTERNATIONAL LTD. Group, Sierra Gorda, including the transition of the project from the construction to the production stage. At the end of June 2014, more than 95% of the project had been completed. On 30 July 2014 the first concentrate was produced by the Sierra Gorda mine.

KGHM Polska Miedź S.A. has not published a forecast of financial results for 2014 of the Parent Entity or consolidated financial results of the Group. However, in March 2014, budget assumptions of KGHM Polska Miedź S.A for 2014 were published.

The Parent Entity's 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 offset by a higher sales volume and the maintenance of cost discipline. The execution of individual Budget assumptions of KGHM Polska Miedź S.A. for 2014 is presented in detail in the Report of the Management Board on the company's activities in the first half of 2014.

5.7. Intentions as regards equity investments

Intentions as regards equity investments result from the main assumptions of the Strategy of KGHM Polska Miedź S.A., comprising development of the resource base to increase copper production and ensuring stable energy supplies and prices over the long term.

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.

Executing the strategy in the area of energy, the company is participating in the project to prepare and build the first nuclear power plant in Poland.

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.

Possibility of realising investment intentions in terms of the amount of funds possessed, reflecting potential changes in the structure of financing these activities

The cash possessed by the Parent Entity at the present moment and the external financing acquired guarantee the possibility of realisation of its investment intentions, both in terms of equity investments as well as expenditures on the purchase and construction of property, plant and equipment.

6. Parent Entity

6.1. Composition of Parent Entity bodies

Management Board

In accordance with the Statutes of KGHM Polska Miedź S.A. the Members of the Management Board are appointed and dismissed by the Supervisory Board. In the first half of 2014 there were no changes in the composition of the Management Board of Parent Entity.

As at 30 June 2014 and at the date of approval of this report for publication, the composition of the 8th-term Management Board of KGHM Polska Miedź S.A. was as follows:

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

Scope of duties of Management Board Members, assigned by the Supervisory Board of the company

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 financial activities, 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 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.

Supervisory Board

In accordance with the Statutes of KGHM Polska Miedź S.A. 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,
- Jacek Poświata,
- Iwona Zatorska – Pańtak,

as well as the following employee-elected member:

- Bogusław Szarek.

On 23 June 2014 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.

The 9th-term Supervisory Board, at its first meeting on 15 July 2014, was established. The following selections were made:

- Marcin Moryń - as Chairman,
- Tomasz Cyran - as Deputy Chairman,
- Bogusław Szarek - as Secretary.

To the date of approval of this report for publication, there were no changes in the composition of the Supervisory Board of KGHM Polska Miedź S.A.

6.2. Share capital and ownership structure of the Parent Entity

As at 30 June 2014, the share capital of KGHM Polska Miedź S.A., 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 of the company is aware, during this same time there was also no change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The only shareholder who as at 1 January 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 signing of this report is as follows:

Table 26. *Shareholder structure as at 30 June 2014 and at the date of signing 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 information held by the company, the number of shares held by the Management Board Members as at 30 June 2014 and at the date of signing of this report is shown in the following table:

Table 27. *KGHM Polska Miedź S.A. shares held by the Members of the Management Board of the company as at 30 June 2014 and at the date of signing 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 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 is shown in the following table.

Table 28. *KGHM Polska Miedź S.A. shares held by the Members of the Supervisory Board of the company as at 30 June 2014 and at the date of signing 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 the consolidated quarterly report for the first quarter of 2014, Members of the Supervisory Board of KGHM Polska Miedź S.A. did not hold shares or rights to them. The change in the number of KGHM Polska Miedź S.A. shares 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 of the company 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.

