POLISH FINANCIAL SUPERVISION AUTHORITY

Annual report R 2014

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

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

for the financial year **2014** comprising the period from **1 January 2014** to **31 December 2014** containing the financial statements according to International Financial Reporting Standards in PLN.

publication date: 16 March 2015

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

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

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

SELECTED FINANCIAL DATA		in mn PLN		in mn EUR	
		year 2014 period from 1 January 2014 to 31 December 2014	**year 2013** period from 1 January 2013 to 31 December 2013	**year 2014** period from 1 January 2014 to 31 December 2014	**year 2013** period from 1 January 2013 to 31 December 2013
I.	Sales revenue	16 633	18 579	3 970	4 412
II.	Operating profit	3 545	4 208	846	999
III.	Profit before income tax	3 362	4 196	803	996
IV.	Profit for the period	2 414	3 058	576	726
V.	Other comprehensive income	(435)	277	(104)	66
VI.	Total comprehensive income	1 979	3 335	472	792
VII.	Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII.	Earnings per ordinary share (in PLN/EUR)	12.07	15.29	2.88	3.63
IX.	Net cash generated from operating activities	4 000	3 790	955	900
X.	Net cash used in investing activities	(3 828)	(2 547)	(914)	(605)
XI.	Net cash used in financing activities	(222)	(1 824)	(53)	(433)
XII.	Total net cash flow	(50)	(581)	(12)	(138)
		At 31 December 2014	**At 31 December 2013**	**At 31 December 2014**	**At 31 December 2013**
XIII.	Non-current assets	27 439	23 535	6 438	5 675
XIV.	Current assets	4 873	5 503	1 143	1 327
XV.	Total assets	32 312	29 038	7 581	7 002
XVI.	Non-current liabilities	4 195	1 989	984	480
XVII.	Current liabilities	3 840	3 751	901	904
XVIII.	Equity	24 277	23 298	5 696	5 618

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

	31 December 2014	**31 December 2013**
Average exchange rate for the period*	4.1893	4.2110
Exchange rate at the end of the period	4.2623	4.1472

**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.

ANNUAL REPORT R 2014 COMPRISES:

1. **PRESIDENT'S LETTER**
2. **AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE FINANCIAL STATEMENTS**
3. **DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED FINANCIAL STATEMENTS**
4. **DECLARATION BY THE MANAGEMENT BOARD REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS**
5. **FINANCIAL STATEMENTS**
6. **THE MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF THE COMPANY**

Lubin, March 2015

KGHM POLSKA MIEDŹ S.A.

PRESIDENT'S LETTER

Lubin, March 2015

Dear Shareholders,

I am pleased to present the Financial Statements of KGHM Polska Miedź S.A. for 2014. This was another year of progress in the areas of production, development of the resource base and financial security.

Despite many challenges related to the metals markets volatility, we achieved our goals. The Company reached outstanding production results: 663 thousand tonnes of payable copper. We celebrated first production at our Sierra Gorda mine in Chile as well as copper production from our Deep Głogów deposit in Poland. The stable financial position of KGHM allows us to regularly share our profits with our shareholders, and in 2014 the Company allocated PLN 1 billion as a dividend. Continuing the process of development and maximizing shareholder value, in 2015 we adopted a new strategy for the years 2015-2020 with an outlook to 2040.

Production and financial results according to plan

In 2014 payable copper production amounted to 663 thousand tonnes. Metallic silver production was higher by 95 tonnes and amounted to 1 256 tonnes. Production of precious metals, such as gold, palladium and platinum, amounted to 152.9 thousand troy ounces. The KGHM Group ended 2014 with a net profit of PLN 2.45 billion. The largest impact on the bottom line as compared to the prior year came from the low metals prices, including copper and silver. The price of silver decreased by nearly 20 percent, and copper by more than 6 percent during the year as compared to 2013. Our results were substantially impacted by the minerals extraction tax, which amounted to PLN 1.5 billion and represented 12 percent of operating costs. Delivery of such a solid net profit was due to the continuation of a stable level of production and our strict cost discipline.

Watershed year for development projects

One of the most important events in 2014 was the start of production at the Sierra Gorda mine in Chile. Completion of this project is the best testimony of our competencies and allowed us to join the ranks of the largest copper producers in the world. By commissioning production at Sierra Gorda, KGHM has not only increased its production of copper, but has also enhanced its cost efficiency and expanded its products portfolio. The mine will be in operation for 23 years, while research carried out in 2014 indicates substantial exploration potential in adjacent areas, enabling an increase to the current resource base.

Another significant event in 2014 was the start of copper production from the Deep Głogów deposit in Poland below 1200 meters. It should be noted that the mining of deep copper deposits is a natural development for KGHM in its mining operations in Poland. Extracting this ore requires investments in research and development, as this is the only way we can effectively meet the challenge of global competition.

We took a major step toward developing the resource base. Securing new concessions in areas adjacent to our mining regions was part of this. Completion of exploratory and assessment work which resulted in the documentation of 4.1 million tonnes of copper and around 7.5 thousand tonnes of silver in the Gaworzyce-Radwanice region, was another one. As a result, the estimated life of the mines in Poland is currently 30-40 years.

Securing financing for further development

The development of new projects will be possible thanks to the financing we secured in 2014 for the Group's investment program. The Company arranged syndicated credit in the amount of USD 2.5 billion and an investment loan with the European Investment Bank in the amount of PLN 2 billion. These funds will enable us to advance our future projects and grow KGHM in the coming years.

At the same time, we are following and plan to continue a policy of balanced financing, which is based on utilising internal sources of financing, as well as debt in such a way as to ensure that the ratio of net debt to EBITDA remains at a safe level.

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

KGHM achieved the main targets of its 2009-2018 strategy. In 2015, KGHM adopted a Strategy for the years 2015-2020 with an outlook to 2040. The main objective of the new strategic outlook is to achieve annual production capacity of over 1 million tonnes of copper equivalent and to continue work aimed at improving mine operating efficiency. According to the strategy, over the next six years, beginning from 2015, we intend to carry out the largest investment program in the history of KGHM amounting to PLN 27 billion. A significant portion of these funds – 65% – will be allocated to development-related investments, with the rest to be spent on maintenance and replacement projects. These investments will include the steady development of the resource base. Our goal is to replace every tonne of mined copper with three tonnes of the metal in newly-documented resources. Achievement of our strategic goals will be based on efficiency and innovation, which already distinguish KGHM and will become our competitive advantage in the future. For copper producers such as ourselves, the positive, long-term outlook for the copper market will provide additional support in our efforts to build shareholder value.

The Company will continue its dividend policy of paying out up to 1/3 of the net profit earned in the previous financial year, while taking into consideration the actual and anticipated financial situation of the Group.

Goals and priorities for 2015

In 2015 the Company will consistently work to achieve its planned targets:

- Maintaining a stable level of electrolytic copper production;
- Achieving full phase I production capacity at the Sierra Gorda mine (daily processing of 110 thousand tonnes of ore) and commencing molybdenum production;
- Maintaining the rate of progress in the Victoria and Ajax projects;
- Continuing work related to expansion of the Żelazny Most tailings storage facility;
- Continuing investment work aimed at creating modern and environmentally-friendly smelting and refining activities.

As a Group we develop our projects in a socially responsible manner, showing respect for the public good and ethical and environmental issues. Our 60-year tradition is based on values such as zero harm, teamwork and accountability. In our daily activities we are guided by values which help us to achieve more efficient and streamlined operations.

Today, KGHM is a global corporation, strongly results-oriented and courageously looking towards the future. By investing in KGHM you are investing in a stable organisation with strong values, one which cares for the natural environment and the public good, as well as in an experieced management staff which, through new mining projects, is steadily building shareholder value.

In conclusion, I would like to thank all of the employees of KGHM. Their knowledge and hard work have enabled us to achieve solid results. In particular I wish to thank our customers for choosing our company and for their many years of cooperation. My thanks also go out to our shareholders for their trust and support, and taking this opportunity I wish to assure them that we will continue to steadily enhance the value of KGHM as a stable, predictable company strengthening its position in the global marketplace.

Herbert Wirth

President of the Management Board

Lubin, 16 March 2015

KGHM POLSKA MIEDŹ S.A.

AUDITOR'S OPINION AND REPORT ON ITS AUDIT OF THE FINANCIAL STATEMENTS FOR 2014

Lubin, March 2015

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

We have audited the accompanying financial statements of KGHM Polska Miedź S.A. (hereinafter called "the Company"), Marii Sklodowskiej-Curie 48 Street, Lubin, which comprise the statement of financial position as at 31 December 2014, showing total assets and total equity and liabilities of PLN 32.312 million, the statement of profit or loss for the year from 1 January to 31 December 2014, showing a net profit of PLN 2.414 million, the statement of comprehensive income for the year from 1 January to 31 December 2014, showing a total comprehensive income of PLN 1.979 million, the statement of changes in equity, the statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

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

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

We conducted our audit in accordance with:

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

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

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

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

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

a. give a fair and clear view of the Company's financial position as at 31 December 2014 and of the financial results for the year from 1 January to 31 December 2014, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union;

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

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

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

The Company presented in note no. 40 of additional information on adopted accounting policies and other explanatory notes to the financial statements the information about each financial statement line item of the statement of financial position and the statement of profit or loss divided into all activities required to be disclosed according with the requirements included in the Article 44 of the Act on energy law of 10 April 1997 (Journal of Laws of 2012, item 1059 as amended).

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

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, 16 March 2015

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

Registered auditor's report on the audit of the financial statements for the year from 1 January to 31 December 2014 to the Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

This report contains 10 consecutively numbered pages and consists of:

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I. General information about the Company

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

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

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

d. The Company was assigned on 14 June 1993 a tax identification number (NIP) 692-000-00-13 for the purpose of making tax settlements and on 13 August 2003 a REGON number 390021764 for statistical purposes.

e. As at 31 December 2014 and the date of signing of this Report the Company's share capital amounted to PLN 2.000 million and consisted of 200.000.000 shares, with a nominal value of PLN 10,00 each. Total equity as at 31 December 2014 was positive and amounted to PLN 24.277 million.

f. As at 31 December 2014 and the date of signing of this Report, the Company's shareholders were:

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

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

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

I. General information about the Company (cont.)

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

- Herbert Wirth President;
- Jarosław Romanowski I Vice President (Finance);
- Jacek Kardela Vice President (Development);
- Marcin Chmielewski Vice President (Corporate);
- Wojciech Kędzia Vice President (Production).

On 18 December 2014 Wojciech Kędzia resigned from his position as Member of the Board. The resignation is valid from 31 January 2015. On 18 December 2014 the Supervisory Board appointed, with effect from 1 February 2015, Mr. Miroslaw Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A. acting as Vice President in Charge of Production.

i. The Company has the following related entities:

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

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

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

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

k. As the parent company of the KGHM Polska Miedź S.A. Group, the Company has also prepared consolidated financial statements according to IFRS as at March 16th 2014. To better understand the Company's financial position and its results of operations as the Parent Company, the financial statements should be read in conjunction with the consolidated financial statements.

II. Information about the audit

a. The audit of the financial statements for the year from 1 January to 31 December 2014 was conducted by PricewaterhouseCoopers Sp. z o.o. with its seat in Warsaw, Al. Armii Ludowej 14, registered audit company no. 144. The audit was conducted on behalf of the registered audit company under the supervision of the key registered auditor Marcin Sawicki (no. 11393).

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

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

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

- interim audit from 12 to 21 November 2014;
- final audit from 20 January to 16 March 2015.

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

STATEMENT OF FINANCIAL POSITION
as at 31 December 2014 (selected lines)

	31.12.2014 PLN million	31.12.2013 PLN million	Change PLN million	Change (%)	Structure 31.12.2014 (%)	Structure 31.12.2013 (%)
ASSETS						
Non-current assets	27.439	23.535	3.904	16,6	84,9	81,0
Current assets	4.873	5.503	(630)	(11,4)	15,1	19,0
Total assets	**32.312**	**29.038**	**3.274**	**11,3**	**100,0**	**100,0**
LIABILITIES AND EQUITY						
Equity	24.277	23.298	979	4,2	75,1	80,3
Long-term liabilities	4.195	1.989	2.206	>100,0	13,0	6,8
Short-term liabilities	3.840	3.751	89	2,4	11,9	12,9
Total liabilities and equity	**32.312**	**29.038**	**3.274**	**11,3**	**100,0**	**100,0**

STATEMENT PROFIT OR LOSS
for the year from 1 January to 31 December 2014 (selected lines)

	2014 PLN million	2013 PLN million	Change PLN million	Change (%)	(%) of revenue 2014 (%)	(%) of revenue 2013 (%)
Revenue	16.633	18.579	(1.946)	(10,5)	100,0	100,0
Cost of sales	(12.265)	(13.173)	908	(6,9)	(73,7)	(70,9)
Gross profit on sales	**4.368**	**5.406**	**(1.038)**	**(19,2)**	**26,3**	**29,1**
Net profit for the year	**2.414**	**3.058**	**(644)**	**(21,1)**	**14,5**	**16,5**

STATEMENT OF COMPREHENSIVE INCOME
for the year from 1 January to 31 December 2014 (selected lines)

	2014 PLN million	2013 PLN million	Change PLN million	Change (%)	(%) of revenue 2014 (%)	(%) of revenue 2013 (%)
Net profit	2.414	3.058	(644)	(21,1)	14,5	16,5
Other net comprehensive income	(435)	277	(712)	<(100,0)	(2,6)	1,5
Total net comprehensive income	**1.979**	**3.335**	**(1.356)**	**(40,7)**	**11,9**	**18,0**

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

Selected ratios characterising the Company's financial position and results

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

	2014	**2013**	**2012**
Asset ratios			
- receivables turnover	27 days	22 days	18 days
- inventory turnover	71 days	103 days	106 days
Profitability ratios			
- net profit margin	15%	16%	23%
- gross margin	21%	25%	34%
- return on capital employed	10%	14%	22%
Liability ratios			
- gearing	25%	20%	22%
- payables turnover	29 days	34 days	32 days
	31.12.2014	**31.12.2013**	**31.12.2012**
Liquidity ratios			
- current ratio	1,3	1,5	1,5
- quick ratio	0,7	0,8	0,7
Other ratios			
- effective tax rate	28,2%	27,12%	24,1%

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

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

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

The financial statements do not take into account the effects of deflation. The consumer price index (on a December to December basis) amounted to -1,0% in the audited year (inflation of 0,7% in 2013).

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

- At the end of the financial year, the Company's total assets amounted to PLN 32.312 million. During the year total assets increased by PLN 3.274 million (i.e. by 11,3%). This increase was financed mainly by net profit of PLN 2.414 million and an increase in borrowings of PLN 985 million, compared to the previous financial year. At the same time, the Company paid out dividend of PLN 1.000 million.

- The Company's liability ratios and the structure of debt have changed. The gearing ratio increased from 20% at the end of the previous year to 25% at the end of the current year. The payables turnover ratio decreased from 34 days to 29 days.

- Revenue amounted to PLN 16.633 million and decreased by 10,5% when compared to the previous year. The Company's core activities in the current financial year consisted of production and sale of copper, precious metals and smelter by-products. The main factor for the decrease of revenue was average price of copper and silver which decreased by 6% and 20% respectively when compared to 2013. During that time also occurred the decrease of the average exchange rate of US Dollar compared with the prior year by 0,6%.

- The operating expenses (the sum of the cost of goods and materials sold, the selling expenses and the administrative expenses) decreased by PLN 850 million (by 6%) as compared to 2013. The main factor for the decrease of operating expenses was i.e. the lower volume of copper sales and the lower amount of mineral extraction tax as compared to the previous year.

- Profitability measured with gross profit amounted to 21% and was 4 percentage points lower than in the previous year. The change in the Company's profitability was primarily due to decrease of average price of copper and silver as compared with the previous year together with the lower copper production costs per item due to the lower amount of mineral extraction tax as compared to the previous year.

- At the end of the financial year the amount of tangible assets equaled to PLN 11.562 million and increased as compared to the previous year by PLN 1.818 million mainly as a result of capital investments' projects. Within the liabilities and equity side there was an increase of external debt in the amount of PLN 985 million as compared to the previous year due to the signing by the Company the debt agreement with the European Investment Bank. Due to the lower amount of current assets and the increase in the amount of total assets there was a change in the liquidity ratios (current and quick)which equaled to respectively 1,3 and 0,7 in the audited period (in the previous year respectively 1,5 and 0,8).

IV. The independent registered auditor's statement

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

b. The scope of the audit was not limited.

c. The Company has up-to-date documentation of its accounting policies, approved by the Management Board. The Company's accounting policies were tailored to its needs and ensured the recognition of all events having a material effect on the assessment of its financial position and results, taking into consideration the prudence principle. There were no changes to the accounting policies compared with the previous year.

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

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

f. The financial statements of the Company for the year from 1 January to 31 December 2013 were approved by Resolution No. 4/2014 passed by the General Shareholders' Meeting on 23 June 2014 and filed with the National Court Register on 30 June 2014.

g. In accordance with the Resolution No. 5/2014 of the Shareholders's Meeting of 23 June 2014, the net profit for the prior year of PLN 3.058 million was distributed in the following manner:

  - the amount of PLN 1.000 million for dividend for Company's Shareholders;
  - the amount of PLN 2.058 million for reserve capital of the Company (retained earnings).

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

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

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

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

j. The notes to the financial statements present all significant information required by IFRS as adopted by the European Union.

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

V. Final information

This report has been prepared in connection with our audit of the financial statements of KGHM Polska Miedź Spółka Akcyjna, Marii Skłodowskiej-Curie 48 Street, Lubin. The financial statements were signed by the Company's Management Board and the person entrusted with maintaining the books of account on 16 March 2015.

This report should be read in conjunction with the Independent Registered Auditor's unqualified Opinion to the Shareholders' Meeting and the Supervisory Boar of KGHM Polska Miedź Spółka Akcyjna dated 16 March 2015, concerning the said financial statements. The opinion on the financial statements expresses a general conclusion drawn from the audit and involves assessing the materiality of individual audit findings rather than being a sum of all the evaluations of individual financial statement components. This assessment takes account of the impact of the facts noted on the truth and fairness of the financial statements as a whole.

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

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, 16 March 2015

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KGHM POLSKA MIEDŹ S.A.

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

Lubin, March 2015

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

According to our best judgement the annual financial statements for 2014 and the comparative data have been prepared in accordance with accounting principles currently in force, and give a true, fair and clear view of the financial position of KGHM Polska Miedź S.A. and the profit for the period of the Company. The annual report on the Company's activities for 2014 presents a true picture of the development and achievements, as well as the condition, of KGHM Polska Miedź S.A., including a description of the basic exposures and risks.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Herbert Wirth	President of the Management Board	
16 March 2015	Jarosław Romanowski	First Vice President of the Management Board	
16 March 2015	Marcin Chmielewski	Vice President of the Management Board	
16 March 2015	Jacek Kardela	Vice President of the Management Board	
16 March 2015	Mirosław Laskowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

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

Lubin, March 2015

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

The entity entitled to audit financial statements, and which has audited the annual financial statements for 2014, was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this audit, have met the conditions for issuing an impartial and independent audit opinion, in compliance with appropriate legal provisions and professional standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Herbert Wirth	President of the Management Board	
16 March 2015	Jarosław Romanowski	First Vice President of the Management Board	
16 March 2015	Marcin Chmielewski	Vice President of the Management Board	
16 March 2015	Jacek Kardela	Vice President of the Management Board	
16 March 2015	Mirosław Laskowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

FINANCIAL STATEMENTS FOR 2014

Lubin, March 2015

Table of contents

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

Statement of financial position

		At	
	Note	**31 December 2014**	**31 December 2013**
ASSETS			
Non-current assets			
Property, plant and equipment	5	11 562	9 744
Intangible assets	6	511	273
Shares and investment certificates in subsidiaries	7	11 760	11 744
Investments in joint ventures	7	18	33
Deferred tax assets	18	111	98
Available-for-sale financial assets	8	931	809
Financial assets for mine closure and restoration of tailing storage facilities	9	206	178
Derivatives	10	190	342
Trade and other receivables	11	2 150	314
		27 439	**23 535**
Current assets			
Inventories	12	2 377	2 432
Trade and other receivables	11	2 142	2 475
Financial assets for mine closure	9	2	1
Derivatives	10	267	472
Cash and cash equivalents	13	85	123
		4 873	**5 503**
TOTAL ASSETS		**32 312**	**29 038**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	2 000	2 000
Revaluation reserve from measurement of financial instruments	15	366	512
Actuarial gains/losses on post-employment benefits	15	(401)	(112)
Retained earnings	15	22 312	20 898
TOTAL EQUITY		**24 277**	**23 298**
LIABILITIES			
Non-current liabilities			
Trade and other payables	16	185	26
Borrowings	17	1 052	-
Derivatives	10	122	17
Employee benefits liabilities	19	1 842	1 423
Provisions for other liabilities and charges	20	994	523
		4 195	**1 989**
Current liabilities			
Trade and other payables	16	2 537	2 431
Borrowings	17	1 056	1 123
Current corporate tax liabilities		56	50
Derivatives	10	36	6
Employee benefits liabilities	19	114	110
Provisions for other liabilities and charges	20	41	31
		3 840	**3 751**
TOTAL LIABILITIES		**8 035**	**5 740**
TOTAL EQUITY AND LIABILITIES		**32 312**	**29 038**

The accounting policies and other explanatory information presented on pages 8 to 122 represent an integral part of these financial statements.

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

Statement of profit or loss

	Note	For the period from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Sales revenue	21	16 633	18 579
Cost of sales	22	(12 265)	(13 173)
Gross profit		**4 368**	**5 406**
Selling costs	22	(120)	(126)
Administrative expenses	22	(735)	(671)
Other operating income	24	573	460
Other operating costs	25	(541)	(861)
Operating profit		**3 545**	**4 208**
Finance costs	26	(183)	(12)
Profit before income tax		**3 362**	**4 196**
Income tax expense	29	(948)	(1 138)
Profit for the period		**2 414**	**3 058**

Earnings per share for the annual period (in PLN per share)	30		
- basic		12.07	15.29
- diluted		12.07	15.29

The accounting policies and other explanatory information presented on pages 8 to 122 represent an integral part of these financial statements.

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

Statement of comprehensive income

	Note	For the period	
		from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Profit for the period		**2 414**	**3 058**
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		124	16
Income tax related to available-for-sale financial assets		(23)	(3)
Cash flow hedging instruments		(304)	263
Income tax related to cash flow hedging instruments		57	(50)
Total other comprehensive income, which will be reclassified to profit or loss when specific conditions are met		**(146)**	**226**
Other comprehensive income, which will not be reclassified to profit or loss:			
Actuarial (losses)/gains		(357)	63
Income tax related to actuarial gains and losses		68	(12)
Total other comprehensive income, which will not be reclassified to profit or loss		**(289)**	**51**
Other comprehensive net income for the reporting period	15	**(435)**	**277**
TOTAL COMPREHENSIVE INCOME		**1 979**	**3 335**

The accounting policies and other explanatory information presented on pages 8 to 122 represent an integral part of these financial statements.

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

Statement of changes in equity

	Note	Share capital	Revaluation reserve from measurement of financial instruments	Actuarial gains/losses on post-employment benefits	Retained earnings	Total equity
At 1 January 2014		**2 000**	**512**	**(112)**	**20 898**	**23 298**
Dividends from profit for 2013 - paid	31	-	-	-	(1 000)	**(1 000)**
Total comprehensive income		-	(146)	(289)	2 414	**1 979**
Profit for the period	15	-	-	-	2 414	**2 414**
Other comprehensive income	15	-	(146)	(289)	-	**(435)**
At 31 December 2014		**2 000**	**366**	**(401)**	**22 312**	**24 277**
At 1 January 2013		**2 000**	**286**	**(519)**	**20 156**	**21 923**
Dividends from profit for 2012 - paid		-	-	-	(1 960)	**(1 960)**
Offsetting of profit from prior years with actuarial gains and losses	15	-	-	356	(356)	**-**
Total comprehensive income		-	226	51	3 058	**3 335**
Profit for the period	15	-	-	-	3 058	**3 058**
Other comprehensive income	15	-	226	51	-	**277**
At 31 December 2013		**2 000**	**512**	**(112)**	**20 898**	**23 298**

The accounting policies and other explanatory information presented on pages 8 to 122 represent an integral part of these financial statements.

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

Statement of cash flows

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Cash flow from operating activities			
Profit for the period		2 414	3 058
Total adjustments to profit for the period:		**2 439**	**2 107**
Income tax recognised in profit or loss		948	1 138
Amortisation/Depreciation		818	768
Losses on sale of property, plant and equipment and intangible assets		8	34
Impairment loss recognised		32	95
Interest and share in profits (dividends)		(63)	(40)
Foreign exchange (gains)/losses		(31)	3
Change in provisions	32	76	(14)
Change in assets/liabilities due to derivatives		736	791
Reclassification of other comprehensive income to profit or loss as a result of realisation of hedging derivatives		(531)	(450)
Other adjustments		(1)	(44)
Changes in working capital:		447	(174)
Inventories		55	560
Trade and other receivables	32	268	(777)
Trade and other payables	32	124	43
Income tax paid		(853)	(1 375)
Net cash generated from operating activities		**4 000**	**3 790**
Cash flow from investing activities			
Purchase of shares and investment certificates in subsidiaries		(27)	(129)
Purchase of property, plant and equipment and intangible assets		(2 203)	(2 174)
Advances granted for purchase of property, plant and equipment and intangible assets		(31)	(84)
Proceeds from sale of property, plant and equipment and intangible assets	32	13	33
Purchase of financial assets from mine closure fund and tailing storage facilities restoration fund		(29)	(38)
Loans granted		(1 597)	(239)
Repayments of loans granted		5	13
Interest received		2	2
Dividends received		45	36
Other investment (expenses)/proceeds		(6)	33
Net cash used in investing activities		**(3 828)**	**(2 547)**
Cash flow from financing activities			
Proceeds from bank and other loans		1 974	1 546
Repayments of bank and other loans		(1 135)	(1 409)
Interest paid		(21)	-
Dividends paid	15	(1 000)	(1 960)
Other financial expenses		(40)	(1)
Net cash used in financing activities		**(222)**	**(1 824)**
Total net cash flow		**(50)**	**(581)**
Exchange gains/(losses) on cash and cash equivalents		12	(3)
Movements in cash and cash equivalents		**(38)**	**(584)**
Cash and cash equivalents at beginning of the period	13	**123**	**707**
Cash and cash equivalents at end of the period	13	**85**	**123**

The accounting policies and other explanatory information presented on pages 8 to 122 represent an integral part of these financial statements.

Accounting policies and other explanatory information

1. Corporate information

Details of the audited Company

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

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

The principal activities of the Company comprise:

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

Going concern assumption

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

The activities of KGHM Polska Miedź S.A. involving the mining of the copper ore deposit are based on concessions held by the Company, which were issued by the Minister of the Environment in 2013, mining usufruct agreements and mining operating plans for the five basic deposits. The concessions and mining usufruct agreements for the five basic deposits are in force to 31 December 2063 and the mining operating plans for three mines are approved for the years from 2014 to 2016 (to 31 December 2016).

Period of operation

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

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

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

1. Corporate information (continued)

Management Board

As at 1 January 2014 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	1st 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)

On 18 December 2014 Wojciech Kędzia submitted his resignation from the function of Member of the Management Board, effective as of 31 January 2015. On 18 December 2014, the Supervisory Board appointed Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A., appointing him as a Vice President of the Management Board (Production), effective as of 1 February 2015.

As at the date of signing these financial statements the composition of the Management Board was as follows:

-	Herbert Wirth	President of the Management Board
-	Jarosław Romanowski	1st 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)
-	Mirosław Laskowski	Vice President of the Management Board (Production)

Supervisory Board

As at 1 January 2014 the composition of the 8th-term Supervisory Board of KGHM Polska Miedź S.A. was as follows:

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

as well as the following employee-elected member:

- Bogusław Szarek

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

As at 31 December 2014 the composition of the 9th-term Supervisory Board was as follows:

-	Marcin Moryń	Chairman
-	Tomasz Cyran	Deputy Chairman
-	Bogusław Stanisław Fiedor	
-	Jacek Poświata	
-	Andrzej Kidyba	
-	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 financial statements there were no changes in the composition of the Supervisory Board.

Authorisation of the annual financial statements (financial statements)

These financial statements were authorised for issue and signed by the Management Board of the Company on 16 March 2015.

Seasonal or cyclical activities

The Company is not affected by cyclicality of production nor seasonality.

2. Main accounting policies

2.1 Basis of preparing financial statements

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

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

The accounting policies described in **note 2.2** were applied in a continuous manner to all presented periods.

2.1.1 New standards

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

- **IFRS 10 Consolidated Financial Statements,**
- **IFRS 12 Disclosure of Interests in Other Entities,** *this standard concerns the financial statements of entities having interest in subsidiaries, joint arrangements, associates or unconsolidated structured entities.*
- **Amended IAS 28 Investments in Associates and Joint Ventures,**
- **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.**

As at 31 December 2014, the above-mentioned new and amended standards were not applicable to the Company's separate financial statements, as they substantively relate to the Group's consolidated financial statements.

- **IFRS 11 Joint Arrangements,** the new standard supersedes IAS 31 *Interests In Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Ventures*. The new standard describes two types of joint arrangements: joint operations and joint ventures. The type of joint arrangement is determined based on analysis of the rights and obligations of the parties resulting primarily from the structure and legal form of the arrangement. If the contractual terms grant the parties the right to the assets of the joint arrangement as well as obligations for the liabilities relating to the arrangement, then we identify the joint arrangement as a joint operation. However, if the terms of the arrangement grant the parties the right to the net assets of the joint arrangement, then we identify the joint arrangement as a joint venture, which the parties account for their respective investment using the equity method. This standard is effective in the European Union for annual periods beginning on or after 1 January 2014. The Company classified the jointly controlled entity as a joint venture. This classification did not cause changes in its up-to-date accounting for in the separate financial statements.

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

- **Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities,** this document is an amendment to IAS 32. The Board supplemented the Application Guidance accompanying the standard with respect to the conditions for offsetting and presenting the net amount of financial assets and liabilities in the statement of financial position. Amendments to IAS 32 have no impact on the Company's financial statements.
- **Amended IAS 36 Impairment of Assets,**
- **Amended IAS 39 Financial Instruments: Recognition and Measurement titled Novation of Derivatives and Continuation of Hedge Accounting.**

2. Main accounting policies(continued)

The above amendments to the standards have been approved for use by the European Union up to the date of publication of these financial statements. Application of the above standards and changes to standards did not have a material impact on the accounting policy of the Company and on these financial statements, excluding the extension of scope of disclosures of offsetting financial assets and financial liabilities.

For the purpose of preparing financial statements for the financial year ended 31 December 2014 the Company has applied IFRIC 21 *Levies* prior to its effective date. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014. The Company applies IFRIC 21 to recognise fees due to mining usufruct, which were set for a period of 50 years, that is from 1 January 2014 to 31 December 2063 with respect to recognition of the fixed and variable parts of the fees payable to the State Treasury.

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

Non-obligatory standards and interpretations approved for use by the European Union which the Company did not apply prior to their effective date:

- **Amendments to IAS 19 *Employee benefits* titled *Defined Benefit Plans: Employee Contributions*.** The purpose of the amendment is to explain that contributions related to work performed by employees or third parties under specific benefits programs reduce employee costs (a) in specific periods of employment, if the amount of the contribution is linked to the number of years worked, or (b) in the attributable period of work, if the amount of the contribution is not linked to the number of years worked.
  The amendments are effective for annual periods beginning on or after 1 July 2014, although under the Regulation of the European Commission the above amendments are effective for annual periods beginning on or after 1 February 2015, and the Company will apply them starting with the annual period beginning on 1 January 2016, although they will not affect the financial statements of the Company.

- **Annual Improvements to IFRS, 2010-2012 cycle.** As a result of a review of IFRS the following minor amendments were made to seven standards:
  - in IFRS 2 *Share-based Payment* the definitions of „vesting condition" and „market condition" were adjusted and two new definitions were introduced: „performance condition" and „service condition",
  - in IFRS 3 *Business Combinations* it was clarified that recognition of a contingent consideration which meets the definition of a financial liability shall be measured to fair value at the end of the reporting period, and the result of measurement shall be recognised in the statement of profit or loss,
  - IFRS 8 *Operating Segments* introduces among others requirements to disclose the judgements made by management in applying aggregation criteria to operating segments, as mentioned in para. 12 of IFRS 8, along with a brief description of these segments and the measures used to indicate the common economic traits of the segments aggregated on this basis,
  - in IFRS 13 *Fair Value Measurement* amendments are introduced to the Basis of Conclusions for IFRS 13, clarifying that the removal of paragraph B5.4.12 from IFRS 9 and OS79 from IAS 39 should not be intrepreted as an intention by the IASB to remove the ability to measure short-term trade receivables and payables measured at their nominal invoiced amounts, if the impact of the discount on these items is immaterial,
  - in IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* information is clarified on the manner of adjusting carrying amount and the depreciation of revalued property, plant and equipment measured at the date of the revaluation,
  - in IAS 24 *Related Party Disclosures* a clause was added clarifying the definition of relations between entities.

  These amendments are effective for annual periods beginning on or after 1 July 2014, although in the EU they will be effective for annual periods beginning on or after 1 February 2015. The Company will apply them starting with the annual period beginning on 1 January 2016, and believes that the above amendments will not have a significant impact on the financial statements of the Company.

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

2. Main accounting policies(continued)

The above amendments are effective for annual periods beginning on or after 1 July 2014, although in the EU they will be effective for annual periods beginning on or after 1 January 2015 and will not affect the financial statements of the Company.

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

- **IFRS 9 *Financial instruments*.** As a result of many years of work by the International Accounting Standards Board (IASB) on the project to supersede IAS 39 *Financial instruments: Recognition and Measurement*, in 2014 a new standard was published, IFRS 9 *Financial instruments*, which entirely replaces IAS 39. The document published in 2014 represents a complete version of the standard, comprising all of the elements of IFRS 9 published in prior years. The new standard contains amended and simplified principles in the following scope:
  - the classification and measurement of financial assets, introducing the category of financial assets measured at fair value and at amortised cost based on the assets management business model applied by the entity,
  - the classification and measurement of financial liabilities, retaining most of the principles formerly applied by IAS 39. The new standard requires however that any change in the fair value of a financial liability which is initially recognised at fair value through profit or loss, in that part arising from its own credit risk, be presented in other comprehensive income,
  - hedge accounting, which makes hedge accounting more similar to the manner of risk management applied by an entity, introducing a more principle-based approach to hedge accounting,
  - the model for recognising impairment to financial assets. The Board replaced the previously-applied model of „incurred loss" with the „expected loss" model, which is based on estimating expected credit losses arising from a given asset at initial recognition of the asset, and then at each subsequent reporting date.

  Due to the broad scope of amendments to IFRS 9 as compared to IAS 39, the significant value of financial instruments in the Company's financial statements and the application by the Company of hedge accounting, it is crucial that a cautious and in-depth approach be taken when evaluating the impact of IFRS 9 on the Company's financial statements. As a result, an estimation of the impact of the new standard on the financial statements is not possible at the present time.

  IFRS 9 will be effective for annual periods beginning on or after 1 January 2018 and the period beginning on 1 January 2018 is the latest period in which the Company will apply the standard.

- **IFRS 14 *Regulatory Deferral Accounts*.** In IFRS 14 the IASB introduced the requirement to make a separate presentation in the financial statements of amounts that arise when an entity provides goods or services at a price or rate that is subject to rate regulation as well as deferred recognition.

  The new standard will be effective for annual periods beginning on or after 1 January 2016, and as it will only effect first-time adopters of IFRS it will not affect the financial statements of the Company.

- **Amendments to IFRS 11 *Joint arrangements* titled *Accounting for Acquisitions of Interests in Joint Operations*.** In IFRS 11 the IASB added the requirement to account for the acquisition of interests in joint operations, which is an arrangement as defined by IFRS 3, in accordance with the principles regarding accounting for joint arrangements described in this standard.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not affect the financial statements of the Company.

- **Amendments to IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets titled Clarification of Acceptable Methods of Depreciation and Amortisation*.** The amendment prohibits the application of a revenue-based depreciation method. The use of this type of depreciation method is only permissable under specific circumstances for intangible assets.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not affect the financial statements of the Company.

- **IFRS 15 *Revenue from contracts with customers*.** The new standard supersedes IAS 11 *Construction contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers*, and SIC-31 *Revenue - Barter Transactions Involving Advertising Services.*

2. Main accounting policies(continued)

IFRS 15 unifies the principles for recognising revenue from various types of agreements and from various sources. The core principle for recognising revenue will be to accurately reflect the obligation to provide promised goods or services to customers. The estimated revenue should reflect the amount of the agreed consideration to which an entity is entitled in exchange for goods manufactured or services rendered. Revenue is recognised at the moment when a given good is delivered or service rendered to a customer, while an asset will be deemed as delivered when control over the asset is passed to the customer. The new standard contains a broader scope of guidelines for recognising revenue arising from complex contracts with multiple elements, and also contains a cohesive list of requirements regarding informational requirements.

IFRS 15 will be effective for annual periods beginning on or after 1 January 2017. Due to the type of sales contracts signed by the Company, it is expected that the standard will not have a significant impact on the financial statements of the Company.

- **Amendments to IAS 16 *Property, plant and equipment* and IAS 41 *Agriculture* titled *Agriculture: Bearer Plants*.** In accordance with the amendments introduced, bearer plants related to agricultural activities will be recognised and measured based on the principles of IAS 16, and agricultural products obtained from the bearer plants will remain in the scope of IAS 41.
  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not significantly affect the financial statements of the Company.

- **Amendments to IAS 27 *Separate Financial Statements* titled *Equity Method in Separate Financial Statements*.** The amendments allow entities to apply the equity method as one of the optional methods for recognising investments in subsidiaries, joint ventures and associates.

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

- **Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures titled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*.** The IASB introduced an amendment to remove inconsistencies between IFRS 10 and IAS 28 with respect to the accounting recognition of the loss of control over a subsidiary, as well as limitations on the recognition of profit or loss resulting from the transfer of non-financial assets to an associate or joint venture. Under IFRS 10, if a parent entity loses control over a subsidiary which is not a business as defined in IFRS 3 as the result of a transaction with its associate or joint venture accounted for using the equity method, the parent entity recognises a gain or loss on the transaction only up to the percentage held by investors not related with the given associate or joint venture. The remaining amount of gain or loss and the relevant amount of the carrying amount of the existing investment in the associate or joint venture is excluded.

  For these reasons IAS 28 clarifies that when a non-financial asset is sold or transferred to an associate or joint venture it constitutes a business as defined in IFRS 3, as the investor then recognises the full profit or loss from the transaction; in the opposite case the investor recognises profit or loss from the transaction only in an amount proportional to the interests of other investors in this associate or joint venture.

  These amendments will be effective for annual periods beginning on or after 1 January 2016.

- **Annual Improvements to IFRS, 2012-2014 Cycle.** As a result of a review of IFRS minor amendments were made to the following standards:
  - IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, shows how to account for a change in the manner of disposal of assets previously designated as held for sale or for distribution to owners,
  - IFRS 7 *Financial Instruments: Disclosures*, specifies the criteria for evaluating service contracts in the context of continued involvement with the given asset,
  - IAS 19 *Employee Benefits*, introduces the requirement to make reference to market yields on government bonds in a given currency (and not only in a given currency in a given country) in the discount rate used to measure post-employment employee benefits, if there are no highly-liquid, low-risk corporate bonds,
  - IAS 34 *Interim Financial Reporting*, with respect to disclosing information elsewhere in the interim financial report.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not significantly affect the financial statements of the Company.

2. Main accounting policies(continued)

- **Amendments to IAS 1 Presentation of Financial Statements titled Disclosure Initiative**. This document introduces guidelines on questions involving the evaluation by preparers of financial statements of the materiality of presented financial data, their aggregation and disaggregation, in terms of both the amount and nature, the manner of presenting partial data and the need to analyse disclosures required by the standards in terms of their materiality. An entity should not present immaterial information, even if a given standard describes it as the minimum scope of disclosure. An entity may however provide information which is not required if it could lead to a better understanding by the user of the financial statements of the impact of particular transactions on an entity's assets and financial results.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not significantly affect the financial statements of the Company.

- **Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures titled Investment Entities: Applying the Consolidation Exception.**
  The amendments in IFRS 10 confirm that parent entities which are subsidiaries of investment entities are also excluded from the requirement to prepare consolidated financial statements under condition that all of the subsidiaries are measured by their parent entities at fair value through profit or loss.

  These amendments will be effective for annual periods beginning on or after 1 January 2016, and will not affect the financial statements of the Company.

2.2 Accounting policies

2.2.1 Property, plant and equipment

Property, plant and equipment are tangible items that:

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

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

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

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

As at the end of the reporting period, items of property, plant and equipment are recognised at cost less accumulated depreciation and accumulated impairment losses (detailed description in **note 2.2.4**).

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

2. Main accounting policies (continued)

Items of property, plant and equipment (excluding land) **are depreciated,** depending on the model of consuming the economic benefits from the given item of property, plant and equipment:

- using **the straight-line method,** for items which are used in production process at equal level throughout the period of their usage,
- using **the units of production method,** for items in respect of which the consumption of economic benefits is directly related to the quantity of units produced but whose production is not spread evenly through the period of their usage. The Company uses units of production method for production equipment of the gas-steam blocks. The basis for calculating depreciation, using the units of production method, is the estimated number of units to be generated, i.e. the number of megawatt-hours (MWh) during the useful life of the blocks, taking into account the individual useful lives of fixed assets. The monthly amount of production units generated in MWh is the basis for calculating depreciation, while simultaneously the number of planned units to be generated in the later period decreases.

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

For individual groups of fixed assets, the following useful lives have been adopted:

- buildings and civil engineering objects: 25 - 60 years;
- technical equipment and machines: 4 - 15 years;
- motor vehicles: 3 - 14 years; and
- other property, plant and equipment, including tools and instruments: 5 – 10 years.

In addition, the Company performs regular reviews of its property, plant and equipment in terms of the adequacy of applied useful lives to current operating conditions. The results of the review performed in 2014 of depreciation rates are presented in this report in **note 3 point b.**
Depreciation begins when an item of fixed assets is available for use. Depreciation ceases at the earlier of the two dates: when the asset is classified as held for sale (or included as part of a disposal group which is classified as held for sale) in accordance with IFRS 5 *Non-current assets held for sale and discontinued operations* or when it is derecognised upon disposal or retirement.

The individual significant parts of an item of property, plant and equipment (significant components), whose useful lives are different from the useful life of the given asset as a whole and whose cost is significant in comparison to the cost of the item of property, plant and equipment as a whole, are depreciated separately, applying a depreciation method which reflects the model of consuming economic benefits derived from the relevant fixed asset component, as well as its anticipated useful life.

The asset's carrying amount includes costs of necessary regular major overhauls, including costs of overhauls for the purpose of certification.
Specialised spare parts and spare equipment with a significant initial cost and an anticipated useful life of more than 1 year are recognised as an item of property, plant and equipment. Other spare parts and servicing-related equipment are recognised as inventories and accounted for in profit or loss at the moment they are used.

A fixed asset is derecognised when it is sold, decommissioned or if no future economic benefits are expected to be derived from its use or disposal.

2.2.2 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when the flow of economic benefits is probable and the costs can be measured reliably.
Other borrowing costs are recognised as an expense when incurred.
Borrowing costs are interest and other costs incurred by an entity in connection with the borrowing of funds. Borrowing costs include in particular:

- interest expenses calculated based on the effective interest method in accordance with IAS 39;
- financial costs due to financial leasing contracts recognised in accordance with IAS 17;
- exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to the similar financing costs.

Eligible for capitalisation are: specific financing costs (the amount being a difference between the actual borrowing costs and the revenues from the temporary investment of the borrowed funds) and general financing costs (costs recognised using the capitalisation rate).

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

2. Main accounting policies (continued)

The capitalisation of borrowing costs starts with the joint fulfilment of the following conditions:

a/ expenditures for the asset are being incurred,
b/ borrowing costs are incurred, and
c/ actions necessary to prepare the asset to the intended use or sale are in progress.

The capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

The capitalisation of borrowing costs is suspended during prolonged breaks in the active performance of investment activity in relation to the qualifying assets, unless such a break is a normal element for the given type of investment. The borrowing costs incurred during the time of the break not constituting the normal element for the given investment, affect the costs of the period.

Exchange differences on borrowings drawn in a foreign currency affect the initial value of the qualifying asset to the extent in which it represents an adjustment of financing costs incurred in the foreign currency in which the borrowing was drawn. The amount of the exchange differences adjusting the financing cost is the difference between the cost of interest on equivalent financing which an entity would have drawn in its functional currency and the financing cost incurred in the foreign currency.
The borrowing costs eligible for capitalisation are settled in the annual reporting period.

If the capitalised borrowing costs increase the value of the qualifying asset and it exceeds its recoverable value, an impairment loss is recognised by the Company.

If the initial value of the qualifying asset was written down, then in the calculation of the capitalisation rate the gross initial value of this asset is taken into account.

2.2.3 Intangible assets

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

On initial recognition, intangible assets are measured at cost.

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

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

Exchange differences which arise from liabilities in a foreign currency which are related to the acquisition or construction of an item of intangible assets are recognised in profit or loss in the period in which they are incurred.
At the end of the reporting period intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses (details on the impairment of non-financial assets are described in **note 2.2.4**).

Intangible assets are amortised using the straight-line method over their anticipated useful lives, which for individual groups of intangible assets are as follows:

- development costs: 5 – 15 years;
- software: 2 – 5 years;
- acquired property rights (concessions, patents, licenses and mining usufruct): 5 -50 years; and
- other intangible assets, including rights to geological information: 50 years.

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

2. Main accounting policies (continued)

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

Exploration and evaluation assets

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

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

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

If an exploration right could not be exercised without the acquisition of the right to land in which the mineral resources are situated, the acquired land rights together with the respective concession are classified as intangible assets at the stage of exploration for and evaluation of mineral resources.
Exploration and evaluation assets are measured at the moment of initial recognition at cost. For purposes of subsequent measurement the Company applies a measurement model based on cost less any accumulated impairment.

The following expenditures are classified as exploration and evaluation assets:

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

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

The Company is required to test a separate entity (project) for impairment when:

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

2.2.4 Impairment of non-financial assets

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

2. Main accounting policies (continued)

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

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

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

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

2.2.5 Investments in subsidiaries and joint ventures

Subsidiaries

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

- fair value, less costs to sell, and
- value in use.

Joint Ventures

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

- fair value, less costs to sell, and
- value in use.

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

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

2.2.7 Financial Instruments

2.2.7.1 Classification of financial instruments

Financial instruments are classified into one of the following categories:

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

2. Main accounting policies (continued)

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

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

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

Financial assets and liabilities measured at fair value through profit or loss

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

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

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

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.
Loans and receivables in the statement of financial position are included in the item: trade and other receivables.

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

Available-for-sale financial assets

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

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

Other financial liabilities

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

2. Main accounting policies (continued)

Hedging instruments

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

2.2.7.2. Initial measurement and derecognition of financial instruments

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

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

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

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

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

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

Loans and receivables

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

Other financial liabilities

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

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition; and
- financial guarantee agreements, measured at the higher of two amounts: the amount determined in accordance with **note 2.2.15 Provisions**, or the amount initially recognised less cumulative amortisation recognised according to IAS 18 *Revenue*.

2.2.7.4. Fair value

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

2. Main accounting policies (continued)

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

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

The fair value of negatively-valued derivatives takes into account adjustments for the risk of non-performance by the Company, which includes a credit risk assessment of the entity. The fair value of positively-valued derivatives takes into account adjustments for credit risk related to a counterparty, i.e. the risk of the counterparty becoming insolvent prior to the expiry of the relevant contract. The Company quantifies its own credit risk and counterparty credit risk when measuring financial instruments at fair value, using the simulation of future exposures approach with data implied from the current market quotations of financial instruments.

The fair value of unquoted debt instruments is determined as the present value of future cash flows discounted using the prevailing interest rate.

The fair value hierarchy

Assets and liabilities measured at fair value in the statement of financial position, or those which are not measured at fair value but for which information about their fair value is disclosed, are classified by the Company using the fair value hierarchy that categorises the inputs into three levels, depending on their availability:

- level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- level 2 inputs are inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly; and
- level 3 inputs are unobservable inputs for the asset or liability.

In cases where the inputs used to measure the fair value of an asset or a liability might be categorised within different levels of the fair value hierarchy, the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The fair value measurement of the Company's derivatives is classified under level 2 of the fair value hierarchy, while measurement of equity instruments is classified under level 1 of the fair value hierarchy.

2. Main accounting policies (continued)

2.2.7.5. Impairment of financial assets

At the end of each reporting period an assessment is made of whether there is objective evidence that a financial asset or a group of financial assets is impaired. The following are considered significant objective indicators (evidence of impairment): significant financial difficulty of the debtor, legal action being taken against the debtor, the disappearance of an active market for a given financial instrument, the occurrence of significant unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the continuing substantial decrease or prolonged decrease of the fair value of an equity instrument below its cost.

In the case of equity instruments measured at fair value and classified as available-for-sale financial assets, the Company recognises an impairment loss, if the decrease in the fair value of the financial equity instrument below its cost is prolonged for a period of at least 12 months or if the decrease in the fair value versus the cost of the financial equity instrument amounts to at least 20 percent.

If any such evidence exists, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and reclassified to profit or loss as an adjustment from reclassification.

Impairment losses on equity instruments recognised in profit or loss shall be reversed through other comprehensive income. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.
If evidence of potential impairment of loans and receivables or of held-to-maturity investments measured at amortised cost exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate calculated at the initial recognition for fixed interest rate assets, and the effective interest rate computed at the last revaluation for floating interest rate assets). Any impairment loss is recognised in profit or loss.
Receivables and loans, as well as held–to-maturity investments which are measured at amortised cost, are individually tested for impairment at the end of each reporting period. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets' portfolio). Due to the nature of the sales of KGHM Polska Miedź S.A. and a restrictive policy towards credit risk, the Company analyses receivables primarily on an individual basis (regardless of their significance) in terms of the existence of impairment indicators and recognition of impairment allowances.

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

2.2.7.6 Offsetting a financial asset and a financial liability

The Company offsets a financial asset and a financial liability and presents the net amount in the statement of financial position when, and only when, the Company:

a) currently has a legally enforceable right to set off the recognised amounts; and
b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In the statement of financial position of KGHM Polska Miedź S.A., the Company presents the net amount of receivables and financial liabilities relating to cash pooling.

2.2.7.7. Hedge accounting

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

The Company uses natural hedging through the use of hedge accounting for loans denominated in USD, and designates them as hedging instruments for foreign currency risk, which relates to future revenues of the Company from sales of copper, silver and other metals, denominated in USD.

The Company uses hedge accounting for cash flow hedges.

2. Main accounting policies (continued)

Derivatives used in cash flow hedges

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

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

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

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

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

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

Discontinuation of hedge accounting

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

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

2.2.8 Inventories

Inventories consist of the following:

- materials,
- half-finished products and work in progress,
- finished goods, and
- merchandise, including granted or purchased certificates of origin for energy from renewable energy resources, cogeneration and granted energy efficiency certificates.

Inventory additions are measured in accordance with the following principles:

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

Inventory disposals are measured in accordance with the following principles:

- materials and merchandise – at average cost based on the weighted average cost of a given item;
- property rights to coloured energy and energy efficiency certificates - using the FIFO method; and

2. Main accounting policies (continued)

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

Inventories are measured in accordance with the following principles:

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

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

Estimates of net realisable value are based on the most reliable evidence available at the time of preparing such estimates as regards anticipated amounts realisable from the sale of inventories. The net realisable value of inventories held to satisfy firm sales is based on the contract price.
Materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.

Property rights resulting from certificates of origin for energy from renewable energy resources, cogeneration and from energy efficiency

Property rights to energy are certificates of origin for energy, which are confirmation of generation of electricity in licensed renewable energy resources (RSE) or in sources operating in cogeneration (high-efficiency combined heat and power units). Electrical energy is generated in the following ways:

- using renewable energy resources (RSE), confirmed by so-called green property rights;
- in gas-fired cogeneration units or in plants with total installed power up to 1 MW, confirmed by so-called yellow property rights;
- in cogeneration units fired by methane or by gas obtained from biomass processing, confirmed by so-called violet property rights; and
- in other units operating in high-efficiency cogeneration, confirmed by so-called red property rights.

The acquired property rights are recognised as merchandise in the statement of financial position. At the date of acquisition, the property rights are measured at cost.
The certificates of origin for energy from renewable energy resources, cogeneration and certificates under the Energy Efficiency Act which are acquired from, granted and allocated by the President of the Energy Regulatory Office are recognised as merchandise and are measured on the initial recognition date at fair value.

At the end of the reporting period property rights granted are measured at initial value less any impairment, however no higher than the net realisable value.

Disposals of property rights and energy efficiency certificates are based on the FIFO method. Disposals resulting from sales are charged to profit or loss and are recognised as the cost of the merchandise sold. Revenues from sales of property rights with respect to energy and energy efficiency certificates is recognised in profit or loss as revenues from merchandise sold.

In accordance with the requirement to depreciate property rights and energy efficiency certificates, the Company creates relevant provisions (within accrued expenses). These provisions are calculated cumulatively during the reporting period.

2.2.9 Trade and other receivables

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

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

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

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

2. Main accounting policies (continued)

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

The following are regarded as receivables:

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

2.2.10 Cash and cash equivalents

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

2.2.11 Equity

Equity in the financial statements of the Company consists of:

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

2.2.12 Liabilities

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

- liabilities arising from bank and other loans (borrowings) and finance lease liabilities;
- trade payables;
- liabilities arising from the acquisition or construction of tangible and intangible assets; and
- other financial and non-financial liabilities.

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

2.2.13 Accrued expenses

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

Accruals include among others:

- remuneration and the related surcharges paid on a one-off basis, relating to annual periods;
- costs recorded in accounting books related to taxes and local fees;
- short-term accruals for unused annual leave;
- accruals for costs of purchase of property rights resulting from certificates of origin of energy from renewable resources and cogeneration; and
- accruals for the costs of depreciation of CO_2 emissions allowances.

2. Main accounting policies (continued)
2.2.14 Deferred income

Deferred income includes mainly cash received to finance the purchase or construction of fixed assets under construction or development work, which are recognised in profit and loss on a systematic basis over the useful life of the asset, i.e. in accordance with the depreciation charges of the respective assets financed from these sources and granted ETS allowances, according to emission rights granted (CO_2) and energy efficiency certificates.

2.2.15 Provisions

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

Provisions are recognised, in particular, in respect of the following:

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

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

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

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

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

The discount rate calculation methodology used to measure provisions is described in **note 3(j)**.

2.2.16 Employee benefits

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

The amount of the liability due to these benefits is equal to the present value of the defined benefit obligation at the end of the reporting period, and reflects actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the end of the reporting period by independent actuaries using the Projected Unit Credit Method.
The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of the future benefits payments, with maturities similar to those of the liabilities due to be paid. According to IAS 19 *Employee Benefits*, the discount rate should be based on the market yields of highly liquid commercial bonds with low risk. Should there be no developed market for such bonds, and such a situation does exist in Poland, the market yields on government bonds at the end of the reporting period should be applied. Details on the methods of estimating discount rates are discussed in **note 3(i)**.

2. Main accounting policies (continued)

Actuarial gains and losses from the measurement of specified benefits programs following the period of employment are recognised in other comprehensive income in the period in which they arose. Actuarial gains/losses from other benefits, (for example benefits due to jubilee bonuses) are recognised in profit or loss. Costs of past employment related to defined benefit plans, are recognised in profit or loss once in the period in which they arose.

2.2.17 Income tax

Income taxes recognised in profit or loss comprise: current tax and deferred tax.
Current income tax is calculated in accordance with current tax laws.

Deferred tax is determined using tax rates and laws that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates and tax laws that have been enacted or substantively enacted at the end of the reporting period.

A deferred tax liability is recognised for taxable temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. This liability is not discounted.
A deferred tax asset is recognised for deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised if it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

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

Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:

- is not a business combination; and
- at the time of the transaction, affects neither the accounting profit nor taxable profit.

Deferred tax is recognised in profit or loss for a given period, unless the deferred tax:

- arises from transactions or events which are directly recognised in other comprehensive income – in which case the deferred tax is also recognised in the appropriate other comprehensive income; or
- arises from a business combination – in which case the deferred tax affects goodwill or gain on a bargain purchase.

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

2.2.18 Contingent assets and liabilities

A contingent asset is:

a) a possible asset that arises from past events, and

b) whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company.
Contingent assets are assessed systematically, are recognised in the off-balance sheet register and disclosed in the financial statement when an inflow of economic benefits is probable.

If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related revenue are recognised in the financial statement of the period in which the change occurs.

A contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or
b) a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
- the amount of the obligation (liability) cannot be measured with sufficient reliability

2. Main accounting policies (continued)

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

Contingent liabilities include, among others:

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

2.2.19 Presentation of income and costs in the reporting period

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

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

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

Consequently, in the group of items which, under IFRS, will be reclassified to profit or loss when specified conditions are met, the following are recognised:

- gains and losses of the period regarding the fair value measurement of available-for-sale financial assets including the related tax effect; and
- gains and losses from the fair value measurement of the effective portion of future cash flow hedging instruments, including the related tax effect.

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

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

2.2.20 Revenues

Sales revenues include revenues arising from the current operating activities of the Company (i.e. revenues from sales of products, services, merchandise and materials, reflecting any rebates granted and any other reductions in selling prices). Sales revenues are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. In the case of sales for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale.
Sales revenues are adjusted for the gain or loss from the settlement of derivatives hedging future cash flows, in accordance with the principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same item of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

<u>Sales revenues from products, merchandise and materials are realised, when:</u>

- the Company has transferred to the buyer the significant risks and rewards of ownership of the merchandise, finished goods and materials;
- the Company neither retains continuing involvement in the management of merchandise, finished goods and materials sold to the extent associated with management function for inventories to which it has ownership rights, nor effective control over those items;
- the amount of revenue can be measured in a reliable manner;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

<u>Revenues from the sale of services are realised, when:</u>

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company;

2. Main accounting policies (continued)

- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs connected with the transaction and the costs to complete the transaction can be measured reliably.

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

In addition, revenue for the given reporting period which affects the profit or loss of the period includes: **other operating income,** indirectly associated with the conducted activities, i.e.:

- income and gains from financial investments, including interest income is recognised on an accrual basis, using the effective interest method,
- gains from the measurement and realisation of trading derivatives and the ineffective portion of gains from the realisation and fair value measurement of derivative hedging instruments;
- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities;
- reversal of impairment losses on held-to–maturity investments, available-for-sale financial assets, and loans and shares in subsidiaries and joint ventures;
- release of unused provisions, previously charged to other operating costs;
- gains on disposal of property, plant and equipment and intangible assets; and

finance income, mainly representing income related to financing the Company's activities, including:

- net foreign exchange gains, arising exclusively on liabilities representing sources of finance for the Company's activities (bank loans, finance leases etc.).

2.2.21 Costs

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

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income received, i.e. applying the matching principle, through prepayments and accruals.

In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the end of each reporting period is adjusted by any change in the fair value of embedded derivatives, which are separated from the host purchase contract.

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

The total cost of products, merchandise and materials sold comprises:

- the manufacturing cost of products sold;
- the cost of merchandise and materials sold;
- selling costs; and
- administrative expenses.

In addition, costs for the given reporting period which affect profit or loss for the period include:

other operating costs, indirectly connected with performed activities, including in particular:

- costs and losses on financial investments;
- losses from the measurement and realisation of traded derivatives and the ineffective portion of losses arising from the realisation and fair value measurement of derivative hedging instruments;
- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities;
- impairment losses on held-to–maturity investments, available-for-sale financial assets, loans and on shares in subsidiaries and joint ventures;
- provisions recognised for disputed issues, penalties, compensation and other costs indirectly related to operating activities;
- donations granted; and
- losses on disposal of property, plant and equipment and intangible assets;

2. Main accounting policies (continued)

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

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

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

Transactions and balances

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

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

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

2.2.23 Leases

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

2.2.24 Government grants

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

Monetary government grants for assets are presented in the statement of financial position as deferred income. These grants are recognised systematically as income over the periods necessary to match them with the related costs which they are intended to compensate. They are not credited directly to equity.
Grants related to assets which are recognised systematically according to capitalised depreciation are also capitalised.

2. Main accounting policies (continued)

Grants related to energy efficiency certificates (grants related to assets) are recognised in the statement of profit or loss as other operating income systematically in accordance with the depreciation of property, plant and equipment, whose purchase/manufacturing resulted in the creation of energy efficiency confirmed by energy efficiency certificates (white certificates).

Grants related to income in the statement of profit or loss compensate costs to which they relate up to the value of these costs. Grants which exceed the value of the cost to which it relates are recognised as other operating income.
Grants related to property rights to coloured energy decrease the production cost of energy.

Grants related to CO_2 emission rights decrease the value of the provision which is created in accordance with the obligation to their depreciation (submission).

Grants are recognised uniformly, regardless of whether they were received in the form of cash or as a decrease of liabilities.

2.2.25 Segment reporting

Segment reporting involves the grouping of operating segments at the level of entity components:

- that engage in business activities from which it may earn revenues and incur expenses;
- whose operating results are reviewed regularly by the entity's chief operating decision maker to use these results to make decisions about resources to be allocated and assess segment results; and
- for which discrete financial information is available.

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

2.2.26 Management of capital

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

In accordance with market practice, the effective use of capital is monitored among others based on the following ratios:

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

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

2.2.27 Earnings per share

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

2.2.28 Statement of cash flows

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

3. Important estimates and assumptions

In preparing the financial statements, estimates are used which are based on assumptions and judgements which affect the applied accounting principles and presented assets, liabilities, income and costs. The estimates and assumptions on which they are based result from historical experience and the analysis of various factors which are considered to be reasonable, while their results represent the basis for professional judgment as to the value of the item which they concern. In certain vital questions the Management Board relies on the opinions of independent experts.
Estimates and assumptions of importance for the financial statements of the Company are presented below.

(a) Assessment of risk of impairment of assets of KGHM Polska Miedź S.A. in terms of the market capitalisation

Under IAS 36, one of the reasons to perform impairment testing of assets is to assess whether the carrying amount of the net assets of KGHM Polska Miedź S.A. exceeds the Company’s market capitalisation.
In accordance with its adopted accounting policies, KGHM Polska Miedź S.A. recognises the following indications to perform impairment testing of the carrying amount of the Company’s net assets: a significant decrease in market capitalisation (by 20%) or a prolonged decline in market capitalisation (over a period of 12 months) versus the carrying amount of net assets.
Taking into consideration the 200 000 000 shares issued by KGHM Polska Miedź S.A., the Company’s market capitalisation in the first half of 2014 and in December 2014 was below the carrying amount of the Company’s net assets. In 2014 the share price of KGHM Polska Miedź S.A. decreased by 7.75%, from PLN 118.00 per share at the end of 2013 to PLN 108.85 per share at the end of 2014. In addition, it was noted that in 2014 the share price rose above PLN 118.00 per share from the end of 2013.
Taking into consideration the insignificant and short-term decrease in the Company’s market capitalisation in 2014 versus the carrying amount of the Company’s net assets, the Company did not perform an impairment test of these assets.

(b) Useful economic life of property, plant and equipment

The Management Board of the Company performed an annual review of the useful lives of depreciable property, plant and equipment and the depreciation methods applied. As a result of the review of the useful lives of property, plant and equipment, prepared in 2014 in accordance with the Depreciation Rules of Property, Plant and Equipment of KGHM Polska Miedź S.A. with respect to depreciation rates adopted as at 31 December 2013 caused a decrease in depreciation costs for 2014 in the amount of PLN 44 million, of which PLN 31 million was due to implementation of new depreciation rates in the Depreciation Rules of Property, Plant and Equipment for motorised mining rigs, which resulted in the extension of the estimated useful lives by 1-1.7 years, corresponding to their estimated useful lives.
In 2014 the Company has introduced for use a units produciton method. This method is used for production equipment of the gas-steam blocks. The basis for calculating depreciation costs is the estimated number of units to be generated (MWh) during the useful lives of the equipment (taking into account the individual lives of fixed assets). The depreciation calculated using the units production method amounted to PLN 3 million in 2014 and in subsequent years will increase in parallel with the amount of generated production units.
The Management Board believes that the useful lives and adopted depreciation methods reflect the anticipated economic benefits which these assets will provide in the future.

(c) Test for impairment of intangible assets not yet available for use

In accordance with IAS 36, the Management Board of the Company performed an annual estimate of recoverable amount of intangible assets which are not yet available for use.
The tests performed at the end of the reporting period did not identify any impairment of these assets.

(d) Assessment of exploration and evaluation assets for impairment

Taking into consideration the current stage of advancement of the projects classified to exploration and evaluation assets and positive results of the work carried out, the Management Board of the Company did not identify any indicators that the carrying amount of exploration and evaluation assets may exceed their recoverable amount.

3. Important estimates and assumptions (continued)

(e) Joint ventures (jointly controlled entities)

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

The Company classified, as a joint venture under IFRS 11, the project-agreement „Elektrownia Blachownia Nowa" signed between KGHM Polska Miedź S.A. and TAURON Wytwarzanie S.A. aimed at building a gas-fired source of power generation on the grounds of the existing Blachownia Power Plant.

In 2013, an agreement was signed by KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A., based on which it was decided to temporarily suspend the project to build a gas-steam block in the company "Elektrownia Blachownia Nowa" Sp. z o.o.This was due to the current situation on the electricity and natural gas market, resulting in higher investment risk and subsequently need to review and optimise the project.

The Parties committed themselves to ensure the functioning of the company "Elektrownia Blachownia Nowa" Sp. z o.o. including to secure the results of the Project achieved to date and to continued monitoring of the energy market and the regulatory environment, in terms of the possibility to rapidly re-commence realisation of the project.

The Parties to the agreement agree that a decision to re-commence the Project will be made in the form of a separate agreement, which in accordance with the Parties' expectations should be signed by 31 December 2016.

There were no important changes in the current reporting period on the energy market which would justify restarting of the project – to build a gas-steam block. Due to the continuing unfavourable environment in the electricity and natural gas market, the investment held in the company „Elektrownia Blachownia Nowa" Sp. z o.o. were tested for impairment.

As a result of this test, the recoverable amount was set at PLN 18 million. This amount was lower than the carrying amount of the investment (PLN 33 million), which justified the recognition of impairment loss in the amount of PLN 15 million.

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

In accordance with accounting policy, the Company measured the fair value of the investment in Tauron Polska Energia S.A., whose shares are listed on the Warsaw Stock Exchange. At the end of the reporting period the fair value of this investment was higher then its carrying amount, and as a result there was a partial reversal of an impairment loss recognised in prior periods in the amount of PLN 124 million, which was recognised as an increase of other comprehensive income.

As at 31 December 2014 the carrying amount of the shares of Tauron Polska Energia S.A. was PLN 920 million (as at 31 December 2013, PLN 796 million).

(g) Impairment testing of shares in subsidiaries

In order to determine the recoverable value of shares, the Management Board prepares an estimate of projected cash flows due to the continuance of investments, and of rates used to discount these cash flows to present value. In determining present value, assumptions are made in respect of projected company's financial results over the next several years, based on future events and circumstances which could differ from amounts actually achieved, and which in future reporting periods could lead to adjustments in the values of shares in subsidiaries.

In the current period, due to the identification of impairment indicators, in accordance with IAS 36, the Company tested the investments in subsidiaries for impairment. The measurement was classified to level 3 of the fair value hierarchy under IFRS 13. The tests for impairment performed in the current period were with respect to:

(g.1) Investment in the company Fermat 1. The company Fermat 1 was created in 2011 as a result of the process of creating a holding structure related to the acquisition of the company Quadra FNX Mining. In 2012 the shares of Quadra FNX Mining (today KGHM INTERNATIONAL LTD.) were acquired. The core business of the acquired group of companies is metal mining, including copper, gold, nickel and platinum, in mines operated in the USA, Canada and Chile (the largest of which are Robinson, Morrison, Franke and Carlota mines), as well as mining projects at the pre-operational stage, of which the most important are Sierra Gorda in Chile and Victoria in Canada.

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

3. Important estimates and assumptions (continued)

While assessing whether there were indications of an impairment of the value of the shares of Fermat 1, the Management Board identified facts and circumstances suggesting the possibility of impairment of the assets of the Robinson mine, which belongs to KGHM INTERNATIONAL LTD. (100% ownership) and the Sierra Gorda project (55% ownership), which are separate cash generating units (CGUs) within Fermat 1.

As a result of the change in the tax system in Chile announced in 2014 which will come into force on 1 January 2017, there arose indications that the value of the investment in Fermat 1 may be impaired due to its participation in one of the investments in that country, i.e. the Sierra Gorda S.C.M. project. The carrying amount of the Cash Generating Unit Sierra Gorda within Fermat 1 was estimated to be USD 1 236 million (PLN 4 333 million based on the average exchange rate from 31 December 2014 announced by the National Bank of Poland). To determine the recoverable amount during the testing, an estimate was made of the fair value of the tested assets less costs to sell, making use of the DCF method, i.e. the method of discounted cash flows.

Calculation of the recoverable amount was performed on the basis of the projected results, assuming:

- completion of the investment's second phase, comprising development of the mine's existing infrastructure (assuming an increase in the mine's processing capacity)
- prolongation of the mine's life as a result of mining the mineralized areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, based on the infrastructure of the investment's second stage;
- Completion of the oxide ore project (Oxide), with estimated production of 342 thousand tonnes of copper in 2017-2032;
- a copper and molybdenum price curve based on internal macroeconomic assumptions adopted by the Company and incorporating the median of available, multiannual forecasts of financial and analytical institutions.
- selection of a corporate income tax model for business activities in Chile which assumes a target corporate income tax rate of 27% starting from 2018, which will be paid on taxable income earned by the company in a given year as well as additional taxation on foreign companies equal to the difference between the 35% tax rate and the paid tax rate of 27% (effectively 8% of taxable income, representing 11% of taxable income less income tax paid by the company) paid when profit is distributed. In order to make use of this taxation option the foreign shareholder must meet the condition of tax residency in a country with which Chile has an agreement to avoid double taxation. KGHM Polska Miedź S.A. is in the process of creating an organisational structure which will allow this option to be chosen, while achievement of these changes is not restricted by any external factors.

Key assumptions used in the measurement:

Mine life/forecast period	42 years (to 2056)
Saleable metals production	26,0 billion pounds of copper (86% of revenues), 813 million pounds of molybdenum (10% of revenues), 2.4 million ounces of gold (3% of revenues), 77.4 million ounces of silver (1% of revenues)
Average operating margin during mine life	44.6%
Capital expenditures	USD 5 803 million to be incurred in the years 2015-2056 (of which USD 3 054 million by 2018, USD 2 749 million in the period 2019-2056)
Applied income tax rate	for the years 2015–2017 - 22.5%- 25.5% from 2018 - 27%
Applied discount rate after taxation	
- for the existing Catabella mine	8%
- for the mineralized areas – Pampa Lina and Salvadora	9%

As a result of this testing a fair value less costs to sell of 2% was determined for Sierra Gorda at the level of USD 1 275 million (PLN 4 472 million based on the average exchange rate from 31 December 2014 announced by the National Bank of Poland), which exceeded the carrying amount of the investment in the Sierra Gorda mine within the investment of KGHM Polska Miedź S.A. in Fermat 1, which did not form the basis for recognising an impairment loss, and therefore there was no impairment on the investment in Fermat 1.

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

3. Important estimates and assumptions (continued)

The performed sensitivity analysis of the recoverable amount of investment in Sierra Gorda shows that the key assumptions used in testing for impairment are: adopted price curves and the discount rate. Assumptions concerning the price curves and the discount rate were adopted while taking into account the professional judgment of the Management Board with respect to changes to these amounts in the future, which was reflected in the calculation of the recoverable amount. It was decided that, for the purposes of monitoring the risk of impairment of the investment in Sierra Gorda in subsequent reporting periods, the recoverable amount would be lower than the carrying amount if the average annual copper prices for the years 2015-2024 were to decrease by approx. 1.0% versus to the adopted assumptions, or if the discount rate increased by approx. 1.25% versus the adopted assumptions.

During the analysis performed to identify indications under IAS 36, the Management Board also identified indications to perform a test for impairment of the assets of the Robinson mine due to a deterioration of ore quality.

The carrying amount of the CGU Robinson mine within Fermat 1 was estimated at a level of USD 340.1 million (PLN 1 193 million based on the average exchange rate from 31 December 2014 announced by the National Bank of Poland). For purposes of estimating the recoverable amount during this testing a fair value measurement of the assets of the Robinson mine less cost to sell was set, making use of the DCF method, i.e. the method of discounted cash flows. Assumptions used in estimating the recoverable value of the asset:

Mine life	8 years – according to the planned mine production period
Saleable metals production during mine life	829 million pounds of copper (91% of revenues) and 207 thousand ounces of gold (9% of revenues)
Average operating margin during mine life	38.9%
Capital expenditures	USD 593 million during mine life
Applied income tax rate	35%
Applied discount rate	8%
Price curves	copper and molybdenum price curves, based on internal macroeconomic assumptions adopted by the Company and incorporating the median of available multiannual forecasts of financial and analytical institutions

As a result of this testing a fair value less costs to sell of 2% was determined for the Robinson mine of USD 341 million (PLN 1 196 million based on the average exchange rate from 31 December 2014 announced by the National Bank of Poland), which exceeded the carrying amount of the investment in the Robinson mine within the investment of KGHM Polska Miedź S.A. in Fermat 1 which did not form the basis for recognising an impairment loss, and therefore there was no impairment on the investment in Fermat 1.

The performed sensitivity analysis of the recoverable amount of investment in the Robinson mine shows that the key assumptions used in testing for impairment are the adopted price curves. Assumptions concerning the price curves were adopted while taking into account the professional judgment of the Management Board with respect to copper price changes in the future, which was reflected in the calculation of the recoverable amount. The Management Board, after taking into account the results of the performed analysis, decided that the recoverable amount of the Robinson mine's assets would be lower than the carrying amount if the average copper prices in 2015 were to decrease by approx. 0.25% or if the average copper prices for the years 2016-2022 were to decrease by approx. 0.05%.

In the case of the remaining assets of the Fermat 1 Group (including the remaining assets of KGHM INTERNATIONAL LTD. and KGHM Ajax Mining) there were no indications of the possibility of impairment.

(g.2) investment in the subsidiary KGHM Metraco S.A. In the current reporting period a negative change in operating cash flows in one of the important functional areas formed the basis for performing a test for impairment of the investment in the company, whose total carrying amount as at 31 December 2014 amounted to PLN 420 million. For purposes of estimating the recoverable amount during this testing a fair value measurement of this investment was made, based on the cash flow projections included in the financing plan of KGHM Metraco S.A. making use of the DCF (discounted cash flow) method. Key assumptions used in the measurement:

- KGHM Metraco S.A. continues its previous activities, in particular:
  - the purchase of merchandise to meet the needs of KGHM Polska Miedź S.A. (copper scrap, sulphate liquor and reagents),
  - the sale of KGHM Polska Miedź S.A. products (salt),

3. Important estimates and assumptions (continued)

- the providing services for KGHM Polska Miedź S.A (operating the Sulphuric Acid Terminal in Szczecin),
- the management of industrial waste from KGHM Polska Miedź S.A. (the processing of industrial acid waste for rhenium products, production and sale of road-building material, processing of smelting furnaces linings).

- Cash flows assumed on the basis of the financial plan approved by the Supervisory Board of KGHM Metraco S.A. for the years 2015-2020.
- The period of projected cash flows assumed was in accordance with the financial plan of KGHM Metraco S.A.
- The average annual rate of increase of EBIT during the forecast period: 24.9%; the increase rate reflects the assumed increase in profitability of particular business areas of the company, in particular salt, copper scrap, road-building material and rhenium products.
- CAPEX during the forecast period assumed on the basis of the company's investment plan: PLN 117.5 million.
- Rate of increase applied to extrapolate the cash flows projections after the 5-year forecast period: 2.0%.
- Real discount rate of 4.82% assuming actual macroeconomic and sector parameters.
- Discount for lack of liquidity – 10%
- Value of non-operating assets, including in particular the value of shares of the company CENTROZŁOM WROCŁAW S.A. and the company Walcownia Metali Nieżelaznych „ŁABĘDY" S.A., owned by KGHM Metraco S.A., as well as investment property in the amount of PLN 237 million.

As a result of the impairment testing, a recoverable amount was set at the level of PLN 607 million, which exceeded the carrying amount of the investment and therefore did not provide the basis for recognising an impairment loss.
In accordance with International Financial Reporting Standards, analysis was performed on the sensitivity of the recoverable amount of the investment to key parameters which significantly impact the result of measurement, i.e. the discount rate and the rate of increase following the forecast period, and EBIT.
Assuming a decrease in the rate of increase to extrapolate forecasted cash flows by 1 p.p., i.e. to 1.0%, the recoverable amount would decrease to PLN 556 million, i.e. by 8%, while an increase in the discount rate by 1 p.p., i.e. to 5.82% would result in a decrease in the recoverable amount to PLN 588 million, i.e. by 3%. On the other hand, decreasing either the tonnage of copper scrap supplied to the Divisions of KGHM Polska Miedź S.A., the volume or the selling price of rock salt results in a decrease in the recoverable amount respectively to PLN 605 million, PLN 604 million and PLN 590 million. The recoverable amount of KGHM Metraco S.A. is not significantly sensitive to changes in EBIT, assuming no change in the other parameters.

(g.3) investment in the subsidiary "Energetyka" sp. z o.o. In the current reporting period changes in the business model, which could have a negative impact on operating cash flows through changes in the scope of planned investments, constituted the basis for performing a test for impairment of this investment. As at 31 December 2014, the carrying amount of these shares amounted to PLN 488 million. For purposes of estimating the recoverable amount during this testing a fair value measurement of the asset was made, based on the cash flows projections included in the financing plan of this company, making use of the DCF method, i.e. the method of discounted cash flows. Key assumptions used in the measurement:

- „Energetyka" sp. z o.o. will continue as an on-going concern, mainly in respect of:
  - the generation, transmission and distribution of heat,
  - the generation, transmission and distribution of electricity,
  - water-sewage management,
  - the production of other media (including compressed air, de-mineralised water).
- The plans for the years 2015-2020 assume a change in revenues, mainly with respect to electricity and other media, due to investments of KGHM Polska Miedź S.A. – the commissioning of gas-steam blocks, realisation of the Pyrometallurgy project;
- Cash flows were approved based on the plan for „Energetyka" sp. z o.o. for the years 2015-2020 approved by that company's Supervisory Board;
- The projected cash flows period was assumed based on the financial plan for „Energetyka" sp. z o.o.,
- EBIT rate of increase in the forecasted period 3.3%;
- Investment expenditures during the forecasted period were assumed based on the company's investment plan - PLN 295 million;
- Rate of increase applied to extrapolate the cash flows projections after the 5-year forecast period: 2%;
- Real Discount rate (real) 4.58%, selected by applying a prudent approach to macroeconomic and sector parameters;
- Discount rate for lack of liquidity – 10%; and
- Recoverable amount of investment in the subsidiary WPEC S.A. PLN 224 million (85.2% of the shares)

3. Important estimates and assumptions (continued)

As a result of the impairment testing, a recoverable amount was set of PLN 580 million, which exceeded the carrying amount of the investment and therefore did not provide the basis for recognising an impairment loss.
In accordance with International Financial Reporting Standards, analysis was performed on the sensitivity of the recoverable amount of the assets to key parameters. Assuming a decrease in the rate of increase applied to extrapolate the cash flows projections by 1 percentage point, or to 1%, the recoverable amount decreases to PLN 467 million or by 4%, however by assuming an increase in the discount rate (real) by 1 percentage point i.e. to 5.58%, the recoverable amount decreases to PLN 454 million or by 6%. Because the analysis was based on a prudent, conservative approach as regards the adopted discount rate and the rate of increase after the forecasted period, no significant risk of impairment was identified. Even though the sensivity analysis with respect to changes in discount rate and the discount rate after the forecast period recognised that the recoverable amount was below the investment's carrying amount, due to the prudent approach as regards these rates, the Management Board believes that there is no risk of impairment.
The recoverable amount of „Energetyka" sp. z o.o. is not significantly sensitive to a change in EBIT or to a change in the recoverable amount of the investment in WPEC S.A., assuming that the remaining parameters do not change.

(g.4) investment in the subsidiary Zagłębie Lubin S.A. The reason for performing a test for impairment of this investment was the decrease in sponsorship in the second half of 2014 by the main sponsor – KGHM Polska Miedź S.A. – and by companies from the KGHM Polska Miedź S.A. Group, due to the drop of the 1st Football Team to a lower league. For purposes of estimating the recoverable amount, in the performed test the fair value of the investment was measured based on the company's approved financial plan (using the prudence principle) using the asset - based approach, i.e. the measurement method based on adjusted net assets.

During the analysis, three of the most important assets for the value of the company were identified: the stadium, rights to player cards of the 1st Team and the brand value.

The adjusted stadium value was measured using the DCF method, i.e. the method of discounted cash flows. Key assumptions used to measure the stadium were as follows:

- Period of cash flows projections for the years 2015-2020;
- Assumed decrease level of income in the period 2015-2019;
- Rate of increase applied to extrapolate the projected cash flows: 0%; and
- Discount rate: 7.65%

The adjusted value of the rights to the player cards of the 1st Team was set assuming 50% of the value of published estimates according to the transfer website www.transfermarkt.de.
The adjusted value of the brand was estimated using the relief from royalty method.

As a result of the testing, recoverable amount was set for shares of Zagłębie Lubin S.A. of PLN 83 million, which is lower the carrying amount of the investment, which provide the basis for recognising an impairment loss in the amount of PLN 15 million.
In accordance with International Financial Reporting Standards, analysis was performed on the sensitivity of the recoverable amount of the assets to key parameters impacting the result of measurement:

- Stadium,
  - an increase in the discount rate by 1% causes a decrease in the measurement to PLN 80 million,
  - a decrease in income by 5% results in a decrease in the measurement to PLN 79 million,
- Rights to player cards of the 1st Team - assuming 40% of the value of published estimates according to the transfer website causes a decrease in the measurement to PLN 81 million,
- Brand value - a decrease in the brand value by 10% causes a decrease in the measurement to below PLN 83 million.

The above changes, considered separately, caused a decrease in the recoverable amount of the company below the carrying amount.

(h) Receivables due to loans granted

KGHM Polska Miedź S.A. has granted loans to the companies Fermat 1 S.a r.l. and 0929260 B.C. U.L.C. These loans were granted for the purpose of financing mining projects being advanced by indirect subsidiaries of KGHM Polska Miedź S.A.: KGHM INTERNATIONAL LTD. and KGHM AJAX Mining Inc. As at 31 December 2014 the value of the loans granted (together with accrued interest on the loans) amounted to USD 573 million, or PLN 2 011 million after translation. Their payback period was set in the years 2018 and 2024. According to the financial projections prepared by the Management Board for the companies within the structure of the Fermat 1 S.a r.l. Group and the company 0929260 B.C. U.L.C., expenditures due to repayment of the loans mentioned above were reflected in the plans for those years in which the repayment of the loans comes due. As the settlement of the loans is planned and probable in the foreseeable future, the loans do not represent a net investment as understood by IAS 21.15, and evaluation of their recoverability was made independently of the analysis of the recoverability of the investments in Fermat 1 S.a r.l. and 0929260 B.C. U.L.C. Based on the financial projections prepared, the Management Board of KGHM Polska Miedź S.A. has not identified a threat to the recoverability of the loans granted.

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

3. Important estimates and assumptions (continued)

(i) Future employee benefits

The future employee benefits were estimated using actuarial methods. At the end of the reporting period, based on the opinion of an independent actuary, an appropriate discount rate used for setting the present value of estimated future cash outflow due to these benefits was applied. In setting the discount rate for the reporting period, the actuary extrapolated current interest rates of government bonds along the profitability curve expressed in the currency of the future benefits payments, to obtain a discount rate enabling the discounting of payments with maturities which are longer than the maturities of the bonds.

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

Impact of changes in the indicators on the balance of liabilities

	At 31 December 2014	At 31 December 2013
an increase in the discount rate by 1%	(260)	(168)
a decrease in the discount rate by 1%	348	215
an increase in the coal price and salary increase rates by 1%	335	214
a decrease in the coal price and salary increase rates by 1%	(261)	(172)

A change in the actuarial assumptions as at 31 December 2014 versus the assumptions applied as at 31 December 2013 caused an increase in employee benefits liabilities by PLN 433 million.

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

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

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

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

At 31 December 2014, these provisions were reassessed, applying a discount rate as in the model for provisions for future employee benefits (**note 19**).

Impact of changes in the discount rate on the balance of provision for decommissioning costs of mines and other technological facilities

	At 31 December 2014	At 31 December 2013
an increase in the discount rate by 1%	(324)	(177)
a decrease in the discount rate by 1%	283	265

In financial year 2014 the number of discount periods remained at the same level as in 2013.
The program and schedule for decommissioning technological facilities of KGHM Polska Miedź S.A. and the estimation of decommissioning costs of mines and other technological facilities has been in development since 2001. They are being developed in cooperation with our subsidiary, KGHM Cuprum Sp. z o.o. – CBR. The last estimate of decommissioning costs of other technological facilities was made in 2013. The updated program and schedule for decommissioning technological facilities was developed assuming a timeframe for production from the mines of KGHM Polska Miedź S.A. in current concessioned areas to the year 2063.

3. Important estimates and assumptions (continued)

(k) Contingent assets

Contingent assets are measured at the amount of the most appropriate estimate of probable future economic benefits, taking into account the impact of changes in the time value of money, if its impact is material. As at 31 December 2014 the most important contingent asset was in respect of received guarantees and promissory notes in the amount of PLN 332 million required to secure contractual execution. The details were presented in **note 35**.

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

Contingent and other liabilities not recognised in the statement of financial position are set at the maximum possible payable amount in case there is a need to repay the liabilities. The details were presented in **note 35**.

(ł) Deferred tax assets/liabilities

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

The probability of realising the deferred tax assets with future tax income is estimated on the basis of the Company budget approved by the Supervisory Board. The projected financial results indicate that the Company will achieve taxable income which will enable to deduct the capitalised differences.

4. Operating segments

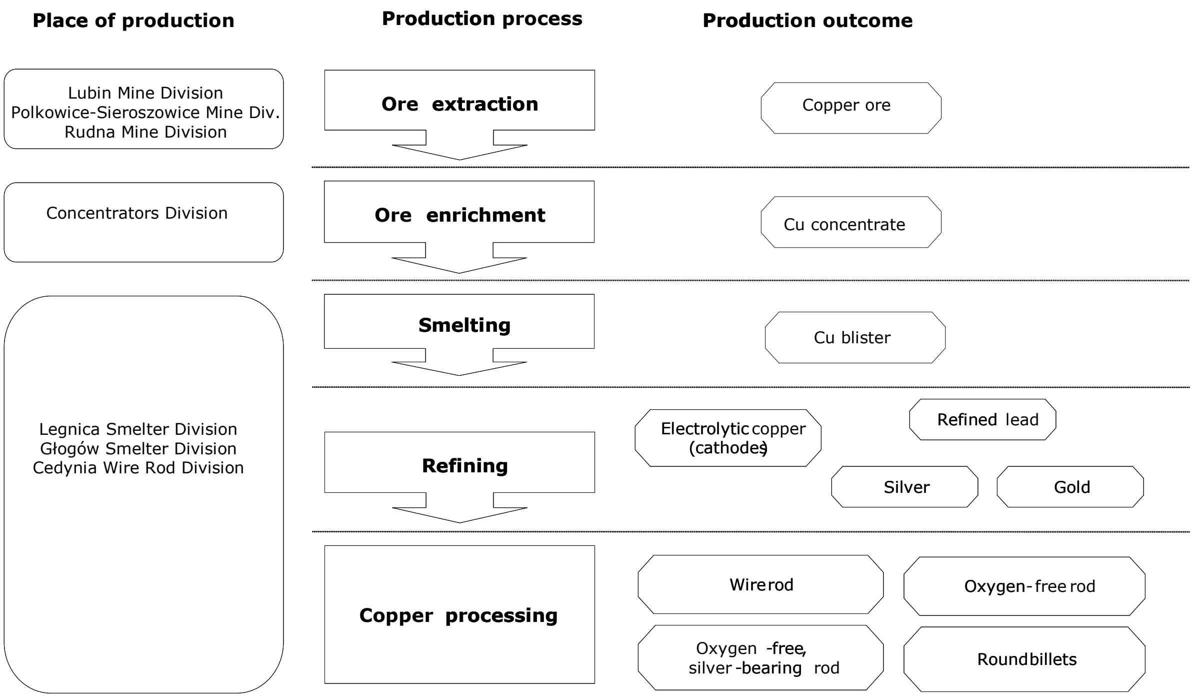
Based on the analysis of the Company's organisational structure, the system of internal reporting and the management model, it was determined that the Company's activity represents a single operating and reporting segment, which may be defined as „Production of copper, precious metals and other smelter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

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

4. Operating segments (continued)

Production of main products

In 2014 the Company produced 577 thousand tonnes of electrolytic copper and 1 256 tonnes of metallic silver (in 2013, 565 thousand tonnes of electrolytic copper and 1 161 tonnes of metallic silver respectively). During this period, the production of copper and silver in own concentrate amounted respectively to 421 thousand tonnes of Cu and 1 186 tonnes of Ag. The C1 cash cost[1] of payable copper production in own concentrate amounted respectively to 1.82 USD/lb in 2014 and 1.78 USD/lb in 2013.



The increase in the C1 cost in 2014 versus 2013 was mainly a result of: the lower value of silver and gold (due to their lower prices) in by-products (+0.18 USD/lb), alongside the cost-limiting factors: a decrease in the value of the minerals extraction tax (-0.10 USD/lb) and a lower concentrate production cost (- 0.04 USD/lb).

Assets and liabilities of the segment	At 31 December 2014	At 31 Decenber 2013
Assets	32 312	29 038
Liabilities	8 035	5 740

Production assets and investments in subsidiaries represent the main assets in the segment. Production assets comprise property, plant and equipment with a net carrying amount of PLN 11 562 million as at 31 December 2014 (as at 31 December 2013, PLN 9 744 million), representing 36% of total assets. Accumulated depreciation of property, plant and equipment as at 31 December 2014 amounts to PLN 8 793 million (as at 31 December 2013 PLN 8 373 million). The property, plant and equipment and intangible assets of the segment are all located in Poland (details in **notes 5** and **6**).

As at 31 December 2014 the value of shares and investment certificates in subsidiaries amounts to PLN 11 760 million (as at 31 December 2013 PLN 11 744 million).

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

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

4. Operating segments (continued)

Capital expenditures on property, plant and equipment and intangible assets of the segment

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Capital expenditures by type of activity	**2 395**	**2 321**
Mining	1 620	1 478
Metallurgy	696	671
Other activities	79	172
Incomplete capitalised development	**21**	**36**
Total	**2 416**	**2 357**
Capital expenditures by project	**2 395**	**2 321**
Local	1 061	1 278
Central	1 334	1 043
Incomplete capitalised development	**21**	**36**
Total	**2 416**	**2 357**

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

Segment profit or loss

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Sales revenue	**16 633**	**18 579**
Interest income	67	27
Interest cost	(10)	(4)
Amortisation/depreciation	(818)	(768)
Other operating income on measurement and realisation of derivatives	241	298
Other operating costs on measurement and realisation of derivatives	(420)	(675)
Income tax	(948)	(1 138)
Profit for the period	**2 414**	**3 058**
ROA* - return on assets (%)	7	11
ROE** - return on equity (%)	10	13
EBITDA (operating profit + amortisation/depreciation)	**4 363**	**4 976**

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

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

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

4. Operating segments (continued)

Geographical areas

The geographical breakdown of sales revenue shown below reflects the location of end clients.