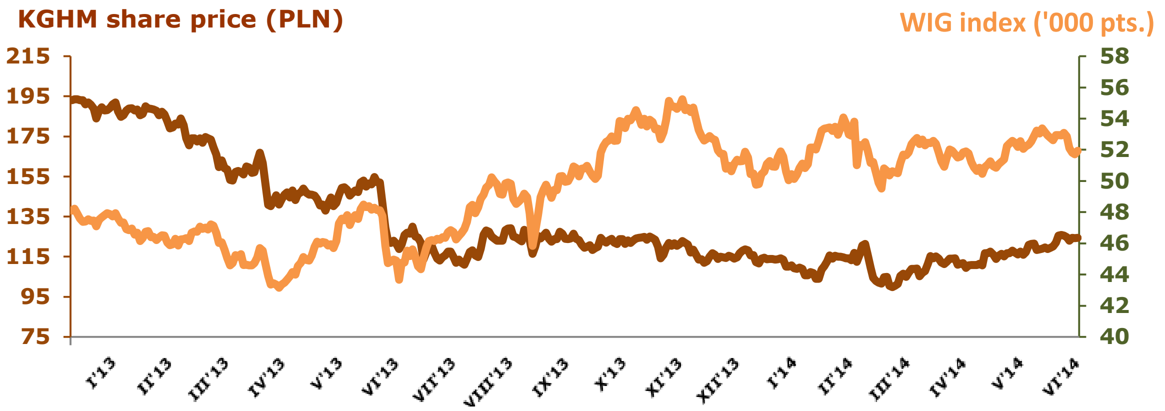
The Parent Entity does not have an employee share incentive program.

6.3. The Parent Entity on the stock exchange

In July 1997 KGHM Polska Miedź S.A. was floated on the Warsaw Stock Exchange. 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. KGHM Polska Miedź S.A. 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. also increased during this same period by 5.47%, and at the close of the trading session on 30 June 2014 amounted to PLN 124.45.

Chart 6. *Share price of KGHM Polska Miedź S.A. versus the WIG Index*



Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange are presented in the following table.

Table 29. *Key share price data of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange*

	Unit	2013	6M'13	6M'14
Number of shares issued	M	200	200	200
Closing price from the last day of trading of the period	PLN	118.00	121.00	124.45
Market capitalisation of the Company at the end of the period	M PLN	23 600	24 200	24 890
Highest trading price in the period	PLN	194.80	194.80	127.40
Lowest trading price in the period	PLN	106.90	116.50	98.70
Average trading volume per session	'000	950	966	966
Share in turnover (trading sessions)	%	14.82	16.58	12.52

Dividend

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 as a shareholder dividend from profit earned in financial year 2013, representing PLN 5.00 per share. The dividend date was set at 8 July 2014 with payment of the dividend in two instalments: PLN 2.50 per share on 18 August 2014, and PLN 2.50 per share on 18 November 2014.

7. Significant 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 Parent Entity 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 Parent Entity 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 facility, of obligations respecting the closure of the mining tailings treatment facility and restoration of the terrain.

Signing by KGHM Polska Miedź S.A. of a syndicated credit facility agreement

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 7 581 million at the average exchange rate for USD/PLN announced by the National Bank of Poland on 10 July 2014) with an international syndicate of banks. The Agreement has an initial five-year tenor incorporating two one-year extension options at the request of KGHM Polska Miedź S.A. (subject to acceptance by each of the syndicate participants).

The credit facility was arranged with a relational banks group of the KGHM Polska Miedź S.A. Group. The Global Coordinators responsible for organising the credit facility are 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. and Powszechna Kasa Oszczędności Bank Polski S.A. The credit facility was significantly oversubscribed, with a substantial reduction in allocation for the participants.

According to the agreement, 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 will 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. During the process of acquiring the financing and negotiations with the syndicate banks, KGHM Polska Miedź S.A. was supported by the independent financial advisor Rothschild and the law firm Gide.

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

Commencement of production at the Sierra Gorda mine in Chile

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 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%).

Loan agreement signed with the European Investment Bank

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

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. 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 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.

De-registration 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.