	Note	For the period	
		from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Poland		3 490	3 499
Germany		3 470	4 027
China		2 397	2 642
The United Kingdom		1 622	2 563
The Czech Republic		1 394	1 236
France		710	812
Italy		595	658
Hungary		591	729
Turkey		493	502
Switzerland		452	370
Australia		400	-
Austria		235	245
The United States of America		181	161
Belgium		161	139
Romania		136	170
Slovakia		75	92
Other countries		231	734
Total	**21**	**16 633**	**18 579**

Main contractors

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

5. Property, plant and equipment

	At 31 December 2014	At 31 Decenber 2013
Land	18	18
Buildings	3 855	3 082
Technical equipment and machinery	4 290	3 654
Motor vehicles	78	79
Other fixed assets	26	21
Fixed assets under construction	3 295	2 890
Total	**11 562**	**9 744**

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

5. Property, plant and equipment (continued)

Change in property, plant and equipment in the period from 1 January 2014 to 31 December 2014

	Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2014								
Gross carrying amount		18	7 140	7 796	202	72	2 892	**18 120**
Accumulated depreciation		-	(4 058)	(4 141)	(123)	(51)	-	**(8 373)**
Impairment losses		-	-	(1)	-	-	(2)	**(3)**
Net carrying amount		**18**	**3 082**	**3 654**	**79**	**21**	**2 890**	**9 744**
Changes in 2014								
Settlement of fixed assets under construction		-	471	1 262	13	11	(1 757)	**-**
Purchases		-	-	-	-	-	2 122	**2 122**
Self-constructed		-	-	-	-	-	39	**39**
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer		-	(1)	(12)	-	-	-	**(13)**
Change in amount of provision for costs of decommissioning mines and tailings storage facilities		-	471	-	-	-	-	**471**
Borrowing costs		-	-	-	-	-	4	**4**
Depreciation	22	-	(168)	(615)	(14)	(6)	-	**(803)**
Other changes		-	-	1	-	-	(3)	**(2)**
At 31 December 2014								
Gross carrying amount		18	8 066	8 688	208	81	3 297	**20 358**
Accumulated depreciation		-	(4 211)	(4 397)	(130)	(55)	-	**(8 793)**
Impairment losses		-	-	(1)	-	-	(2)	**(3)**
Net carrying amount		**18**	**3 855**	**4 290**	**78**	**26**	**3 295**	**11 562**

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

5. Property, plant and equipment (continued)

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

	Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2013								
Gross carrying amount		18	7 056	7 127	191	67	2 171	**16 630**
Accumulated depreciation		-	(3 966)	(4 030)	(113)	(49)	-	**(8 158)**
Impairment losses		-	(16)	(10)	-	-	(1)	**(27)**
Net carrying amount		**18**	**3 074**	**3 087**	**78**	**18**	**2 170**	**8 445**
Changes in 2013								
Settlement of fixed assets under construction		-	330	1 181	15	8	(1 534)	**-**
Purchases		-	-	-	-	-	2 223	**2 223**
Self-constructed		-	-	-	-	-	34	**34**
Changes due to scrapping/decommissioning, sale, donation and no-cost transfer		-	(17)	(34)	-	-	-	**(51)**
Change in amount of provision for costs of decommissioning mines and tailings storage facilities		-	(171)	-	-	-	-	**(171)**
Depreciation	22	-	(154)	(586)	(14)	(5)	-	**(759)**
Other changes		-	4	(3)	-	-	(3)	**(2)**
Reversal of impairment losses	22	-	16	9	-	-	-	**25**
At 31 December 2013								
Gross carrying amount		18	7 140	7 796	202	72	2 892	**18 120**
Accumulated depreciation		-	(4 058)	(4 141)	(123)	(51)	-	**(8 373)**
Impairment losses		-	-	(1)	-	-	(2)	**(3)**
Net carrying amount		**18**	**3 082**	**3 654**	**79**	**21**	**2 890**	**9 744**

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

5. Property, plant and equipment (continued)

Depreciation of property, plant and equipment used in production or in providing services was recognised as a manufacturing cost of products sold in the amount of PLN 783 million (for the period from 1 January to 31 December 2013 PLN 741 million), administrative expenses in the amount of PLN 15 million (for the period from 1 January to 31 December 2013, PLN 13 million), and the value of production inventories in the amount of PLN 5 million (for the period from 1 January to 31 December 2013, PLN 5 million).

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

	At 31 December 2014			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
Land	4	-	-	4
Buildings	110	2	53	57
Technical equipment and machinery	5	-	-	5
Other items of property, plant and equipment	6	-	4	2
Total	**125**	**2**	**57**	**68**

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

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

5. Property, plant and equipment (continued)

Major investment projects recognised under fixed assets under construction

	At 31 December 2014	At 31 December 2013
Pyrometallurgy Modernisation Program	956	609
Deep Głogów (Głogów Głęboki – Przemysłowy)	821	552
Construction of the SW-4 shaft	574	534
Investment activity related to development and operation of Żelazny Most Tailings Pond	234	169
Investments related to mining region infrastructural development in mines	167	222

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

	At 31 December 2014	At 31 December 2013
Purchase of property, plant and equipment	4 821	4 989
Purchase of intangible assets	45	78
Total capital commitments	**4 866**	**5 067**

6. Intangible assets

	At 31 December 2014	At 31 December 2013
Development costs	4	3
Software	2	2
Acquired concessions, patents, licenses	236	74
Other intangible assets	21	16
Exploration and evaluation assets	166	111
Intangible assets not yet available for use	82	67
Total	**511**	**273**

The amortisation of intangible assets used in production or in the providing of services was settled as a manufacturing cost of products sold in the amount of PLN 9 million (for the period from 1 January to 31 December 2013: PLN 8 million), administrative expenses in the amount of PLN 6 million (for the period from 1 January to 31 December 2013 – PLN 1 million).

Major items in intangible assets

The most important groups in intangible assets are:

- **Acquired concessions, patents and licences**, whose balance as at 31 December 2014 amounted to PLN 236 million (as at 31 December 2013: PLN 74 million), including fees due to agreements signed with the State Treasury to gain access to geological information and setting mining usufruct rights (balance as at 31 December 2014: 217 million).
- **Exploration and evaluation assets**, whose balance as at 31 December 2014 amounted to PLN 166 million (as at 31 December 2013, PLN 111 million).

6. Intangible assets (continued)

There are two significant exploration and evaluation projects:

- „Exploration and economic assessment of copper mineralisation in the Synklina Grodziecka region" project, which is aimed at investigating and documenting copper-silver ore resources in the "Wartowice" and "Niecka Grodziecka" areas, located within the so-called "Old Copper Belt".
  The balance of expenditures incurred as at 31 December 2014 - PLN 104 million, including expenditures incurred in 2014 - PLN 34 million,
- „Assessment of the feasibility of mining the Radwanice-Gaworzyce deposit" project. The Company carried out mineralogical-petrographic and hydrogeological research. The geological profile of the deposit, confirmed in the course of this work, led to the necessity of reviewing the scope of further actions and a change in the concession. The Company applied to the Ministry of the Environment for a change in the concession for exploration of the copper ore deposit in the documented region „Gaworzyce" and for exploration of the copper ore deposit in the documented region „Radwanice".
  The balance of expenditures incurred as at 31 December 2014 - PLN 37 million, including expenditures incurred in 2014 - PLN 12 million.

As at 31 December 2014 the balance of liabilities due to exploration and evaluation of mineral resources amounted to PLN 13 million (as at 31 December 2013, PLN 19 million). Information on cash flows concerning exploration and evaluation of mineral resources was presented in **note 32**.

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

6. Intangible assets (continued)

Change in intangible assets in the period from 1 January 2014 to 31 December 2014

	Note	Development costs	Goodwill	Software	Acquired concessions, patents, licenses	Other intangible assets	Exploration and evaluation assets	Other intangible assets not yet available for use	Total
At 1 January 2014									
Gross carrying amount		10	-	21	156	17	111	67	**382**
Accumulated amortisation		(7)	-	(19)	(82)	(1)	-	-	**(109)**
Net carrying amount		**3**	**-**	**2**	**74**	**16**	**111**	**67**	**273**
Changes in 2014									
Settlement of intangible assets not yet available for use		1	2	1	174	2	-	(180)	**-**
Purchases		-	-	-	-	-	55	186	**241**
Self-constructed		-	-	-	-	-	-	10	**10**
Amortisation	22	(1)	-	(1)	(12)	(1)	-	-	**(15)**
Reclassification and other changes		1	(2)	-	-	4	-	-	**3**
Impairment losses	25	-	-	-	-	-	-	(1)	**(1)**
At 31 December 2014									
Gross carrying amount		11	-	20	329	23	166	82	**631**
Accumulated amortisation		(7)	-	(18)	(93)	(2)	-	-	**(120)**
Net carrying amount		**4**	**-**	**2**	**236**	**21**	**166**	**82**	**511**

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

6. Intangible assets (continued)

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

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

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

6. Intangible assets (continued)

Perpetual usufruct rights of land

As at 31 December 2014, the Company's Divisions used land based on perpetual usufruct rights comprising a total area of 5 708 hectares.
The Company obtained these rights mostly free of charge based on laws in force. The land subject to perpetual usufruct is industrial area related to the core business activities, which also includes former protective zones in which environmental quality limits have been exceeded due to the activities carried out by the Company.
Due to the nature of the use of the above-mentioned land, the Company has not determined a fair value for these perpetual usufruct rights as at 31 December 2014.

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

Future payments due to perpetual usufruct of land

	At 31 December 2014	**At 31 December 2013**
Under one year	9	8
From one to five years	34	34
Over five years	395	397
Total value of future minimum payments due to perpetual usufruct of land	**438**	**439**

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
Payments due to perpetual usufruct of land recognised in profit or loss	9	5

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

7. Investments in subsidiaries and interest in joint ventures

	Note	Shares and investment certificates in subsidiaries	Joint ventures
At 1 January 2014			
Amount at cost		11 798	33
Discount on receivables due to returnable payments to capital		27	-
Impairment losses		(81)	-
Net carrying amount at 1 January 2014		**11 744**	**33**
Changes in reporting period			
- acquisition of newly-issued shares		27	-
- recognition of impairment losses	25, 3e, 3g	(15)	(15)
- redemption of shares		(1)	-
- discount on receivables due to returnable payments to capital		3	-
- other		2	-
At 31 December 2014			
Amount at cost		11 826	33
Discount on receivables due to returnable payments to capital		30	-
Impairment losses		(96)	(15)
Net carrying amount at 31 December 2014		**11 760**	**18**
At 1 January 2013			
Amount at cost		11 718	33
Discount on receivables due to returnable payments to capital		25	-
Impairment losses		(102)	-
Net carrying amount at 1 January 2013		**11 641**	**33**
Changes in reporting period			
- acquisition of shares		43	-
- acquisition of newly-issued shares		86	-
- reversal of impairment losses		21	-
- redemption of investment certificates of KGHM II FIZAN		(49)	-
- discount on receivables due to returnable payments to capital		2	-
At 31 December 2013			
Amount at cost		11 798	33
Discount on receivables due to returnable payments to capital		27	-
Impairment losses		(81)	-
Net carrying amount at 31 December 2013		**11 744**	**33**

In 2014, the Company acquired shares in the following companies:

- in KGHM Metraco S.A. in the amount of PLN 74 million (nominal value of newly-issued shares in the increased share capital) due to the combination of KGHM Metraco S.A. and KGHM Ecoren S.A. These shares were fully covered by the contributed assets of the subsidiary KGHM Ecoren S.A., in the amount of PLN 387 million. The acquisition of these newly-issued shares in the increased share capital of KGHM Metraco S.A. did not have an impact on the total carrying amount of shares and investment certificates in subsidiaries;
- newly–issued shares in the increased share capital of Miedziowe Centrum Zdrowia S.A. in the amount of PLN 4 million;
- newly–issued shares in the increased share capital of KGHM Zanam Sp. z o.o. in the amount of PLN 4 million;
- newly–issued shares in the increased share capital of KGHM Cuprum Sp. z o.o. – CBR in the amount of PLN 7 million;
- investment certificates in KGHM III FIZAN in the amount of PLN 12 million;

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

In addition, other changes during the reporting period concerned:

- splitting up of KGHM Cuprum sp. z o.o. – CBR; as a result of redemption of shares in KGHM Cuprum Sp. z o.o.-CBR in the amount of PLN 7 million and their contribution to the newly created company - CUPRUM Development sp. z o.o., in which KGHM Polska Miedź S.A. acquired 100% of the company's shares; and
- an impairment loss due to an impairment of investment in Zagłębie Lubin S.A. in the amount of PLN 15 million, and an impairment of shares of a joint venture - Elektrownia Blachownia Nowa – in the amount of PLN 15 million.

In 2013 the Company acquired shares of KGHM IV FIZAN in the amount of PLN 1 million and of KGHM V FIZAN in the amount of PLN 42 million, in addition the Company acquired newly–issued shares in the increased share capital of the following companies:

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

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

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

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

Investments in subsidiaries (direct share)

			At					
			31 December 2014			31 December 2013		
Entity	**Head office**	**Subject of activities**	**% of share capital held**	**% of voting power**	**Carrying amount of shares/ investment certificates**	**% of share capital held**	**% of voting power**	**Carrying amount of shares/ investment certificates**
Fermat 1 S.a r.l.	Luxembourg	holding activity, mainly related to KGHM INTERNATIONAL LTD. Group	100	100	9 624	100	100	9 624
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	488	100	100	488
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	420	100	100	33
KGHM I FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	378	100	100	378
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	151	100	100	151
NITROERG S.A.	Bieruń	production and sale of explosives, blasting materials, emulsions, nitrocet	85	85	121	85	85	121
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	84	100	100	84
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	83	100	100	79
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	83	100	100	98
KGHM Kupfer AG	Berlin	copper and other deposits exploring and mining	100	100	62	100	100	62
KGHM ZANAM Sp. z o.o.	Polkowice	repair and construction of machinery	100	100	58	100	100	52
KGHM V FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	92.37	92.37	43	100	100	42
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	34	100	100	32
KGHM LETIA S.A	Legnica	promotion of innovation	84.93	84.93	31	88.58	88.58	31
BIPROMET S.A.	Katowice	design services, general realisation of construction projects, supply completion	66	66	31	66	66	31
KGHM III FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	17	100	100	5
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	13	100	100	13
KGHM CUPRUM sp. z o.o. - CBR	Wrocław	R&D activities	100	100	13	100	100	13
INOVA Spółka z o.o.	Lubin	inspection and control of machinery, R&D work	100	100	13	100	100	13
CUPRUM Development sp. z o.o.	Wrocław	activities connected with real estate management and construction, design and financial services	100	100	7	-	-	-
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	3	100	100	3
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	trade, intermediation and trade consulting services	100	100	2	100	100	2
KGHM IV FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	1	100	100	1
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	-	-	-	100	100	387
KGHM Kupferhandelsges. m.b.H.i.L	Vienna	copper trading	-	-	-	100	100	1
CUPRUM Nieruchomości sp. z o.o.	Wrocław	activities connected with real estate management and construction, design and financial services	100	100	-	-	-	-
					11 760			**11 744**

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

8. Available-for-sale financial assets

	Note	At 31 December 2014	At 31 December 2013
Shares in unlisted companies		10	10
Shares in listed companies		921	799
Non-current available-for-sale financial assets	**27**	**931**	**809**
Total available-for-sale financial assets	**27**	**931**	**809**

During the Extraordinary General Meeting of Shareholders on 4 September 2014, the Shareholders of KGHM CONGO S.P.R.L. decided to close the liquidation of KGHM CONGO S.P.R.L. (in liquidation). Due to this decision, the shares of KGHM CONGO S.P.R.L. (in liquidation) were settled in the accounting books of KGHM Polska Miedź S.A.

Changes in value of available-for-sale financial assets in 2014 are described in **note 3 (f)**.

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

	Note	At 31 December 2014	At 31 December 2013
Cash held in the Mine Closure Fund and Tailings Storage Facility Restoration Fund – non-current		206	178
Cash held in the Mine Closure Fund – current		2	1
Total	**27**	**208**	**179**

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

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

10. Derivatives

	Note	At 31 December 2014	At 31 December 2013
Hedging instruments		190	342
Non-current assets due to derivatives, total		**190**	**342**
Hedging instruments		243	472
Instruments initially designated as hedging instruments excluded from hedge accounting		24	-
Current assets due to derivatives, total		**267**	**472**
Total assets due to derivatives		**457**	**814**
Hedging instruments		122	15
Trade instruments		-	2
Non-current liabilities due to derivatives, total		**122**	**17**
Hedging instruments		10	2
Trade instruments		25	4
Instruments initially designated as hedging instruments excluded from hedge accounting		1	-
Current liabilities due to derivatives, total		**36**	**6**
Total liabilities due to derivatives		**158**	**23**
Derivatives net assets/ (liabilities)	**27**	**299**	**791**
including:			
Derivatives – currency contracts - net		55	536
Derivatives- commodity contracts – metals - net		244	255

10. Derivatives (continued)

TRADE INSTRUMENTS			At 31 December 2014 [PLN thousands]				At 31 December 2013 [PLN thousands]			
	Volume/ Notional	**Avg. weighted price/ex. rate**	**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative	Cu [t] Currency [USD thousands]	Cu [USD/t]] Currency [USD/PLN]	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - Metals - Copper										
Options										
Sold put options	42 000	4 500	-	-	(824)	(338)	-	-	(138)	(1 651)
TOTAL			**-**	**-**	**(824)**	**(338)**	**-**	**-**	**(138)**	**(1 651)**
Derivatives – Currency contracts										
Options USD										
Purchased put options			-	-	-	-	407	-	-	-
Sold put options	360 000	3.4000	-	-	(24 175)	-	-	-	(3 885)	-
TOTAL			**-**	**-**	**(24 175)**	**-**	**407**	**-**	**(3 885)**	**-**
TOTAL TRADE INSTRUMENTS			**-**	**-**	**(24 999)**	**(338)**	**407**	**-**	**(4 023)**	**(1 651)**

10. Derivatives (continued)

HEDGING INSTRUMENTS

							At 31 December 2014 [PLN thousands]				At 31 December 2013 [PLN thousands]			
	Volume/ Notional	Avg. weighted price/ex. rate	Maturity/ settlement period		Period of profit/loss impact		Financial assets		Financial liabilities		Financial assets		Financial liabilities	
Type of derivative	Cu [t] Currency [USD thousands]	Cu [USD/t] Currency [USD/PLN]	**From**	**Till**	**From**	**Till**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - Metals - Copper														
Options														
Purchased put options	6 000	7 200	Jan-15	Jun-15	Feb-15	Jul-15	19 489	-	-	-	-	-	-	-
Seagull	42 000	1 771-10 271	Jan-15	Dec-15	Feb-15	Jan-16	204 809	19 896	(96)	(60)	128 863	140 117	(2 129)	(9 343)
TOTAL							**224 298**	**19 896**	**(96)**	**(60)**	**128 863**	**140 117**	**(2 129)**	**(9 343)**
Derivatives – Currency contracts														
Options USD														
Purchased put options	540 000	2.8667	Jan-15	Dec-15	Jan-15	Dec-15	1 706	-	-	-	-	-	-	-
Collar	1 680 000	3.2839-4.0429	Jan-15	Dec-17	Jan-15	Dec-17	16 471	169 849	(9 602)	(121 743)	178 648	202 452	(183)	(5 681)
Collar- seagull							-	-	-	-	83 985	-	-	-
Seagull							-	-	-	-	80 057	-	(12)	-
TOTAL							**18 177**	**169 849**	**(9 602)**	**(121 743)**	**342 690**	**202 452**	**(195)**	**(5 681)**
TOTAL HEDGING INSTRUMENTS							**242 475**	**189 745**	**(9 698)**	**(121 803)**	**471 553**	**342 569**	**(2 324)**	**(15 024)**

10. Derivatives (continued)

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING

At 31 December 2014 [PLN thousands]

Type of derivative	Volume/ Notional	Avg. weighted price/ ex. rate	Maturity/ settlement period		Period of profit/loss impact		Financial assets		Financial liabilities	
	Cu [t] Currency [USD thousands]	Cu [USD/t] Currency [USD/PLN]	From	Till	From	Till	Current	Non-current	Current	Non-current
Derivatives-Currency contracts										
Options										
Collar	360 000	3.4000-4.5000	Jan-15	Dec-15	Jan-15	Dec-15	24 175	-	(568)	-
INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING - TOTAL							**24 175**	**-**	**(568)**	**-**

As at 31 December 2013, there were no instruments initially designated as hedging instruments excluded from hedge accounting.

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

11. Trade and other receivables

	Note	At 31 December 2014	At 31 December 2013
Trade and other non-current receivables			
Payments to capital		59	54
Other financial receivables		1	1
Loans granted*		2 042	253
Total loans and financial receivables, net	**27**	**2 102**	**308**
Non-financial receivables, net		48	6
Trade and other non-current receivables, net		**2 150**	**314**
Trade and other current receivables			
Trade receivables		1 408	1 616
Loans granted		4	6
Payments to capital		14	15
Cash pool receivables	28.3.1	242	145
Other financial receivables		43	25
Receivables due to unsettled derivatives		34	41
Impairment allowances		(7)	(30)
Total loans and financial receivables, net	**27**	**1 738**	**1 818**
Non-financial receivables		335	543
Advances granted		78	124
Impairment allowances		(9)	(10)
Total non-financial current receivables, net		**404**	**657**
Total trade and other current receivables, net		**2 142**	**2 475**
Total trade and other current and non-current receivables, net		**4 292**	**2 789**

*As at 31 December 2014, the balance of non-current receivables due to loans granted is mainly composed of the following loans:

Entity to which the loan was granted to	Balance as at 31 December 2014		Including accrued interest		Interest	Repayment date
	PLN	USD	PLN	USD		
Fermat 1 S.a r.l	270	77	18	5	4.46%	28.02.2018
Fermat 2 S.a r.l	1 506	429	30	9	4.27%	31.12.2024
0929260 B.C U.L.C.	235	67	40	1	5.23%	31.12.2024

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

12. Inventories

	At 31 December 2014	At 31 December 2013
Materials	370	447
Half-finished products and work in progress	1 561	1 617
Finished goods	379	361
Merchandise – property rights – certificates of origin for energy from renewable energy resources, cogeneration and energy efficiency	67	7
Total net carrying amount of inventories	**2 377**	**2 432**

13. Cash and cash equivalents

	Note	At 31 December 2014	At 31 December 2013
Cash at bank		3	21
Other financial assets with a maturity of up to 3 months from the date of acquisition - deposits		82	102
Total cash and cash equivalents	**27**	**85**	**123**

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

14. Share capital

As at 31 December 2014 and at the date of signing of these financial statements, the Company's share capital, 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, each having a face value of PLN 10. All of the shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the general meeting. The Company does not have treasury shares.

Subsidiaries and joint ventures do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2014 and 31 December 2013 there were no changes in either registered share capital or in the number of issued shares.

In 2014 and 2013 there were no changes in the ownership of significant blocks of shares of KGHM Polska Miedź S.A.
In 2014 and 2013, the State Treasury was the only shareholder of the Company with a stake granting the right to at least 5% of the share capital and of the total number of votes.

As at 31 December 2014 and at the date of signing of these financial statements, the Company's shareholder structure was as follows:

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

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

15. Other equity items

	Note	Revaluation reserve from measurement of financial instruments		Actuarial gains/losses on post-employment benefits	Retained earnings		
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging financial instruments**		**Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396**	**Reserve capital created from profit in accordance with the Statutes**	**Profit/(loss) from prior years**
At 1 January 2014		**13**	**499**	**(112)**	**660**	**17 180**	**3 058**
Dividends paid		-	-	-	-	-	(1 000)
Transfer of profit for 2013 to reserve capital		-	-	-	-	2 058	(2 058)
Total comprehensive income:		**101**	**(247)**	**(289)**	**-**	**-**	**2 414**
Profit for the year		-	-	-	-	-	2 414
Other comprehensive income		**101**	**(247)**	**(289)**	**-**	**-**	**-**
Fair value gains after prior impairment		124	-	-	-	-	-
Impact of effective cash flow hedging transactions entered into		-	227	-	-	-	-
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	27	-	(531)	-	-	-	-
Actuarial gains/(losses) on post-employment benefits	19	-	-	(357)	-	-	-
Deferred income tax	18	(23)	57	68	-	-	-
At 31 December 2014		**114**	**252**	**(401)**	**660**	**19 238**	**2 414**

Based on the Act of 15 September 2000 Commercial Partnerships and Companies Code, the Company is required to create a reserve capital for any potential (future) or existing losses, to which no less than 8% of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
As at 31 December 2014 the statutory reserve capital in the Company amounts to PLN 660 million, and is recognised in Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396 in retained earnings.

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

15. Other equity items (continued)

	Note	Revaluation reserve from measurement of financial instruments		Actuarial gains/losses on post-employment benefits	Retained earnings, restated		
		Revaluation reserve from measurement of available-for-sale financial assets	**Revaluation reserve from measurement of cash flow hedging financial instruments**		**Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396**	**Reserve capital created from profit in accordance with the Statutes**	**Profit/(loss) from prior years**
At 1 January 2013		**-**	**286**	**(519)**	**660**	**14 272**	**5 224**
Dividends paid		-	-	-	-	-	(1 960)
Transfer to reserve capital		-	-	-	-	2 908	(2 908)
Offsetting of profit from prior years with the actuarial gains and losses*		-	-	356	-	-	(356)
Total comprehensive income:		**13**	**213**	**51**	**-**	**-**	**3 058**
Profit for the year		-	-	-	-	-	3 058
Other comprehensive income		**13**	**213**	**51**	**-**	**-**	**-**
Fair value gains after prior impairment		16	-	-	-	-	-
Impact of effective cash flow hedging transactions entered into		-	713	-	-	-	-
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	27	-	(450)	-	-	-	-
Actuarial gains/(losses) on post-employment benefits	19	-	-	63	-	-	-
Deferred income tax	18	(3)	(50)	(12)	-	-	-
At 31 December 2013		**13**	**499**	**(112)**	**660**	**17 180**	**3 058**

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

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

16. Trade and other payables

	Note	At 31 December 2014	At 31 December 2013
Trade and other non-current payables			
Trade payables, of which:		168	9
payables due to exploration and evaluation		2	2
payables due to purchase, construction of property, plant and equipment and intangible assets		166	7
Other financial liabilities		6	7
Total financial liabilities (scope of IFRS 7)	**27**	**174**	**16**
Deferred income		11	10
Total non-financial liabilities		**11**	**10**
Total trade and other non-current payables		**185**	**26**
Trade and other current payables			
Trade payables, of which:		1 109	1 157
payables due to purchase, construction of property, plant and equipment and intangible assets		566	565
payables due to exploration and evaluation of mineral resources		11	17
Payables due to unsettled derivatives		-	19
Payables due to cash pool	28.3.1	36	36
Other financial liabilities		43	62
Total financial liabilities (scope of IFRS 7)	**27**	**1 188**	**1 274**
Employee benefits liabilities		163	161
Liabilities due to taxes and social security		466	361
Other non-financial liabilities		58	56
Special funds		235	204
Deferred income		2	1
Accruals*		425	374
Total non-financial liabilities		**1 349**	**1 157**
Total trade and other current payables		**2 537**	**2 431**
Total trade and other non-current and current payables		**2 722**	**2 457**

*As at 31 December 2014, the amount of PLN 260 million in accruals is a provision for future payment due to the annual bonus (as at 31 December 2013, PLN 264 million). In accordance with the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A., the annual bonus is paid after approval of the financial statements.

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

17. Borrowings

	Note	At 31 December 2014	At 31 December 2013
Loans		1 052	-
Total long-term loans		**1 052**	**-**
Bank loans		1 050	1 123
Loans		6	-
Total short-term bank and other loans		**1 056**	**1 123**
Total bank and other loans	**27**	**2 108**	**1 123**

In 2014, the Company benefited from external financing in the form of short-term bilateral loans, a revolving unsecured syndicated credit facility and an investment loan from the European Investment Bank.

Bank loans/loans liabilities as at 31 December 2014

Type of bank loan/loan	Bank loan currency	Balance of bank loan/loan drawn in the currency [millions]	Balance of bank loan/loan drawn in PLN [millions]	Expiry date of agreement
Working capital facility	USD	162	567	08.08.2016
Overdraft facility	USD	99	347	30.04.2015
Overdraft facility	USD	24	85	14.10.2015
Overdraft facility	USD	14	51	21.10.2015
Investment loan	USD	302	1 058	30.10.2026
Total		**601**	**2 108**	

The bank loans interest is based on variable LIBOR rates plus a margin.

Interest on the investment loan instalment drawn on 30 October 2014, in the amount of USD 300 million, is based on a fixed interest rate of 3.032%

In 2013, the Company made use of borrowing in the form of bank loans, using both working capital facilities and overdraft facilities.

Bank loans liabilities as at 31 December 2013

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

As at 31 December 2014 the balance of bank loans in the base currency available via open lines of credit and an investment loan, which is not reduced by the amount drawn as at the end of the reporting period, was as follows:

Type of bank loan/loan	Bank loan currency/loan	Balance of bank loan/loan in the currency [millions]
Working capital facility and overdraft facility	USD	285
Overdraft facility	EUR	50
Working capital facility and overdraft facility	PLN	2 100
Unsecured, revolving credit facility	USD	2 500
Investment loan	PLN	2 000

17. Borrowings (continued)

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

Collateral on the receivables of banks from signed credit agreements is in the form of statements on submitting to the enforcement regime and proxy rights to bank accounts with respect to the agreements entered into on maintaining bank accounts.

The agreement for an unsecured syndicated credit facility and the loan agreement signed with the European Investment Bank oblige the Company to maintain its financial and non-financial covenants, which are standard for these types of transactions. There were no instances of breaching the covenants stipulated in the aforementioned agreements in 2014.

As at 31 December 2013 the balance of bank loans in the base currency available via open lines of credit and an investment loan, which is not reduced by the amount drawn as at the reporting date, was as follows:

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

Detailed information on the major credit agreements and the investment loan may be found in **note 28.3.1**.

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

18. Deferred tax

	Note	At 31 December 2014	At 31 December 2013
Net deferred tax assets at the beginning of the period, of which:		**98**	**266**
Deferred tax assets at the beginning of the period		892	1 189
Deferred tax liabilities at the beginning of the period		(794)	(923)
Changes during the period			
Charged to profit for the period	29	(89)	(103)
Increase/(Decrease) in other comprehensive income	15	102	(65)
Net deferred tax assets at the end of the period, of which:		**111**	**98**
Deferred tax assets at the end of the period		**989**	**892**
Deferred tax liabilities at the end of the period		**(878)**	**(794)**

Maturities of deferred tax assets and deferred tax liabilities

	At 31 December 2014	At 31 December 2013
Maturity over the 12 months from the end of the reporting period	(60)	(44)
Maturity up to 12 months and less from the end of the reporting period	171	142
Total	**111**	**98**

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

18. Deferred tax (continued)

Deferred tax assets prior to offsetting

	At 1 January 2014 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences	Increase in other comprehensive income due to change in the balance of temporary differences	**At 31 December 2014 based on the rate of 19%**
Provision for decommissioning of mines and other technological facilities	106	92	-	**198**
Measurement of forward transactions	309	(98)	-	**211**
Re-measurement of hedging instruments	-	-	3	**3**
Amortisation/Depreciation	35	(6)	-	**29**
Future employee benefits	290	13	68	**371**
Other	152	25	-	**177**
Total	**892**	**26**	**71**	**989**

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

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

18. Deferred tax (continued)

Deferred tax liabilities prior to offsetting

	At 1 January 2014 based on the rate of 19%	(Credited)/Charged to profit for the period due to a change in the balance of temporary differences	(Increase)/Decrease in other comprehensive income due to change in the balance of temporary differences	**At 31 December 2014 based on the rate of 19%**
Interest	1	5	-	6
Measurement of forward transactions	157	(66)	-	91
Re-measurement of hedging instruments	118	-	(54)	64
Amortisation/Depreciation	514	176	-	690
Measurement of available-for-sale financial assets	4	-	23	27
Total	**794**	**115**	**(31)**	**878**

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

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

19. Employee benefits

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

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

Changes in future employee benefits

	Note	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
As at 1 January 2014		**1 533**	**241**	**213**	**1 051**	**28**
Total costs recognised in profit or loss		**160**	**75**	**20**	**63**	**2**
Interest costs		**69**	11	10	47	1
Current service costs		**42**	15	10	16	1
Actuarial losses recognised in profit or loss		**49**	49	-	-	-
Actuarial losses recognised in other comprehensive income	15, 32	**357**	-	35	319	3
Benefits paid		**(94)**	(36)	(17)	(40)	(1)
Carrying amount of liabilities in statement of financial position as at 31 December 2014		**1 956**	**280**	**251**	**1 393**	**32**
of which:						
Carrying amount of non-current liabilities		**1 842**	244	218	1 350	30
Carrying amount of current liabilities		**114**	36	33	43	2

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

19. Employee benefits (continued)

	Note	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
As at 1 January 2013		**1 581**	**255**	**219**	**1 077**	**30**
Total costs recognised in profit or loss		**107**	**22**	**21**	**62**	**2**
Interest costs		**67**	11	10	45	1
Current service costs		**45**	16	11	17	1
Actuarial gains recognised in profit or loss		**(5)**	(5)	-	-	-
Actuarial gains recognised in other comprehensive income	15, 32	**(63)**	-	(11)	(49)	(3)
Benefits paid		**(92)**	(36)	(16)	(39)	(1)
Carrying amount of liabilities in statement of financial position as at 31 December 2013		**1 533**	**241**	**213**	**1 051**	**28**
of which:						
Carrying amount of non-current liabilities		**1 423**	207	182	1 008	26
Carrying amount of current liabilities		**110**	34	31	43	2

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

19. Employee benefits (continued)

Present value of future employee benefits

31 December 2014	1 956
31 December 2013	1 533
31 December 2012	1 581
31 December 2011	1 323
31 December 2010	1 227

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

Main actuarial assumptions as at 31 December 2014

	2015	2016	2017	2018	2019 and beyond
- discount rate	2.75%	2.75%	2.75%	2.75%	2.75%
- rate of increase in coal prices	0.00%	2.80%	2.60%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	3.80%	3.60%	4.00%	4.00%
- expected inflation	1.20%	2.30%	2.10%	2.50%	2.50%
- future expected increase in salary	1.50%	2.30%	2.10%	2.50%	2.50%

Main actuarial assumptions as at 31 December 2013

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

Actuarial gains/losses as at 31 December 2014 versus actuarial assumptions as at 31 December 2013

Change in financial assumptions	404
Change in demographic assumptions	29
Other changes	(27)
Total actuarial gains/losses	**406**

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

19. Employee benefits (continued)

Maturity profile of employee benefits liabilities

Year of maturity	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
2015	114	36	33	43	2
2016	122	24	54	42	2
2017	74	20	14	39	1
2018	68	19	13	34	2
2019	59	19	10	28	2
Other years	1 519	162	127	1 207	23
Total liabilities in the statement of financial position as at 31 December 2014	**1 956**	**280**	**251**	**1 393**	**32**

Weighted average period of maturity of employee benefits liabilities is 11.9 years.

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

20. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other technological facilities and costs of scrapping property, plant and equipment	Disputed issues and court proceedings, and other provisions
Provisions at 1 January 2014		**554**	**529**	**25**
Provisions recognised in other operating costs		**23**	-	23
Changes in provisions arising from updating of estimates recognised in other operating activities		**8**	8	-
Changes in provisions arising from updating of estimates recognised in fixed assets		**471**	471	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	26	**30**	30	-
Utilisation of provisions		**(22)**	(1)	(21)
Release of provisions recognised in other operating income		**(2)**	-	(2)
Adjustment due to transfer to Mine Closure Fund and Tailings Storage Facilities Restoration Fund		**(27)**	(27)	-
Provisions at 31 December 2014		**1 035**	**1 010**	**25**
of which:				
Non-current provisions		**994**	**992**	**2**
Current provisions		**41**	**18**	**23**

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

20. Provisions for other liabilities and charges (continued)

The increase in the provision for decommissioning costs of mines of PLN 509 million was due to a decrease in the nominal discount rate. The increase was accounted for as:

- a decrease in profit of PLN 38 million,
- an increase in fixed assets of PLN 471 million.

During the reporting period the provision for decommissioning costs of mines in the amount of PLN 1 million and the contribution to the related purpose funds in the amount of PLN 27 million were used.

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

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

21. Sales revenue

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

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Copper, precious metals, smelter by-products		16 351	18 113
Salt		42	84
Merchandise		80	227
Services		83	76
Scrap and production materials		60	68
Other goods		16	11
Other materials		1	-
Total	**4**	**16 633**	**18 579**

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

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
domestic		**3 490**	**3 499**
Copper, precious metals, smelter by-products		3 209	3 195
Salt		42	84
Merchandise		79	65
Services		83	76
Scrap and production materials		60	68
Other goods		16	11
Other materials		1	-
foreign		**13 143**	**15 080**
Copper, precious metals, smelter by-products		13 142	14 918
Merchandise		1	162
Total	**4**	**16 633**	**18 579**

	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Average copper price on LME (USD/t)	6 862	7 322
Average exchange rate (USD/PLN) announced by the NBP	3.1537	3.1653

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

22. Expenses by nature

	Note	For the period from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Depreciation of property, plant and equipment and amortisation of intangible assets:		818	768
of which :			
Depreciation of property, plant and equipment	5	803	759
Amortisation of intangible assets	6	15	9
Employee benefits expenses	23	3 022	2 946
Materials and energy		5 870	5 740
including purchased copper-bearing materials		3 688	3 471
External services		1 378	1 516
Taxes and charges		1 896	2 200
including the minerals extraction tax*		1 520	1 856
Advertising costs and representation expenses		51	46
Property and personal insurance		21	23
Research and development costs not capitalised in intangible assets		9	8
Other costs, of which:		**28**	**7**
Write-down of inventories		5	7
Reversal of impairment losses on property, plant and equipment	5	-	(25)
Losses from the disposal of financial instruments	27	7	9
Business trip expenses		13	10
Other operating costs		3	6
Total expenses by nature		**13 093**	**13 254**
Cost of merchandise and materials sold (+)		136	288
Change in inventories of finished goods and work in progress (+/-)		34	594
Cost of manufacturing products for internal use (-)		(143)	(166)
Total cost of sales, selling costs and administrative expenses		**13 120**	**13 970**
of which:			
Cost of sales		12 265	13 173
Selling costs		120	126
Administrative expenses		735	671

* The minerals extraction tax came into force on 18 April 2012.
The minerals extraction tax is calculated from the amount of copper and silver contained in produced concentrate and depends on the prices of these metals as well as on the USD/PLN exchange rate. The tax is accounted for under manufacturing costs and is not deductible for corporate income tax purposes.

23. Employee benefits expenses

	Note	For the period from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Remuneration		2 097	2 077
Costs of social security		859	854
Costs of future benefits		66	15
Employee benefits expenses	**22**	**3 022**	**2 946**

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

24. Other operating income

	Note	For the period	
		from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Income and gains from financial instruments classified under other operating activities, resulting from:		500	362
Measurement and realisation of derivatives	27	241	298
Interest	27	67	27
Foreign exchange gains	27	157	-
Dividends received		35	36
Reversal of allowance for other receivables	27	-	1
Reversal of impairment losses on shares of a subsidiary	7	-	21
Reversal of allowance for other receivables		2	-
Dividends received from subsidiaries		10	-
Government grants received and other donations		2	13
Release of unused provisions		2	31
Penalties and compensation received		7	11
Fees and charges due to re-invoicing costs of bank guarantees securing liabilities		23	-
Other operating income/gains		27	22
Total other operating income		**573**	**460**

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

25. Other operating costs

	Note	For the period	
		from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Costs and losses on financial instruments classified under other operating activities, resulting from:	27	423	767
Measurement and realisation of derivatives		420	675
Interest		1	1
Losses due to measurement of non-current liabilities		-	1
Impairment losses on available-for-sale financial assets		2	90
Impairment losses on investment in a subsidiary and a joint venture	7,3e,3g	30	-
Losses on the sale of property, plant and equipment and intangible assets		8	34
Impairment losses on intangible assets not yet available for use		1	5
Donations granted		19	16
Interest on overdue non-financial liabilities		1	-
Provisions for liabilities		31	12
Penalties and compensation paid		2	2
Contributions to a voluntary organisation		14	15
Other operating costs/losses		12	10
Total other operating costs		**541**	**861**

26. Finance costs

	Note	For the period	
		from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Interest due to drawn bank loans	27	8	3
Foreign exchange losses/(gains) on borrowings	27	124	(27)
Changes in provisions for decommissioning of mines arising from the approach of the maturity date of a liability (unwinding of the discount)	20	30	35
Losses due to measurement of non-current liabilities	27	7	-
Other finance costs		14	1
Total finance costs		**183**	**12**

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

27. Financial instruments

27.1 Carrying amount

At 31 December 2014

Categories of financial instruments

Classes of financial instruments	**Note**	Available-for-sale financial assets	Financial assets at fair value through profit or loss*	Loans and financial receivables	Other liabilities: Financial liabilities at fair value through profit or loss*	Other liabilities: Financial liabilities measured at amortised cost	Hedging instruments	**Total**
Listed shares	8	921	-	-	-	-	-	**921**
Unlisted shares	8	10	-	-	-	-	-	**10**
Trade receivables (net)	11	-	-	1 407	-	-	-	**1 407**
Cash and cash equivalents and deposits		-	-	293	-	-	-	**293**
Financial assets for mine closure and restoration of tailings storage facilities	9	-	-	208	-	-	-	**208**
Cash and cash equivalents	13	-	-	85	-	-	-	**85**
Loans granted	11	-	-	2 046	-	-	-	**2 046**
Other financial assets (net)	11	-	-	387	-	-	-	**387**
Derivatives – Currency (net)	10	-	24	-	(25)	-	56	**55**
Derivatives - Commodity contracts – Metals (net)	10	-	-	-	(1)	-	245	**244**
Trade payables	16	-	-	-	-	(1 277)	-	**(1 277)**
Borrowings	17	-	-	-	-	(2 108)	-	**(2 108)**
Other financial liabilities	16	-	-	-	-	(85)	-	**(85)**
Total		**931**	**24**	**4 133**	**(26)**	**(3 470)**	**301**	**1 893**

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

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

27. Financial instruments (continued)

Classes of financial instruments	Note	At 31 December 2013 – Categories of financial instruments						
		Available-for-sale financial assets	Financial assets at fair value through profit or loss	Loans and financial receivables	Other liabilities: Financial liabilities at fair value through profit or loss	Other liabilities: Financial liabilities measured at amortised cost	Hedging instruments	**Total**
Listed shares	8	799	-	-	-	-	-	**799**
Unlisted shares	8	10	-	-	-	-	-	**10**
Trade receivables (net)	11	-	-	1 594	-	-	-	**1 594**
Cash and cash equivalents and deposits		-	-	302	-	-	-	**302**
Financial assets for mine closure and restoration of tailings storage facilities	9	-	-	179	-	-	-	**179**
Cash and cash equivalents	13	-	-	123	-	-	-	**123**
Loans granted	11	-	-	259	-	-	-	**259**
Other financial assets (net)	11	-	-	273	-	-	-	**273**
Derivatives – Currency (net)	10	-	-	-	(4)	-	540	**536**
Derivatives - Commodity contracts – Metals (net)	10	-	-	-	(2)	-	257	**255**
Trade payables	16	-	-	-	-	(1 166)	-	**(1 166)**
Borrowings	17	-	-	-	-	(1 123)	-	**(1 123)**
Other financial liabilities	16	-	-	-	-	(124)	-	**(124)**
Total		**809**	**-**	**2 428**	**(6)**	**(2 413)**	**797**	**1 615**

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

27. Financial instruments (continued)

27.2 Fair value

		At 31 December 2014		At 31 December 2013	
Classes of financial instruments		**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
	Note	**27.1**		**27.1**	
Listed shares	8	921	921	799	799
Unlisted shares	8	10	-	10	-
Trade receivables (net)	11	1 407	1 407	1 594	1 594
Cash and cash equivalents and deposits	9, 13	293	293	302	302
Loans granted	11	2 046	2 046	259	259
Other financial assets (net)	11	387	387	273	273
Derivatives – Currency, of which:	10	55	55	536	536
Assets		212	212	546	546
Liabilities		(157)	(157)	(10)	(10)
Derivatives - Commodity contracts - Metals, of which:	10	244	244	255	255
Assets		245	245	268	268
Liabilities		(1)	(1)	(13)	(13)
Trade payables	16	(1 277)	(1 277)	(1 166)	(1 166)
Borrowings	17	(2 108)	(2 108)	(1 123)	(1 123)
Other financial liabilities	16	(85)	(85)	(124)	(124)

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

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

27. Financial instruments (continued)

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

For the period from 1 January 2014 to 31 December 2014	**Note**	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at amortised cost	Hedging instruments	**Total**
Interest income/(costs) recognised in:		**-**	**-**	**67**	**(9)**	**-**	**58**
Other operating income	24	-	-	67	-	-	67
Other operating costs	25	-	-	-	(1)	-	(1)
Finance costs	26	-	-	-	(8)	-	(8)
Foreign exchange gains/(losses) recognised in:		**-**	**-**	**376**	**(343)**	**-**	**33**
Other operating income	24	-	-	376	(219)	-	157
Finance costs	26	-	-	-	(124)	-	(124)
Losses on measurement of non-current liabilities recognised in finance costs	26	-	-	-	(7)	-	**(7)**
Impairment losses recognised in other operating costs	25	-	(2)	-	-	-	**(2)**
Adjustment to sales due to hedging transactions	15	-	-	-	-	531	**531**
Losses from disposal of financial instruments recognised in expenses by nature	22	-	-	(7)	-	-	**(7)**
Gains on measurement and realisation of derivatives	24	241	-	-	-	-	**241**
Losses on measurement and realisation of derivatives	25	(420)	-	-	-	-	**(420)**
Total net gain/(loss)		**(179)**	**(2)**	**436**	**(359)**	**531**	**427**

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

27. Financial instruments (continued)

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

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

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

27. Financial instruments (continued)

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

27.4.1 Fair value hierarchy

There was no transfer of instruments measured at fair value by the Company between levels 1 and 2 in either the reporting or the comparative periods, and there was no transfer of instruments classified to levels 1 and 2 to level 3.

	At 31 December 2014		At 31 December 2013	
Classes of financial instruments	Level 1	Level 2	Level 1	Level 2
Listed shares	921	-	799	-
Other financial receivables	-	34	-	41
Derivatives - currency, of which:	-	55	-	536
Assets	-	212	-	546
Liabilities	-	(157)	-	(10)
Derivatives – metals, of which:	-	244	-	255
Assets	-	245	-	268
Liabilities	-	(1)	-	(13)
Other financial liabilities	-	-	-	(19)

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

Level 3
No financial instruments were measured at fair value which were classified to level 3 in either 2014 or the comparative period in the Company.

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

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

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

Level 1

Listed shares
The shares listed on the Warsaw Stock Exchange were measured based on the closing price from 31 December 2014 – the last working day in the reporting period. The shares listed on the TSX Venture Exchange were measured applying a share price and the average National Bank of Poland fixing for the Canadian dollar at the valuation date.

28. Financial risk management

In the course of its business activities the Company is exposed to the following main financial risks:

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

The Market Risk Management Policy, the Financial Liquidity Management Policy and the Credit Risk Management Policy approved by the Company's Management Board are the basis for financial risk management. Understanding the threats deriving from the Company's exposure to risk and maintaining an appropriate organisational structure and procedures enable a better achievement of tasks. The Company continually identifies and measures financial risk, and also takes actions aimed at minimising their impact on the financial situation.

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

28.1 Market risk

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

28.1.1. Principles and techniques of market risk management

The Company actively manages the market risk to which it is exposed.
The Company manages market risk in accordance with the adopted policy with the objective to:

- limit fluctuations in financial result;
- increase the probability of meeting budget assumptions;
- decrease the probability of losing financial liquidity;
- maintain a healthy financial condition of the Company; and
- support the process of strategic decision making related to investment activity, including sources of financing.

The objectives of market risk management should be considered as a whole, and their realisation is determined mainly by the Company's internal situation and market conditions. Actions and decisions concerning market risk management in the Company should be analysed in the context of the KGHM Polska Miedź S.A. Group's global exposure to market risk.

The primary technique used in market risk management is the utilisation of hedging strategies involving derivatives. Natural hedging is also used.

Taking into account the potential scale of their impact on the Company's results, the market risk factors were divided into groups. The Company manages market risk by applying different approaches to separate, identified exposure groups.

The first group of factors with the greatest influence on the Company's total exposure to market risk consists of the copper price, silver price and USD/PLN exchange rate. A strategic approach is applied to this group, aimed at systematically building up a hedging position comprising production and revenues from sales for subsequent periods while taking into account the long-term cyclical nature of different markets. A hedging position may be restructured before it expires.

The second group, which comprises risk factors such as the prices of other metals and merchandise, other exchange rates and interest rate levels is tactically managed - which means taking advantage of favourable market conditions.

The Company considers the following factors when selecting hedging strategies or restructuring hedging positions: current and forecasted market conditions, the internal situation of the Company and the cost of hedging.

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

28. Financial risk management (continued)

The Company executes derivative transactions only if it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Company makes use of information obtained from leading information services, banks, and brokers.

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

- swaps;
- forwards and futures;
- options; and
- structures combining the above instruments.

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

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

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

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

- up to 85% of planned, monthly sales volume of copper, silver and gold from own concentrates(2),
- up to 85% of planned, monthly revenues from the sale of products from own concentrates in USD(3) or up to 85% of the monthly, contracted net currency cash flows in case of other currencies.

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

The maximum time horizon within which the Company decides to limit market risk is set in accordance with the technical and economic planning process and amounts to 5 years, whereas in terms of interest rate risk, the time horizon reaches up to the maturity date of the long-term financial liabilities of the Company.

With respect to the risk of changes in interest rates, the Company has set a limit of commitment in derivatives of up to 100% of the debt's nominal value in every interest period, as stipulated in the signed agreements.(4)

28.1.2 Commodity risk

The Company is exposed to the risk of changes in the price of metals it sells: copper, silver, gold and lead. The price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and lead and from the London Bullion Market Association for silver and gold. The Company's commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month.

(2) While: for copper and silver - up to 50% with respect to instruments which are obligations of the Company (for financing the hedging strategy) and up to 85% with respect to instruments representing the rights of the Company.
(3) For purposes of setting the limit, expenses for servicing the debt denominated in USD decrease the nominal amount of exposure to be hedged.
(4) Separately for every currency.

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

28. Financial risk management (continued)

The permanent and direct link between sales proceeds and metals prices, without similar relationships on the expenditures side, results in a strategic exposure. In turn, operating exposure is a result of possible mismatches in the pricing of physical contracts with respect to the Company's benchmark profile, in particular in terms of the reference prices and the quotation periods.

On the metals market, the Company has a so-called long position, which means it has higher sales than purchases. The analysis of the Company's exposure to market risk should be performed by deducting from the volume of metals sold the amount of purchased metal-bearing materials.

The Company's exposure to commodity risk is presented below:

	For the period					
	from 1 January 2014 to 31 December 2014			from 1 January 2013 to 31 December 2013		
Metal	**Net**	**Sales**	**Purchases**	**Net**	**Sales**	**Purchases**
Copper [tonnes]	**412 099**	573 310	161 211	**442 352**	594 527	152 175
Silver [tonnes]	**1 216**	1 262	46	**1 225**	1 266	41

Sensitivity of the Company's financial instruments to risk of changes in copper and silver prices at the end of the reporting period is presented in **Note 28.1.7** Sensitivity analysis of the Company to measure commodity and currency risk.

28.1.3 Currency risk

The Company is exposed to foreign exchange risk. The following types of exposure were identified:

- transaction exposure concerning volatility of cash flows in the base currency; and
- balance sheet exposure concerning volatility of selected items of the statement of financial position in base (functional) currency.

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

- denomination in the foreign currency – cash flows are settled in the foreign currencies othan the functional currency; and
- indexation in the foreign currency – cash flows may be settled in the base currency, but the price (i.e. of a metal) is settled in a different foreign currency.(5)

The key source of transaction exposure to currency risk in the Company's business operations are the proceeds from sales of products (metals prices, processing and producer margins).

The source of balance sheet exposure to currency risk are items in the statement of financial position denominated in foreign currencies, 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 profit/loss or of other comprehensive income.

The balance sheet exposure includes in particular:

- trade receivables and payables related to purchases and sales denominated in foreign currencies;
- financial debt liabilities in foreign currencies; and
- cash and cash equivalents in foreign currencies.

Sensitivity of the Company's financial instruments to currency risk at the end of the reporting period is presented in **note 28.1.7** Sensitivity analysis of the Company to commodity and currency risk.

In 2014, the Company signed a financing agreement with the European Investment Bank for the amount of PLN 2 000 million and with instalment repayment dates of up to 12 years from the date the instalment was drawn (details in **note 28.3.1** Financial liquidity management). In accordance with the loan amortisation schedule, the first instalment in the amount of USD 300 million was designated to hedge revenues from sales against the risk of changes in foreign exchange rates during the period from the end of October 2017 to October 2026. The hedged position is comprised of a series of highly probable, planned revenues from sales transactions of products denominated in USD, in particular the first volume of revenues from sales (to the amount of designated capital rate) generated during a given calendar month. The hedging position is a part of the loan's capital rate, which was designated to be included in the hedge accounting. As a result of hedge accounting, the exchange differences due to loans drawn will be recognised in the revaluation reserve from measurement of cash flow hedging instruments until the hedged revenues are recognised in the statement of profit or loss if they will meet the criteria of effectiveness.

(5) It is widely accepted on commodity markets that physical delivery contracts of metals are settled in USD or indexed in USD.

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

28. Financial risk management (continued)

28.1.4 Interest rate risk

The interest rate risk is a possibility of the negative impact on the Company's results due to interest rate changes. In 2014 the Company was exposed to this risk due to loans granted, investing free cash and participating in a cash-pool service and borrowing.

As at 31 December 2014 the balances of positions exposed to interest rate risk (specifically: interest income and interest costs) were as follows:

- loans granted within the Group with a variable interest rate for the total amount of PLN 35 million;
- bank deposits: PLN 308 million, including deposits of Social Fund and Mine Closure Fund;
- receivables due to participation in cash pool service: PLN 242 million;
- liabilities due to participation in cash pool service: PLN 36 million; and
- liabilities due to short-term bank loans: PLN 1 050 million (i.e. USD 299 million).

As at 31 December 2014 the balances of positions exposed to interest rate risk due to fair value changes of a financial instrument with a fixed interest rate were as follows:

- liability due to a loan drawn from the European Investment Bank: PLN 1 058 million (i.e. USD 302 million); and
- loans granted within the Group to Fermat 1 S.a.r.l. and 0929260 B.C. U.L.C. in the total amount of PLN 2 011 million (i.e. USD 573 million).

As at 31 December 2014, the Company held liabilities due to short-term bilateral credits and an investment loan drawn in the amount of 2 108 million (i.e. USD 601 million). Details are presented in the table below.

Bank and other loans liabilities as at 31 December 2014

Type of bank loan	Bank and other loans currency	Terms of interest	Balance of bank and other loans drawn in the currency [millions]	Balance of bank and other loans drawn in PLN [millions]	Repayment date
Working capital facility	USD	LIBOR + margin	162	567	06.01.2015
Overdraft facility	USD	LIBOR + margin	99	347	30.04.2015
Overdraft facility	USD	LIBOR + margin	24	85	14.10.2015
Overdraft facility	USD	LIBOR + margin	14	51	21.10.2015
Investment loan	USD	fixed	302	1 058	30.10.2026
Total			**601**	**2 108**	

The agreement for a revolving, unsecured syndicated credit facility and the loan agreement with the European Investment Bank oblige the Company to maintain its financial and non-financial covenants, which are standard for these types of transactions. As at 31 December 2014 and during the reporting period, there were no instances of breaching the covenants stipulated in the aforementioned agreements.

28.1.5 Commodity, currency and interest risk management - derivatives

The notional amount of copper price hedging strategies settled in 2014 represented approx. 15% (in 2013: 23%) of the total[(6)] sales of this metal realised by the Company. In 2014, the revenues from sales of silver were not hedged by derivatives (in 2013, approximately 9% of total revenues from sales of silver were hedged). In the case of the currency market, hedged revenues from sales represented approx. 26% (in 2013: 18%) of total revenues from metals sales realised by the Company.

In 2014 the Company implemented a copper price hedging strategy with a total volume of 11 thousand tonnes and a time horizon falling from August 2014 to June 2015. The Company made use of put options (Asian options).

[(6)] Relates to the sales of metal products from own concentrates and from purchased copper-bearing materials.

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

28. Financial risk management (continued)

In 2014 the Company did not implement any hedging transactions for the silver market.

In the first quarter of 2014 however, the Company took advantage of favourable market conditions in the currency market (strengthening of the PLN versus the USD) and restructured the hedging position for the period from April to December 2014 through repurchasing seagull and collar options which were implemented in the fourth quarter of 2011 and the second quarter of 2012 for 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 2014 in the amount of PLN 204 million. 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, in the first quarter of 2014 the hedging position for 2015 was restructured by reselling purchased put options with a strike exchange rate of USD/PLN 3.40 from the collar structure, which was implemented in the second quarter of 2012 for a 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 amount as they were before restructuring.
In the third and fourth quarters of 2014, planned revenues from sales for the total notional amount of USD 1 710 million and a time horizon falling in the period from October 2014 to December 2017 were additionally hedged (of which USD 90 million concerned hedging the revenues from sales for the fourth quarter of 2014).The Company made use of put options (European options) and collar option strategies.

As at 31 December 2014, the Company remained hedged for a portion of copper sales planned for 2015 (48 thousand tonnes). The Company does not hold any open hedging transactions on the silver market. As at 31 December 2014, with respect to revenues from sales (currency market), the Company held a hedging position for the planned revenues from sales of metals in the amount of USD 2 220 million, including: USD 960 million in 2015, USD 720 million in 2016 and USD 540 million in 2017.

Condensed table of open transactions in derivatives[7]

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[8]			Participation limited to	Hedge limited to
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
	Purchased put option	6 000	-	7 200	-	-298	6 902	-	-
	Total	**27 000**							
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		**48 000**							

[7] With the classification by type of assets hedged and type of instruments used as at 31 December 2014; hedged notional/volume in the presented periods is allocated monthly, on a systematic basis.
[8] Due to current hedge accounting laws, transactions included in the seagull structures – *purchased put options* and *sold call options* – are shown in the table containing a detailed list of derivative positions - "Hedging instruments", while *sold put options* of seagull structures are shown in the table "Trade instruments".

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

28. Financial risk management (continued)

CURRENCY MARKET

	Instrument	**Notional** [million USD]	**Option strike price** [USD/PLN]			**Average weighted premium** [PLN for USD 1]	**Effective hedge price** [USD/PLN]	**Limitations** [USD/PLN]	
			Sold call option	Purchased put option	Sold put option			Participation limited to	Hedge limited to
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	-
	Purchased put option	180	-	3.2000	-	-0.0556	3.1444	-	-
	Total[9]	**480**	Closure of the purchased put option USDPLN 3.40 and un-designation of the hedging transactions in the first quarter of 2014 was reflected in the *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	-
	Collar	180	4.0000	3.2000	-	-0.0499	3.1501	4.0000	-
	Total[9]	**480**	Closure of the purchased put option USDPLN 3.40 and un-designation of the hedging transactions in the first quarter of 2014 was reflected in the *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		**960**							
I half of 2016	Collar	180	4.0000	3.2000	-	-0.0525	3.1475	4.0000	-
	Collar	180	4.2000	3.3000	-	-0.0460	3.2540	4.2000	-
	Total	**360**							
II half of 2016	Collar	180	4.0000	3.2000	-	-0.0553	3.1447	4.0000	-
	Collar	180	4.2000	3.3000	-	-0.0473	3.2527	4.2000	-
	Total	**360**							
TOTAL 2016		**720**							
I half of 2017	Collar	270	4.0000	3.35000	-	-0.0523	3.2977	4.0000	-
	Total	**270**							
II half of 2017	Collar	270	4.0000	3.35000	-	-0.0524	3.2976	4.0000	-
	Total	**270**							
TOTAL 2017		**540**							

With respect to currency risk management whose source is borrowing, the Company uses natural hedging by borrowing in currencies in which it has revenues. All liabilities which comprised the balance of bank loans as at 31 December 2014 were drawn in USD, and following their translation to PLN they amounted to PLN 2 108 million.

The Company did not use derivatives to hedge against the interest rate risk, both in the current and comparable reporting periods. However, taking into consideration that holding financial liabilities denominated in USD, based on LIBOR, exposes the Company to the risk of higher interest rates, in the third quarter of 2014 the Management Board of the Company decided to take advantage of the opportunity to draw loans from the European Investment bank based on a fixed interest rate.

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

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

28. Financial risk management (continued)

28.1.6 Impact of derivatives on the Company's financial statement

Impact of derivatives on the profit or loss in the current and comparable periods is presented in the table below.

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Impact on revenues from sales	**531**	**450**
Impact on other operating activities	**(179)**	**(377)**
from realisation of derivatives	(61)	(185)
from measurement of derivatives	(118)	(192)
Total impact of derivatives on profit or loss	**352**	**73**

Impact of derivatives on the revaluation reserve from measurement of cash flow hedging instruments is presented in the table below.[10]

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
As at the beginning of the period (excluding the deferred tax effects)	**617**	**354**
Amount recognised in the period due to cash flow hedging transactions	244	(713)
Amount transferred to revenues from sale – reclassification adjustment	(531)	(450)
As at the end of the period (excluding the deferred tax effects)	**330**	**617**

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

	As at 31 December 2014		As at 31 December 2013	
	Derivatives	Receivables due to unsettled derivatives[11]	Derivatives	Receivables /(payables) due to unsettled derivatives[12]
Financial receivables	457	34	814	41
Financial payables	(158)	-	(23)	(19)
Fair value	**299**	**34**	**791**	**22**

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

28.1.7 Sensitivity analysis to measure commodity and currency risk

Sensitivity analysis for significant types of market risk to which the entity is exposed presents the estimated impact of potential changes in individual risk factors (at the end of the reporting period) on profit or loss and on other comprehensive income. Possible changes in prices and exchange rates have been presented in percentage terms to the prices and exchange rates used to measure financial instruments to fair value at the end of the reporting period:[13]

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[10] Concerns the open derivatives on the copper market and the currency market (USD/PLN). The amount of PLN 330 million as at 31 December 2014 and presented in the revaluation reserve from measurement of cash flow hedging instruments does not include the negative amount of PLN 17 million which was recognised due to the exchange differences on the instalment of the loan granted by the European Investment Bank, designated as a cash flow hedging instrument.
[11] Settlement date falls on 5 January 2015.
[12] Settlement date falls on 3 January 2014.
[13] For setting the potential scope of price/exchange rates changes for sensitivity analysis of commodity risk factors (copper and silver) the mean reverting Schwartz model (the geometrical Ornstein-Uhlenbeck process) is used, while the Black-Scholes model (the geometrical Brownian motion) is used for the USD/PLN, EUR/PLN and GPB/PLN exchange rates.

28. Financial risk management (continued)

Potential price/exchange rates changes

	As at 31 December 2014					As at 31 December 2013				
	SPOT / FIX	UP 95%		DOWN 95%		SPOT / FIX	UP 95%		DOWN 95%	
Copper [USD/tonnes]	6 359	8 097	*27%*	4 807	*-24%*	7 376	9 510	*29%*	5 336	*-28%*
USD/PLN	3.5072	4.0702	*16%*	2.9796	*-15%*	3.0120	3.5829	*19%*	2.5358	*-16%*
EUR/PLN	4.2648	4.7162	*11%*	3.8786	*-9%*	4.1472	4.6570	*12%*	3.7519	*-10%*

Currency structure of financial instruments exposed to market risk

Financial instruments	**VALUE AT RISK as at 31 December 2014**			**VALUE AT RISK as at 31 December 2013**(14)		
	Total PLN millions	USD millions	EUR millions	**Total PLN millions**	USD millions	EUR millions
Trade receivables (net)	**1 135**	279	37	**1 323**	358	59
Cash and cash equivalents and deposits	**25**	3	4	**78**	1	18
Loans granted	**2 011**	573	-	**222**	74	-
Other financial assets (net)	**57**	16	-	**46**	15	-
Derivatives – Currency	**55**	-	-	**536**	-	-
Derivatives – Metals	**244**	69	-	**255**	85	-
Trade payables	**(168)**	(21)	(23)	**(145)**	(27)	(16)
Borrowings	**(2 108)**	(601)	-	**(1 123)**	(373)	-
Other financial liabilities	**(8)**	(1)	(1)	**(21)**	(6)	(1)

(14) Risk of changes in GBP/PLN exchange rate, included in the Company’s financial statements for the year 2013, was excluded due to its small significance.

28. Financial risk management (continued)

SENSITIVITY ANALYSIS OF THE COMPANY FOR CURRENCY RISK as at 31 December 2014

FINANCIAL RECEIVABLES AND LIABILITIES	VALUE AT RISK	31.12.14 CARRYING AMOUNT	USD/PLN				EUR/PLN			
			4.07		2.98		4.72		3.88	
			+16%		-15%		+11%		-9%	
	[PLN millions]	[PLN millions]	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income
Trade receivables (net)	**1 135**	**1 407**	127	-	(119)	-	14	-	(11)	-
Cash and cash equivalents and deposits	**25**	**293**	1	-	(1)	-	1	-	(1)	-
Loans granted	**2 011**	**2 046**	262	-	(245)	-	-	-	-	-
Other financial assets (net)	**57**	**387**	7	-	(7)	-	-	-	-	-
Derivatives – Currency contracts	**55**	**55**	(366)	(158)	95	467	-	-	-	-
Derivatives – Commodity contracts - Metals	**244**	**244**	1	38	(1)	(36)	-	-	-	-
Trade payables	**(168)**	**(1 277)**	(9)	-	9	-	-	-	-	-
Borrowings	**(2 108)**	**(2 108)**	(137)	(169)	129	158	-	-	-	-
Other financial liabilities	**(8)**	**(85)**	(1)	-	1	-		-		-
IMPACT ON PROFIT OR (LOSS)			**(115)**		**(139)**		**15**		**(12)**	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(289)**		**589**		**-**		**-**

28. Financial risk management (continued)

SENSITIVITY ANALYSIS OF THE COMPANY FOR CURRENCY RISK as at 31 December 2013[15]

FINANCIAL RECEIVABLES AND LIABILITIES	VALUE AT RISK	31.12.13 CARRYING AMOUNT	USD/PLN				EUR/PLN			
			3.58		2.54		4.66		3.75	
			+19%		-16%		+12%		-10%	
	[PLN millions]	[PLN millions]	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income
Trade receivables (net)	**1 323**	**1 594**	166	-	(138)	-	24	-	(19)	-
Cash and cash equivalents and deposits	**78**	**302**	1	-	-	-	7	-	(6)	-
Loans granted	**222**	**259**	34	-	(28)	-	-	-	-	-
Other financial assets (net)	**46**	**273**	7	-	(6)	-	-	-	-	-
Derivatives – Currency contracts	**536**	**536**	(40)	(455)	(105)	741	-	-	-	-
Derivatives – Commodity contracts - Metals	**255**	**255**	18	31	(15)	(25)	-	-	-	-
Trade payables	**(145)**	**(1 166)**	(12)	-	10	-	(6)	-	5	-
Borrowings	**(1 123)**	**(1 123)**	(172)	-	144	-	-	-	-	-
Other financial liabilities	**(21)**	**(124)**	(3)	-	2	-	-	-	-	-
IMPACT ON PROFIT OR (LOSS)			**(1)**		**(136)**		**25**		**(20)**	
IMPACT ON OTHER COMPREHENSIVE INCOME				**(424)**		**716**		-		-

[15] Risk of changes in GBP/PLN exchange rate, included in the Company's financial statements for the year 2013, was excluded due to its small significance.

28. Financial risk management (continued)

SENSIVITY ANALYSIS OF THE COMPANY FOR RISK OF CHANGES IN METAL PRICES as at 31 December 2014

FINANCIAL RECEIVABLES AND LIABILITIES	VALUE AT RISK [PLN millions]	31.12.14 CARRYING AMOUNT [PLN millions]	COPPER PRICES [USD/t]			
			8 097		4 807	
			+27%		-24%	
			profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income
Derivatives – Commodity Contracts - Metals	244	244	39	(237)	(28)	257
		IMPACT ON PROFIT OR (LOSS)	39		(28)	
		IMPACT ON OTHER COMPREHENSIVE INCOME		(237)		257

SENSIVITY ANALYSIS OF THE COMPANY FOR RISK OF CHANGES IN METAL PRICES as at 31 December 2013

FINANCIAL RECEIVABLES AND LIABILITIES	VALUE AT RISK [PLN millions]	31.12.13 CARRYING AMOUNT [PLN millions]	COPPER PRICES [USD/t]			
			9 510		5 336	
			+29%		-28%	
			profit or (loss)	other comprehensive income	profit or (loss)	other comprehensive income
Derivatives – Commodity Contracts - Metals	255	255	(189)	(180)	(132)	745
		IMPACT ON PROFIT OR (LOSS)	(189)		(132)	
		IMPACT ON OTHER COMPREHENSIVE INCOME		(180)		745

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

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

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

As at 31 December 2014, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 921 million.

Sensitivity analysis of listed companies shares to price changes as at 31 December 2014

	31 December 2014 CARRYING AMOUNT [PLN millions]	Percentage change of share price		31 December 2013 CARRYING AMOUNT [PLN millions]	Percentage change of share price	
		12%	-20%		23%	-11%
		OTHER COMPREH. INCOME	PROFIT OR (LOSS)		OTHER COMPREH. INCOME	PROFIT OR (LOSS)
Listed shares	**921**	111	(184)	**799**	184	(88)

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

28. Financial risk management (continued)

28.2 Credit risk

Credit risk is defined as the risk that the Company's counterparties will not be able to meet their contractual obligations.
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 free cash and cash equivalents are deposited; and
- the financial standing of subsidiaries - borrowers.

In particular, the Company is exposed to credit risk due to:

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

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

The Company periodically allocates free cash 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 Company, both in terms of the Company's monetary resources as well as resources accumulated in the MCF, TSFRF and SF(16), operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with the highest(17), medium-high(18) and medium(19) credit ratings, an appropriate level of equity and a strong, stable market position. Credit risk in this regard is continuously monitored through the on-going review of the financial condition and by maintaining an appropriately low level of concentration in individual financial institutions.

The following table presents the level of concentration of periodically unallocated cash and cash equivalents, showing the assessed creditworthiness of the financial institutions(20).

Rating levels	**At 31 December 2014**	**At 31 December 2013**
Medium-high	67%	67%
Medium	33%	33%

28.2.2 Credit risk related to derivative transactions

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

The following table presents the structure of ratings of the financial institutions with whom the Company engaged in derivatives transactions, representing an exposure to credit risk(21).

Rating levels	**At 31 December 2014**	**At 31 December 2013**
Highest	1%	16%
Medium-high	93%	79%
Medium	6%	5%

(16) MCF - Mine Closure Fund, TSRF - Tailings Storage Facilities Restoration Fund and SF - Social Fund.
(17) 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.
(18) 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.
(19) 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.
(20) weighed by amount of deposits.
(21) weighed by positive fair value of open and unsettled derivatives.

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

28. Financial risk management (continued)

Taking into consideration the fair value of open derivative transactions entered into by the Company and the fair value of unsettled derivatives, as at 31 December 2014 the maximum single entity share of the amount exposed to credit risk arising from these transactions amounted to 44% (as at 31 December 2013: 22%).

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

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

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

	At 31 December 2014			At 31 December 2013		
	Financial receivables	Financial payables	Net	Financial receivables	Financial payables	Net
Counterparty 1	154	(1)	**153**	185	(9)	**176**
Counterparty 2	106	(8)	**98**	140	(6)	**134**
Counterparty 3	22	-	**22**	-	-	**-**
Counterparty 4	37	(22)	**15**	-	-	**-**
Counterparty 5	30	(17)	**13**	98	(2)	**96**
Other	142	(110)	**32**	432	(25)	**407**
Total	**491**	**(158)**	**333**	**855**	**(42)**	**813**
Open derivatives	457	(158)	**299**	814	(23)	**791**
Unsettled derivatives	34	-	**34**	41	(19)	**22**

28.2.3 Credit risk related to trade and other financial receivables

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

	At 31 December 2014			At 31 December 2013		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net trade receivables	27%	38%	35%	21%	37%	42%

The Company limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial condition of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Company is the continuous 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 or trade financing instruments which wholly transfer the credit risk to financial institutions. The Company has secured the majority of its receivables by promissory notes[22], frozen funds on bank accounts, registered pledges[23], bank guarantees, corporate guarantees, mortgages and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain[24].

[22] In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.
[23] At the end of the reporting period, the Company held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer’s trade accounts.
[24] A confirmed notarial clause which is applied in trade contracts means that rights to ownership of merchandise are transferred to the buyer only after payment is received despite physical delivery. Application of this clause is aimed solely at hedging credit risk and simplifying any eventual legal claims with regard to deliveries. The Company transfers the substantial risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

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

28. Financial risk management (continued)

To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2014 the Company had secured 95% of its trade receivables.

The total value of the Company's net trade receivables as at 31 December 2014, excluding the fair value of collaterals, to the value of which the Company may be exposed to credit risk, amounts to PLN 1 407 million (as at 31 December 2013: PLN 1 594 million).

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

28.2.4 Credit risk related to loans granted

As at 31 December 2014 the carrying amount of loans granted by KGHM Polska Miedź S.A. amounted to PLN 2 046 million, of which PLN 2 042 million represented the long-term loans, and PLN 4 million – short-term loans.

The most significant items are loans granted to the companies belonging to the KGHM Polska Miedź S.A. Group, connected with the realisation of mining projects. The credit risk due to loans granted depends on the risk related to the execution of projects and was deemed by the Company to be moderate.

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

Additional information concerning the recoverability of long-term loans may be found in **note 3h**.

28.2.5 Other information related to credit risk

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

	As at 31 December 2014		
	Value	**up to 1 month**	**1-3 months**
Trade receivables	**73**[25]	71	2
Other financial receivables	**2**	2	-

	As at 31 December 2013		
	Value	**up to 1 month**	**1-3 months**
Trade receivables	**40**[26]	38	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.

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

28.3 Liquidity risk and management of capital

The Company's management of capital aims at providing both relevant funding capabilities for business development and at securing relevant liquidity.

[25] During the period from the end of the reporting period to the publication date of these financial statements, payment was made on overdue trade receivables.
[26] During the period from the end of the reporting period to the publication date of the financial statements for 2013, payment was made on overdue trade receivables.

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

28. Financial risk management (continued)

Contractual maturities for financial liabilities as at 31 December 2014

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade payables	1 109	-	16	16	363	**1 504**	**1 277**
Borrowings	1 056	-	28	228	796	**2 342**	**2 108**
Derivatives – Currency contracts	-	-	-	-	-	**-**	**156**
Derivatives – Commodity contracts - metals	-	-	-	-	-	**-**	**1**
Other financial liabilities	78	1	5	1	-	**85**	**85**
Total financial liabilities by maturity	**2 242**	**1**	**49**	**245**	**1 159**	**3 931**	

Contractual maturities for financial liabilities as at 31 December 2013

Financial liabilities	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
	Up to 3 months	3-12 months	1-3 years	3-5 years	Over 5 years		
Trade liabilities	1 157	-	1	1	7	**1 166**	**1 166**
Borrowings	1 123	-	-	-	-	**1 123**	**1 123**
Derivatives – Currency contracts	-	-	-	-	-	**-**	**10**
Derivatives – Commodity contracts - metals	-	-	-	-	-	**-**	**13**
Other financial liabilities	96	21	3	3	1	**124**	**124**
Total financial liabilities by maturity	**2 376**	**21**	**4**	**4**	**8**	**2 413**	

Financial liabilities arising from derivatives are the intrinsic values of these instruments, excluding the effects of discounting.

28.3.1 Financial liquidity management

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

The basic principles are:

- investment of financial surpluses in liquid instruments,
- limits for individual financial investment categories,
- limits for the concentration of resources for financial institutions,
- the investment level rating for banks, in which the funds are deposited,
- assuring the stable and effective financing of the Company's activities.

The Company's external financing is based on three pillars:

1. The unsecured, revolving syndicated credit facility in the amount of USD 2 500 million (PLN 8 768 million using the exchange rate as at 31 December 2014) with the maturity date falling on 11 July 2019 (and the option to extend it for another 2 years);
2. The investment loan from the European Investment Bank in the amount of PLN 2 000 million and a 12-year financing period;
3. Short-term bilateral loan in the amount of up to PLN 3 313 million, with an availability period of up to 2 years.

The above-mentioned sources of financing will ensure that PLN 14 081 million is available, and these sources of external financing fully satisfy the medium- and long-term liquidity needs of the Company and the Group. In 2014, the Company made use of all sources of external financing available in the aforementioned pillars.

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

28. Financial risk management (continued)

Unsecured revolving credit facility

On 11 July 2014, the Company signed an agreement for an unsecured, revolving syndicated credit facility in the amount of USD 2 500 million for a five-year tenor with a potential option to extend it for further 2 years. The extension option may be exercised, at the Company's request, on the first and second anniversary of signing the agreement.

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. in the amount of USD 700 million. Consolidating the Group's external financing at the Parent Entity's level is a key provision of the new financing strategy. The strategy will enable to attain significant savings on debt servicing costs and is in line with the best market practices for the financing of large, international groups. It will also allow for an increase in effectiveness of the liquidity management process, simplification of the external financing structure and to optimise covenants – both financial and non-financial – in the Group.

The Company plans to gradually utilise the credit facility. The flexible structure of the transaction provides the possibility for multiple drawing and repaying of the loan instalments, depending on the current liquidity needs of the KGHM Polska Miedź S.A. Group. Interest rate on the credit facility was calculated based on LIBOR plus a bank's margin, depending on the net debt/EBITDA financial ratio. The credit facility agreement obliges the Company to maintain its financial covenant and non-financial covenants, which are standard for these types of transactions. As at 31 December 2014, there were no instances of breaching the covenants stipulated in the aforementioned agreement.

Investment loan from the European Investment Bank

On 1 August 2014, the Company signed a financing agreement with the European Investment Bank for the amount of PLN 2 000 million and a settlement date of instalments of up to 12 years from the date the instalments were drawn. The instalments are available for a period of 22 months from the date of singing the agreement.
The Company may utilise the loan in the form of non-renewable instalments drawn in PLN, EUR or USD, and for which the interest may be calculated based on fixed or variable WIBOR, LIBOR or EURIBOR rates plus a margin.

The funds acquired through this loan are used to finance the Company's investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings pond.

The loan agreement obliges the Company to maintain its financial and non-financial covenants, which are standard for these types of transactions. As at 31 December 2014 and during the reporting period, there were no instances of breaching the covenants stipulated in the aforementioned agreement.

Short-term bilateral loans
As a consequence of short term bilateral agreements entered into, the Company holds credit lines in the total amount of PLN 3 313 million. These are both working capital facilities and overdraft facilities with availability periods of up to 2 years. The terms of validity are subsequently extended for further periods.

The funds from the aforementioned agreements are available in the following currencies: PLN, USD and EUR, with the interest based on variable WIBOR, LIBOR, EURIBOR rates plus a margin. The funds acquired from the aforementioned credit agreements are used for financing the working capital and support the short-term financial liquidity management.

As at 31 December 2014, the Company had open credit lines and an investment loan, whose balances were as follows:

Type of bank loan	**Bank loan available in:**	**Outstanding balance of available loans in PLN**	**Balance of bank loan drawn in PLN**
Working capital facility and overdraft facility	USD, EUR, PLN	3 313	1 050
Unsecured revolving credit facility	USD	8 768	0
Investment loan	USD, EUR, PLN	2 000	1 058
Total		**14 081**	**2 108**

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

28. Financial risk management (continued)

As at 31 December 2014, all of the liabilities recognised in the balance of bank loans drawn in the amount of PLN 2 108 million were realised in USD.

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

KGHM INTERNATIONAL LTD. among others joined the service in 2014. As at 31 December 2014, the total available limit under this service amounted to PLN 696 million. Funds available under this service bear interest rates based on variable WIBOR and LIBOR, respectively for PLN and USD.

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

KGHM Polska Miedź S.A. is the coordinator of this service. This means that the Company has to establish the conditions under which the system functions, in particular the rules of calculating interest rates and representation of the entire Group in relations with the bank with respect to the service. KGHM Polska Miedź S.A. also acts as a participant of the cash pool system, which deposits its free cash and, in case of need, takes advantage of financing.

As at 31 December 2014 the balance of receivables (net balance) due to the cash pool amounted to PLN 206 million due to participation in the cash management services in the Group.

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 use its cash and cash equivalents in order to secure its liabilities towards other entities.

As at 31 December 2014, the Company held contingent liabilities due to guarantees and letters of credit granted in the total amount of PLN 1 420 million.
The most significant items are:

- a letter of credit in the amount of PLN 482 million granted as a security for the proper performance of a long-term contract for the supply of electricity to the JV Sierra Gorda S.C.M.;
- a guarantee in the amount of PLN 341 million set as an additional security for the proper performance of lease agreements entered into by the JV Sierra Gorda S.C.M.;
- a guarantee in the amount of PLN 320 million securing the proper execution of future environmental liabilities of the Company related to the obligation to restore terrain around the „Żelazny Most" tailings pond following the conclusion of its operations; and
- a letter of credit in the amount of PLN 272 million securing the proper performance by KGHM INTERNATIONAL LTD. of future environmental liabilities related to the obligation to restore terrain around the Robinson mine following the conclusion of its operations.

28.3.2 Management of capital

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

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

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

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

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

Ratio	As at 31 December 2014	As at 31 December 2013
Net debt/EBITDA	0.46	0.20
Equity ratio	0.74	0.79

29. Income tax

Income tax	Note	For the period from 1 January 2014 to 31 December 2014	 from 1 January 2013 to 31 December 2013
Current income tax		869	1 036
Deferred income tax	18	89	103
Adjustments to income tax from prior periods		(10)	(1)
Total		**948**	**1 138**

	For the period from 1 January 2014 to 31 December 2014	 from 1 January 2013 to 31 December 2013
Profit before taxation	3 362	4 196
Tax calculated at tax rates in force	639	797
Tax effect of non-taxable income	(20)	(47)
Tax effect of expenses not deductible for tax purposes*	339	389
Adjustments to income tax from prior periods	(10)	(1)
Income tax expense	**948**	**1 138**

* related mainly to the minerals extraction tax.

The rate applied to the taxation of income in accordance with corporate income tax law in force amounted to 19% (for 2013: 19%). The effective tax rate was 28.20% (for 2013: 27.12%). The increase in the effective tax rate in 2014 compared to 2013 was mainly due to the exclusion from costs which are deductible for tax purposes of borrowing costs on an investment loan which was not allocated to capital expenditures.

30. Earnings per share

	For the period from 1 January 2014 to 31 December 2014	 from 1 January 2013 to 31 December 2013
Profit for the period	2 414	3 058
Weighted average number of ordinary shares (thousands)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	12.07	15.29

There are no dilutive ordinary shares.

31. Dividend paid

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 per share, was allocated from 2013 profit as a dividend.

The right to dividend date was set at 8 July 2014 with payment of the 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 shares of the Company are ordinary shares.

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

32. Explanations to the statement of cash flows

Interest and share in profits (dividends)

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
interest and income from dividends from the statement of cash flows:		**(63)**	**(40)**
- interest realised from investment activities		(1)	(2)
- interest unrealised from investment activities		(46)	(6)
- interest realised from financial activities		21	3
- interest unrealised from financial activities		8	1
- income from dividends	21	(45)	(36)

Foreign exchange (gains)/losses

	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Foreign exchange (gains)/losses on operating activities	**(31)**	**3**
- realised from investment activities	9	9
- unrealised from investment activities	(152)	18
- realised from financial activities	37	24
- unrealised from financial activities	87	(51)
- on cash and cash equivalents	(12)	3

Change in provisions

	Note	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Change in provisions for other liabilities and employee benefits from the statement of financial position		**904**	**(248)**
Adjustments:			
Provisions for decommissioning costs of mines and restoration of tailings storage facilities recognised in property, plant and equipment	5	(471)	171
Actuarial (losses)/gains on post-employment benefits recognised in other comprehensive income	19	(357)	63
Change in provisions recognised in the statement of cash flows		**76**	**(14)**

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

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

Change in receivables

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Change in trade and other receivables in the statement of financial position	**(1 503)**	**(1 017)**
Adjustments:		
Long- and short-term loans granted	1 789	214
Advances granted for the purchase of property, plant and equipment and intangible assets	(54)	29
Other	36	(3)
Change in receivables recognised in the statement of cash flows	**268**	**(777)**

Change in payables

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Change in trade and other payables in the statement of financial position	**265**	**194**
Adjustments:		
Payables due to the purchase of property, plant and equipment and intangible assets	(131)	(138)
Non-cash subsidies to intangible assets related to CO_2 emission allowances	(11)	(11)
Cash subsidies to be used for the purchase of property, plant and equipment and intangible assets	-	(2)
Other adjustments	1	-
Change in payables recognised in the statement of cash flows	**124**	**43**

Income tax paid

	Note	For the period	
		from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Income tax from the statement of profit or loss	29	(948)	(1 138)
Change in deferred tax assets recognised in profit for the period	18	(26)	160
Change in deferred tax liabilities recognised in profit for the period	18	115	(57)
Change in current corporate tax liabilities		6	(340)
Total		**(853)**	**(1 375)**

Purchase of property, plant and equipment and intangible assets

	Note	For the period	
		from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Purchase	5,6	(2 363)	(2 314)
Capitalised borrowing costs	5,6	(4)	-
Non-monetary adjustments to purchases		91	53
Fixed assets under construction, self-constructed	5,6	(49)	(42)
Change in payables due to purchases		131	138
Realised exchange differences		(9)	(9)
Expenditures on purchases		**(2 203)**	**(2 174)**

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

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

Change in cash and cash equivalents

	Note	For the period	
		from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Change in cash and cash equivalents in the statement of financial position	**13**	**(38)**	**(584)**
Adjustments:			
Exchange differences from the measurement		(12)	3
Change in cash and cash equivalents recognised in the statement of cash flows		**(50)**	**(581)**

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

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Net carrying amount of property, plant and equipment and intangible assets sold and costs related to disposal	21	67
Losses on sales of property, plant and equipment and intangible assets	(8)	(34)
Proceeds from sales of property, plant and equipment and intangible assets	**13**	**33**

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

	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
Purchase	(55)	(43)
Change in liabilities due to exploration for and evaluation of mineral resources	(6)	15
Total	**(61)**	**(28)**

Expenditures on exploration for and evaluation of mineral resources recognised in current operating activities amounted to PLN 1 million in 2014 (in 2013: PLN 4 million).

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

33. Related party transactions

	For the period from 1 January 2014 to 31 December 2014		
Sales	**Sales of products**	**Sales of merchandise and materials**	**Other transactions**
- to subsidiaries	197	67	72
- to other related entities	-	-	7
Total sales to related entities	**197**	**67**	**79**

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

During the period from 1 January 2014 to 31 December 2014, KGHM Polska Miedź S.A. proceeds received from dividends from subsidiaries amounted to PLN 10 million. The Company did not receive dividends from subsidiaries in the comparable period.

During the period from 1 January 2014 to 31 December 2014, there were no transactions between the Company and related entities concerning the sale of property, plant and equipment, intangible assets and investment property.

	For the period from 1 January 2014 to 31 December 2014		
Purchases from related entities	**Purchase of services, merchandise and materials**	**Purchase of property, plant and equipment and intangible assets**	**Other purchase transactions**
- from subsidiaries	3 880	1 091	1
- from other related entities	-	-	1
Total purchases from related entities	**3 880**	**1 091**	**2**

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

Receivables from related entities due to sales of products, services, merchandise, materials, non-current assets; and due to the cash pool and loans	**At 31 December 2014**	**At 31 December 2013**
- from subsidiaries	2 433	545
- from other related entities	7	-
Total receivables from related entities	**2 440**	**545**

The balance of receivables from related entities is comprised mainly of loans granted to subsidiaries of KGHM Polska Miedź S.A. As at 31 December 2014, the balance of loans granted amounted to PLN 2 046 million (in 2013: PLN 259 million).

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

33. Related party transactions (continued)

Trade and other payables towards related entities due to the purchase of products, services, merchandise, materials, and non-current assets	At 31 December 2014	At 31 December 2013
- towards subsidiaries	499	495
Total payables towards related entities	**499**	**495**

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

The remaining transactions, which were collectively significant, between the Company and the Polish Government and entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm's length. These transactions involved:

- the purchase of materials and services to meet the needs of its current operating activities (fuel, energy, transport services). Turnover from these transactions in the period from 1 January 2014 to 31 December 2014 amounted to PLN 709 million (for the period from 1 January 2013 to 31 December 2013: PLN 665 million);
- the unsettled balance of liabilities from these transactions as at 31 December 2014 amounted to PLN 238 million (as at 31 December 2013: PLN 30 million);
- the unsettled balance of receivables as at 31 December 2014 amounted to PLN 6 million (as at 31 December 2013: PLN 5 million); and
- revenues from sales to State Treasury companies during the period from 1 January 2014 to 31 December 2014 amounted to PLN 75 million (for the period from 1 January 2013 to 31 December 2013: PLN 46 million).

33. Related party transactions (continued)
Remuneration of of key managers:
(a) Remuneration of the Management Board in PLN thousands

	Period when function served in 2014	Fixed part of remuneration	Variable part of remuneration**	Benefits due to termination of employment relationship	Other benefits and earnings****	Total earnings in 2014
Members of the Management Board serving in the function as at 31 December 2014						
Herbert Wirth	01.01-31.12.2014	1 442	560	-	275	**2 277**
Jarosław Romanowski	01.01-31.12.2014	1 297	194	-	232	**1 723**
Wojciech Kędzia	01.01-31.12.2014	1 153	450	-	220	**1 823**
Jacek Kardela	01.01-31.12.2014	1 153	142	-	207	**1 502**
Marcin Chmielewski	01.01-31.12.2014	1 154	156	-	212	**1 522**
Other Members of the Management Board*						
Włodzimierz Kiciński	-	324	-	561	50	**935**
Adam Sawicki	-	288	-	378	25	**691**
Dorota Włoch	-	288	-	346	35	**669**
		7 099	**1 502**	**1 285**	**1 256**	**11 142**

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

*The amounts in the ” Fixed part of remuneration” and ” Variable part of remuneration” columns include remuneration during the period of employment termination.
**” Variable part of remuneration” includes:
- settlement of the variable part of remuneration for 2013,
- prepayments on variable part of remuneration (in quarterly periods) for 2014.
***”Variable part of remuneration” includes:
- settlement of the variable part of remuneration for 2012,
- prepayments on variable part of remuneration (in quarterly periods) for 2013.
**** Amounts in the column „Other benefits and earnings” include additional benefits, including insurance, contributions to the Employee Retirement Fund and other.

33. Related party transactions (continued)

(b) Remuneration of the Supervisory Board in PLN thousands

	Period when function served in 2014	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts*	Other benefits**	Total earnings in 2014
Krzysztof Kaczmarczyk	01.01-23.06.2014	52	-	4	**56**
Aleksandra Magaczewska	01.01-23.06.2014	59	-	2	**61**
Jacek Poświata	01.01-31.12.2014	97	-	2	**99**
Bogusław Szarek	01.01-31.12.2014	96	213	13	**322**
Andrzej Kidyba	01.01-31.12.2014	96	338	18	**452**
Iwona Zatorska-Pańtak	01.01-23.06.2014	48	-	-	**48**
Marek Panfil	01.01-23.06.2014	48	18	5	**71**
Tomasz Cyran	23.06-31.12.2014	54	-	10	**64**
Barbara Wartelecka-Kwater	23.06-31.12.2014	49	-	3	**52**
Marcin Moryń	23.06-31.12.2014	60	-	3	**63**
Józef Czyczerski	23.06-31.12.2014	49	74	2	**125**
Bogusław Stanisław Fiedor	23.06-31.12.2014	49	-	3	**52**
Leszek Hajdacki	23.06-31.12.2014	49	84	6	**139**
		806	**727**	**71**	**1 604**

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

* „Earnings from other contracts" includes remuneration due to labour contracts in the Divisions of KGHM Polska Miedź S.A., remuneration due to serving on the Supervisory Boards of subsidiaries and remuneration due to the functions served in the Board of Directors of KGHM INTERNATIONAL LTD.
**„Other benefits" include other benefits granted to the Members of the Supervisory Board.

34. Remuneration of entity entitled to audit the financial statements and of entities related to it

	(in PLN thousands)	
	For the period	
	from 1 January 2014 to 31 December 2014	from 1 January 2013 to 31 December 2013
PricewaterhouseCoopers Sp. z o.o.	**1 965**	**1 715**
From contract for the review and audit of financial statements	864	1 115
- audit of annual financial statements of the Company and of annual consolidated financial statements of the Group	510	775
- review of interim financial statements of the Company and of interim consolidated financial statements of the Group	354	340
From other contracts	1 101	600
Other companies of the PricewaterhouseCoopers Group in Poland – from other contracts	**404**	**2**

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

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

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

	At 31 December 2014	At 31 December 2013
Contingent assets	**467**	**464**
- guarantees received	178	213
- promissory notes receivables	154	120
- real estate tax on mining facilities	87	87
- inventions, implementation of projects	47	44
- other	1	-
Contingent liabilities	**1 647**	**191**
- guarantees, including:	1 420	10
a letter of credit granted to secure the proper execution of a long-term contract for the supply of electricity for the JV Sierra Gorda S.C.M	482	-
guarantees granted to additionally secure the proper performance of leasing agreements entered into by the JV Sierra Gorda S.C.M.	341	-
guarantees granted to secure the proper performance of future environmental obligations of the Company to restore the area, following the decommissioning of the "Żelazny Most" facility	320	-
a letter of credit granted to secure the proper performance by KGHM INTERNATIONAL LTD. of the future environmental obligations to restore the area following the closure of the Robinson mine	272	-
- disputed issues, pending court proceedings	15	16
- liabilities due to implementation of projects and inventions	138	123
- real estate tax on mining facilities	70	42
- other	4	-
Liabilities not recognised in the statement of financial position	**136**	**206**
- liabilities towards local government entities due to expansion of the tailings pond	120	187
- liabilities due to finance leases	16	19

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

	At 31 December 2014	At 31 December 2013
Up to one year	6	5
From one to five years	10	14
Total:	**16**	**19**

	For the period from 1 January 2014 to 31 December 2014	For the period from 1 January 2013 to 31 December 2013
Rental and lease payments recognised in profit or loss	7	6

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

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

36. Social Fund assets and liabilities

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

The Company has netted the assets of the Fund with the liabilities towards the Fund, as these assets are not subject to control of the Company and do not meet the definition of an asset. Accordingly, the net balance (liability towards the Fund) as at 31 December 2014 amounts to PLN 3 million (as at 31 December 2013 amounted to PLN 2 million).