APPENDIX A : Selected quarterly financial data

Interim consolidated statement of profit or loss (PLN million)

	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
Continued operations				
Sales	4 878	9 528	5 998	12 518
Cost of sales	(3 633)	(7 297)	(4 520)	(8 987)
Gross profit	**1 245**	**2 231**	**1 478**	**3 531**
Selling costs	(120)	(193)	(127)	(227)
Administrative expenses	(217)	(469)	(235)	(470)
Other operating income	147	310	217	522
Other operating costs	(86)	(236)	(290)	(685)
Operating profit	**969**	**1 643**	**1 043**	**2 671**
Finance costs	(50)	(99)	(55)	(131)
Profit before income tax	**919**	**1 544**	**988**	**2 540**
Income tax expense	(235)	(443)	(266)	(718)
Profit for the period	**684**	**1 101**	**722**	**1 822**
Proft/(Loss) attributable to:				
shareholders of the Parent Entity	683	1 100	721	1 824
non-controlling interest	1	1	1	(2)
Earnings per share from continued operations attributable to the shareholders of the Parent Entity for the reporting period (in PLN per share)				
– basic	3.41	5.50	3.60	9.12
– diluted	3.41	5.50	3.60	9.12

Interim consolidated statement of comprehensive income (PLN million)

	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	**684**	**1 101**	**722**	**1 822**
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	(3)	156	5	77
Income tax related to available-for-sale financial assets	2	(28)	(3)	(3)
Cash flow hedging instruments	(229)	(143)	451	392
Income tax related to cash flow hedging instruments	43	27	(85)	(74)
Total other comprehensive income from measurement of financial instruments	**(187)**	**12**	**368**	**392**
Exchange differences from the translation of foreign operations statements	51	107	169	649
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met	**(136)**	**119**	**537**	**1 041**
Other comprehensive income, which will not be reclassified to profit or loss:				
Actuarial losses	(163)	(157)	(55)	(105)
Income tax related to actuarial gains/losses	31	30	11	20
Total other comprehensive income which will not be reclassified to profit or loss	**(132)**	**(127)**	**(44)**	**(85)**
Other comprehensive net income for the financial period	**(268)**	**(8)**	**493**	**956**
TOTAL COMPREHENSIVE INCOME	**416**	**1 093**	**1 215**	**2 778**
Total comprehensive income attributable to:				
shareholders of the Parent Entity	413	1 093	1 215	2 780
non-controlling interest	3	-	-	(2)

Interim consolidated sales (PLN million)

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	4 294	8 370	5 117	10 807
Salt	5	17	18	58
Energy	10	47	10	59
Services	213	420	365	691
Mining machinery, transport vehicles for mining and other	2	4	11	20
Electro-mechanical products	21	46	27	53
Merchandise – smelting products	83	145	167	288
Other merchandise	60	90	44	77
Scrap and materials	53	115	67	96
Other finished goods	137	274	172	369
Total	**4 878**	**9 528**	**5 998**	**12 518**

Interim consolidated expenses by nature (PLN million)

	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	392	793	326	694
Employee benefits expenses	1 137	2 297	1 151	2 284
Materials and energy	1 794	3 744	2 025	4 190
External services	433	884	617	1 227
Taxes and charges	456	985	580	1 276
including the minerals extraction tax	353	748	452	1 021
Advertising costs and representation expenses	25	32	23	28
Property and personal insurance	8	16	8	17
Other costs, of which:	35	55	124	151
Impairment losses on property, plant and equipment, intangible assets	-	-	54	54
Write-down of inventories	45	45	39	40
Allowance for impairment of receivables	-	1	3	3
Reversal of impairment of property, plant and equipment, intangible assets	(1)	(4)	(8)	(9)
Reversal of write-down of inventories	(36)	(36)	-	(1)
Reversal of allowance for impairment of receivables	(1)	(2)	-	-
Losses from the disposal of financial instruments	2	3	2	4
Other operating costs	26	48	34	60
Total expenses by nature	**4 280**	**8 806**	**4 854**	**9 867**
Cost of merchandise and materials sold (+), of which:	142	253	243	420
Allowance for impairment of receivables	-	-	4	4
Write-down of inventories	1	1	-	-
Reversal of allowance for impairment of receivables	(1)	(1)	-	-
Change in inventories of finished goods and work in progress (+/-)	(119)	(434)	101	(103)
Cost of manufacturing products for internal use(-)	(333)	(666)	(316)	(500)
Total cost of sales, selling costs and administrative expenses	**3 970**	**7 959**	**4 882**	**9 684**

APPENDIX B: List of tables, charts and diagrams

TABLES

CHARTS

DIAGRAMS

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
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	