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

Social Fund assets and liabilities	**At 31 December 2014**	**At 31 December 2013**
Housing loans granted to employees	130	125
Cash and cash equivalents	25	26
Liabilities towards Social Fund	(158)	(153)
Net balance	**(3)**	**(2)**
Charged on operating costs in the period due to contributions to the Social Fund	115	113

37. Government grants

The balance of government grants in deferred income as at 31 December 2014 is PLN 12 million. With respect to financing from the National Fund for Environmental Protection, KGHM Polska Miedź S.A. signed an agreement in 2010 (with subsequent appendices) for financing of the project „Limiting the amount of waste – construction of a Doerschel furnace" – balance as at 31 December 2014: PLN 8 million (as at 31 December 2013: PLN 8 million). Also in 2010, the Company signed an agreement (with subsequent appendices) with the Polish Agency for Enterprise Development to finance the project „Development of mining technology using the ACT mining complex", under the operational program Innovative Economy 2007-2013. According to the agreement, KGHM Polska Miedź S.A. receives financing to cover the costs of research and development – balance as at 31 December 2014: PLN 1 million (as at 31 December 2013: PLN 1 million).

38. Employment structure

	For the period	
	from 1 January 2014 to 31 December 2014	**from 1 January 2013 to 31 December 2013**
White-collar employees	4 724	4 703
Blue-collar employees	13 562	13 862
Full-time equivalent employees - total:	**18 286**	**18 565**

39. Subsequent events

Extension of validity of the guarantee towards the Lower Silesia Voivodeship

On 12 January 2015, at the request of KGHM Polska Miedź S.A., the bank cooperating with the Company extended the validity of a guarantee in the amount of PLN 320 million by a further two months. The new term of validity of the guarantee expires on 31 March 2015. This guarantee secures the liabilities of the Company towards the Lower Silesia Voivodeship arising from 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.

39. Subsequent events (continued)

Unsecured, revolving syndicated credit facility

On 20 January 2015, KGHM Polska Miedź S.A. drew an instalment of the unsecured, revolving syndicated credit facility. The credit in the amount of USD 200 million (or PLN 747 million at the exchange rate of the NBP on the date the funds were drawn) was drawn for a period of 3 months with the intent to extend it to extend it to the subsequent periods. Interest is based on LIBOR, plus a bank's margin. The acquired funds were used for refinancing of the debt of KGHM INTERNATIONAL LTD. Consolidating the Group's external financing at the Parent Entity's level is a key provision of the new financing strategy. This strategy will enable to attain significant savings on the Group's debt servicing costs and is in line with the best market practices for the financing of international groups.

On 28 January 2015, KGHM INTERNATIONAL LTD. repaid USD 200 million in debt arising from a credit facility agreement signed with a syndicate of banks, and as at that date the agreement expired.

Loan granted to 0929260 B.C. Unlimited Liability Company

On 26 January 2015 a loan was granted to the subsidiary 0929260 B.C. Unlimited Liability Company in the amount of USD 200 million to be used to refinance the debt of KGHM INTERNATIONAL LTD. The loan's interest rate is fixed, with a semi-annual compounding of interest and the maturity date on 31 December 2019.

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

On 26 January 2015, the Company's Supervisory Board approved the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 as submitted by the Management Board. Adoption of the Strategy is connected with the prior completion of key provisions of the previous Strategy of the Company, which was approved on 23 February 2009.

Dividend Policy

On 26 January 2015 the Management Board of KGHM Polska Miedź S.A. adopted a resolution related to the Dividend Policy. The Dividend Policy of KGHM Polska Miedź S.A. is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the Company's funds.

The Dividend Policy of KGHM Polska Miedź S.A. assumes that the Management Board will recommend allocation of up to one-third of the profit for the period for the previous financial year as a dividend, while taking into account the current and anticipated financial situation of the Company and the Group. In particular, in making its recommendation, the Management Board will take into account the Company's anticipated requirements for capital to complete the development program as well as a safe debt level for the Group. The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

Extension of working capital facility

In 2015, the Company extended access to a working capital facility in the amount of USD 162 million (under an Agreement for a Multi-Purpose Credit Limit with the Bank PEKAO S.A.) from 6 January to 3 April 2015. Interest is based on LIBOR plus a margin. The Agreement defines the period of availability of the credit as being to 8 August 2016.

Recommendation on payment of dividend

On 16 March 2015, the Management Board of KGHM Polska Miedź S.A. resolved to recommend the payment of a dividend from profit for financial year 2014 in the amount of PLN 800 million (or PLN 4 per share).
The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

40. Disclosure of information on the Company's activities regulated by the Act on Energy

40.1 Introduction

KGHM Polska Miedź S.A. meets the definition of an "energy enterprise" under the Act on Energy. Regulated activities described in this Act, both within and outside the scope of licensing, constitute the Company's business activities in:

- trade in electricity, gaseous fuels and heat;
- distribution of electricity, gaseous fuels and heat; and
- generation of gaseous fuels, heat and electricity.

Pursuant to article 44 of the Act on Energy, the Company is required to prepare information, on the basis of the Company's accounting records, about its regulated activities. The Company's accounting policies are in accordance with the International Financial Reporting Standards (IFRS) adopted by the European Union. The basic principles governing the measurement of assets, equity, liabilities and financial results were described in the introduction to the separate financial statements of KGHM Polska Miedź S.A.
Information prepared by the Company on its regulated activities provides the following information:

- a description of its regulated activities, including a breakdown by type of activity;
- the accounting principles adopted, especially those concerning the adopted allocation methods; and
- a statement of financial position and a statement of profit or loss, for both the current and comparable reporting periods, separately for the individual types of regulated business activities carried out.

40.2 Description of regulated activities

KGHM Polska Miedź S.A. conducts the following types of energy-related activities:

- **Trade in electricity** – an activity which consists of trading in electricity and is conducted to meet the needs of clients conducting business activities;
- **Distribution of electricity** – an activity which consists of distributing the electricity and is conducted to meet the needs of clients conducting business activities; and
- **Generation of electricity** - electricity is produced in co-generation with the generating unit using natural gas. All of the generated electricity is used by the Company to satisfy its own energy needs;

- **Trade in gaseous fuels** – an activity which consists of trading in nitrogen-enriched natural gas and is conducted to meet the needs of clients conducting business activities;
- **Distribution of gaseous fuels** – an activity which consists of distributing nitrogen-enriched natural gas by utilising the distribution grids located in the Legnica and Głogów municipalities in order to meet the needs of clients conducting business activities; and
- **Generation of gaseous fuels** – an activity which consists of generating blast-furnace gas, which is a by-product created by smelting matte copper in shaft furnaces;

- **Trade in heat** – an activity which consists of the sale of purchased heat and is conducted to meet the needs of clients located in the cities and municipalities of Głogów and Legnica;
- **Distribution of heat** – heat is transmitted by heating grids; and
- **Generation of heat** – generating heat in co-generation with the generating unit using natural gas.

40.3 Basic principles of regulatory accounting

Regulatory accounting is a specific type of accounting, when compared to the accounting carried out in accordance with the Accounting Act of 29 September 1994, conducted by the Company for its regulated activities ("energy activities").

In addition to the accounting policies which were described in the introduction to the financial statements and were the basis for the preparation of the Company's accounting records and financial statements, KGHM Polska Miedź S.A. applies the following accounting principles for the purposes of regulatory accounting:

40. Disclosure of information on the Company's activities regulated by the Act on Energy (continued)

Causality principle
The allocation of particular revenue and costs is made in accordance with a given assets' intended purpose and utilisation to meet the needs of a specified type of activity or service, with the causality principle governing the recognition of items of revenue and costs in specified types of activity and with the principle of consistency between recognition by types of activity of items of income and costs, which stems from the fact that these items reflect different aspects of the same events.

Objectivity and non-discrimination principle
The allocation of assets, liabilities, equity, income and costs is done objectively and is not aimed at making profits or incurring losses.

Continuation and comparability principle
The methods and principles used in preparing the report on regulatory accounting are applied in a continuous manner. The obligation to prepare the report arose in 2014. The report was prepared using the same principles for the current and comparable periods. If there occur any significant changes in the principles of regulatory accounting, detailed allocation methods or in the accounting policies which would have a significant impact on the reported information, the reports for the previous year, in that part which would be affected by these changes, will be properly restated in order to ensure comparability, and the information about these changes will be included in the introduction to the regulatory accounting information.

Transparency and consistency principle
The methods applied in preparing the report on regulatory accounting are transparent and consistent with the methods and principles applied in other calculations performed for regulatory purposes and with the methods and principles applied in preparing the financial statements.

Materiality principle (feasibility principle)

The Company permits certain simplifications in recognition, measurement and allocation of items of assets, liabilities, equity, revenue and costs as long as it does not significantly distort the true picture of the financial position and assets presented in the financial statements on regulated activities.

All of the types of energy activities described in point 40.2, with the exception of electricity generation which is used by the Company to meet its own needs, are subject to disclosure in accordance with article 44 of the Energy Law.

40.4 Detailed principles of regulatory policy – methods and principles governing the allocation of assets, liabilities, equity, costs and income

The Company prepares financial information on its regulated activities by overlapping the regulated activities' structure with the Company's organisational structure. The Company applies various methods for the allocation of revenue, costs, assets and liabilities to specific types of regulated activities.
The following methods were used:

- **Specific (direct) identification method –** applied if a direct identification of value is possible, for example the level of revenue from certain activities,
- **direct allocation method** (e.g. the purchase cost of production fuel) – this method is applied if there is a direct cause-and-effect relationship between the consumed resource and the corresponding cost.
- **Indirect allocation method –** on the basis of a predetermined allocation key, this method is used among others, to allocate cost in a situation where no direct cause-and-effect relationship between the utilised resource and the cost item exists and there is a need to use a cost driver (an allocation key) which enables linkage of items with their respective cost. The most commonly used allocation keys are:

  - revenue key – value of revenue is the allocation key;
  - production key – production units are the allocation key;
  - power key – the installed power of machines and equipment is used for the allocation of indirect costs;
  - cost key – the value of costs is the allocation key;
  - mixed keys, which combine elements of several different keys; and
  - other, appropriate for a specific case.

40. Disclosure of information on the Company's activities regulated by the Act on Energy (continued)

Assets

In the statement of financial position of KGHM Polska Miedź S.A. for the current and comparable periods, the following items of assets of regulated activities were recognised:

Non-current assets:

1.Fixed assets;
2.Fixed assets under construction;
3. Intangible assets;
4. Deferred tax assets;

Current assets:

1. Inventories;
2. Current receivables;

Other items of assets in the Company's statement of financial position were allocated to other activities due to the lack of a link between these items and regulated activities, or because the share of these items in regulated activities is immaterial.

Fixed assets
The identification and allocation of specific items of fixed assets to regulated activities takes place when these items of fixed assets are brought into use. Based on the key consumption for energy carriers, being the share of the energy carrier sold in the total volume of the purchased energy carrier less losses, the percentage in the carrying amount of fixed assets used in the energy activities is established.

$$\text{Share} = \frac{\text{Volume of energy carriers sold in the reporting period x 100\%}}{\text{Total volume of purchased energy carrier for the reporting period – losses}}$$

Fixed assets under construction
The allocation of fixed assets under construction to regulated activities is achieved by the direct identification of expenditures on fixed assets under construction which are connected with regulated activities, based on the analysis of accounting records. The remaining expenditures are recognised in other activities of the Company.

Intangible assets
The allocation of intangible assets to regulated activities is analogous to the procedure applied for the fixed assets.

Deferred tax assets
The Company allocates deferred tax assets to regulated activities with respect to deductible temporary differences between the tax bases of accumulated depreciation of items of property, plant and equipment and intangible assets and their carrying amounts.
Deferred tax assets are allocated to regulated activities by the use of ratios set to measure the value of property, plant and equipment and items of intangible assets. The allocation is performed respectively to that part of the carrying amount of deferred tax assets which reflects the proportional share of property, plant and equipment/intangible assets of the Company which is used in regulated activities and other activities, in the total carrying amount of property, plant and equipment/intangible assets.

The Company recognises the full amount of deferred tax assets from other deductible temporary differences under other activities, due to their immaterial share in regulated activities.

40. Disclosure of information on the Company's activities regulated by the Act on Energy (continued)

Inventories

The Company allocates materials in stock to regulated activities using:

- the direct identification method on the basis of detailed analysis; and
- an allocation key, with respect to materials not allocated using the direct identification method, based on the relationship between the amount of materials used in regulated activities and the total amount of materials used (at the Company level).

The Company recognises the full amount of other items of inventories, excluding materials, under other activities due to their immaterial share in regulated activities or lack of connection with regulated activities.

Trade and other receivables
Allocation of receivables in specific types of regulated activities is done on the basis of direct identification of revenues from specific types of regulated activities, by analysing the Company's accounting records with respect to unsettled sales invoices. The remaining amount of trade receivables is recognised in other activities. The Company recognises the full amount of other receivables (i.e. apart from trade receivables) in other activities due to their immaterial share in regulated activities.

Equity and liabilities

In the statement of financial position, the following items were recognised in equity and liabilities for the current and comparable periods with respect to regulated activities:

Equity

Liabilities

I. Non-current liabilities:
   1. Deferred tax liabilities;
   2. Employee benefits liabilities;
II. Current liabilities:
   1. Trade and other payables;
   2. Liabilities due to taxes and social security;
   3. Payables due to the purchase and construction of property, plant and equipment and intangible assets;
   4. Current income tax liabilities;
   5. Employee benefits liabilities;
   6. Provisions for other liabilities and charges.

Other items of liabilities were recognised by the Company in other activities, due to their immaterial share in regulated activities.

Equity
The Company allocates equity to regulated activities as an item balancing the assets and liabilities.

Deferred tax liabilities
With respect to regulated activities, deferred tax liabilities were identified arising from taxable differences between the tax bases of property, plant and equipment and intangible assets and their carrying amount.
The allocation of deferred tax liabilities due to the depreciation of property, plant and equipment and the amortisation of intangible assets, with respect to regulated activities, is performed through the use of indicators set for property, plant and equipment and intangible assets. The Company allocates all other deferred tax liabilities arising from other taxable differences to other operating activities.

Non-current and current liabilities due to future employee benefits
Liabilities due to future employee benefits are allocated to individual types of regulated activities using a revenue key through the indirect allocation method.

Provisions for other liabilities and charges – non-current and current
Provisions for other liabilities and charges are allocated to individual types of regulated activities based on the indirect identification method.

40. Disclosure of information on the Company's activities regulated by the Act on Energy (continued)

Trade and other liabilities
The Company allocates trade and other liabilities to regulated activities by applying the following procedures:

- Step 1: allocation of trade liabilities recognised at the end of the reporting period to regulated activities using the direct (individual) identification method based on the analysis of individual accounts,
- Step 2: analysis of the balance of other trade liabilities after adjustment for the liabilities identified in step 1. This balance is allocated using the direct elimination method to other activities, to the extent that the Company is able to indicate liabilities which concern only other activities,
- Step 3: allocation of liabilities not directly allocated to any of the above activities to regulated and other activities, by the indirect method using a revenue key.

The Company allocates liabilities due to the purchase and construction of fixed assets and intangible assets by direct identification based on the analysis of individual accounts.

Liabilities due to taxation and social insurance

The Company allocates liabilities arising from excise tax on electricity to regulated activities related to the sale of electricity by direct identification, and by separating those liabilities which relate exclusively to regulated activities.

Current tax liabilities
To calculate the current tax liabilities for a given regulated activity, an allocation key expressed as a percentage (%) is used, which is obtained from the relationship of current income tax for a given regulated activity x 100 to the total amount of Company income tax for the reporting period.
The amount of current income tax for a given regulated activity is a multiple, being the current tax rate times the profit shown in the statement of profit or loss for a given regulated activity.

$$\textit{Allocation key} = \frac{\textit{Current income tax for a given regulated activity x 100}}{\textit{Total Company current income tax}}$$

Liabilities due to current income tax for a given regulated activity are calculated as a multiple of the respective percentage (%) of the allocation key, set in accordance with the algorythym described above and the amount of current tax liabilities (taking into account any prepayments made), shown in the Company's accounts at the end of the financial period.

Liabilities due to future employee benefits
Liabilities due to future employee benefits are allocated to individual types of regulated activities by the indirect method using a revenue key.

<u>Revenues from sales</u>
Following an analysis of revenues in terms of their allocation to individual types of regulated activities, the Company identified groups of operations which met the following conditions:

- revenues from the sale of electricity – distribution;
- revenues from the sale of electricity – trade;
- revenues from the sale of heat – generation;
- revenues from the sale of heat – distribution;
- revenues from the sale of heat – trade;
- revenues from the sale of nitrogen-enriched natural gas – distribution;
- revenues from the sale of nitrogen-enriched natural gas – trade; and
- revenues from the sale of blast-furnace gas – generation.

Revenues from sales are allocated to individual types of regulated activities using the individual identification method.

40. Disclosure of information on the Company's activities regulated by the Act on Energy (continued)

Operating costs

Following an analysis of costs in terms of their allocation to individual types of regulated activities, the following types of operating costs were identified:

- costs of generating heat and blast-furnace gas sold, electricity distribution services, heat distribution services and the distribution of natural gas; and
- the value of the sold merchandise related to trade in electricity, heat and natural gas,
- general administration expenses associated with the sale of electricity.

Costs of basic operating activities are allocated to separate types of regulated activities based on the Company's account of real costs.

Other operating income and gains / other operating costs and losses

The Company allocates other operating income and costs to regulated activities using the individual identification method.

Income tax

The amount of income tax shown in the statement of profit or loss for individual types of regulated activities is set as a multiple of the financial result and the effective tax rate. The amount of current income tax decreases or increases deferred tax, which is calculated from the difference between the carrying amount and the taxable amount of the respective assets of regulated activities.

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

40. Disclosure of information on the Company's activities regulated by the Act on Energy (continued)

40.5 Financial data
Statement of financial position pursuant to article 44 of the Act on Energy

As at 31 December 2014	Company in total, of which:	Principal activities	Energy activities, of which:	Electricity			Heat			Gas		
				Trade	Distribution	Generation	Trade	Distribution	Generation	Trade	Distribution	Generation
ASSETS												
Non-current assets												
Property, plant and equipment	11 562	11 516	46	-	30	-	-	1	14	-	1	-
Intangible assets	511	511	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	111	111	-	-	-	-	-	-	-	-	-	-
Other non-current assets	15 255	15 255	-	-	-	-	-	-	-	-	-	-
	27 439	**27 393**	**46**	**-**	**30**	**-**	**-**	**1**	**14**	**-**	**1**	**-**
Current assets												
Inventories	2 377	2 377	-	-	-	-	-	-	-	-	-	-
Trade and other receivables	2 142	2 126	16	5	2	-	1	-	5	1	-	2
Other current assets	354	354	-	-	-	-	-	-	-	-	-	-
	4 873	**4 857**	**16**	**5**	**2**	**-**	**1**	**-**	**5**	**1**	**-**	**2**
TOTAL ASSETS	**32 312**	**32 250**	**62**	**5**	**32**	**-**	**1**	**1**	**19**	**1**	**1**	**2**
EQUITY AND LIABILITIES												
Equity	**24 277**	**24 222**	**55**	**4**	**29**	**-**	**1**	**1**	**16**	**1**	**1**	**2**
LIABILITIES												
Non-current liabilities												
Deferred tax liabilities	-	(3)	3	-	2	-	-	-	1	-	-	-
Employee benefits liabilities	1 842	1 842	-	-	-	-	-	-	-	-	-	-
Provisions for other liabilities and charges	994	994	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	1 359	1 359	-	-	-	-	-	-	-	-	-	-
	4 195	**4 192**	**3**	**-**	**2**	**-**	**-**	**-**	**1**	**-**	**-**	**-**
Current liabilities												
Trade and other payables	2 537	2 536	1	1	-	-	-	-	-	-	-	-
Current corporate tax liabilities	56	56	-	-	-	-	-	-	-	-	-	-
Employee benefits liabilities	114	113	1	-	1	-	-	-	-	-	-	-
Provisions for other liabilities and charges	41	39	2	-	-	-	-	-	2	-	-	-
Other current liabilities	1 092	1 092	-	-	-	-	-	-	-	-	-	-
	3 840	**3 836**	**4**	**1**	**1**	**-**	**-**	**-**	**2**	**-**	**-**	**-**
TOTAL LIABILITIES	**8 035**	**8 028**	**7**	**1**	**3**	**-**	**-**	**-**	**3**	**-**	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**32 312**	**32 250**	**62**	**5**	**32**	**-**	**1**	**1**	**19**	**1**	**1**	**2**

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

40. Disclosure of information on the Company’s activities regulated by the Act on Energy (continued)

As at 31 December 2013	Company in total, of which:	Principal activities	Energy activities, of which:	Electricity			Heat			Gas		
				Trade	Distribution	Generation	Trade	Distribution	Generation	Trade	Distribution	Generation
ASSETS												
Non-current assets												
Property, plant and equipment	9 744	9 691	53	-	13	-	-	1	38	-	1	-
Intangible assets	273	273	-	-	-	-	-	-	-	-	-	-
Deferred tax assets	98	98	-	-	-	-	-	-	-	-	-	-
Other non-current assets	13 420	13 420	-	-	-	-	-	-	-	-	-	-
	23 535	**23 482**	**53**	**-**	**13**	**-**	**-**	**1**	**38**	**-**	**1**	**-**
Current assets												
Inventories	2 432	2 432	-	-	-	-	-	-	-	-	-	-
Trade and other receivables	2 475	2 464	11	5	2	-	1	-	-	1	-	2
Other current assets	596	596	-	-	-	-	-	-	-	-	-	-
	5 503	**5 492**	**11**	**5**	**2**	**-**	**1**	**-**	**-**	**1**	**-**	**2**
TOTAL ASSETS	**29 038**	**28 974**	**64**	**5**	**15**	**-**	**1**	**1**	**38**	**1**	**1**	**2**
EQUITY AND LIABILITIES												
Equity	**23 298**	**23 241**	**57**	**4**	**13**	**-**	**1**	**1**	**34**	**1**	**1**	**2**
LIABILITIES												
Non-current liabilities												
Deferred tax liabilities	-	(3)	3	-	1	-	-	-	2	-	-	-
Employee benefits liabilities	1 423	1 423	-	-	-	-	-	-	-	-	-	-
Provisions for other liabilities and charges	523	523	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	43	43	-	-	-	-	-	-	-	-	-	-
	1 989	**1 986**	**3**	**-**	**1**	**-**	**-**	**-**	**2**	**-**	**-**	**-**
Current liabilities												
Trade and other payables	2 431	2 430	1	1	-	-	-	-	-	-	-	-
Current corporate tax liabilities	50	50	-	-	-	-	-	-	-	-	-	-
Employee benefits liabilities	110	109	1	-	1	-	-	-	-	-	-	-
Provisions for other liabilities and charges	31	29	2	-	-	-	-	-	2	-	-	-
Other current liabilities	1 129	1 129	-	-	-	-	-	-	-	-	-	-
	3 751	**3 747**	**4**	**1**	**1**	**-**	**-**	**-**	**2**	**-**	**-**	**-**
TOTAL LIABILITIES	**5 740**	**5 733**	**7**	**1**	**2**	**-**	**-**	**-**	**4**	**-**	**-**	**-**
TOTAL EQUITY AND LIABILITIES	**29 038**	**28 974**	**64**	**5**	**15**	**-**	**1**	**1**	**38**	**1**	**1**	**2**

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

40. Disclosure of information on the Company's activities regulated by the Act on Energy (continued)

Statement of profit or loss pursuant to article 44 of the Act on Energy

For the period from 1 January 2014 to 31 December 2014	Company in total, of which:	Principal activities	Energy activities, of which:	Electricity		Heat			Gas		
				Trade	Distribution	Trade	Distribution	Generation	Trade	Distribution	Generation
Sales revenue	**16 633**	**16 549**	**84**	**38**	**9**	**4**	**1**	**6**	**13**	**3**	**10**
Revenues from the sale of products	16 492	16 463	29	-	9	-	1	6	-	3	10
Revenues from the sale of merchandise and materials	141	86	55	38	-	4	-	-	13	-	-
Cost of sales	**(12 265)**	**(12 183)**	**(82)**	**(36)**	**(5)**	**(4)**	**-**	**(14)**	**(13)**	**-**	**(10)**
Cost of products sold	(12 130)	(12 101)	(29)	-	(5)	-	-	(14)	-	-	(10)
Cost of merchandise and materials sold	(135)	(82)	(53)	(36)	-	(4)	-	-	(13)	-	-
Gross profit	**4 368**	**4 366**	2	2	4	-	1	(8)	-	3	-
Selling costs	(120)	(120)	-	-	-	-	-	-	-	-	-
Administrative expenses	(735)	(734)	(1)	-	-	-	-	(1)	-	-	-
Other operating income	573	573	-	-	-	-	-	-	-	-	-
Other operating costs	(541)	(537)	(4)	-	-	-	-	(4)	-	-	-
Operating profit	**3 545**	**3 548**	(3)	2	4	-	1	(13)	-	3	-
Finance costs	(183)	(183)	-	-	-	-	-	-	-	-	-
Profit before income tax	**3 362**	**3 365**	(3)	2	4	-	1	(13)	-	3	-
Income tax expense	(948)	(944)	(4)	-	(2)	-	-	(1)	-	(1)	-
Profit for the period	**2 414**	**2 421**	(7)	2	2	-	1	(14)	-	2	-

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

40. Disclosure of information on the Company's activities regulated by the Act on Energy (continued)

Statement of profit or loss pursuant to article 44 of the Act on Energy

				Electricity		Heat			Gas		
For the period from 1 January 2013 to 31 December 2013	**Company in total, of which:**	**Principal activities**	**Energy activities, of which:**	**Trade**	**Distribution**	**Trade**	**Distribution**	**Generation**	**Trade**	**Distribution**	**Generation**
Sales revenue	**18 579**	**18 495**	**84**	**40**	**9**	**4**	**1**	**-**	**16**	**3**	**11**
Revenues from the sale of products	18 285	18 261	24	-	9	-	1	-	-	3	11
Revenues from the sale of merchandise and materials	294	234	60	40	-	4	-	-	16	-	-
Cost of sales	**(13 173)**	**(13 095)**	**(78)**	**(40)**	**(4)**	**(4)**	**(1)**	**(2)**	**(16)**	**-**	**(11)**
Cost of products sold	(12 885)	(12 867)	(18)	-	(4)	-	(1)	(2)	-	-	(11)
Cost of merchandise and materials sold	(288)	(228)	(60)	(40)	-	(4)	-	-	(16)	-	-
Gross profit	**5 406**	**5 400**	6	-	5	-	-	(2)	-	3	-
Selling costs	(126)	(126)	-	-	-	-	-	-	-	-	-
Administrative expenses	(671)	(671)	-	-	-	-	-	-	-	-	-
Other operating income	460	460	-	-	-	-	-	-	-	-	-
Other operating costs	(861)	(861)	-	-	-	-	-	-	-	-	-
Operating profit	**4 208**	**4 202**	6	-	5	-	-	(2)	-	3	-
Finance costs	(12)	(12)	-	-	-	-	-	-	-	-	-
Profit before income tax	**4 196**	**4 190**	6	-	5	-	-	(2)	-	3	-
Income tax expense	(1 138)	(1 134)	(4)	-	(2)	-	-	(1)	-	(1)	-
Profit for the period	**3 058**	**3 056**	2	-	3	-	-	(3)	-	2	-

Translation from the original Polish version

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Herbert Wirth	President of the Management Board	
16 March 2015	Jarosław Romanowski	First Vice President of the Management Board	
16 March 2015	Marcin Chmielewski	Vice President of the Management Board	
16 March 2015	Jacek Kardela	Vice President of the Management Board	
16 March 2015	Mirosław Laskowski	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last Name**	**Position / Function**	**Signature**
16 March 2015	Ludmiła Mordylak	Executive Director of Accounting Services Center Chief Accountant of KGHM Polska Miedź S.A.	

KGHM POLSKA MIEDŹ S.A.

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

Lubin, March 2015

Table of Contents to the Management Board's Report on the Activities of the Company in 2014

Table 1. Aggregated data regarding KGHM Polska Miedź S.A. for the years 2007-2014

(data for the years 2007-2012 per published annual reports)

		2007	2008	2009	2010	2011	2012	2013	2014
Statement of comprehensive income									
Sales revenue	PLN mn	12 183	11 303	11 061	15 945	20 097	20 737	18 579	**16 633**
Sales revenue minus total costs of products, merchandise and materials sold	PLN mn	4 880	3 392	3 197	6 657	9 364	7 135	4 609	**3 513**
EBITDA	PLN mn	5 101	4 078	3 646	6 254	14 360	7 198	4 976	**4 363**
Profit before income tax	PLN mn	4 656	3 554	3 067	5 606	13 654	6 417	4 196	**3 362**
Profit for the period	PLN mn	3 799	2 920	2 540	4 569	11 335	4 868	3 058	**2 414**
Statement of financial position									
Total assets	PLN mn	12 424	13 901	13 953	19 829	29 253	28 177	29 038	**32 312**
Non-current assets	PLN mn	7 431	8 704	9 509	12 125	11 697	22 410	23 535	**27 439**
Current assets	PLN mn	4 992	5 174	4 444	7 704	17 556	5 767	5 503	**4 873**
Equity	PLN mn	8 966	10 591	10 404	14 456	23 136	21 923	23 298	**24 277**
Liabilities and provisions	PLN mn	3 458	3 309	3 549	5 373	6 118	6 254	5 740	**8 035**
Financial ratios									
Earnings per share (EPS)	PLN	18.99	14.60	12.70	22.84	56.67	24.34	15.29	**12.07**
Dividend per share (DPS)*	PLN	9.00	11.68	3.00	14.90	28.34	9.80	5.00	**x**
Price per share/ earnings per share (P/E)	x	5.6	1.9	8.3	7.6	2.0	7.8	7.7	**9.0**
Current liquidity	x	2.5	3.1	2.4	2.6	4.5	1.5	1.5	**1.3**
Quick liquidity	x	1.7	2.2	1.4	1.9	3.9	0.7	0.8	**0.7**
Return on assets (ROA)	%	30.6	21.0	18.2	23.0	38.7	17.3	10.5	**7.5**
Return on equity (ROE)	%	42.4	27.6	24.4	31.6	49.0	22.2	13.1	**9.9**
Debt ratio	%	27.8	23.8	25.4	27.1	20.9	22.2	19.8	**24.9**
Durability of financing structure	%	83.8	88.0	86.8	84.9	86.8	86.5	87.1	**88.1**
Production results									
Electrolytic copper production	kt	533.0	526.8	502.5	547.1	571.0	565.8	565.2	**576.9**
Metallic silver production	t	1 215	1 193	1 203	1 161	1 260	1 274	1 161	**1 256**
Macroeconomic data (average annual)									
Copper prices on LME	USD/t	7 126	6 952	5 164	7 539	8 811	7 950	7 322	**6 862**
Silver prices on LBM	USD /oz t	13.38	14.99	14.67	20.19	35.12	31.15	23.79	**19.08**
Exchange rate	USD /PLN	2.77	2.41	3.12	3.02	2.96	3.26	3.17	**3.15**
Other data									
Market capitalisation. end of period	PLN/ share	105.80	28.12	106.00	173.00	110.60	190.00	118.00	**108.85**
Capital expenditures	PLN mn	828	1 140	1 070	1 263	1 514	1 766	2 357	**2 416**
Equity investments **	PLN mn	155	793	170	1 321	643	9 637	87	**27**
Electrolytic copper production cost ***	PLN/t	11 160	11 736	11 170	12 983	13 566	17 496	16 758	**16 466**
	USD/t	4 031	4 878	3 582	4 302	4 578	5 370	5 286	**5 227**
Concentrate production cost – C1	USD/lb	1.13	1.58	1.12	1.07	0.63	1.34	1.78	**1.82**

** dividend for the financial year*
*** purchase/acquisition of shares and investment certificates*
**** since 2013 based on new methodology for measuring by-products in the unit cost of electrolytic copper production (details may be found in section 3.6)*

1. Company profile

KGHM Polska Miedź S.A. is the parent entity of a Group which is a world-class producer of copper and silver with over half a century of experience. As a major global copper producer the KGHM Polska Miedź S.A. Group is aiming to increase its annual production to over 1 million tonnes of copper equivalent from its own resources, while at the same time respecting business ethics, environmental protection and social responsibility.

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

KGHM started its mining operations in the 1950s, when three old copper mines were reactivated (currently inactive), and, to process the ore extracted from them, the Legnica smelter/refinery was built, which has been in operation since 1953. The discovery of vast copper deposits by Jan Wyżykowski in 1957 led to the construction of the Lubin mine (1960), the oldest of KGHM's existing mines. In the years 1962-1980 two more mines were built – Polkowice-Sieroszowice and Rudna, as well as the Concentrators, the Głogów smelter/refinery and the Cedynia copper wire rod plant.

1.1. Production processes

Production process

Production in KGHM Polska Miedź S.A. is a fully integrated process, in which the end product of one phase is the starting material (half-finished product) used in the next stage. Ore extraction in KGHM is performed by three mining divisions: Lubin, Rudna and Polkowice-Sieroszowice; the Concentrators Division, which prepares concentrate for the smelters, and the Tailings Division, responsible for storing and managing the tailings generated by the production process. The organisational structure of KGHM includes three metallurgical plants: the Legnica smelter and refinery, the Głogów smelter and refinery and the Cedynia copper wire rod plant.

Mining

The technology of mining the copper ore in all 3 mines is based on the room-and-pillar system with the use of blasting for ore extraction. This involves the excavation of a drift network on all four sides of the site to be mined, cutting of the unmined rock mass with rooms and drifts separating a number of operating pillars, as well as extraction of the ore followed by the transport of the ore to underground dumping stations. Here the large rocks are crushed and sifted through a grate, and then the crushed ore is transported to the storage areas near the shafts, from which it is transported to the surface by skip hoisting shafts.

The mining of the copper ore is done in a 4-shift system. It is fully mechanized, with the use of motorised mining rigs, most of them equipped with air-conditioned cabins and systems supporting the work of the operators. Mining is conducted in the following cycle: drilling the blasting holes with the support of motorised drilling rigs, loading blasting material into drilled holes by drilling rigs, group blasting of the ore, followed by the ventilation of the areas blasted (from 30 min. to 2 hours; in seismically-sensitive areas this time is longer). The next stage involves the loading of the ore using motorised loaders into haulage vehicles, and its transport to dumping stations and protection of the exposed face by roof anchor bolts using bolting rigs. The crushed ore is transported by conveyor belts or mine rail trolleys to the storage sites near the shafts, and is then hoisted to the surface. After the ore is unloaded at the shaft top, it is transported by conveyor belts or railway to the ore concentrators located at each of the three mines.

The operations and processes applied at each of the three concentrators are similar. However, due to the varied lithological and mineralogical composition of the ore from individual mines, the production layout of each facility differs. The enrichment technologies applied include the following individual operations: screening and crushing, milling and classification, flotation and drying of the concentrate.

The flotation process results in concentrate with an average copper content of approx. 22-23%, and flotation waste. The Rudna mine concentrator produces the highest copper content concentrate (approx. 26%), while the lowest is at the Lubin mine concentrator (approx. 14%). The Polkowice mine concentrator produces concentrate of approx. 24% copper content.

The dried concentrate of approx. 8.5% water content is transported by rail to the three smelters: Legnica, Głogów I and Głogów II (Głogów I and Głogów II comprising one large facility).

The tailings, in the form of slimes, are transported through pipelines to the Żelazny Most tailings pond, where the sedimentation of the solid particles takes place and waste water is collected and redirected to the ore concentrators. The storage site also serves as a retention-dosage reservoir for excess mine water. Excess water is periodically discharged to the Odra River. This method was developed and implemented in partnership with research institutions, and it has been officially approved for use under the provisions of the Water Law. Studies demonstrate that the discharging of mine and process water to the Odra River does not result in any changes that would make the proper functioning of water ecosystems impossible or prevent conformance with the applicable water quality requirements.

Metallurgy

The copper smelters/refineries produce electrolytic copper from concentrates produced from our own mined ore as well as from purchased copper-bearing material (concentrates, copper scrap, copper blister).

The Legnica and Głogów I smelters use a multi-stage process whose main stages include preparation of the charge material; its smelting in shaft furnaces to the form of matte copper; conversion to the form of raw copper with approx. 98.5% Cu content; fire refining in anode furnaces to produce anodes of 99.2% Cu content; and electrorefining. The final product is refined electrolytic copper cathodes with 99.99% Cu content.

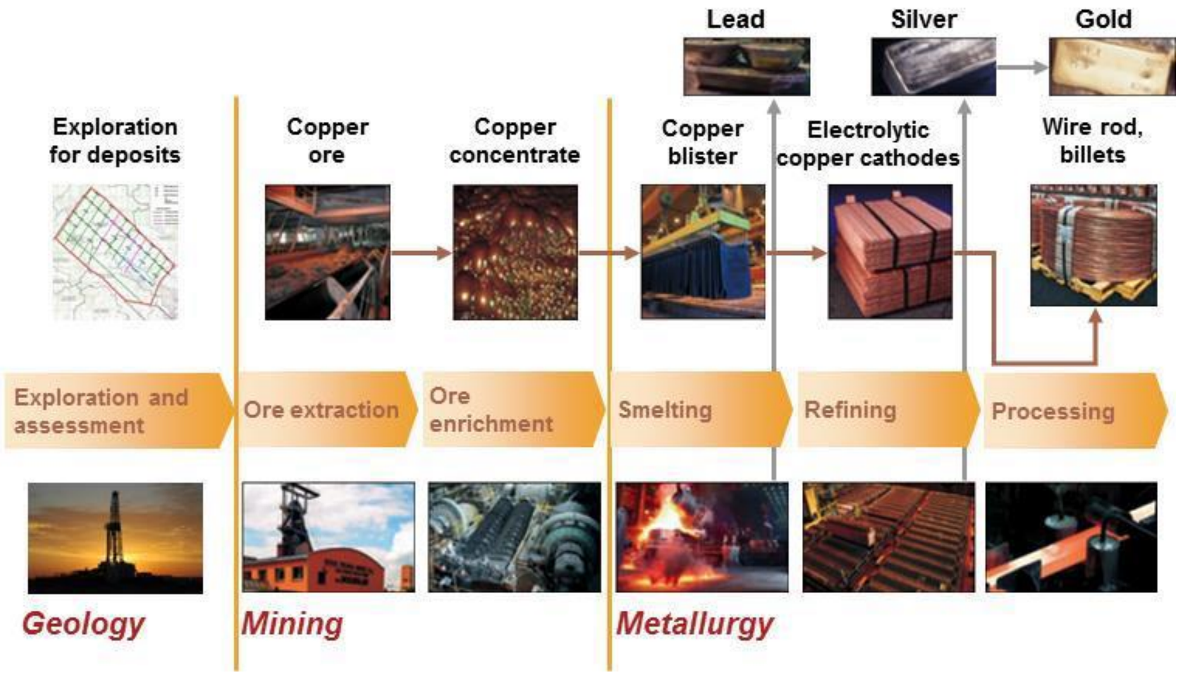
The Głogów II smelter applies flash furnace technology based on a modified license from the Finnish company Outokumpu. This technology combines three stages into one: drying of the concentrate, smelting of the matte copper and converting. The dried concentrate is smelted in a flash furnace into blister copper containing around 99% Cu, which is refined in an anode furnace. The slag, which still contains on average 14% copper, is sent to the electric furnace, where the copper is removed while the alloy obtained is sent to the convertors, from which copper is sent for refining in anode furncaces. Copper anodes are sent for electrorefining. The end product is copper cathodes containing 99.99% Cu.

Approx. 40% of the refined copper produced by all three smelters (mainly from the Głogów smelters) is transported to the Cedynia Copper Wire Rod Division in Orsk, where copper wire rod is produced by a continuous smelting, casting and rolling process as well as oxygen-free copper rod (Cu-OFE) and oxygen-free, silver-bearing copper rod based on UPCAST technology.

The anode slime produced as a by-product of the electrorefining process at all three smelters contains precious metals. The anode slime is further processed at the Precious Metals Plant at the Głogów smelter to obtain refined silver, gold, palladium-platinum concentrate and selenium. The remaining electrolyte, once the copper is removed, is used to produce crude nickel sulphate.

The dust and slimes collected as a result of the removal of dust from technological exhaust gases at the smelters are mainly smelted in Dörschel furnaces at the Lead Section of the Głogów smelter into crude lead. This crude lead is then refined at the Legnica smelter to obtain the final product - refined lead.

Diagram 1. Integrated Company processes for geological, mining and metallurgical operations



2014 Business Objectives

The main objectives set forth by the Management Board with respect to production and workplace safety in 2014 were:

- optimal utilisation of the resource base and of the production capacity of the Company,
- optimisation of the copper content in ore and concentrate,
- maximum utilisation of the production capacity of the metallurgical divisions, and
- a decrease in the number of accidents.

To achieve the goals set for 2014, the following actions were completed or continued:

in mining	– commencement of mining in the G-5 section of the Rudna mine at the level of 1200m, within the Deep Głogów mining area, – improvement of the ore selection system, greater mining efficiency and improved safety, by: a. adapting the geometry of mining systems to local geological and mining conditions, b. improving the efficiency of technological and active methods of limiting the threat of rock bursts and of other associated natural threats, c. optimisation of barren rock management in mining areas (selective extraction, siting of rock, mechanical ore mining), – a greater scope of work with respect to identifying gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract these threats, – continuation of work aimed at achieving a ventilation connection between the near-shaft zone of the SW-4 shaft and the E declines in the Polkowice-Sieroszowice mine. – completion in 2014 of the planned scope of mine development and access work using the commissioning system amounted to 47.9 thousand meters (as compared to 52.5 thousand meters in 2013)
in ore processing	– adapting the production capacity of specific areas of the concentrators to the amount and quality of ore supplied, – improving concentration parameters through the successive replacement of flotation equipment in specific areas of the concentrators, increasing copper recovery from flotation from 89.03% in 2013 to 89.05% in 2014, – maintaining the production of concentrates in an amount and quality necessary for optimal use of the production capacity of the furnace sections of the smelters, – continuation at the Rudna concentrator of separating the concentrate produced into concentrate with varied organic carbon content. Concentrate with organic carbon content of above 9% is sent to the shaft furnaces, while concentrate with organic carbon content of below 8% is processed by the flash furnace. The separation of concentrate increases the efficiency of the flash furnace and decreases consumption of energy-generating materials in the shaft furnaces.
in metallurgy	– continued modernisation of technology at the Głogów I smelter as part of the Pyrometallurgy Modernisation Program, – maintenance on the shaft furnace at the Legnica smelter

Review of mining operations

In 2014 the Company extracted 31.0 million tonnes of ore (dry weight) which was 0.4 million tonnes more than in 2013. The increase in extraction in 2014 was due to an increase in daily extraction on working days, and to intensified work on statutorily free days.

Average copper content in extracted ore amounted to 1.53% and was lower than that achieved in 2013 (1.57%) due to work being performed in areas of lower copper content. The same was generally true of silver in ore, whose content decreased from 45.5 g/t to 44.6 g/t.

As a result of the above the amount of copper in extracted ore was lower than the amount recorded in 2013 by 8.5 thousand tonnes, and amounted to 473.3 thousand tonnes, while the volume of silver in ore decreased by 9.6 tonnes and amounted to 1 384 tonnes.

In 2014 the volume of ore processed, dry weight, increased by 350.8 thousand tonnes as compared to 2013. The decrease in copper content in processed ore led directly to the lower amount of copper in concentrate by 7.6 thousand tonnes to the level of 421.3 thousand tonnes of copper in concentrate.

The production of concentrate, dry weight, decreased versus the amount produced in 2013 by 14 thousand tonnes (a decrease from 1 856 thousand tonnes to 1 842 thousand tonnes).

The amount of silver in concentrate was lower than the amount produced in 2013 by 1.1% (a decrease from 1 199 tonnes to 1 186 tonnes).

Table 2. Mine production

	Unit	2013	2014	Change 2013=100	IQ'14	IIQ'14	IIIQ'14	IVQ'14
Mined ore (dry weight)	mn t	30.6	**31,0**	101.3	*8.0*	*7.8*	*7.8*	*7.5*
Copper grade	%	1.57	**1.53**	97.5	*1.57*	*1.53*	*1.51*	*1.50*
Copper in ore	kt	481.8	**473.3**	98.2	*124.8*	*118.8*	*117.9*	*111.8*
Silver grade	g/t	45.47	**44.60**	98.0	*44.60*	*44.59*	*44.44*	*44.79*
Silver in ore	t	1 393	**1 384**	99.4	*355*	*347*	*347*	*335*
Copper concentrate (dry weight)	kt	1 856	**1 842**	99.2	*474*	*461*	*457*	*450*
Copper in concentrate	kt	428.9	**421.3**	98.2	*109.9*	*106.1*	*104.5*	*100.9*
Silver in concentrate	t	1 199	**1 186**	98.9	*303*	*296*	*297*	*290*

Review of metallurgical operations

The production of electrolytic copper as compared to 2013 increased by 11.7 thousand tonnes, or by 2% and was the highest result in the history of the Company: 576.9 thousand tonnes. This high metallurgical production was achieved despite the maintenance shutdown of smelter equipment at the Legnica smelter/refinery. The production was increased thanks to the higher processing of own concentrate as well as purchased copper-bearing materials in the form of scrap, copper blister and imported concentrate. Existing production capacity was efficiently utilised thanks to the processing of purchased copper-bearing materials in addition to concentrates produced from the Company's own mines.

The production of other smelter products (silver, wire rod, OFE rod and round billets) is directly connected to the level of electrolytic copper production, and depends on the type of raw materials used and in particular on market demand.

In comparison to 2013, there was a substantial increase in the amount of metallic gold produced (1 509 kg, a 2.4-fold increase) and for the first time in KGHM's history reached the level of 2 575 kg. The Company also produced 95 tonnes more metallic silver, closing the year at 1 256 tonnes.

Table 3. Metallurgical production

	Unit	2013	2014	Change 2013=100	IQ'14	IIQ'14	IIIQ'14	IVQ'14
Electrolytic copper, of which:	**kt**	**565.2**	**576.9**	102.1	*143.2*	*139.7*	*146.2*	*147.7*
- from own concentrates	kt	430.3	**420.4**	97.7	105.7	104.2	102.3	108.2
- from purchased copper-bearing materials*	kt	134.8	**156.5**	116.1	37.6	35.5	44.0	39.5
Wire rod, OFE and CuAg rod	kt	243.7	**257.9**	105.8	*67.1*	*67.5*	*69.7*	*53.6*
Round billets	kt	17.0	**8.8**	51.8	*0.5*	*1.3*	*3.8*	*3.2*
Metallic silver	t	1 161	**1 256**	108.2	*278*	*328*	*325*	*326*
Metallic gold	kg	1 066	**2 575**	×2.4	*246*	*566*	*822*	*940*
Refined lead	kt	26.6	**26.1**	98.1	*6.1*	*6.7*	*5.7*	*7.7*

** including from customer-provided material*

Chart 1. Electrolytic copper production *(thousand tonnes)*

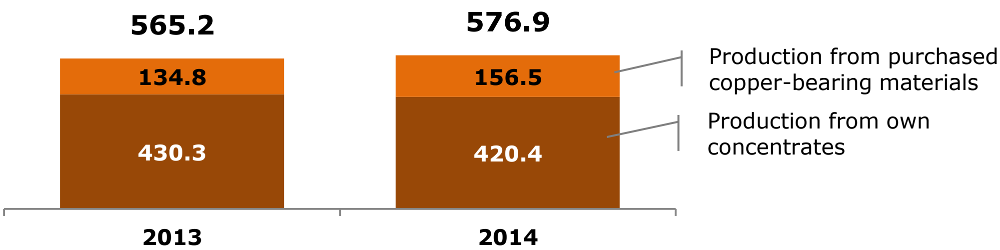
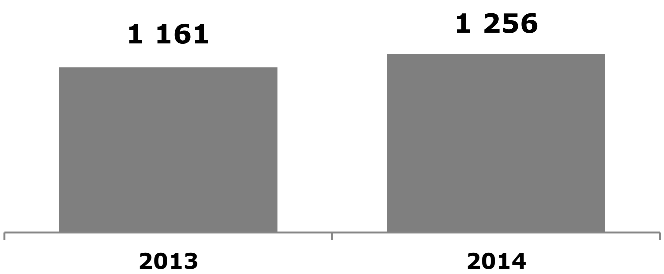


Chart 2. Metallic silver production (t)



2015 production goals

The production and workplace safety goals for 2014 are considered by the Management Board as key priorities for 2015, including:

- optimal utilisation of the resource base and of the production capacity of the Company, and
- optimisation of the copper content in ore and concentrate.

Some of the key tasks for 2015 are presented in the table below.

in mining	– expanding mining operations within the Deep Głogów area, – continuation of access and development work to intersect the ore at the level of 1 200 meters and below in the Rudna mine in the direction of the Deep Głogów area, – increased use of drift development technology using drift combines, – continued work related to gathering information on gas-related threats (hydrogen sulphide and methane) and the use of new technical solutions and means of prevention to counteract these threats, – limiting dilution in extracted ore, – continuation of the long-term plan to access copper ore through the systematic and planned performance of drift work, – the planned scope of development and access work using the commissioning system in 2015 set at the level of 51 thousand meters
in ore processing	– modernisation of classifier units, testing of new types of flotation machinery, – improved energy performance of the machinery park at the concentrators, – optimisation of the concentration process in terms of decreasing the impact of reduced quantity-quality parameters by applying the FloVis system at all flotation stages, including cleaning flotation, tests and the application of new flotation mixture reagents, – continued separation of concentrate produced into two products with varied calorific values at the Rudna concentrator and the commencement of research into the separation of organic carbon at the rougher flotation stage (prefloatation) and segregation, – optimising control of the milling units based on visual parameters and sound and vibration characteristics at the concentrators
in metallurgy	– continued modernisation of technology at the Głogów I smelter as part of the Pyrometallurgy Modernisation Program, – minimising the impact of arsenic on the environment – taking actions to improve the effectiveness of dedusting, determining the amounts of arsenic and deciding on means to hermetically seal these processes to decrease fugitive emissions

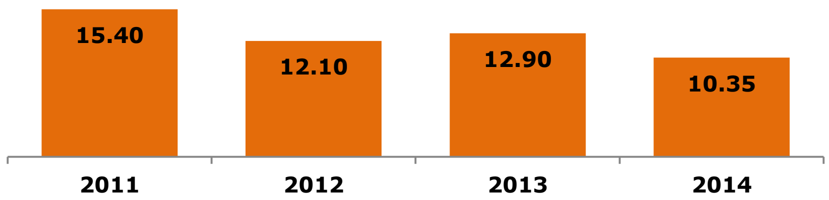
Workplace safety

The life and health of employees and workplace safety in general are among the priority values for the Company. In 2014 we began to implement a unified workplace safety and hygiene policy in KGHM Polska Miedź S.A. This „Program to improve workplace safety in KGHM Polska Miedź S.A. to the year 2020", based on best practices currently applied by individual divisions, was consulted with public labour inspectors and with the trade unions which signed the Collective Labour Agreement. The Program, which includes actions aimed at altering attitudes and behaviors, improving education and skills, workplace environment and health, is aimed at:

- decreasing the LTIFR ratio (the number of accidents per million worked hours),
- improving safety culture,
- raising the quality of training,
- wider participation by employees in efforts to improve safety,
- recording potential accident-inducing events and their elimination,
- implementing a coordinated program to promote health,
- implementing new types of personal protective equipment, and
- optimising costs related to occupational health and safety.

The impact of these activities is reflected in the systematic drop in the LTIFR ratio:

Chart 3. Lost-time injury frequency rate
(accidents per million worked hours)



Amongst the most hazardous and life-threatening events involving employees in the mines of KGHM Polska Miedź S.A. are the natural hazards associated with the underground mining of copper ore. In particular, hazards related to seismic tremors and their potential effects in the form of roof and wall collapses are considered as particularly important from the safety point of view, as their occurrence can lead to serious or even fatal injuries as well as damage to underground machinery, equipment and infrastructure, along with breaks in production. The Company maintains on-going seismic observations in its mines based on a well-developed network of underground and surface-based seismic monitoring stations, encompassing all of the Company's active mining areas.

Actions are also undertaken to limit the threat of tremors and roof collapses, for example through careful ore extraction planning (selecting the size and shape of rooms and of inter-room pillars, the most advantageous direction of mine advance and the optimum order of extracting the ore to minimise local concentrations of stress), the systematic provocation of the rock mass by group blasting of mine faces and by blasting to relieve stress in the orebody and its flooring. To minimise risk, blasting is only performed between shifts, when there are no people in the areas at the mining faces, and to ensure safety after blasting, strong rock mass tremors, de-stressings and roof collapses, waiting times are strictly enforced.

1.2. Sales

In 2014, the Company recorded a decrease in the volume of copper sales by 21 thousand tonnes (-4%) as compared to the prior year, mainly as a result of there being a lower amount of basic copper products remaining available for sale (due among others to the lower initial copper inventory in 2014 compared to 2013) and to the lower level of sales in 2014 of other copper products, above all the lack of sales of own copper concentrate.

Silver sales amounted to 1 262 tonnes and were higher by 1% (12 tonnes) as compared to the prior year. Gold sales also increased, by 139% (1 473 kg), and amounted to 2 530 kg. The substantial increase in gold sales was due to the higher production of this metal by 141% (1 508 kg) as compared to 2013, due to the processing of purchased copper-bearing materials which among others contained a high level of gold.

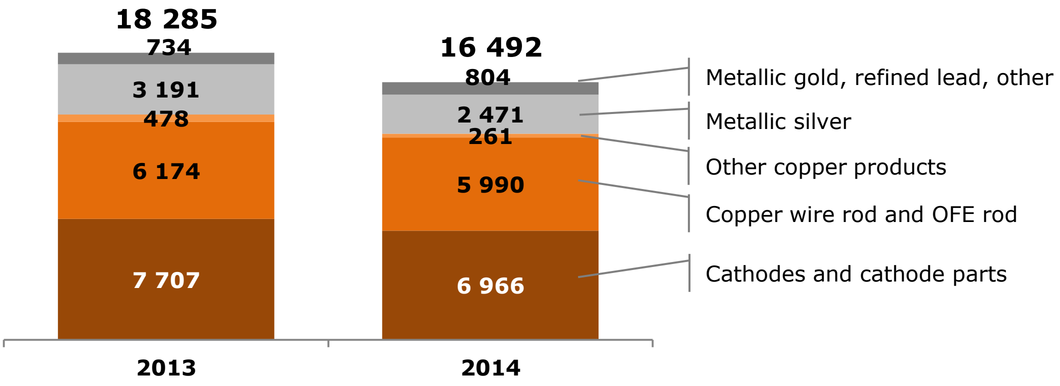
Table 4. Sales volume of main products

	Unit	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Cathodes and cathode parts	kt	323.2	**303.9**	94.0	*69.3*	*67.0*	*69.0*	*98.6*
Copper wire rod and OFE rod	kt	250.7	**257.3**	102.6	*65.5*	*67.1*	*66.0*	*58.7*
Other copper products	kt	20.6	**12.1**	58.7	*3.6*	*2.2*	*3.4*	*3.0*
Total copper and copper products	**kt**	**594.5**	**573.3**	96.4	*138.4*	*136.3*	*138.4*	*160.3*
Metallic silver	t	1 250	**1 262**	101.0	*220*	*353*	*296*	*395*
Metallic gold	kg	1 057	**2 530**	×2.4	*307*	*494*	*836*	*894*
Refined lead	kt	26.7	**25.8**	96.6	*6.3*	*5.8*	*6.7*	*7.0*

Table 5. Sales revenues breakdown by product (*in PLN millions*)

	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Cathodes and cathode parts	7 707	**6 966**	90.4	*1 555*	*1 488*	*1 612*	*2 310*
Copper wire rod and OFE rod	6 174	**5 990**	97.0	*1 520*	*1 498*	*1 552*	*1 421*
Other copper products	478	**261**	54.6	*78*	*35*	*80*	*68*
Total copper and copper products	**14 360**	**13 217**	**92.0**	*3 153*	*3 021*	*3 244*	*3 799*
Metallic silver	3 191	**2 471**	77.4	*455*	*690*	*610*	*717*
Metallic gold	144	**327**	x2.3	*39*	*63*	*108*	*117*
Refined lead	194	**183**	94.3	*44*	*39*	*49*	*51*
Other goods and services	395	**294**	74.4	*78*	*64*	*76*	*77*
Total revenues from the sale of products	**18 285**	**16 492**	90.2	*3 769*	*3 877*	*4 087*	*4 760*

Chart 4. Structure of sales of basic Company products in 2014 *(in PLN millions)*



Total revenues from the sale of KGHM Polska Miedź S.A.'s products in 2014 amounted to PLN 16 492 million and were lower by 10% than revenues achieved in 2013, mainly as a result of a lower volume of copper sales by 21 thousand tonnes and to a fall in metals prices: copper on the London Metal Exchange (LME) and silver on the London Bullion Market (LBM). Revenues from the sale of copper and copper products were lower by 8%. Revenues from silver sales were lower by 23% as compared to their level in 2013, while revenues from gold sales were higher by 127%. The increase in revenues from gold sales, despite the fall in the price of this metal, was due to the increase in sales volume by 139% (1 473 kg) as compared to 2013.

The value of revenues from sales in 2014 reflects the positive result from the settlement of hedging instruments in the amount of PLN 531 million (in the prior year PLN 450 million).

Geographical breakdown of sales

In 2014, the volume of sales of copper and copper products in Poland represented 22% of total copper sales, while 78% was exported outside Poland and to the European Union. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were China, Germany, the Czech Republic and France. During 2014 silver sales within Poland amounted to 1% of total silver sales, while 99% was exported outside Poland and to the European Union. The largest foreign customers for silver were the United Kingdom, Australia, the USA and Belgium.

Information on the main products

The main products of the Company are electrolytic copper cathodes with a minimum copper content of 99.99%. These cathodes meet the highest demands for quality and are registered as Grade „A" on the London Metal Exchange (LME) under three brands: HMG-S, HMG-B and HML and on the Futures Contracts Exchange in Shanghai. The main customers for the cathodes are producers of wire rod, other rods, flat bars, pipes, sheets and belts.

The second-most important copper product in terms of volume is 8 mm copper wire rod manufactured through the Contirod® continuous process of melting, casting and drawing. The charge materials for the production of wire rod are copper cathodes, mainly those produced by the Company. Depending on the needs of the customer, wire rod is produced in various classes of quality. The main customers for wire rod are the cable, electrical goods and electrotechnical industries.

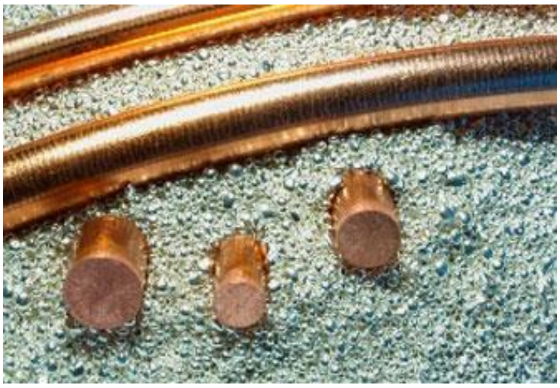
Copper cathodes

Copper wire rod

Other copper products are rod and round billets. Two types of rod are produced: Cu-OFE oxygen-free rod and CuAg(OF) oxygen-free, silver-bearing rod. Rod is produced using UPCAST® technology, in diameters from 8 mm to 25 mm (8 mm, 12.7 mm, 16 mm, 20 mm, 22 mm, 24 mm and 25 mm). Customers for this product are in the cable industry, with application in the form of thin wires, enameled wires and fire-resistant cables, as well as cables for transmitting audio and video signals. In addition, oxygen-free, silver-bearing rod is used in the manufacture of trolleys and commutators.

Round copper billets produced from copper cathodes cast in the classification Cu-ETP1 and Cu-ETP, and from oxygen-free phosphorus-containing copper in the classification Cu-HCP, Cu-PHC, Cu-DLP, Cu-DHP, are used in the construction industry (to manufacture pipes) and the electrotechnical industry (to manufacture belts, rods and profiles).

Oxygen-free, silver-bearing rod



Round copper billets

Electrolytic silver is produced in the form of cast metal (bars, billets) and grains containing 99.99% silver. Silver bars (weighing approx. 32 kg) hold certificates registered on NYMEX in New York as well as Good Delivery certificates issued by the London Bullion Market Association and by the Dubai Multi Commodities Centre. Granule silver is packed in bags weighing 25 kg or 500 kg. The main customers for silver are banks, investment funds, the jewelry industry, photographic industry, and the electronics and electrical industries as well as producers of coins and medallions.

Silver billets

Granule silver

Gold in the form of bars weighing 0.5 kg, 1 kg, 4 kg, 6 kg and 12 kg containing 99.99% gold are used in the jewelery industry, by banks and in the electrical industry.

Gold bars

2014 macroeconomic environment

Economic growth in 2014 was slightly faster as compared to the prior year and, according to estimates of the International Monetary Fund (IMF), amounted to 3.3% YoY. There was optimistic news on the US economy, which quickened after a weak first quarter, reaching 2.7% growth YoY in the third quarter, helping to reduce unemployment, which dropped in November to 5.8%.

Other key countries continued to deal with serious problems. Although the Eurozone emerged from the recession of 2013, in 2014, according to the IMF, it grew by just 0.8%. In 2014, Germany was no longer in a position to independently drive Eurozone economic activity, France and Italy continued to lack structural reforms, and fears re-emerged both about Greece potentially exiting the Eurozone, and the United Kingdom exiting the European Union.

In China, economic activity also slowed, though GDP remained above 7.0%. Inflation at a global level remained low, due among others to falling commodity prices. Some of the volatility on financial markets was caused by geopolitical problems related to the situation in Eastern Europe and the Middle East.

At the end of the year the first step was taken in the long-awaited decoupling of monetary policy between the global economy and that of the USA, when the Federal Reserve terminated the quantitative easing program. At the same time the European Central Bank first lowered the interest rate to a negative level, and then announced its own buy-back program, which is to begin this year. Likewise, the central banks in Japan and China carried out expansive monetary policies.

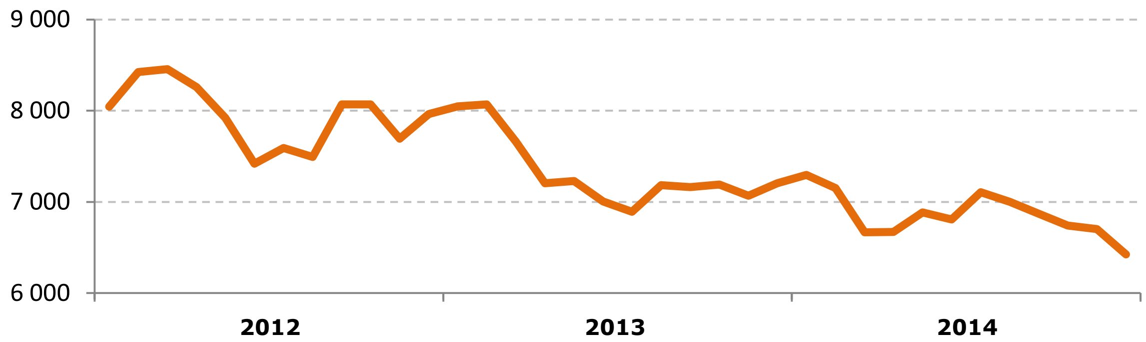
Commodity markets in the first half of 2014 showed relatively solid growth, though the second half brought substantially lower prices. By the end of June 2014 the Bloomberg Commodity Index had grown by 7%, but over the next six months it fell by 22%. Also of significance was the drastic fall in the oil price, which from its peak in June dropped by around 50%.

In the first half of 2014, the cash settlement price of copper on the LME ranged between 6 400 - 7 450 USD/t. In March the price fell sharply, mainly caused by fears about the sustainability of growth in China and to a reduction in positions in financial transactions hedged by metals. The sharp fall in the price of the red metal was offset by copper's gradual recovery in subsequent months, though in the second half of 2014 copper joined the general market trend downwards, and by the end of the year had fallen by 8%. In addition to the fears already mentioned about the condition of the Chinese economy, fears also involved the anemic recovery in the Eurozone, as well as the strong appreciation in the USD. The American dollar strengthened versus most world currencies, and as a result the copper price expressed in PLN at the end of the year was similar to that recorded at the start of the year, 22 302 PLN/t.

According to estimates by CRU International, global consumption of refined copper in 2014 rose by 3.9%. During the year the copper supply balance went from a state of deficit to one of slight surpus. At the same time, thanks to delays in the start of new production, political and legal difficulties and to a deterioration in the quality of extracted ore, the market gradually revised downwards the anticipated copper supply balance for the coming years. Official exchange inventories remained in the falling trend from the prior year, and in 2014 decreased by a further 200 thousand tonnes.

The average annual price of copper on the London Metal Exchange (LME) in 2014 was 6 862 USD/t, which was over 6% lower as compared to 2013 (7 322 USD/t).

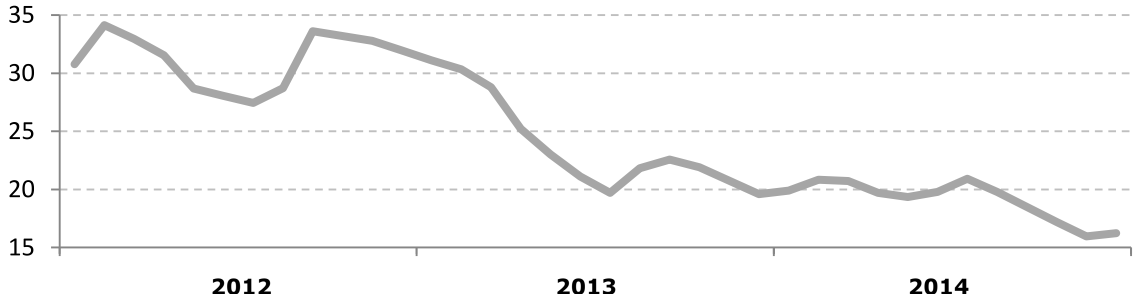
Chart 5. Copper prices on the LME *(USD/t)*



Silver in 2014 was fairly stable in price as compared to prior years, though it remained in a falling trend. In the first half of the year the price of silver ranged between 18.50 – 22.00 USD/ounce, thanks to the heightened uncertainty on financial markets caused by the political crises in Ukraine and the Middle East. However, in the second half of 2014, as was the case for other metals as well, the price of silver fell and at the end of the year was around 16 USD/ounce. Apart from the key factor of the USD's appreciation, another reason for the drop in the silver price was the data confirming the lack of global inflationary pressure and the Fed's termination of its assets buyback program.

The price of silver on the London Bullion Market (LBM) fell in 2014 by nearly 20% and averaged 19.08 USD/ounce as compared to 23.79 USD/ounce in 2013.

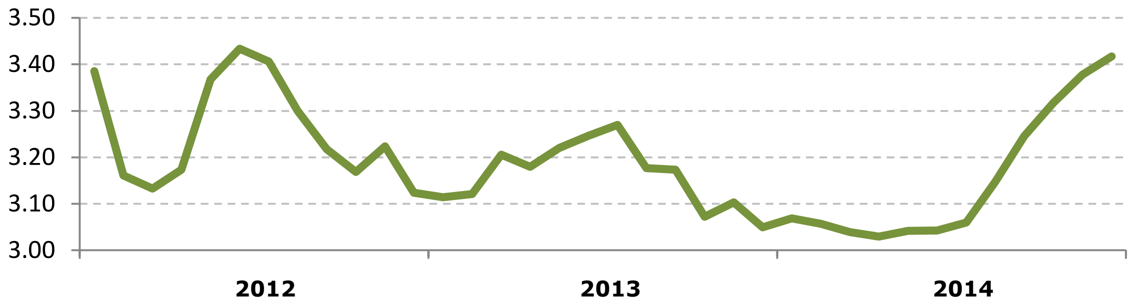
Chart 6. Silver prices on the LBM *(USD/oz t)*



The US dollar in 2014 strengthened substantially versus most currencies. The improving economic situation in the US, the problems in other key economies and the end of the quantitative easing program by the Fed led to an increase in the USD index of nearly 13% as compared to the currencies of the US's major trading partners, with all of this increase occurring in the last two quarters. The depreciation of the PLN as compared to the USD was also due to the weakness in the Eurozone, with which the Polish economy is closely entwined, as well as to the threats associated with the geopolitical destabilisation in Eastern Europe.

The average annual USD/PLN exchange rate (per the NBP) in 2014 amounted to 3.15 USD/PLN and was comparable to the average of the prior year. However, the exchange rate at the end of 2014 was 16% higher than on the last day of 2013. The minimum USD/PLN exchange rate was recorded in May at the level of 3.0042 USD/PLN, while the maximum level was recorded at the end of December – 3.5458 USD/PLN.

Chart 7. USD/PLN exchange rate per the NBP



The macroeconomic factors of greatest importance for the Company's operations are presented in the following table.

Table 6. Macroeconomic factors of importance for the Company's operations

		2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Average copper price on the LME	USD/t	7 322	**6 862**	93.7	7 041	6 787	6 994	6 624
Average silver price on the LBM	USD/oz t	23.79	**19.08**	80.2	*20.48*	*19.62*	*19.76*	*16.50*
Average USD/PLN exchange rate per the NBP	PLN/USD	3.17	**3.15**	99.4	*3.06*	*3.04*	*3.15*	*3.37*

The Company's market position

According to preliminary estimates by CRU International, global copper mine production in 2014 amounted to 18 227 thousand tonnes. During this same period KGHM produced 421.3 thousand tonnes of copper in concentrate, representing 2.3% of global production. Global production of refined copper, according to estimates by CRU, amounted to 21 655 thousand tonnes. Production of refined copper in the Company amounted to 576.9 thousand tonnes, representing 2.7% of global production.

In 2014, global mine production of silver amounted to 833 million ounces (estimated data from CRU International). KGHM during this period produced 38.1 million ounces of silver in concentrate, representing 4.6% of the global production of this metal.

1.3. Significant commercial contracts

In 2014, the Company entered into the following significant contracts:

Table 7. Contracts significant for the activities of the Company entered into in 2014

Date	Description of contract
30.01.2014	**Appendix to a comprehensive contract for the purchase of fuel gas**, signed on 30 July 2010 with Polskie Górnictwo Naftowe i Gazownictwo SA (PGNiG). The contract 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. At the same time annexes were signed for three other contracts for the purchase of fuel gas from PGNiG, entered into by: the Legnica smelter/refinery dated 25 September 2001, the Głogów smelter/refinery dated 4 January 1999 and the Concentrators Division dated 1 October 1998. The only change in these contracts involved their period of validity, which was changed from being undefined to 30 June 2033. The estimated value of the three contracts during their period of validity is approx. **PLN 2.8 billion** and exceeds 10% of the Company's equity value. The highest-value contract is the contract signed on 4 January 1999. The estimated value of this contract is approx. PLN 1.8 billion.
11.07.2014	**Agreement for an unsecured, revolving credit facility** in the amount of **USD 2 500 million** (approx. PLN 7 581 million, at the average exchange rate for USD/PLN announced by the National Bank of Poland dated 10 July 2014) with an international syndicate of banks. The Agreement has an initial five-year tenor incorporating two one-year extension options exercisable at the request of KGHM Polska Miedź S.A. (at the discretion of each lender). Details regarding the agreement may be found in Section 3.4.
1.08.2014	**Agreement for an unsecured loan** in the amount of **PLN 2 000 million** with the European Investment Bank. The funds acquired through this loan will be used to finance Company investment projects related to modernisation of metallurgy and development of the Żelazny Most tailings pond. Details regarding the agreement may be found in Section 3.4.
3.09.2014	A **Shareholders Agreement** with Polska Grupa Energetyczna S.A. („PGE"), TAURON Polska Energia S.A. and ENEA S.A., according to which KGHM Polska Miedź S.A., TAURON Polska Energia S.A. and ENEA S.A., as Business Partners, will acquire from PGE, on the basis of a separate agreement, a total of 30% of the shares (each Business Partner will acquire 10% of the shares) in the special purpose company PGE EJ 1 sp. z o.o., which is responsible for preparing and carrying out the investment to build and operate the first Polish nuclear power plant with a capacity of approx. 3 GWe („Project"). Details regarding this agreement may be found in Section 2.2.
1.12.2014	**Contract for the sale of copper wire rod in 2015 - 2016** with Prysmian S.p.A. The estimated value of this contract is between **PLN 2 071 million and PLN 2 576 million**. The contract's value depends on the amount of tonnage under option and on the relocation of material between Prysmian S.p.A. and Prysmian Kabel und Systeme GmbH. The contract with Prysmian S.p.A. provides for the relocation of wire rod between Prysmian S.p.A. and Prysmian Kabel und Systeme GmbH – on the basis of a separate contract signed between KGHM Polska Miedź S.A. and Prysmian Kabel und Systeme GmbH (the contract is on a consignment stock basis). The contract's value was calculated based on the forward copper curve and the USD/PLN exchange rate as per the National Bank of Poland from 28 November 2014.
29.12.2014	**Contract for the sale of copper wire rod in 2015** with Tele-Fonika Kable S.A. The estimated value of the contract for the sale of copper wire rod, including the annex (the sum of the 12 months prior to 29 December 2014, and in 2015, which is in respect of the annex) is from **PLN 2 522 million to PLN 2 714 million,** depending on the volume of options used and the relocation of material between plants belonging to Tele-Fonika Kable S.A. The value of the contract is estimated based on known market prices from 2014, the forward copper price curve and the average USD/PLN exchange rate announced by the National Bank of Poland as at 29 December 2014.

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

The only supplier whose share of supply exceeded 10% of the revenues from sales of KGHM Polska Miedź S.A. is the subsidiary KGHM Metraco S.A. in Legnica, whose sales to KGHM Polska Miedź S.A. amounted to PLN 2 313 million, representing 14% of the revenues from sales of the Company.

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

1.4. Information on contracts for the auditing or review of the separate or consolidated financial statements

The entity entitled to audit the separate financial statements of the Company and the consolidated financial statements of the KGHM Polska Miedź S.A. Group is PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, Al. Armii Ludowej 14, 00-638 Warsaw.

The contract which was signed on 4 April 2013 is in force for review of the half-year financial statements and for the audit of the annual financial statements for the years 2013, 2014 and 2015.

Detailed information on the amount of remuneration of the entity entitled to audit the financial statements for the review and audit of the financial statements, and remuneration for other purposes is shown in **note 34** of the financial statements.

1.5. Claims, disputes, fines and proceedings

As at 31 December 2014, the total value of on-going disputed issues both by and against KGHM Polska Miedź S.A. amounted to PLN 138 million, including receivables of PLN 41 million and liabilities of PLN 97 million. The total value of the above disputes did not exceed 10% of the equity of the Company.

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

Table 8. Largest on-going proceedings involving the liabilities and receivables of KGHM Polska Miedź S.A.

Relating to liabilities due to:	
Additional amount of royalties for the extraction of copper ore for the period from the start of 2006 to the end of the 3rd quarter of 2011	The municipalities (Gminas) of Polkowice, Lubin, the City of Lubin, Radwanice and Jerzmanowa submitted claims to the Minister of the Environment to open administrative proceedings to set royalties for the extraction by KGHM Polska Miedź S.A., for the period from the start of 2006 to the end of the 3rd quarter of 2011, of copper ore from deposits located in these municipalities and to allow them to participate as parties in these proceedings. The municipalities have charged that the Company lowered the amount of royalties paid on extracted non-balance copper ore in the total amount of PLN 90 million, including that portion payable to the municipalities in the amount of PLN 54 million, with the remainder representing payments to the National Fund for Environmental Protection and Water Management. The Minister of the Environment, in decisions dated 11 April 2012, discontinued the proceedings as they were considered to be groundless. The municipalities submitted claims dated 26 April 2012 to the Minister of the Environment to rehear these proceedings. By decisions from 11 August 2012 the Minister of the Environment upheld the appealed decisions. The municipalities submitted claims against the decisions of the Minister of the Environment to the Regional Administrative Court, which in judgments dated 31 January 2013 dismissed the charges of the municipalities. In April 2013 the municipalities of Polkowice, Jerzmanowa, Lubin and the City of Lubin submitted cassation appeals to the judgments to the Supreme Administrative Court, which were heard in September and October 2014. In all these cases the Supreme Administrative Court issued judgments dismissing the cassation appeals. In its justifications to the above judgments the Supreme Administrative Court indicated that the Regional Administrative Court properly determined that the administrative body initiated explanatory proceedings, reacting to the written claims of the municipalities, but this was not considered to be taking action „ex officio". In the opinion of the Supreme Administrative Court, the Regional Administrative Court properly determined that there was no breach of the law in the form of a failure to make payment on mining fees or the failure to submit information on the payment of mining fees, as described in art. 84 sec. 9 of the Act dated 4 February 1994.
Administrative proceedings regarding the granting of concessions for exploration and assessment of the Bytom Odrzański copper ore deposit – re-hearing	The Minister of the Environment on 29 July 2014 reversed the following decisions in entirety: - a decision dated 28 January 2014 declining to grant a concession to KGHM Polska Miedź S.A. for the exploration and assessment of the Bytom Odrzański copper ore deposit, - Concession no. 3/2014/p dated 28 January 2014 issued to Leszno Copper Spółka z o.o. for the exploration and assessment of the Bytom Odrzański copper and silver ore deposit. Leszno Copper filed a claim against these decisions with the Regional Administrative Court. KGHM Polska Miedź S.A. is awaiting a hearing date.
Royalties for use of invention project no. 1/97/KGHM	Value of amount under dispute: PLN 42 million. The claim was filed with the District Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received the suit on 14 January 2008. Each of the plaintiffs in this suit is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved for the 8th period of the project's application (calendar year 2006). In accordance with a judgment of the District Court in Legnica, in June 2012 a court expert issued a further opinion regarding the methodology for calculating the economic effects by the plaintiffs and the Company for 2006, being the basis for setting potential royalties. As the Company questioned the opinion, the Court experts prepared a supplementary opinion. The Court ordered the Company to respond to the opinion by 22 January 2014, which the Company did prior to the deadline set. In the Company's opinion the royalties being pursued through the Court are undue, as KGHM Polska Miedź S.A. covered the amounts due to the authors of the project resulting from use of an invention project. Proceedings are in progress.

Return of costs related to protection against mining damages	Value of amount under dispute: PLN 16 million. A claim was filed against KGHM Polska Miedź S.A. with the District Court in Legnica by the company Prestiż MGC Inwest Sp. z o. o. Sp. k. in August 2009 for payment of the amount of PLN 16 million due to the return of costs of protecting against mine damages incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA" in Lubin. The District Court, by a judgment dated 26 February 2013, ordered KGHM Polska Miedź S.A. to pay the amount of PLN 307 thousand. Both parties filed appeals: the defendant in respect of the amount of PLN 305 thousand, and the plaintiff in respect of the amount of PLN 16 million. The Appeals Court appointed a court expert. 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. Appeal proceedings are in progress.
Relating to receivables due to:	
Return of undue royalties for use of invention project no. 1/97/KGHM	In January 2008 the Company filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 million for use of invention project no. 1/97/KGHM in the 6th and 7th periods (calendar years 2004 – 2005). The court has combined both these matters: the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 million, with the claims of the Company for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 million, for joint hearing. Proceedings are in progress. In the Company's opinion the payment of royalties to the project's authors was unfounded.

1.6. Company structure

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

Diagram 2. Organisational structure of the Company as at 31 December 2014

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

Management Board

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

- Herbert Wirth – President of the Management Board
- Jarosław Romanowski – First 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)

On 18 December 2014, Wojciech Kędzia submitted his resignation from the function of Member of the Management Board, effective as at 31 January 2015.

On 18 December 2014, the Supervisory Board appointed, with an effective date of 1 February 2015, Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A. in the function of Vice President of the Management Board.

Information on Management Board Members

Herbert Wirth – President of the Management Board KGHM Polska Miedź S.A., responsible for supervising:

- the initiation, development and updating of the Main Strategy,
- activities related to comprehensive risk management at the corporate level as well as internal auditing and controlling within the Group,
- activities related to communications and corporate image-building within the Group,

- on the Founder's behalf - the functioning of the Fundacja Polska Miedź (Polish Copper Foundation) as well as other organisations serving the public (as defined by Polish law) which support achievement of the Group's business goals,
- the shaping of human resources policy within the Group, and
- activities related to developing the Company's resource base and the work of the Central Procurement Office.

Herbert Wirth joined the Management Board of KGHM Polska Miedź S.A. in 2008. Since 2009 he has served as the President of the Management Board.

A graduate of the AGH University of Science and Technology in Kraków. Obtained the title of doctor habilitatus in 2012. He completed among others postgraduate studies at the George Washington University School of Business and Public Management, obtaining a Master's Certificate in Project Management.

Since 1998 he has been involved with the KGHM Polska Miedź S.A. Group, initially with the research company Centrum Badawczo – Projektowe Miedzi „CUPRUM" (today KGHM CUPRUM sp. z o.o. – CBR) in Wrocław, since 2002 with the Parent Entity of the Group, with a one-year break when he served as Vice President of KGHM CUPRUM sp. z o.o. – CBR.

He was a winner in the competition „Best Managers in 2011", was awarded the title Visionary of the year for 2012 and was amongst the best company presidents during the economic crisis.

Since 2011 he has been a foreign member of the The Royal Swedish Academy of Engineering Sciences (IVA) and a member of the advisory team to the Polish Academy of Sciences.

He is also a member of the Honorary Conventions of AGH University of Science and Technology in Kraków, Wrocław University of Technology, Wrocław University of Environmental and Life Sciences and Wrocław University of Economics, among others.

He serves as Vice President of the Pracodawcy Rzeczypospolitej Polskiej (Employers of Poland).

Jarosław Romanowski – First Vice President of the Management Board (Finance), responsible for supervising:

- the shaping of Group financial policy,
- finances in all of the Group's operations and activities,
- the creation of Group tax policy,
- the Company's accounting services,
- the shaping of the Company's portfolio of products and services, and
- the shaping of the Company's commercial policy.

Jarosław Romanowski – since September 2013 First Vice President of the Management Board (Finance).

A graduate of Poznań University of Economics with a specialisation in International Business. He has completed many prestigious courses in the field of international finance, risk management and valuation of companies.

Involved with KGHM Polska Miedź S.A. since 1996. He has participated in a number of strategic projects, including the creation of the market risk management department, organizing the refinancing of a syndicated loan (PLN 2.3 billion), contributing to the company's commercial policy, and leadership of the mergers and acquisitions team responsible for the acquisition of Quadra FNX.

He has held a variety of positions, among others: Director of Market Strategy from 1998, Executive Director for Finance from 2003, General Director of Trade and Hedging from 2006, and Vice President of KGHM INTERNATIONAL LTD. (Canada) from 2012. From 2003 - 2006 he served as Vice President, Chief Financial Officer for Tele-Fonika Kable S.A.

He currently holds the position of Chairman of the Board of Directors of KGHM INTERNATIONAL LTD. and of KGHM AJAX MINING INC.

Marcin Chmielewski – Vice President of the Management Board (Corporate Affairs), responsible for managing business relations and tasks related with corporate governance in the Group.

The Vice President of the Management Board (Corporate Affairs) is responsible for supervising:

- the shaping of the Company's portfolio of production and equity assets, as well as overall corporate supervision over the Group's subsidiaries,
- compliance with corporate governance standards,
- analitycal support with respect to equity investments,
- the means used to shape relations with the Company's external business environment (with current and potential investors),

- the level of compliance with formal reporting and publishing obligations within the scope required by law,
- the restructurisation and transformation of the Group,
- the integration of acquired entities with other entities in the Group,
- the development, updating and monitoring of the Group's equity investment plan.

Marcin Chmielewski – since September 2013 Vice President of the Management Board (Corporate Affairs).

A graduate of Opole University of Technology, Faculty of Civil Engineering. Completed postgraduate studies in Banking and Finance at the University of Warsaw and Managing Company Value at the Warsaw School of Economics.

In the years 2011–2013 he was President of the Management Board of KGHM TFI SA. Previously, from 1992 - 2011 he worked in corporate banking, among others Bank Pekao SA, Dresdner Bank, DZ Bank, Bank BGŻ SA, from the positions of customer advisor to Regional Director. While working as Managing Director of the Bank KBL Luxembourg he completed a series of courses in Luxembourg in the field of asset management of investment funds. He also completed a two-month internship in a Branch Office of Pekao Bank in Toronto, Canada, and took part in a seminar on credit risk, DePaul University, Chicago, USA.

Jacek Kardela – Vice President of the Management Board (Development), responsible for supervising:

- the development and implementation of management standards related to carrying out the Main Strategy,
- the conduct of projects with respect to tangible investments and R&D,
- progress in projects other than R&D and tangible investments,
- management of the Company's property and real estate.

Jacek Kardela – since 2013 Vice President of the Management Board (Development).

A graduate of the University of Wrocław, Faculty of Social Sciences. Completed Executive Doctoral Business Administration studies at the Institute of Economics (PAN) in Warsaw. He completed his MBA at the Warsaw School of Economics and postgraduate studies in Business Management at Wrocław University of Economics, and Production Management at the AGH University of Science and Technology in Kraków.

Associated with the KGHM Polska Miedź S.A. Group since 1998. He has held the position of President of the Management Board at various companies, including CBJ Sp. z o.o., KGHM ZANAM Sp. z o.o. and Zaglębie Lubin. He has also had experience in municipal companies.

He serves as Chairman of the Supervisory Board of KGHM Zanam Sp. z o.o.

Wojciech Kędzia (to 31 January 2015), **Mirosław Laskowski** (from 1 February 2015) – the Vice President of the Management Board (Production) is responsible for managing the process of manufacturing the Company's products and services and supervises production operations in the Group's subsidiaries, and is also responsible for acquiring, building and maintaining in readiness the production assets, in particular with respect to the tasks of workplace safety and control of environmental risk.

The Vice President of the Management Board (Production) is responsible for supervising:

- activities involving the optimisation of production processes, workplace safety and control of environmental risk,
- activities with respect to acquiring, building and maintaining in readiness the production and non-production assets and achievement of the main goals of the Energy Strategy,
- activities with respect to manufacturing the Company's products and services (primary mine and metallurgical production).

Wojciech Kędzia – from 2010 to 31 January 2015 Vice President of the Management Board (Production).

A graduate of Wrocław University of Technology. Doctor of Economics. Completed post-graduate studies in hydrometallurgy at the Chemistry Faculty of Wrocław University of Technology and Postgraduate Management Studies in the area of market economy organisation and management at Wrocław University of Economics.

Involved with KGHM Polska Miedź S.A. since 1992. He climbed the entire career ladder, from the position of head miner, through director of a department for analyses and monitoring of production, to Vice-President of the Management Board.

Mirosław Laskowski – since 1 February 2015 Vice President of the Management Board (Production).

Since the beginning of his career he has been involved with KGHM. He has worked at every level of the career ladder, and served in his last position – as Director of the Rudna mine – in the years 2010 – 2015.

He is a graduate of Wrocław University of Technology, Mining Faculty, with a specialisation in deposit mining technology as well as post-graduate studies at Wrocław University of Economics in organisational and financial management. He has completed the ICAN Institute's Leadership and Innovation Academies as well as the TenStep Project Manager Certification at the TenStep Academy in Warsaw.

Information on the employment contracts and remuneration of Members of the Management Board of KGHM Polska Miedź S.A.

The employment contracts which are signed with Members of the Management Board provide for the payment of remuneration, composed of the basic monthly salary and variable salary. The basic monthly salary is set as a multiple of the average monthly remuneration in the industrial sector, excluding payments from profit, in the fourth quarter of the previous year, announced by the President of the Chief Statistical Office. Payment of the variable salary is contingent on the fulfilment of criteria (tasks) set by the Supervisory Board, and is contingent upon achievement by the Members of the Management Board of key performance indicators (KPI) and amounts to up to 40% of the annual basic salary.

The employment contracts with Management Board Members also regulate the following matters:

- coverage by the Company of costs required for the proper performance of the employment contracts (travel, flights, room, board, travel insurance and representation costs, incurred pursuant to the budget);
- the use of business cars and rental of a flat for Management Board Members (the costs associated with the use of a business car and flat are defined in a separate contract);
- medical benefits (in each calendar year of the life of the contract the Company purchases a medical packet for Management Board members worth up to PLN 10 thousand); and
- life insurance premiums (once every year the Company covers or reimburses the amount of the premiums to an amount up to one monthly basic salary).

The remuneration of Management Board Members in 2014 is presented in the table below:

Table 9. Remuneration of Management Board Members in 2014* (*in PLN thousands*)

	Period when function served in 2014	Fixed remuneration	Variable remuneration **	Benefits due to termination of employment contracts	Other benefits and earnings ***	Total earnings in 2014
Members of the Management Board serving in the function as at 31 December 2014						
Herbert Wirth	1.01-31.12	1 442	560	-	275	**2 277**
Jarosław Romanowski	1.01-31.12	1 297	194	-	232	**1 723**
Wojciech Kędzia	1.01-31.12	1 153	450	-	220	**1 823**
Jacek Kardela	1.01-31.12	1 153	142	-	207	**1 502**
Marcin Chmielewski	1.01-31.12	1 154	156	-	212	**1 522**
Other Members of the Management Board *						
Włodzimierz Kiciński	-	324	-	561	50	**935**
Adam Sawicki	-	288	-	378	25	**691**
Dorota Włoch	-	288	-	346	35	**669**
Total		**7 099**	**1 502**	**1 285**	**1 256**	**11 142**

** The amounts in the "Fixed remuneration" and "Variable remuneration" columns include remuneration during the period of employment termination.*
*** Variable remuneration includes: settlement of the variable remuneration for 2013 and prepayments on variable remuneration (in quarterly periods) for 2014*
**** Amounts in the column „Other benefits and earnings" include additional benefits, including life insurance, contributions to the Employee Retirement Fund and others.*

Potentially-due remuneration due to variable remuneration is presented in the following table.

Table 10. Potentially-due remuneration for Members of the Management Board for 2014

Name	Position	Potentially-due remuneration for 2014 (PLN thousands)
Herbert Wirth	Member of the Management Board - President of the Management Board	577
Jarosław Romanowski	Member of the Management Board - First Vice President of the Management Board	519
Wojciech Kędzia	Member of the Management Board - Vice President of the Management Board	461
Jacek Kardela	Member of the Management Board - Vice President of the Management Board	461
Marcin Chmielewski	Member of the Management Board - Vice President of the Management Board	459

The contracts signed with Members of the Management Board forbidding any activities which would represent a conflict of interest with KGHM stipulate that, for adherence to such contracts, within a period of 12 months from the date of termination of employment in KGHM – regardless of the cause of termination – the Company shall pay the Management Board Member, for each month during this period, compensation in the amount of 40% of the basic salary resulting from the employment contract.

A Management Board Member who violates the stipulations of the aforementioned contract shall be obligated to return the full amount of compensation received.

Performance-related bonus system

The Company has developed a system of Management by Objectives in which top managers of the Company receive bonuses based on their performance. The system is based on the following principles and regulations:

- **STIP - Short-Term Incentive Plan** – principles for setting and granting annual bonuses for executive directors of the Divisions and for directors assigned to specific matters in the Divisions, as well as for executive directors and directors of departments in the Head Office of KGHM Polska Miedź S.A.

This system is based on collective, individual and task-related KPIs which were derived from the priorities of the Management Board for 2014 as set by the Supervisory Board, as well as on goals arising from the Company's strategy. The STIP System comprises an 85 person management group in the Company.

- **LTIP - Long-Term Incentive Plan** – a long-term incentive program for executive directors in the Divisions and for directors responsible for individual matters in the Divisions, as well as for executive directors in the Head Office of KGHM Polska Miedź S.A. for the years 2013-2016.

The main assumption of the program is to directly link the main long-term strategic goal of increasing the Company's value with the system of remunerating key management directors. This concept assumes setting target amounts under the market indicator TRS (Total Return to Shareholders) and individual indicators related to long-term strategic goals. The LTIP System comprises 49 directors, during the period from 1 July 2013 to 30 June 2016.

The aforementioned bonus systems are included in the newly-created process of Management by Objectives, which will gradually encompass a wider group of employees, creating in this way a dialogue between Management and managing staff.

Supervisory Board

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

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

including the following employee-elected member:

- Bogusław Szarek.

On 23 June 2014, the Ordinary General Meeting appointed the 9th-term Supervisory Board. The composition of the Supervisory Board as at 31 December 2014 was as follows:

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

including the following employee-elected members:

- Bogusław Szarek Secretary
- Józef Czyczerski
- Leszek Hajdacki

The remuneration of members of the Supervisory Board is regulated by Resolution No. 15/2003 adopted by the Ordinary General Meeting on 29 May 2003. The amount of monthly remuneration of individual members of the Supervisory Board depends on the function served and is set as a multiple of the gross average monthly remuneration in the industrial sector excluding payments from profit, for the last month of the previous quarter.

The Company also covers or reimburses costs related to participation in the work of the Supervisory Board, and in particular to travel costs from the place of residence to the site of Supervisory Board meetings and back, as well as room and board.

The remuneration of Supervisory Board Members in 2014 is presented in the table below:

Table 11. Remuneration of Supervisory Board Members in 2014 *(in PLN thousands)*

	Period when function served in 2014	Remuneration for the period when function served in the Supervisory Board	Earnings from other contracts *	Other benefits **	Total earnings in 2014
Krzysztof Kaczmarczyk	01.01-23.06	52	-	4	**56**
Aleksandra Magaczewska	01.01-23.06	59	-	2	**61**
Jacek Poświata	01.01-31.12	97	-	2	**99**
Bogusław Szarek	01.01-31.12	96	213	13	**322**
Andrzej Kidyba	01.01-31.12	96	338	17	**451**
Iwona Zatorska-Pańtak	01.01-23.06	48	-	-	**48**
Marek Panfil	01.01-23.06	48	18	6	**72**
Tomasz Cyran	23.06-31.12	54	-	10	**64**
Barbara Wartelecka-Kwater	23.06-31.12	49	-	3	**52**
Marcin Moryń	23.06-31.12	60	-	3	**63**
Józef Czyczerski	23.06-31.12	49	74	2	**125**
Bogusław Stanisław Fiedor	23.06-31.12	49	-	3	**52**
Leszek Hajdacki	23.06-31.12	49	84	6	**139**
		806	**727**	**71**	**1 604**

** Amounts in the column „Earnings from other contracts" includes remuneration due to labour contracts in the Divisions of KGHM Polska Miedź S.A., due to serving on the supervisory bodies of Group subsidiaries and due to functions served in the in the Board of Directors of KGHM INTERNATIONAL LTD.*

*** Amounts in the column „Other benefits" include other benefits granted to the Members of the Supervisory Board.*

1.7. Employment and remuneration

Employment structure

Table 12. End-of-period employment

	2013	2014	Change 2013=100
Mines	12 636	**12 356**	97.8
Metallurgical plants	3 663	**3 559**	97.2
Other divisions	2 271	**2 253**	99.2
Total	**18 570**	**18 168**	97.8

Employment in KGHM Polska Miedź S.A. at the end of 2014 amounted to 18 168 people, and was 2% lower than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 286 and was lower than the level of employment in 2013 by 279 people. The decrease in employment was due to natural movements in staff.

Remuneration

Table 13. Total average monthly remuneration *(PLN/person)*

	2013	2014	Change 2013=100
Mines	9 735	**9 831**	101.0
Metallurgical plants	7 742	**8 081**	104.4
Total	**9 380**	**9 522**	**101.5**
of which excluding annual bonus	7 768	**8 009**	103.1

The level of remuneration in 2014 was affected by the following factors:

- An increase in the table of basic wages for categories by 2.4% from 1 January,
- individual promotions and raises for 10.7% of employees,
- a decrease in the amount of annual bonus paid from 20.0% to 18.5% of remuneration.

In 2014, average remuneration, excluding the annual bonus for profit earned, amounted to PLN 8 009, representing a statistical increase of 3.1% as compared to 2013.

Relations with the trade unions

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

- a 4.5% increase in the additional contribution to the social fund, most of which is to be used for financing day care and pre-school fees,
- a change in Appendix no. 11 to the CLA regarding changes in the method of calculating the annual bonus from profit.

On 17 June 2014, an agreement was entered into between KGHM Polska Miedź S.A. and the trade unions regarding equalisation of the wage factor for 2013 by an increase in the annual bonus by 0.8 percentage points.

The signing of the aforementioned additional protocol and agreement also enabled the conclusion of the collective dispute initiated in 2013 by the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego.

1.8. Major Human Resources-related projects

In 2014 the following HR-related initiatives and strategic projects were carried out:

- employee mobility,
- talent management,
- results management.

With respect to the employee mobility project, a mobility policy was adopted, and tools and products related to mobility management procedures were developed. At present the mobility policy is being implemented in Group companies along with the unification of procedures and practices on a global scale.

The process of talent management is aimed at ensuring the availability of human resources required to meet business challenges by the identification and development of future leaders – both in leadership roles as well as experts. In 2014 key roles were identified in the company as well as employees with high potential – the successors for these roles. Continuation of implementation of the process of results management involved developing the process through lower levels.

2. Company Strategy

2.1. Strategy for the years 2015-2020

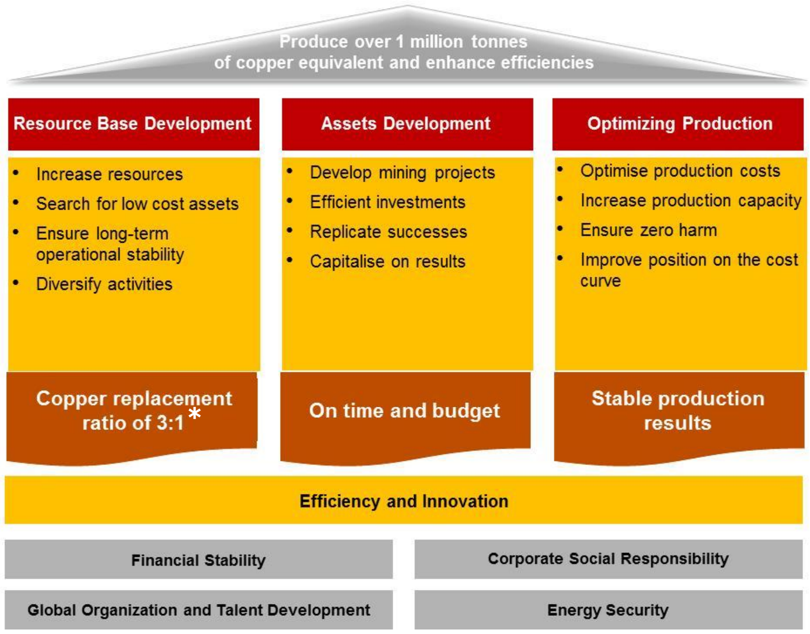
On 26 January 2015, the Supervisory Board of the Company adopted the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 as submitted by the Management Board.

Adoption of the Strategy is connected with the early completion of key provisions of the previous Strategy, which was approved on 23 February 2009.

The mission of KGHM Polska Miedź S.A. is the development of a global resources Group, created by people with passion and skill. The long-term vision of KGHM Polska Miedź S.A. assumes that the Company will increase its competitive advantage through the development and introduction on an industrial scale of new technologies that will create an opportunity for a technological breakthrough in the industry. The strategic objective of KGHM Polska Miedź S.A. is to develop and implement on an industrial scale modern technologies which are critical to developing the world's first intelligent mine based on neural networks.

The main objective of the new strategic outlook for the years 2015-2020 is to achieve annual production capacity of over 1 million tonnes of copper equivalent and to continue work aimed at improving mine operating efficiency.

The Strategy for the years 2015 – 2020 with an outlook to 2040



** replacement of each tonne of mined copper with three tonnes of documented resources of this metal*

Pillar I. **Resource Base Development**	As part of its exploration and acquisition activities, the Company plans to replace every mined tonne of copper with three tonnes of copper in new resources. This will ensure the long-term operational prospects of the Company and an enhanced position on the cost curve. The Company will concentrate on exploration in areas near the Company's current operations and on the search for low-cost assets in geopolitically-stable regions. The planned development of KGHM Polska Miedź S.A. resource base will ensure long-term mining activities and secure higher production volume.
Pillar II. **Production Assets Development**	According to the Strategy, the Company plans to invest PLN 27 billion over the period from 2015 to 2020. These funds will be allocated to developing the current portfolio of investment projects, including programs to develop the core business in Poland and those leading to the operational commissioning of resource projects in Poland and abroad (Deep Głogów, Victoria, Sierra Gorda phase II, Sierra Gorda oxides project and Ajax). Completion of its investments projects will enable a substantial increase in Group production capacity and enhance its position on the global cost curve of copper producers. KGHM Polska Miedź S.A. is committed to efficiently allocating financial resources and developing resource investment projects which have the highest rate of return.
Pillar III. **Production**	KGHM Polska Miedź S.A. aims to ensure stable production levels while optimising production costs and maintaining the highest safety level. Under the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 the Company plans to increase the annual volume of mined ore from the mines of KGHM Polska Miedź S.A. in Poland. Moreover, the Company plans to achieve full phase I production capacity by the Sierra Gorda project, i.e. 110 thousand tonnes of ore processed per day by mid-2015. Under the new strategy the Company plans to commence phase II of the project and to commence processing of the oxide ore from the Sierra Gorda mine, which will increase efficiency and ensure higher copper production from the mine.

The three pillars of KGHM's activities in the years 2015–2020 are based on four **supporting strategies**:

Global organisation and skills development strategy	Achievement of an optimum model for the management and supervision of business processes within the global KGHM Group.
Financial strategy	Ensure stable financing for the activities of the KGHM Group, enhance the ability to operate in challenging economic conditions, support development and increase efficiency.
Corporate social responsibility strategy	Strengthen the position of KGHM Polska Miedź S.A. as a stable, growing and trustworthy partner, caring for the common good and the sustainable management of resources.
Energy strategy	Secure long-term energy prices and stable energy supply by ensuring sources of energy for production purposes, including from renewable resources. The strategy assumes the centralisation of energy efficiency initiatives, ensuring the possibility of purchasing energy for key companies of the Group in Poland and global power purchases at below-market prices.

Basic production and economic assumptions for the Group (reflecting the 55% share in the Sierra Gorda project) for the years 2015 – 2020:

Production	over 1 million tonnes of copper equivalent from our own resources by the year 2020
Share of copper equivalent production from overseas assets	increase from 17% to 40% in 2020
CAPEX	PLN 27 billion in total capital expenditures, of which around 65% will be allocated for development projects; over half of the capital expenditures will be invested in Poland
EBITDA	expected increase by 2020 of 70% as compared to 2014
C1 cost	planned decrease by 2020 of C1 cash cost of around 10 % as compared to 2014
Net debt/EBITDA	will be maintained at a safe level in the range of 1-2

The Strategy was developed based on the following assumptions:

– average copper price in the period 2015 – 2020 of 7 600 USD/t (2015 - 6 800 USD/t),
– average silver and molybdenum prices in the period 2015 – 2020 respectively 21 USD/oz t (2015 – 18 USD/oz t) and 12 USD/lb (2015 – 12 USD/lb),
– average assumed exchange rate of the PLN versus the USD in the period 2015 – 2020 of PLN 3.00 (2015 – PLN 3.30)

In 2015 the Company will focus on achieving the following priorities under the Strategy:

Exploration work	– planned exploration work in the Głogów, Retków-Ścinawa, Synklina Grodziecka, Konrad, Weisswasser II, Stojanów and Puck concessions – exploration work on the mining assets outside Poland, in particular Sierra Gorda and Ajax
Sierra Gorda Project	– achievement of target phase 1 production capacity - 110 kt of ore per day – completion of the feasibility study for the oxide ore project
Victoria Project	– preparations for shaft sinking
Ajax Project	– submitting an application for environmental permits
Pyrometallurgy Modernisation Program	– receiving technical approvals and construction permits – completion of the design phase with executory documentation – completion of the construction and development of the Flash Furnace and Electrical Furnace halls
Żelazny Most Development Project	– receipt of legally-binding Municipal Area Management Plans for the municipality of Polkowice to allow construction to begin – receipt of permits to develop the Main Facility to a crown height of 185 m a.s.l. in the municipalities of Rudna and Grębocice
Value Creation Plan	– implementation of initiatives in Poland and abroad
Workplace safety	– further improvement in the workplace safety ratio (LTIFR)
Financing of operations	– continuation of financial consolidation in the Group to reduce the average weighted cost of capital
Innovation policy	– research projects, including the mechanical mining of ore

Strategy implementation

An integral part of the Strategy is the Strategic Management Procedure in KGHM Polska Miedź S.A. which defines the process of implementation. In 2015 the Company plans to develop a detailed Strategy Implementation Plan for the Company's new strategic outlook for the years 2015-2020 based on the adopted structure for breaking down the main strategy into executory strategies in the core business and strategies supporting the Company's core business. The Strategy Implementation Plan will define the initiatives and associated projects and strategic actions which are key to achieving the strategic goals arising from the executory and supporting strategies, including a performance schedule and the allocation of required resources. The Strategy Implementation Plan will form the basis for monitoring and assessing achievement of the Strategy of KGHM Polska Miedź S.A. It is assumed that the Strategy Implementation Plan will be updated on an annual basis, in order to synchronise its work with the Company's adopted budgetary process.

2.2. Implementation of Company Strategy in 2014

In 2014, the Company pursued the Strategy of KGHM Polska Miedź S.A. for the years 2009-2018, which was approved by the Company's Management Board and subsequently confirmed by the Company's Supervisory Board on 23 February 2009.

The realised vision of strategic development of KGHM Polska Miedź S.A. for the years 2009-2018 was based on five pillars and their main initiatives, with the ultimate goal of joining the ranks of large, global producers of copper and increasing the volume of copper production by the KGHM Group to approx. 700 thousand tonnes annually.

Pillar I – Improving productivity

With respect to Pillar I, in 2014 the Company continued to pursue initatives aimed at improving productivity in the core business, mainly by implementing new and innovative technological solutions, continuing work on investment projects and working on organisational changes, which would enable the implementation of better production processes in mining and metallurgy.

Investments in new technologies	
Development of mechanical mining technology in the conditions prevalent in the mines of KGHM Polska Miedź S.A.	The goal of this project is to develop an alternative mining technology to the currently used room and pillar mining system, in which blasting techniques are used. From the technical point of view, expectations related to the mechanical mining technology are connected with improving efficiency, speeding up extraction, reducing employment and increasing work safety, as mining is being performed in progressively more challenging geological and mining conditions. From the economic point of view, it is expected that there will be lower mining costs and that achieving the Company's production plans will be easier.
Operational trials	In 2014 mining trials were continued under this project aimed at evaluating the potential to adopt this new mining technology using the ACT mining complex (a joint project with the company Caterpillar Global Mining Europe GmbH) as well as drift drilling technology using a team of three combines (a project with the participation of PeBeKa S.A. and SANDVIK).
Agreement with KOPEX Machinery SA	To increase the probability of success as regards the research and development work being performed to assess the possibility of implementing mechanical mining technology in the mines of KGHM Polska Miedź S.A., in October 2014 KGHM Polska Miedź S.A. signed a contract with KOPEX Machinery SA, a Polish manufacturer and supplier of mining machinery and equipment, regarding cooperation in the development and implementation of a prototype of a mechanised copper ore mining complex. Work on the project will be completed by the end of 2019 in three stages: designing of the prototype complex, construction of the prototype mining complex and testing. The value of the signed contract is PLN 48 million. This is a project of world-class innovation for the underground mining industry, and at the same time, it represents an alternative to the ongoing project being pursued by KGHM Polska Miedź S.A. in cooperation with Caterpillar Global Mining Europe GmbH.
Pyrometallurgy Modernisation Program at the Głogów smelter	Completion of this Program will result in the creation of a functionally-integrated, cost-effective and environmentally-friendly metallurgical structure in KGHM Polska Miedź S.A. It is expected that KGHM Polska Miedź S.A. will gain long-term economic benefits from this program, including among others a decrease in the total unit cost of processing and higher revenues from the sale of additional amounts of silver, rhenium and refined lead. Moreover, thanks to the more than 50% decrease in emissions of dust and gas to the atmosphere there will be a very clear decrease in the environmental impact of the plant, and as a result the Company's competitive position on the world market will improve. In 2014 construction and assembly work was completed as part of stage II of the intensification of concentrate processing at the Głogów II smelter/refinery, and construction continued on the Flash Furnace complex at the Głogów I smelter/refinery (PMP). The updated budget for the Pyrometallurgy Modernisation Program project is PLN 2.1 billion. The completion of all deliveries and construction and assembly work necessary to commission the Flash Furnace (including sending copper concentrate through the modernised Flash Furnace installation) is planned by 1 October 2016. The above projects do not affect the continuity of metallurgical production by KGHM Polska Miedź S.A. while developing the investment.

	The changes in conduct of the project are related to prolongation of the design process, which is impacted by a change in geological-mining conditions in the Polish mines of KGHM Polska Miedź S.A. and the resulting increase in the calorific value of the copper concentrates produced by the concentrating plants, resulting in the need to adapt and optimise the technology and processes adopted for the modernised metallurgical infrastructure. Due to the need to reduce the calorific value of the concentrates processed by eliminating excess organic elements in the concentrates produced, the Management Board of KGHM Polska Miedź S.A. has resolved to build a concentrates roasting installation at the Głogów I plant with associated infrastructure. This roasting installation will enable all of the concentrates produced by KGHM in Poland to be smelted in the installations of Głogów I, Głogów II and Legnica, as well as the possibility to substantially increase the processing of imported concentrates. The estimated CAPEX for this investment is around PLN 251 million.
Other initiatives aimed at improving productivity and lowering the costs of functioning of the core business	
Investment projects and actions aimed at improving efficiency and organisation of the production processes	– maintenance and replacement projects in mining, – projects involving the modernisation of ore enrichment processing to improve metals recovery, – projects to increase the level of automation of the core production business, – programs to increase energy savings, – projects to implement IT tools to improve efficiency in underground machinery management and in monitoring of the wear of machinery and equipment along with operational costs, – programs to optimise the maintenance process.
Reorganisation of the procurement process in the KGHM Group	In terms of the Central Procurement Office, work was carried out aimed at implementing a global procurement system within the KGHM Group: – an organisational structure was defined and implemented as well as a management model for the global procurement function in KGHM, reflecting the flow of information between the operations of KGHM INTERNATIONAL LTD. and the Central Procurement Office in KGHM Polska Miedź S.A., – a draft modified KGHM Group Procurement Policy was prepared, reflecting the need for changes resulting from an expanded scope, comprising KGHM INTERNATIONAL LTD. and the company Sierra Gorda S.C.M., – on-going analysis and process improvements were carried out aimed at achieving synergy and savings with respect to procurement, among others by optimising delivery chains, simplifying purchase procedures, implementing unified IT tools supporting the procurement process, increasing the number of assortment groups realised globally, aggregating procurement volumes and conducting global tenders.
R&D activities	
Research policy goals	As regards research and development, KGHM Polska Miedź S.A. is aiming at an organisational model based on knowledge, which concentrates mainly on: – enhancing efficiencies in production, – developing new mining technology, – non-ferrous metals ore processing and metallurgy, – effective management of industrial risk, and – development of the resource base. The answer to the challenges faced by the Company is innovation. In the long-term perspective, the Company plans to implement the concept of a so-called **Intelligent Mine**, followed by a fully-integrated **„Intelligent Production Line"** ensuring safety and technological efficiency, as well as the ability to efficiently and flexibly manage the entire production process.
Main partners in R&D	R&D in KGHM Polska Miedź S.A. is carried out with the participation of domestic and international R&D organisations, universities, research institutes, design firms and others. Key partners acting on behalf of the Company are specialised entities of the KGHM Group such as KGHM Cuprum sp. z o.o. CBR, Inova Centrum Innowacji Technicznych Sp. z o.o. and Centrum Badania Jakości Sp. z o.o. KGHM Polska Miedź S.A. cooperates with various independent Polish R&D partners, such as the Institute of Non-Ferrous Metals in Gliwice, the AGH University of Science and Technology in Kraków, the Central Mining Institute in Katowice, the Polish Geological Institute in Warsaw, Silesian University of Technology in Gliwice, Wrocław University of Technology, Wrocław University of Environmental and Life Sciences, the National Centre for Nuclear Research in Świerk and Wrocław Medical University. KGHM works with a number of international companies, such as Outotec from Finland, FL Schmidt Minerals in the USA, the CANMET Research Center in Canada, the research center BRGM in France and also design firms and industrial partners such as Caterpillar Inc., SGS Lakefield, and Metso Minerals.

Main research projects	In 2014 research and development was aimed at advancing projects which will improve the Company's technological and economic efficiency, ensure production stability given the current geological conditions and prepare the Company to accomplish strategic tasks in the coming years: – in mining: – developing effective deep mining techniques using mechanised ore mining technology, – automating individual operations as part of the presently-used ore mining technology, including horizontal and vertical transportation (an energy-efficient conveyor belt prototype has been designed as well as monitoring and remote control systems, which are planned to be installed underground in the first half of 2015) – in ore processing: – research into new milling technology which will optimise the energy-intensive concentrate production process, – increasing the automation and flexibility of the production process to be more responsive to varying feed parameters, – developing a system to analyse, and provide medium-term forecasting of, the feed for the concentrating process to meet the needs of the domestic non-ferrous metals processing industry (projects are being carried out with the participation of the National Nuclear Research Center: „Utilisation of neutron activation analysis technology to determine the content of useful elements in copper ore in situ and at various stages of processing and transportation" and „Determination of copper ore elemental composition in underground conditions based on x-ray methods") – in metallurgy: – utilisation of semi-products produced during production and the recovery of associated elements (projects: „Development of technology to produce the lead alloys Pb-Sn and Pb-Sb" and „Technology to recover zinc combined with an improved quality of materials sent to the revolving-reverbatory furnaces").
Initiatives aimed at developing knowledge and innovation in KGHM Polska Miedź S.A.	The primary goal of this initiative is to make the optimum use of the knowledge gathered in the Company by strengthening communication and cooperation between experts representing various organisational units within the KGHM Polska Miedź S.A. Group.
„Knowledge Center"	In 2014 work continued related to defining an organisational framework, business goals and operating areas based on client skills and needs, including the strategic client KGHM Polska Miedź S.A., for the new entity called the Knowledge Center**,** composed of a consortium of four companies within the KGHM Group under an agreement: – KGHM Cuprum sp. z o.o. CBR (R&D) – INOVA sp. z o.o. (production of equipment, implementation, data transmission, communications) – BIPROMET S.A. (design and construction of production lines, machinery and equipment, facilities related to environmental protection) – CBJ sp. z o.o. (modern analysis, supporting laboratories) The goal of the Center is to stimulate, design, implement and coordinate inter-disciplinary R&D programs within the KGHM Group in Poland and abroad. The Center will enable the development of innovative strategic solutions to deal with the technical and technological challenges faced by KGHM Polska Miedź S.A., in both mining and metallurgy. Other scientific-research institutions and national technical schools are also expected to cooperate on the projects carried out by the Center.
„TOP100 Conference"	The TOP100 is an annual international conference for the leaders and top managers of selected KGHM Polska Miedź Group companies whose activities are related to the core business of KGHM Polska Miedź S.A. The purpose of the conference is to integrate the employees of the KGHM Group, as well as to exchange knowledge and experience from throughout the Company's areas of expertise (organisational, technological, etc.) through discussions, plenary sessions and knowledge fairs, at which the best technical-technological and organisational solutions are presented and implemented by the employees of the KGHM Group. On 1-2 December 2014 in Lubin, the second edition of the TOP100 conference was held, in which approx. 150 persons took part, including management and engineering staff and representatives of teams from Poland, Canada, the USA and Chile. A key event of the Conference was the two-day Knowledge Fair, at which projects and initiatives selected as the most interesting in terms of innovative technology or organisational improvements were presented. The honorary award of the President of the Management Board of KGHM Polska Miedź S.A. was awarded to the project „SYNAPSA – a project to monitor mining vehicles". The Competition Jury granted the main award – Innovation Project of the Year 2014 – Breakthrough Innovation – to the project „Platform to optimise control of the copper ore enrichment process" for its universality and scalability. In addition, the Award Jury distinguished two honorary mentions. The first honorary mention was for the project „Haulage Vehicle CB4-20TB" - due to the scale of innovation related to changing the scope of mining machinery, which could have an impact on the entire mining industry. The second honorary mention was for the project „Underground copper leaching at the Carlota mine" – for economic reasons (uncovering savings and increasing mine profitability).

„CuBR Sector Program"	CuBR Sector Program – a venture to promote the sustainable development of the non-ferrous metals industry using innovative technology – performed on the basis of an Agreement signed in 2012 and an Executory Contract signed in 2013 between KGHM Polska Miedź S.A. and the National Centre for Research and Development, involving the support of scientific research and development work for the non-ferrous metals industry. While this venture encompasses the full scope of the mining industry, its goal is to increase the competitiveness of the Polish economy, and to support the development potential of Polish science and industry. Pursuing projects involving the challenges related to the production line of KGHM Polska Miedź S.A. through scientific-industrial consortiums enables the selection of promising watershed ideas for KGHM Polska Miedź S.A. in terms of technology or innovative equipment to improve the production line, and also enables the development of new, profitable materials and products which can be utilised by 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. Based on the first edition of the CuBR Program competition which opened in January 2014, for which PLN 40 million was allocated, four research projects were accepted for implementation, comprising research and development related to new mining technology, metallurgy, processing, new products and their recycling, at the same time reducing environmental costs. In July 2014, the second edition of the competition was inaugurated with a budget of PLN 52 million, to finance another eight innovation projects in four thematic areas: mining and geology, metallurgical processing, downstream processing, new materials, and environmental protection, risk management and business effectiveness. Work is in progress on preparing the announcement for the third edition of the competition. The next competition is planned to be announced and concluded in 2015.
„KIC RawMatTERS Program"	KGHM Polska Miedź S.A. is a member of a European consortium created by over 100 partners from twenty-two European Union countries, including mining companies, institutions of higher learning and R&D institutes. Apart from KGHM Polska Miedź S.A., which played a key role in establishing a strong position for the consortium, Poland is represented by ten institutions, including KGHM Zanam, the AGH University of Science and Technology in Kraków, Wrocław University of Technology, the Institute of Non-Ferrous Metals in Gliwice and the Wroclaw Research Centre EIT+. In December 2014, the consortium won a competition organised by the European Institute of Innovation and Technology (EIT) to carry out a seven-year program called the Knowledge and Innovation Community, in the area of natural resources – KIC RawMatTERS Tackling European Resources Sustainably. The goal of the „KIC RawMatTERS" Knowledge and Innovation Community is to integrate and strengthen the innovation potential of the raw materials sector by introducing new technology, products and services to achieve sustainable exploration for, extraction, processing and recycling of natural resources. The role of all of the partners will also be to supply technology and services which are adapted to the changing needs of society, as well as education, business development, the creation of new jobs and to the need to actively deal with the challenges related to the lack of sufficient resources in Europe, to the need to import them, to find new mining and recovery technology, to find ways to replace certain materials, applications and education and the creation of new companies and jobs. This sort of approach should increase the raw materials security and competitiveness of the European Union. Financing of the venture by the EIT is to be over EUR 400 million. The head office of „KIC RawMatTERS" is in Berlin, with plans for the creation of six trans-national knowledge hubs. Thanks to KGHM Polska Miedź S.A., one of the hubs, which will integrate Poland, Austria and eastern Germany, will be established in Wrocław, in Lower Silesia. This will enable macro-region integration, in which the scientific environment with its industrial partners will develop technological specialisations utilising existing potential – from the generation and collection of ideas for innovation in the raw materials sector to companies and scientific environments, from supporting start-ups and companies from the small-to-medium business sector, to large pilot projects, testing technologies at higher levels.

Pillar II – Resource base development

As a result of the implementation of a non-organic expansion strategy (through acquisitions), KGHM Polska Miedź S.A. has delivered the key objectives of its Business Strategy. Global expansion has allowed the Company to strengthen its position amongst the world's copper producers and increase the resource base of KGHM Polska Miedź S.A., in this way providing the expected increase in copper production in the KGHM Group beginning from 2012. In addition, the Company was able to diversify the resources and costs structure of the KGHM Group's mining activities thanks to new mining assets rich in metals besides copper, which are mined for example through the open-pit method, which is decidedly cheaper as compared to underground mining.
The first step in achieving the vision of becoming a global copper producer was taken by the Company in 2010. This is when we **purchased a 51% stake in a special purpose company created in partnership with the Canadian company Abacus Mining & Exploration Corporation** called KGHM AJAX MINING INC., to advance the Ajax copper and gold project located in British Columbia, Canada. Following the publication of a Bankable Feasibility Study for the Ajax deposit, in 2012 the Company made use of the option to acquire an additional 29% of the shares of KGHM AJAX MINING INC. The project assumes annual copper production of 50 thousand tonnes, with gold production of 100 thousand ounces.

The friendly acquisition of 100% of the shares of the Canadian mining company Quadra FNX (today KGHM INTERNATIONAL LTD.) in 2012 was another step which enabled KGHM Polska Miedź S.A. to strengthen its position amongst the leaders of the mining sector. As a result of this acquisition, the Company gained access to other attractive deposits in the world, increasing its resource base by 28% (8 million tonnes of copper ore). At the same time KGHM Polska Miedź S.A. gained the ability to increase copper production by nearly 25%, allowing the Company to advance from 10^{th} to 8^{th} place in terms of global production. KGHM's portfolio of mining projects grew with the addition of mine assets rich in copper, silver, nickel, molybdenum and other precious metals, located mainly in North and South America, such as:

- the active open-pit mines Robinson (USA) and Franke (Chile), and the underground mine Morrison (in the Sudbury region of Canada),
- mine projects under construction, such as the open-pit mine Sierra Gorda in Chile - the Company's most important development project, being advanced on one of the world's largest deposits of copper and molybdenum – as well as in the pre-operational stage such as the Victoria underground copper and nickel mine in Canada, and
- exploration projects, including in the Sudbury region of Canada and Malmbjerg in Greenland.

The diversified portfolio of geological-mining projects currently held by KGHM Polska Miedź S.A. are at various stages of development and ensure continued growth by the Company. The global copper ore resources controlled by KGHM Polska Miedź S.A. guarantee the Company's stability and continuity of production for the next 40 years.

In 2014, the Company continued to advance projects aimed at ensuring access to the resource base of KGHM Polska Miedź S.A.:

Resource Base Development in Poland and Germany	
Accessing the Deep Głogów deposit	In 2014, work continued on developing the main drifts to gain access to the Deep Głogów deposit (GG-P) with supporting technical infrastructure. Work continues on the sinking of the GG-1 ventilation (input) shaft using tubing construction. It is being built in stages and will be completed in 2019. This will be the deepest of the 31 shafts in the Copper Belt, with a target depth of 1 340 meters and a diameter of 7.5 meters. On 1 April 2014, the G-25 mining section was the first to commence operations in the Deep Głogów deposit. The consistent progress in improving acccess to the deposit will enable the mines to achieve their target levels of production. Mining the Deep Głogów deposit ensures long-term stability in the level of production of KGHM Polska Miedź S.A. by prolonging the life of mines of KGHM Polska Miedź S.A. to the year 2042 and by ensuring the optimal utilisation of the Company's production line, from mining to processing to metallurgical smelting and refining. Completion of the project is planned in 2026.
Regional exploration program of KGHM Polska Miedź S.A. – exploration and documentation of copper deposits in the lower zechstein formation located in south-western Poland and Lusatia (Saxony in Germany)	In 2014, KGHM Polska Miedź S.A. continued to advance exploration projects (comprised of the exploration for and documentation of mineral deposits) which are at various stages of geological work, in accordance with individual work schedules and the obligations set forth in the respective concessions. Conduct of the exploration program is based on and in accordance with the conditions set forth in the respective concessions and on the agreements setting mine usufruct rights. As a result of conducting this exploration work, the Company plans to increase its resource base by documenting additional copper ore resources. These copper ore resources will be evaluated in terms of their mining potential. In the subsequent stage KGHM Polska Miedź S.A. expects to begin the process of obtaining mining concessions, which will consequently create the opportunity to develop and prolong the operations of the mines of KGHM Polska Miedź S.A. over the long term.
Advanced exploration projects with defined copper mineralisation, for which geological exploration is underway (throughout or in part of the concessioned area)	- **Gaworzyce-Radwanice** project - exploration work planned for the years 2008-2014 was completed. As a result of this work 216 million tonnes of copper ore resources were documented with an average grade of 1.89% Cu (around 4.1 million tonnes of copper) and 35g/t Ag (around 7.5 thousand tonnes of silver). This geological documentation of the exploration work was sent to the government's geological administration body – the Ministry of the Environment – for its approval. In 2015 formal administrative and technical work will be continued related to gaining a concession for the extraction of copper ore from this area. The Gaworzyce-Radwanice concession covers an area of 99 km^2 and lies along the western border of deposits already being mined by the Company (through the Polkowice-Sieroszowice mine). - **Synklina Grodziecka** project – the drilling program planned for the years 2011-2014 was completed (18 holes) in the area of Synklina Grodziecka, located in the so-called Old Copper Belt near Bolesławiec. Geological work will continue in connection with the neighboring concession „Konrad", aimed at preparing joint documentation. - **Konrad** project – preparations and organisational work were carried out prior to commencing geological work in the concession area. Tenders are underway aimed at conducting geophysical work. - **Retków Ścinawa** project – drilling commenced in the area of Retków-Ścinawa, where around 10 drillholes are planned to the end of 2015. - **Głogów** project – preparatory work commenced for planned drilling in the area of Głogów, where around 4 drillholes are planned to the end of 2015.

Projects in the early exploration stages, without defined copper mineralisation	– **Weisswasser** project (Saxony in Germany) – In 2014, KGHM Kupfer AG, a 100% subsidiary of KGHM Polska Miedź S.A., continued geological exploratory work in the Weisswasser area. The Company has completed the first phase of stage II of the project in the Weisswasser II area, representing an extension of the Weisswasser area towards the south-east to the border with Poland. Seismic measurements were taken and the analysis of historical data acquired from exploratory work conducted in this area in the 1960s was analysed. The data collected enabled the identification of a promising area in which the depth of the Zechstein layer does not exceed 1500 metres and the supposition that copper mineralisation meeting the exploration criteria of KGHM Polska Miedź S.A. is present. To verify the existing mineralisation, in 2015 the second phase of stage II of the project will be carried out, comprised of sinking a drillhole, taking geophysical drillhole measurements and assessing whether copper mineralisation exists which meets the criteria concerning the quantitative assessment of copper mineralisation criteria of KGHM Polska Miedź S.A. The second stage of the project is part of a large transborder project involving geological exploration on both sides of the Polish-German border. KGHM Polska Miedź S.A. holds an exploration concession for the Stojanów area, which is adjacent, on the Polish Side, to the Weisswasser II area. The results of the geological exploration work performed under the Weisswasser project will also be used to carry out exploratory work in the Stojanów area, including for a joint interpretation of the geological structure. – **Stojanów** project – an extension of the Weisswasser deposit into Poland, for which respectively in January and May 2014 the Company received concessions for the exploration and assessment of the copper ore deposit. At the moment the historical geophysical data is being re-interpreted.
Exploration projects in the preparatory phase	– **Bytom Odrzański** project – on 29 July 2014, as a result of appeals proceedings based on requests submitted by KGHM Polska Miedź S.A. to re-hear the matter, the Minister of the Environment issued decisions reversing in their entirety the decisions issued on 28 January 2014 regarding the refusal to grant KGHM Polska Miedź S.A. a concession for the exploration and assessment of the Bytom Odrzański copper ore deposit and ordering the case to be re-heard. A competing company submitted a claim against the aforementioned decision of the Minister of the Environment to the Regional Administrative Court. The Company is currently awaiting a date for the hearing. The Minister is not currently conducting administrative proceedings in this matter. – **Kulów Luboszyce** project – on 28 January 2014 KGHM Polska Miedź S.A. was granted concession no. 5/2014/p to explore the Kulów–Luboszyce copper ore deposit, in that part covered by the request of KGHM Polska Miedź S.A. Both KGHM and the competing company submitted claims for the case to be re-heard. On 29 July 2014, as a result of appeals proceedings, the Minister of the Environment issued a decision reversing in entirety the aforementioned concession. The competing company submitted a claim against the aforementioned decision of the Minister of the Environment dated 29 July 2014 to the Regional Administrative Court. The Company is currently awaiting a date for the hearing. – **Nowiny** project – administrative proceedings regarding the area Nowiny concluded with a judgment of the Supreme Administrative Court and reversal of previous decisions of the Minister of the Environment granting concessions to another company, and were ordered to be re-heard. In 2014, KGHM Polska Miedź S.A. took part in a tender announced by the Minister of the Environment to acquire mining rights to explore for copper ore deposits in the Nowiny area. As a result of the announcement of the tender's results, the project was terminated.
Other exploration concessions	– **Zatoka Pucka** project – based on a request submitted by KGHM Polska Miedź S.A., on 1 October 2014 the Minister of the Environment granted concession no. 28/2014/p to KGHM Polska Miedź S.A. for the exploration for and assessment of deposits of potassium-magnesium salt in the vicinity of Puck together with associated minerals: copper and silver ore and rock salt. Based on appeals submitted by competing companies, the Minister of the Environment re-heard the matter involving the granting of a concession for exploratory work in the aforementioned area as part of the appeal proceedings, upholding its earlier decisions to grant a concession to KGHM Polska Miedź S.A. Current work is aimed at commencing the work defined in the concession and at setting up a joint-venture company together with entities belonging to the company Grupa Azoty SA, which is to supervise the work in the area of Zatoka Pucka (Puck Bay).
Resource Base Development in North and South America	
Sierra Gorda Project in Chile (KGHM INTERNATIONAL LTD. 55%, Sumitomo Metal Mining and Sumitomo Corporation 45%)	On 30 July 2014 the Sierra Gorda open-pit mine in Chile started production. The official opening ceremony for the mine was held on 1 October 2014. Full production capacity planned for the first phase of the project, allowing for the production of 120 thousand tonnes of copper per year (processing of 110 thousand tonnes of ore daily) is scheduled to be achieved by mid-2015. On 25 October 2014, the first shipment to the Toyo Smelter and Refinery in Japan (with approx. 6 thousand tonnes of copper concentrate from the Sierra Gorda mine) left the Port of Antofagasta. The ship transporting the copper concentrate arrived at the port of Niihama in Japan on 14 December 2014. CAPEX at completion, reflecting savings achieved, including from the mining equipment leasing program, amounted to USD 4.2 billion, compared with the March 2013 estimate of USD 3.9 billion. Within the project's framework technical optimisations were implemented, which allowed an increase in Sierra Gorda project reserves from 1.275 billion tonnes @ 0.39% Cu, 0.024% Mo and 0.065 g/t Au to 1.463 billion tonnes @ 0.40% Cu, 0.020% Mo and 0.065 g/t Au. From the start of production to 31 December 2014, approx. 5.2 million tonnes of ore were extracted from the Sierra Gorda mine, with resulting production of approx. 35.6 thousand tonnes of concentrate, representing approx. 10.5 thousand tonnes of pure copper. With respect to preparations for phase 2 of the investment, aimed at increasing processing capacity from 110 thousand tonnes to at least 190 thousand tonnes of ore per day, design work

	began related to developing the infrastructure of the processing plant. Infrastructure analysis is underway, such as the availability of water and power for phase 2 of the project. This assumes that another 2-3 ball mills will be built at the processing plant. In addition, we expect the life of the mine to be prolonged as a result of mining of the mineralized areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, based on the infrastructure of the investment's second stage. With respect to advancement of the Sierra Gorda Oxide project, aimed at processing 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 2014 testing began on the leaching of material stored in heaps on a semi-industrial scale. Stacking tests were also conducted. In March 2014, work began on a feasibility study which will incorporate the results of the tests. Completion of work on the feasibility study is planned in the first quarter of 2015.
Victoria Project in Sudbury Basin, Canada (KGHM INTERNATIONAL LTD. 100%)	In 2014 work was completed on levelling the terrain to build the surface infrastructure. In addition, work was carried out on sinking the adit for the mine shaft. Work began on construction of surface infrastructure, including preparing foundations for the lift machinery. 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 project plan based on a one-shaft mining model.
Ajax Project, Canada (KGHM Polska Miedź S.A. 80%, Abacus Mining and Exploration Corp. 20%)	In May 2014 the company KGHM AJAX MINING INC. published a new mine plan which moves the infrastructure of the future Ajax open pit mine away from the nearest buildings of the town of Kamloops, and which also reduces the mine's environmental impact. Based on the change in the siting of selected infrastructure of the Ajax mine, engineering work was carried out on the project. At the same time, to gain a better understanding and to identify additional mineralisation at the Ajax deposit, in the second half of 2014 drilling was conducted in and around the planned pit zone. The results of this drilling will be used to update the mine's block model in the first quarter of 2015. In addition, analyses are being conducted to search for technological improvements for the mine, which create the possibility of optimising capital outlays and operating costs, and as a result may substantially enhance the economic attractiveness of the Ajax project. In the fourth quarter of 2014 an agreement was signed with representatives of First Nations who will participate in public consultations regarding the environmental permits for the Ajax mine. The new Ajax project schedule assumes that applications for the environmental permits will be submitted in the first half of 2015. The adopted schedule enables construction of the mine facilities to begin in the second half of 2016. The Company expects that production of the first copper concentrate from the Ajax mine will take place at the end of 2018.
Other	
Intensification of scrap processing	Another important initiative aimed at increasing copper production by the Company is the intensification of scrap processing. In 2014, analyses of technical-technological solutions and analyses of the scrap market with respect to the possibility of enhancing the processing of secondary copper-bearing materials in the metallurgical installations of KGHM Polska Miedź S.A. were conducted.

Pillar III – Diversifying sources of revenues and securing competitively-priced energy

With respect to increasing energy production to meet the Company's own energy needs, projects were continued whose completion will gradually assure the energy needs of KGHM Polska Miedź S.A. (at present, energy production by the subsidiary Energetyka Sp. z o.o. represents 10%, or approx. 250 GWh, of the Company's total energy needs which amount to approx. 2 600 GWh) and will also lead to diversification of the energy generation portfolio as well as significantly reduce the Company's exposure to climate policy risk and to changes in fuel and electricity prices.

The most significant projects in this area are:

Investments in energy generation	
„Construction of gas-steam blocks at the Głogów and Polkowice power plants with installed power of 84 MWe"	This investment was carried out in the years 2010-2014, with total expenditures incurred on the project of PLN 523 million. 3 November 2014 marked the official start of the generation of electricity and heat through highly-efficient co-generation. This project will enable 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 approx. 560 GWh, all of which is designated to meet the power needs of the Company. Thanks to the benefits derived from the use of yellow certificates, the cost of generating electricity by the blocks is below market price. The output of the blocks covers around one-fourth of the power needs of KGHM Polska Miedź S.A. and will result in lower greenhouse gas emissions by 40% as compared to emissions from conventional coal-fired sources. The first gas-steam block at the Polkowice power plant was commissioned on 5 November 2013, while the second gas-steam block at the Głogów power plant was commissioned on 8 July 2014.

„Construction of a research installation for the underground gasification of brown coal in the Legnica-Głogów Copper Belt (LGOM)"	With respect to the concession obtained in 2012 for exploration of the brown coal deposit in the Głogów region, in a selected area located in the Legnica-Głogów Copper Belt, in 2014 a comprehensive program of analyses and interpretations was performed involving the results of geological work and specialty and laboratory research carried out in the years 2012-2014. Deposit selection criteria were developed as well as algorithms for assessing the deposit in terms of the technical possibilities of engaging in the underground gasification of brown coal, 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. Work presently underway is aimed at completing the hydrogeological research.

With respect to cooperation with partners from the energy sector, in 2014 KGHM Polska Miedź S.A. continued to participate in the most important energy projects on a national scale. It is expected that participation in these projects will lead to secure energy supplies for the Company at an optimum price.

Nation-wide energy projects	
„Construction of a power generation source based on the utilisation of natural gas as the raw material for its generation, on the grounds of the existing Blachownia Power Plant"	Under an Agreement signed on 30 December 2013 by KGHM Polska Miedź S.A. together with TAURON Polska Energia S.A. and TAURON Wytwarzanie S.A. (a subsidiary of TAURON), based on which it was decided to temporarily suspend the project to build a gas-steam block through the special purpose company „Elektrownia Blachownia Nowa" Sp. z o.o. (50% KGHM Polska Miedź S.A.), in 2014 on-going monitoring was performed of the energy market and the regulatory environment, in terms of the possibility to rapidly re-commence the project. In accordance with the terms of the Agreement the parties resolved that a decision to re-commence the project will be made in the form of a separate agreement, which in accordance with the expectations of the Parties to the Agreement should be signed by 31 December 2016. The cause of the suspension is the current situation on the electricity and natural gas market, resulting in increased investment risk and the consequent need to review and optimise the project.
„Preparation for the construction and operation of the first Polish nuclear power plant"	In 2014 KGHM Polska Miedź S.A. („KGHM"), PGE Polska Grupa Energetyczna S.A. („PGE"), TAURON Polska Energia S.A. („TAURON") and ENEA S.A. („ENEA") continued work on the project to prepare for the construction and operation of the first Polish nuclear power plant by developing updated clauses to the draft Shareholders Agreement for the company PGE EJ1 sp. z o.o. („PGE EJ 1") with appendices. The parties agreed the final version of the draft Shareholders Agreement. PGE EJ 1 sp. z o.o. is responsible for the preparation and execution of the investment to build and operate the first Polish nuclear power plant with a capacity of approx. 3 000 MWe ("Project"). The PGE Group is the Project Leader and the company PGE EJ 1 sp. z o.o. will be the power plant's operator. In terms of cooperation on the nuclear project: – On 3 September 2014, a Shareholders Agreement („Agreement") was signed between KGHM, PGE, TAURON and ENEA. – KGHM, TAURON and ENEA as Business Partners, will acquire from PGE, on the basis of a separate agreement („Shares Purchase Agreement"), a total of 30% of the shares (each Business Partner will acquire 10% of the shares) in the special purpose company – PGE EJ 1. – The Management Board of KGHM Polska Miedź S.A. announced that the President of the Office of Competition and Consumer Protection granted unconditional approval to carry out this concentration, based on establishment of the joint undertaking PGE EJ 1 Sp. z o.o. by the Applicants (Current report no. 28/2014). – Pursuant to the Agreement, the parties agreed to jointly fund the activities of the Initial Phase of the Project, proportionally to their interest. – The Initial Phase's objective is to determine such elements as potential partners, including the strategic partner, technology suppliers, EPC (Engineering, Procurement, Construction) contractors, nuclear fuel suppliers and acquiring funds for the Project, as well as preparing PGE EJ 1 sp. z o.o. organisationally and in terms of the skills required for its role as the nuclear power plant's future operator, responsible for its safe and efficient operation. According to the Shareholders Agreement, expenditures of KGHM Polska Miedź S.A. during the Initial Phase will not exceed approx. PLN 107 million and will cover contributions in the increased share capital of PGE EJ 1 Sp. z o.o. The parties continue to cooperate to prepare for the signing of the Shares Purchase Agreement.

Pillar IV – Regional support

Activities in areas such as corporate governance, human rights, employee policy, environmental projection and commitment to social issues, such as development of and aid to local communities, are the basis for the on-going commitment by KGHM Polska Miedź S.A. to act in a socially responsible manner under its CSR policy. In 2014, a CSR Strategy was developed and adopted by KGHM INTERNATIONAL LTD. Work is underway on developing and implementing a single, joint CSR Strategy for KGHM Polska Miedź S.A. and KGHM INTERNATIONAL LTD. based on sustainable development and corporate social responsibility.

Corporate social responsibility	
Goals of the CSR Strategy	The priority goal of the adopted principles of the corporate social responsibility policy is to achieve a fundamental balance between the growth of the Company and the best interests of the communities in which KGHM operates. The Main Initiatives of the CSR Strategy comprise: – creating innovative solutions minimising the Company's environmental impact,

- building a position as a „good neighbour" and trusted investor,
- ethics and transparency in managing relations with stakeholders, and
- caring for its employees.

Good neighbour policy

KGHM Polska Miedź S.A., at every stage of development, takes into careful consideration the need to build positive relationships with local communities, based on dialogue aimed at seeking mutual possibilities and expectations. Good relationships with stakeholders, based on mutual understanding and trust, are of key importance for KGHM Polska Miedź S.A. as an organisation which has a substantial impact on the economic, social and natural environments where it operates. Of particular importance for KGHM Polska Miedź S.A. as a business operating in the mining sector is its **good neighbour policy**. This policy finds an expression in the wide variety of valuable initiatives and actions which are undertaken to meet the expectations and needs of the people in our communities – amongst the most important of the Company's stakeholders. In this way the Company shows its concern for the best interests of these communities and upholds its „public license to act" in business areas.

In terms of public dialogue in 2014, KGHM Polska Miedź S.A. held consultations with the local governments and communities which will be most directly affected by the development of the Żelazny Most tailings pond. The result of these consultations was the signing on 18 July 2014 of an agreement between KGHM Polska Miedź S.A. and the five local municipalities which will be most directly affected by development of the Southern Quarter of the Żelazny Most tailings pond: Tarnówek, Żelazny Most, Dąbrowa, Pieszkowice and Komorniki. This agreement will be in effect for two years, with the possibility of extension. The parties will meet twice a year in order to confirm that the mutual obligations have been met. It assumes among others the organisation of holidays for children and health care and check-ups for the people in the communities, through so-called „white Saturdays" when medical care is free of charge, assistance by KGHM Polska Miedź S.A. in developing infrastructure in rural areas, and also cooperation in raising the level of professional knowledge and skills of local citizens.

Support by the Fundacja Polska Miedź (Polish Copper Foundation)

As part of its efforts to be a good neighbour, KGHM Polska Miedź S.A. in 2014 supported many valuable initiatives and projects aimed at promoting regional development. The Fundacja Polska Miedź (Polish Copper Foundation) financed almost 400 institutional projects in the total amount of over PLN 15 million, and provided almost PLN 1.3 million to over 550 private individuals. In addition, KGHM Polska Miedź S.A. participated in regional sponsoring projects in the total amount of approx. PLN 30 million.

Special CSR programs

Engagement by KGHM Polska Miedź S.A. in supporting local communities is also carried out by special CSR programs initiated in 2014 in the areas of preventative health care, ecology, business education and employee volunteering.

EKO-Health program

In terms of preventative health care, the Company encourages local citizens to take part in free sporting events and medical check-ups, promotes preventative health care and organises sporting and recreational events. Health-related projects are designed to cover the largest number of people in local communities, in all age groups. Events which are organised on a cyclical basis include nordic walking for adults, swimming lessons for children, preventative health care events in pools for children and youth, soccer matches for boys with trainers from the Akademia Piłkarska KGHM (KGHM Soccer Academy), sporting and recreational events in which famous sporting figures from the local region participate and health-related events such as the „green schools" for young people.

Innovation Sphere program

This program is a tool used to support the process of creating leaders, aimed at meeting the challenge of ensuring an efficiently managed business of international scope, in accordance with best corporate governance practice. The program is aimed at managers from small and medium-sized businesses as well as at government bodies which support the international expansion of Polish companies. The goal of these initiatives is to create platforms which enable the exchange of experience and development of the skills of management staff from Polish companies in terms of operating on international markets.

Copper Heart volunteer program

Under this program nearly 50 volunteer-type projects have been carried out. Several hundred employees took part, who together put in over a thousand hours. One of the most organisationally advanced volunteer projects in the Company is Drużyna Szpiku KGHM (Bone Marrow Team). For years this team has been promoting the idea of fighting with lukemia and has been registering potential blood donors. These volunteers have registered over 1000 potential blood donors. Three of the members of this team have themselves donated blood, in this way saving human lives.

KGHM Polska Miedź S.A. as a global company meets international corporate social responsibility standards. This is why the corporate social responsibility practices set forth in the CSR Strategy encompass operating principles which conform to international guidelines: ISO 26000, the AA1000 standard and the CSR guidelines for the mining sector published by ICMM (International Council on Mining and Metals). In 2014 the Company issued its first Integrated Report, for the year 2013. The report was prepared based on international guidelines issued by the organisation Global Reporting and includes a supplement for the mining and metallurgical sector (Mining and Metals Sector Supplements, MMSS).

As an efficiently managed business partner, in 2014 the Company was included in the prestigious RESPECT Index of companies which are managed in a socially responsible and sustainable way.

Pillar V – Developing organisational know-how and capabilities

Performance of the development strategy of KGHM Polska Miedź S.A. is supported by activities aimed at enhancing efficiency and raising the Company's organisational skills:

Global Knowledge Center	In 2014 the process of integration was continued within the KGHM Group, and work began on developing a conceptual framework and model of a Global Knowledge Center, including the creation of a management model and determining areas which are managed and supervised from the Head Office of the KGHM Group. Design work and full implementation of the Global Knowledge Center concept will be carried out over the next five years.
Project management standards	In terms of implementing a project management system, unified standards and methodology were implemented for managing investment and organisational portfolios and projects in the Divisions of KGHM Polska Miedź S.A. These standards rationalise and regulate the processes of carrying out, assessing and controlling the implementation of projects and portfolios, as well as allocation of the responsibilities and rights of individual employees and organisational units, while decision making for key investment decisions will be done through an Investment Committee. In future years these standards will also cover R&D projects, as well as equity investments in the KGHM Group, including within KGHM INTERNATIONAL LTD.
Transformation of HR	With respect to human resources management, work was continued on the project to Transform the HR function, aimed at transforming it to a role of effective support of strategic organisational ambitions, strengthened by a change in the function of the HR role from a purely administrative one into one which provides support, partnership and advice in key areas of the HR process such as management by goals, education and development, strategic planning of human resources, recruitment, talent management, and being a HR Business Partner. In 2014 initiatives which were carried out included: – designing and implementing employee training programs using modern training techniques, – improving and developing new organisational skills, – career planning and developing programs to develop young talent to ensure the availability of human resources which are required to meet the Company's business challenges by developing future leaders as both managers and experts, – implementing principles of employee mobility within the Company on a global scale, aimed at ensuring joint, unified international management standards for the delegees in terms of implementing business projects on a global scale, – developing systems of management through goals, enabling an increase in the engagement, awareness and motivation of management staff and employee teams by utilising the tools of management by results, – implementing a HR functioning model based on the concept of HR business partners and the comprehensive servicing and support of managers in questions involving human resource management.

2.3. Capital expenditures

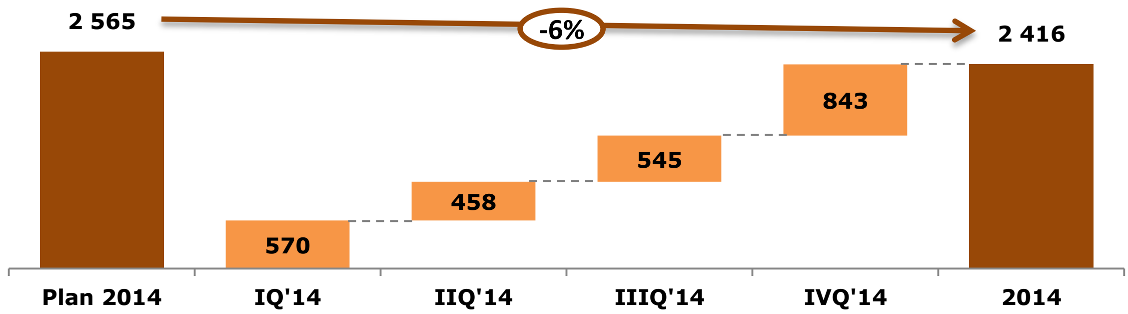
In 2014, capital expenditures amounted to PLN 2 395 million and were higher than in the prior year by 3%. Capital expenditures, including expenditures incurred on uncompleted development, amounted to PLN 2 416 million.

Table 14. Structure of capital expenditures on property, plant and equipment and intangible assets *(in PLN millions)*

	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Mining	1 478	**1 620**	109.6	*415*	*343*	*334*	*528*
Metallurgy	671	**696**	103.7	*124*	*102*	*196*	*274*
Other activities	172	**79**	45.9	*28*	*10*	*12*	*29*
Development work - uncompleted	36	**21**	58.3	*3*	*3*	*3*	*12*
Total	**2 357**	**2 416**	102.5	*570*	*458*	*545*	*843*

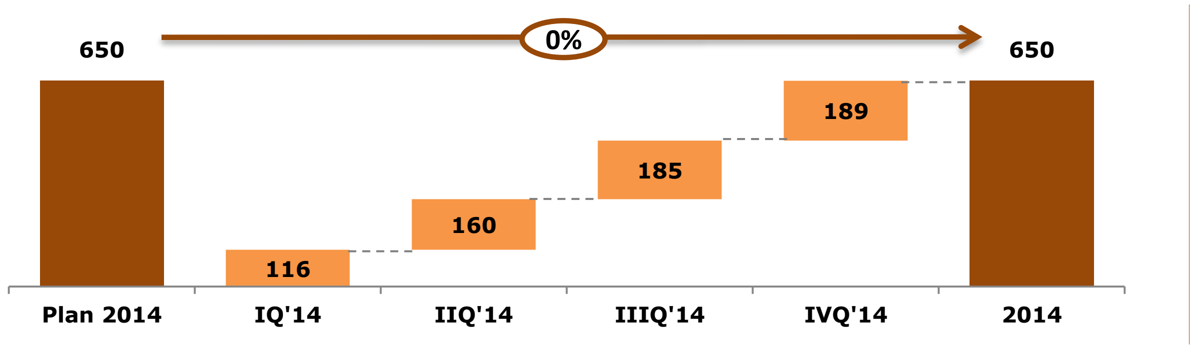
Investment activities were comprised of projects involving replacement of equipment, maintaining mine production and development:

Chart 8. Expenditures incurred on planned investments in 2014 *(in PLN millions)*



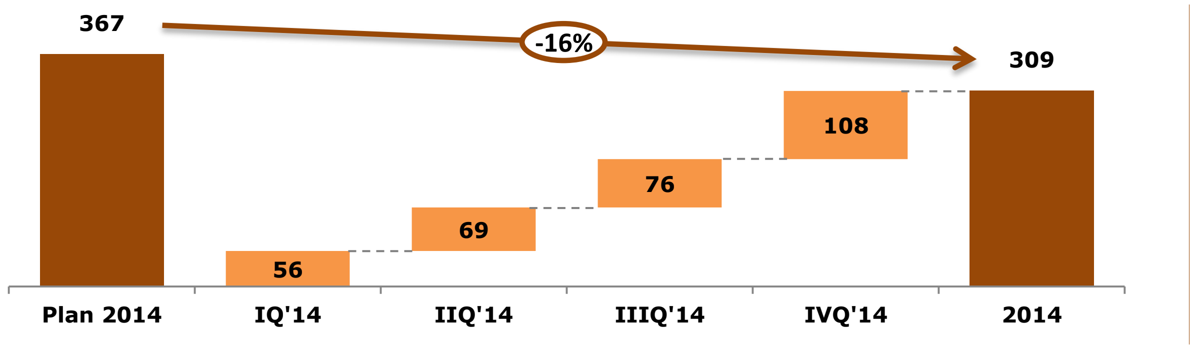
Projects related to replacing production assets – aimed at maintaining production equipment in an unchanged condition. In 2014 the planned targets were achieved.

Chart 9. Capital expenditures incurred on replacements in 2014 *(in PLN millions)*



Projects related to maintaining mine production – aimed at maintaining mine production at the level set forth in the Production Plan (development of infrastructure to match mine advancement).

Chart 10. Capital expenditures incurred to maintain mine production in 2014 *(in PLN millions)*

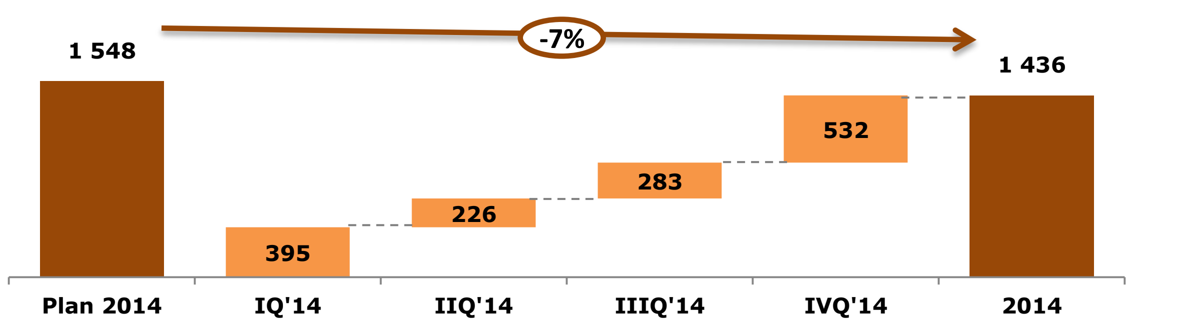


Reasons for changes in projects for maintaining mine production:

- temporary restrictions in mine work due to hazards related to gas,
- the limited possibilities of mine work contractors,
- periodic problems related to the need to ensure ventilation and air cooling,
- delays in obtaining permits and agreements with municipalities – due to the prolongation of procedures to gain permission to alter the designation of agricultural land to that of non-agricultural land for which the municipalities are responsible (with respect to areas around Komorniki and Tarnówek). The Municipal Area Management Plans of Polkowice permitting development of the Żelazny Most tailings pond will be approved in the first quarter of 2015, and
- savings achieved as a result of negotiations.

Development projects – aimed at increasing production volume, implementing technical and technological optimisations using existing infrastructure, controlling production costs and adapting the Company's operations to changes in standards, laws and regulations (conformatory projects and projects related to environmental protection).

Chart 11. Capital expenditures incurred on development in 2014 *(in PLN millions)*



Changes in development projects were mainly due to:

- the updating of project schedules due to:
  - updating deadlines for the delivery of key equipment and of dates for the handover of construction and assembly work (PMP),
  - delays caused by suppliers, work contractors and preparers of documentation, despite contractually-agreed deadlines (PMP, Modernisation of classifiers),
  - negotiated terms, signed contracts and payment dates,
  - the inability of contractors to complete a given job, prolongation of contractor selection procedures,
  - delays in obtaining permits and agreements from the municipalities, and in the preparation of projects and technical documentation,
  - decisions of the Minister of the Environment regarding the granting of concessions and the use of geological information,
- withdrawal from certain projects (projects without effect or the appearance of new technical possibilities),
- the start of new projects, which required the preparation of documents needed by the Company (analyses, technical documentation, tender proceedings).

Table 15. Major objectives and investments in 2014

Item	Description
Replacement	
Infrastructure replacement	Investments aimed at maintaining production infrastructure in an unchanged state in the Divisions. Expenditures incurred in 2014: **PLN 449 million**.
Mining machinery replacement	With respect to modernisation and replacement of the machine park in the mines, 204 pieces of mining machinery were purchased. Expenditures incurred in 2014: **PLN 201 million**.
Maintaining mine production	
Mine infrastructure development	Investments were made in the mines related to developing mining infrastructure, ventilation and air cooling equipment and developing conveyor belts and piping. Expenditures incurred in 2014: **PLN 228 million**.
Żelazny Most project to ensure the ability to store flotation tailings after 2016	A tailings segregation and thickening base station was developed, Environmental impact statements were prepared: - for the main facility within the borders of the Grębocice and Rudna municipalities to a crown height of 185 m a.s.l. - for the southern quarter within the borders of the Rudna municipality to a crown height of 175 m a.s.l., - for the main facility throughout the tailings pond to a crown height of 195 m a.s.l., An experimental pier was built at the main facility, A program was developed to store tailings within the border of the Rudna and Grębocice municipalities to a crown height of 185 m a.s.l., geological documentation for the southern quarter – stage II, and a stock survey for the southern quarter, Geological supervision was conducted of the drilling operations and drillholes, As at 31 December 2014 expenditures of PLN 39 million were incurred, including PLN 13 million in 2014.
Development: Mining	
Construction of the SW-4 shaft	Work on sinking the shaft was finished in December 2013 – from the start of the investment a total of 1 219.0 m of shaft were sunk, In 2014 the following work was carried out in the shaft: - Injection of the tubing lining, - A shaft sinking platform for planned rock hoisting, - Approx. 71.0 thousand tonnes of rock removed to prepare for construction of the ventilation fans station, - Construction began of cementation platform no. 2 (approx. 60% of planned work completed) for planned shaft maintenance at the salt horizon, - A temporary inlet air warming station was built at the surface, - Work began on target facilities: the hoist house, squares and roads, A total of 17 045.0 m of drifts and near-shaft drifts were built for the future ventilation fans station (including in 2014 - 1 758.7 metres of near-shaft drifts). - Removal of approx. 26 849.0 m3 of rock was completed for the future ventilation fans station, - Work is in progress related to installing bolting and concrete mesh for the ventilation fans chambers – planned completion 31 March 2015. As at 31 December 2014, capital expenditures amounted to PLN **751 million**, including PLN 55 million in 2014.
Deep Głogów	Work continues on the sinking of the GG-1 ventilation (input) shaft as well as work related to shaft site infrastructure. As at December 2014, the shaft had reached a depth of 410.9 m using tubing construction. It is being built in stages and will be completed in 2019. This will be the deepest of the 31 shafts in the Copper Belt, with a target depth of 1340 meters and a diameter of 7.5 meters. In the years 2006-2014, investment funds were used to finance 61 171.6 meters of mine tunnels, while operating funds were used to finance 12 528.6 meters of mine tunnels (a total of

	73 700.2 m) together with needed technical infrastructure (pipes, power cables, electrical switching stations, conveyor belts, retention dams, air cooling pipes and equipment, communications equipment); Work begun in 2010 related to gaining access to and preparing the first mining section in the Deep Głogów deposit was completed. The work included developing access drifts, building heavy machinery chambers and installing ventilation and air cooling infrastructure. **On 1 April 2014, the G-25 mining section was the first to commence operations in the Deep Głogów deposit.** **Design work was completed on a modern surface-based ventilation station with target power of 25 MW at the R-11 shaft, and the worksite was passed to the General Contractor.** Work was completed among others on assembling the cooling towers and constructing the building's steel framework as well as on the plumbing and gas piping infrastructure. Work is in progress to drill holes for the high-pressure shaft piping along with the pressure regulator and ice water pump. Completion of the work is planned for the third quarter of 2015. As at 31 December 2014, capital expenditures amounted to PLN **1 299 million**, including PLN 416 million in 2014.
Development of mining technology for using the ACT mining complex by KGHM	Operational trials continued using the ACT mining complex in a prepared pilot section of the Polkowice-Sieroszowice mine, which based on a decision by KS KGHM-CAT was prolonged to 2015. Stage I is is expected to be completed by the end of 2015 and stage II of the project by December 2016. Work was performed on refining the construction elements of the mining complex. As at 31 December 2014, capital expenditures amounted to PLN **18 million**, including PLN 1 million in 2014.
Drilling of drifts using combines	In the Polkowice-Sieroszowice mine, work begun in 2013 continued on mine production trials using a team of three combines to perform preparatory drift work. In 2014, 4 454 m of drifts were built using combine technology in the TW 357 hub of the Deep Głogów deposit, achieving an average daily advance of 6.1 meters per combine. 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. As at 31 December 2014, capital expenditures amounted to PLN **8 million**, including PLN 5 million in 2014.
Flotation classification units	**Stage I of optimising the hydrocyclones was completed**, with the construction of 12 hydrocyclone bateries at the Lubin and Rudna concentrators out of the planned 78 units. Procedures are underway to select suppliers for subsequent stages of the project. As at 31 December 2014, capital expenditures amounted to PLN **27 million**, including PLN 1 million in 2014.
Development: Metallurgy	
Pyrometallurgy Modernisation Program (PMP)	Work began on the main production elements of the PMP: the Electrical and Flash Furnaces. Assembly work continued on the Electrical Furnace, Flash Furnace and Recovery Boilers halls. Work was completed on the reinforced concrete elements of the Power Building and the OSR 11 switching station. Work continued on elements of the charge preparation section. Construction was completed on the following switching stations: OSR1 NOWA; the R1 NOWA rotunda; GIS 110kV; Work was completed on the steel elements of the trestle bridge to the oxygen generating plant. As at 31 December 2014, capital expenditures amounted to PLN **956 million**, including PLN 484 million in 2014.
Intensification of smelting at the Głogów II smelter/refinery	**Work was completed on the following:** – the Sulphuric Acid Plant at the Głogów II smelter/refinery – delivery of equipment and construction work on renovating the sulphuric acid warehouse and scrubber. – the Electrical Furnace incineration chambers – work performed on adapting and optimising the incineration chambers – the Metallurgical hall at the Głogów II smelter/refinery – fire prevention work performed With respect to the Main Transformer Station at Głogów II, a 110/6kV transformer of 40 MVA was delivered and stage II of the construction and assembly work was performed. Work is in progress related to opening the compressor power hub in the oxygen generating plant of Głogów II. As at 31 December 2014, capital expenditures amounted to PLN **194 million**, including PLN 37 million in 2014.
Development: Other	
Construction of gas-steam blocks at the Głogów and Polkowice power plants	With respect to the project „Construction of gas-steam blocks at the Głogów and Polkowice power plants" final commissioning and handover was performed. On 8 July 2014 the second gas-steam block at the Głogów power plant was commissioned. **The project was completed on 31 December 2014.** As at 31 December 2014, capital expenditures amounted to PLN **501 million**, including PLN 33 million in 2014.
Modernisation of 6kV GSE switching station at the Głogów smelter/refinery GSE+	The project was carried out on time. Work began on constructing a new building for the 6kV GSE - R2 switching station, a trestle bridge for the 110 kV power lines leading from the GIS T4 transformer to the GST -1 switching station, modernisation of the power unit, the EC3 control and visualisation unit, and modernisation of the 6kV field in GST-2. As at 31 December 2014, capital expenditures amounted to PLN **29 million**, including PLN 11 million in 2014.

Development: **Exploration**	
Exploration projects	Exploration and evaluation work was completed for the following concessions: – Radwanice-Gaworzyce – Synklina Grodziecka Exploration and evaluation work began for the following concessions: – Retków Ścinawa – Głogów Concessions were received to explore the copper-silver deposit in the Stojanów area. Agreement was obtained to make use of geological information on the Gaworzyce copper ore deposit. Demonstrating the possibilities of mining the copper ore deposit in this region may enable prolongation of the life of the Polkowice-Sieroszowice Mine Division. Appeals proceedings are in progress at the Regional Administrative Court in Warsaw arising from the claims of competing companies regarding the reversal of decisions made in this matter by the Minister of the Environment: – declining to grant a concession to KGHM Polska Miedź S.A. for the exploration and assessment of the Bytom Odrzański copper ore deposit. – granting to KGHM Polska Miedź S.A. concession no. 5/2014/p for the exploration of the Kulów–Luboszyce copper ore deposit, in that part covered by the request of KGHM Polska Miedź S.A. Stage II of the project to produce synthetic gas through the underground gasification of brown coal in the Legnica-Głogów Copper Belt (LGOM). The decision was made to continue the project (stages III-IV) under which the area was determined for the conduct of hydrogeological research and modeling. As at 31 December 2014, capital expenditures amounted to PLN **185 million**, including 72 million in 2014.

2.4. Equity investments

As at the end of 2014, KGHM Polska Miedź S.A. directly owned shares of 24 entities (including in 21 subsidiaries). The entire KGHM Polska Miedź S.A. Group amounted to 75 entities.

In 2014 there were no changes in the principles for managing the Group, which are based on principles adopted in 2012 related to the acquisition of foreign mining assets. The internal structures and the tools used in the management process are adapted to needs arising from the process of Group integration and project development.

Below is a simplified diagram of the KGHM Polska Miedź S.A. Group, which presents several groups of entities which are significant due to their share in achieving the Group strategy or in terms of the capital committed.

Diagram 3. KGHM Polska Miedź S.A. Group as at 31 December 2014 *(simplified)*

KGHM Polska Miedź S.A.

Directly related entities

Domestic companies supporting the core business

- **„Energetyka" sp. z o.o.** (100%)
- **PeBeKa S.A.** (100%)
- **KGHM ZANAM Sp. z o.o.** (100%)
- **INOVA Spółka z o.o.** (100%)
- **POL-MIEDŹ TRANS Sp. z o.o.** (100%)
- **CBJ sp. z o.o.** (100%)
- **KGHM Metraco S.A.** (100%)
- **KGHM CUPRUM sp. z o.o. – CBR** (100%)
- **BIPROMET S.A.** (66%)

Closed-end investment funds

- **KGHM I FIZAN** (100%)
- **KGHM III FIZAN** (100%)
- **KGHM IV FIZAN** (100%)
- **KGHM V FIZAN** (92%)

Other company

- **TAURON Polska Energia S.A.** (10%)

Indirectly related entities

Non-domestic companies advancing the resource base development strategy

KGHM INTERNATIONAL LTD. Group (100%)

→ **Sierra Gorda S.C.M.** (55%)

KGHM AJAX MINING INC. (80%)

Amongst the main equity investments advancing the strategy of resource base development and increased copper production are the KGHM INTERNATIONAL LTD. Group together with the world class mine project Sierra Gorda in Chile. This project comprises the construction of an open-pit mine on one of the world's largest deposits of copper ore, molybdenum and gold. Of key importance in the advancement of this project was the commissioning in mid-2014 of production at the Sierra Gorda mine and the first transport of copper concentrate sent to the Toyo smelter in Japan. Sierra Gorda is a joint venture between KGHM INTERNATIONAL LTD. and companies of the Sumitomo Group. A description of the most important production assets and projects carried out under the KGHM INTERNATIONAL LTD. Group may be found later in this chapter.

KGHM AJAX MINING INC. is advancing the Ajax project in British Columbia, Canada, which assumes the construction of an open-pit copper and gold mine and ore processing plant with associated infrastructure.

In terms of assuring the uninterupted operations of the core business of KGHM Polska Miedź S.A., of significance are investments in domestic companies acting on its behalf, such as:

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

In terms of the amount of capital committed, an important equity investment is the shares of TAURON Polska Energia S.A., a company listed on the Warsaw Stock Exchange.

Investments in closed-end investment funds are a tool used to diversify the investment risk for KGHM Polska Miedź S.A. In following the strategy of the Group, they fill a role in the management of selected non-core assets and are a tool in the advancement of projects aimed at increasing the Company's value. The funds concentrate on investments in the fields of health, real estate and new technology.

Other companies which are not shown in the diagram include entities serving the important role of corporate social responsibility, special purpose companies in the holding structure and other equity investments (including those designated to be restructured and disposed of).

KGHM INTERNATIONAL LTD. Group production assets and projects

Robinson mine

Location	Nevada, the USA
Ownership	100% Robinson Nevada Mining Company - 100% owned by KGHM INTERNATIONAL LTD.
Type of mine	open pit
Main ore type	copper ore
Associated metals	gold
Type of orebody	porphyry/skarn
End product	copper concentrate
Production	39.3 kt Cu; 25 koz TPM*
Employment (2014)	595

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

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

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

Morrison mine

Location	Sudbury Basin, Ontario, Canada
Ownership	100% FNX Mining Company – 100% owned by KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper ore
Associated metals	nickel, platinum, palladium, gold
Type of orebody	footwall/contact Ni
End product	copper ore
Production	15.6 kt Cu, 2.8 kt Ni, 41.0 koz TPM*
Employment (2014)	317

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

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

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

Franke mine

Location	Antofagasta region, Chile
Ownership	100% Sociedad Contractual Minera Franke –100% owned by KGHM INTERNATIONAL LTD.
Type of mine	Open-pit
Main ore type	copper ore
Associated metals	None
Type of orebody	IOCG (iron oxide copper gold)
End product	copper cathodes
Production	19.3 kt Cu
Employment (2014)	563

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, feasibility analyses and design work.

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

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, with option to prolong to 42 years
End product	copper concentrate, molybdenum concentrate
Forecasted production	approx. 220 kt Cu, 11 kt Mo, 2 tonnes Au
Start of production	2014

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

The Sierra Gorda project is located in the Atacama desert, in the Sierra Gorda administrative area in the Antofagasta region, in northern Chile, approx. 60 km south-west of the city of Calama. The mine 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 mine is supplied from a plant in Mejillones, as well as from a local power plant. The water supplied by pipeline to the Sierra Gorda project comes from the cooling systems of a power plant located in the coastal city of Mejillones. The copper and molybdenum concentrates produced are 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. The Sierra Gorda mine assumes two investment stages. The first stage is the construction of a conventional open-pit mine (extraction using blasting materials and dump trucks, loading and ore transport to a processing plant), development of infrastructure (among others a tailings pond, power line, salt water pipeline) and a processing plant with an installation to separate the molybdenum (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 will be increased to at least 190 thousand tonnes of ore per day. In addition, we expect the life of the mine to be prolonged as a result of mining of the mineralized areas Pampa Lina and Salvadora which are adjacent to the Sierra Gorda mine, based on the infrastructure of the investment's second stage.

The Sierra Gorda Oxide project is aimed at processing the oxide ore obtained during the pre-stripping phase in an installation for the recovery of metal using SX/EW technology. Oxide ore is stored separately for later heap leaching. Under this project, stacking tests are being conducted as well as semi-industrial tests, 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 mid-2015, it is planned that the mine will produce annually around 120 thousand tonnes of copper, 50 million pounds of molybdenum and 60 thousand ounces of gold in its first years of operation. On 25 October 2014, the first shipment to the Toyo Smelter and Refinery in Japan (with approx. 6 thousand tonnes of copper concentrate from the Sierra Gorda mine) left the Port of Antofagasta.

Victoria project

Location	Sudbury Basin, Ontario, Canada
Ownership	100% owned by KGHM INTERNATIONAL LTD.
Type of mine	underground
Main ore type	copper-nickel ore
Associated metals	precious metals (gold) and platinum group metals (platinum, palladium)
Mine life	15 years
End product	copper concentrate, nickel concentrate
Forecasted production	16 kt Ni, 15 kt Cu
Start of production	start of mining in 2020, full production by 2022

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 deposit and commenced a campaign of exploration in this terrain. Mineral resources are estimated at 13.6 million tonnes of ore, with average grade of 2.6% Cu, 2.7% Ni and 8.3 g/t of all associated metals.

The current development scenario for the project calls for the sinking of an exploration shaft with four operating levels, from which additional drilling will be conducted as part of an advanced exploration campaign. This will provide more detailed geological information within the current project resources, as well as the documentation of additional mineral resources. Sinking of the shaft is planned to begin in the second quarter of 2016 and will last to 2019, while the exploration program will be completed in 2020. Ultimately the exploration shaft will serve as a ventilation-production shaft.

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

2014 equity investments

Financing of projects

In 2014 Group companies carried out equity investments within the Group aimed at ensuring funds for the advancement of overseas resource base development projects, including the key project Sierra Gorda, and the projects Victoria and Ajax. Financing for these projects was provided in the form of loans granted by KGHM Polska Miedź S.A. to the company Fermat 1 S.à r.l. (a direct subsidiary) and the company 0929260 B.C. Unlimited Liability Company (an indirect subsidiary) in the total amount of USD 381 million (PLN 1 336 million at the exchange rate of the National Bank of Poland (NBP) from 31 December 2014), followed by loans and/or increases in the share capital of target companies within the holding structure.

Sierra Gorda project	The total amount of financing from companies in the KGHM Polska Miedź S.A. Group to meet the needs of the Sierra Gorda project, proportionally to the interest held in the share capital of Sierra Gorda S.C.M. (55%), amounted in 2014 to USD 666 million (PLN 2 336 million at the average exchange rate of the NBP from 31 December 2014), of which KGHM Polska Miedź S.A. provided USD 334 million (PLN 1 171 million at the average exchange rate of the NBP from 31 December 2014), while the remaining amount of USD 332 million (PLN 1 164 million at the average exchange rate of the NBP from 31 December 2014) was provided by KGHM INTERNATIONAL LTD.
Victoria project	The total amount of financing from companies in the KGHM Polska Miedź S.A. Group to meet the needs of the Victoria project amounted to USD 62 million (PLN 217 million at the average exchange rate of the NBP from 31 December 2014), of which USD 23 million (PLN 81 million at the average exchange rate of the NBP from 31 December 2014) was provided by KGHM Polska Miedź S.A., while the remaining amount of USD 39 million (PLN 137 million at the average exchange rate of the NBP from 31 December 2014) was provided by KGHM INTERNATIONAL LTD.

Ajax project	To finance the Ajax project proportionally to the interest held by the KGHM Group in the share capital of KGHM AJAX MINING INC. (80%), KGHM Polska Miedź S.A. provided USD 26.4 million (PLN 80 million at the average exchange rate of the NBP from 31 December 2014).

Purchase of FIZAN certificates and capital increases

With respect to domestic equity investments, KGHM Polska Miedź S.A. invested PLN 27 million on the acquisition of newly-issued shares in the increased share capital of companies in the Group and purchased investment certificates in closed-end investment funds managed by KGHM TFI S.A., which will be used for planned investments.

Dividends received

In 2014, as a result of the allocation of profit from prior years, KGHM Polska Miedź S.A. received dividends in the total amount of PLN 45 million, including PLN 10 million from Group subsidiaries and PLN 35 million from the company TAURON Polska Energia S.A.

Changes in the Group structure

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

KGHM Metraco S.A. with KGHM Ecoren S.A.	combined through the acquisition of KGHM Ecoren S.A. by KGHM Metraco S.A. The company KGHM Metraco S.A. continues the activities previously carried out by KGHM Ecoren S.A.
PHP „MERCUS" sp. z o.o. with „Mercus Software" sp. z o.o.	combined through acquisition by the company PHP „MERCUS" sp. z o.o. of the company „Mercus Software" sp. z o.o. This combination was aimed at terminating the activities of „Mercus Software" sp. z o.o., whose primary domain – providing IT services – was acquired prior to the combination as an organised part of the company by the COPI Division of KGHM Polska Miedź S.A., which provides IT services for the Group.
Centenario Holdings Ltd., Pan de Azucar (BVI) Ltd., Centenario Copper (BVI) Ltd. and Volcanes (BVI) Ltd.	combination of subsidiaries with their registered head offices on the British Virgin Islands belonging to the KGHM INTERNATIONAL LTD. Group, whose activities are not related to the core business operations of KGHM INTERNATIONAL LTD. These companies were acquired by Centenario Holdings Ltd.
NITROERG SERWIS Sp. z o.o. and EXPLO Sp. z o.o. (subsidiaries of NITROERG S.A.)	The acquirer was NITROERG SERWIS Sp. z o.o.

In addition in 2014, as a result of the completion of the liquidation process, two companies were removed from the court register: KGHM Kupferhandelsges.m.b.H.i L. and Ecoren DKE sp. z o.o. in liquidation. Shares were also sold of entities which are immaterial for the Group: Bipromet Ecosystem Sp. z o.o. (47%) and PHU „Mercus Bis" sp. z o.o. (32.3%).

To simplify the structure of the Group, the direct subsidiary KGHM CUPRUM sp. z o.o. – CBR (involved in R&D activities) was divided by separating an organised part of the company, comprising real estate, and transferring it to the newly-created company CUPRUM Development sp. z o.o., all of whose shares were acquired by KGHM Polska Miedź S.A. Ultimately CUPRUM Development sp. z o.o. is to be made a part of a closed-end investment fund of KGHM Polska Miedź S.A. through a newly-created special purpose company CUPRUM Nieruchomości sp. z o.o.

Future equity considerations

Equity investments are based on the Strategy of KGHM Polska Miedź S.A., which includes development of the resource base to increase copper production.

Investments related to resource base development are aimed at acquiring selective exploration projects related with copper and associated metals. The activities of the Group will be focused on advancement of the projects in its portfolio – above all Sierra Gorda (phase II and the oxide project), Victoria and Ajax.

With respect to domestic equity investments involved in resource base development, KGHM Polska Miedź S.A. intends to pursue exploration activities related to the assessment of deposits of potassium-magnesium salt, phosphorous minerals, rock salt and non-ferrous metals in the Zatoka Pucka region. The partners in the project are companies in the Azoty Group.

KGHM Polska Miedź S.A., as one of the largest consumers of electricity in Poland, plans to take an active role in projects in the energy sector which will enable the Company to secure its power needs, reduce its exposure to changes in fuel and electricity prices and reduce the impact of its climate-related obligations. KGHM Polska

Miedź S.A. is participating in the project to prepare for the construction of Poland's first nuclear power plant. The Company's partners in the project are ENEA S.A., PGE Polska Grupa Energetyczna S.A. and TAURON Polska Energia S.A.

Information regarding progress on the above projects may be found in the "Strategy implementation" section.

KGHM Polska Miedź S.A. also provides equity support to Group companies which are closely connected with the core business of KGHM Polska Miedź S.A. This support is focused on maintaining the production capacity and operational stability of KGHM Polska Miedź S.A.

Equity investments will also include the purchase of certificates in closed-end investment funds managed by the company KGHM TFI S.A.

In addition, we will continue actions aimed at optimising the structure of the KGHM Polska Miedź S.A. Group, through the processes of restructuring and divestment.

Related party transactions under other than arm's length conditions

In 2014 subsidiaries of KGHM Polska Miedź S.A. did not enter into related party transactions under other than arm's length conditions.

2.5. Environmental protection

Activities related to environmental protection

KGHM Polska Miedź S.A., as one of the most important and socially responsible companies in Lower Silesia, cannot and does not want to avoid its responsibility for the environment in which it operates. The idea of sustainable growth, and in particular respect for the environment, is an important element of the Company's strategy. The extraction of copper ore, followed by its processing at all stages of production, is inextricably linked to its impact on various aspects of the natural environment. Adherence to strict environmental standards, mandated by law, is possible thanks to the systematic modernisation of installations protecting the environment, both those built in the past as well as new investments in this area. In 2014, the Company spent PLN 601 million on investments related to environmental protection. The largest expenditure, in the amount of PLN 484 million, was incurred on the Pyrometallurgy Modernisation Program at the Głogów smelter/refinery.

In addition, KGHM Polska Miedź S.A. taking into consideration its corporate social responsibility, in the previous year continued a Program to Promote Health and Prevent Environmental Threats. This program is aimed mainly at children from ages 1 to 16 who live in the vicinity of our metallurgical facilities, and was comprised, among others, of blood testing for lead content, trips to „Green schools", pool-related activities and education related to ecology and health. In the past year this program covered 695 children and 75 adults.

In accordance with the agreement on sustainable development signed on 20 May 2013 between the Głogów County (*Powiat Głogowski)* and KGHM Polska Miedź S.A., in 2014 the testing of soil was carried out in the municipalities (*Gmina*) of Jerzmanowa and the rural *Gmina* of Głogów. The testing was carried out by the Regional Chemical-Agricultural Station in Wrocław. A total of 3 345 soil samples were collected over an area of 4 932 ha.

In addition, in 2014 the liming of soil was performed in the municipalities of Kotla and Żukowice based on dosages of CaO/ha, set on the basis of soil testing performed in 2013. A total of 22.5 kt of commercial lime-magnesium were purchased to cover an area of 2 652 ha.

Environmental fees and fines

Total environmental fees paid by the Divisions of KGHM Polska Miedź S.A. in 2014 amounted to PLN 30 million. The amount of fees paid was slightly lower than in 2013, despite the annual increase in environmental fee rates. The fees were lower due to a lower amount of tailings produced at the Legnica smelter/refinery than in the prior year, resulting from the maintenance shut-down at the plant.

In 2014 the highest fees paid by the Company were for the drainoff of excess water from the Żelazny Most waste treatment tailings pond: PLN 19 million. Another item of costs is the fee for emissions into the atmosphere in the amount of PLN 6 million.

Legal aspect and intentions

KGHM Polska Miedź S.A. operates eight installations whose functioning, in accordance with the Act on Environmental Protection, requires integrated permits. These include:

- an installation for the production of metallic copper using shaft furnace and flash furnace technology, an installation for the production of precious metals, an installation for the production of lead and an installation for tailings waste – settling pond unit IV, and other installations at the smelter which do not require integrated permits at the Głogów smelter/refinery,
- an installation titled The Biechów industrial waste storage facility at the Głogów smelter/refinery,
- an installation titled The Biechów II industrial waste storage facility at the Głogów smelter/refinery,
- an installation for the production of refined lead at the Legnica smelter/refinery,
- an installation for the production of metallic copper from copper concentrate and of products recovered from metallurgical and electronic processes, the tailings waste facility „Polowice", a temporary storage facility for lead-bearing concentrates and other installations on the grounds of the Legnica smelter/refinery,
- an installation for the smelting, continuous casting and drawing of copper rod at the Cedynia Wire Rod Division,
- an installation for the storage of tailings from the flotation of copper ore at the Tailings Division, and
- an installation for the neutralisation of sulphuric acid waste at the Concentrators.

The remaining Divisions of the Company possess environmental sector administrative decisions.

In addition, the Głogów and Legnica smelter/refineries and Gas-Steam Blocks have permits to participate in the CO_2 emissions trading system, as since 2013 KGHM Polska Miedź S.A. has been participating in the European Union Emissions Trading System (EU ETS). In 2014, CO_2 emissions from the installations in the ETS system in 2013 were settled. Total CO_2 emissions from these installations, in the amount of 431 thousand tonnes, were covered by freely-acquired rights to generate these emissions.

Due to changes in environmental law introduced in 2014, the Marshal of the Lower Silesia Voivodeship ordered all of the integrated permits issued to KGHM Polska Miedź S.A. to be reviewed. As a result of this review, the Company received decisions which altered the period of validity of the integrated permits to that of an unspecified period.

The most important environmental plans in the near term are as follows:

- continuation of work related to the modernisation of pyrometallurgy at the Głogów smelter/refinery,
- adaptation of administrative decisions held to legal changes,
- overseeing the system for trading CO_2 emissions,
- work related to ensuring the security of the Żelazny Most tailings pond, such as strengthening the containment dam,
- continuation of a program to promote health and prevent environmental threats – aimed at the people living in former protective zones,
- development of the Żelazny Most tailings pond by the so-called southern quarter,

Activities on behalf of meeting REACH requirements

KGHM is a member of six international consortia created to meet the requirements of the European Union's REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) decree. In 2014, 14 updates were made to documentation submitted in 2010. 5 of the documentation updates concerned final substances (copper, silver, lead, sulphuric acid and nickel sulphate) and 9 documentation updates concerned intermediate substances.

Cooperation with the consortia involved:

- updating registration documentation related to changes in the classification of substances, a change in the composition of compound substances, a change in the exposure scenario and to a change in the IUCLID system,
- numerous updates to decrees, guidelines and requirements, and
- the assessment of silver registration documentation conducted by Holland by order of the European Chemicals Agency (ECHA).

In accordance with the REACH decree the deadline for registering substances produced in amounts of less than 100 tonnes per year will expire in May 2018. KGHM has until then to register two more substances: gold and bismuth. The registration documentation for gold is currently being developed by the Precious Metals and Rhenium Consortium of which KGHM is a member. The small amount of bismuth contained in the lead-bismuth alloy will be registered by purchasing registration documentation from the Bismuth Consortium based on a letter of access.

Due to the frequent and numerous updates to REACH requirements, all of the consortiums will continue to function at least to 2018.

2.6. 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 achievement of the business goals. The current, future, actual and potential impact of risk on the Group's activities is assessed. Based on this assessment, management practices are reviewed and adjusted in terms of responses to individual risks.

Under the Corporate Risk Management Policy and Procedure 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 Control and Reporting Unit.

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

Diagram 4. Organisational structure of risk management in KGHM Polska Miedź S.A.

Supervisory Board (Audit Committee)

Performs annual assessment of the effectiveness of the risk management process and monitors the level of key risks and ways to address them.

Management Board

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

1st line of defense

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

Support 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 First 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

Corporate risk – key risks and their mitigation

A Risk Model is used in the process of identifying risk. It is based on the sources of risk and is divided into five categories: Technological, Values chain, Market, External and Internal. Several dozen sub-categories have been identified and defined covering particular areas of the operations or management.

Following are the key risks in KGHM Polska Miedź S.A.

Risk factor	Risk - description	Mitigation
Technology		
	Technological risk related to the mining of deep underground copper ore, under conditions associated with natural hazards.	R&D work and trials of alternate mining methods to currently-used copper ore mining technology, including among others projects involving alternative mining methods: longwall and room-and-pillar systems using mechanical extraction systems. *More in section 2.2. Implementation of Company Strategy in 2014 (Pillar I – Improving productivity)*
	Risk of geological-mining changes in the mines and the associated increase in the calorific value of the copper concentrate produced in the Concentrator plants, resulting in a decrease in the amount of concentrates smelted in the pyrometallurgy process.	Construction of a concentrate roasting installation at the Głogów I smelter, together with an associated infrastructure, is aimed at reducing the calorific value of smelted concentrates by eliminating excess organic elements in the concentrate produced. *More in section 2.2. Implementation of Company Strategy in 2014 (Pillar I – Improving productivity)*
Value chain		
Planning	Risk related to using inappropriate economic parameters related to production, investments, macroeconomics and finance, for preparing forecasts of Company results.	Forecasts related to specific areas of the Company's operations are prepared by appropriate specialised units.
Logistics and supply chain	The risk of restricted access to transportation (railway) infrastructure, due among others to the following: to extreme weather conditions (low temperatures, flooded tracks); strikes by managers of railway infrastructure or carriers; railway infrastructure emergencies which effect the steady flow of resources and materials required in production.	Supply flow management and maintenance of minimum levels of resources and materials inventories required in production. Key railway transportation services are performed by a company from the KGHM Group - Pol-Miedź-Trans Sp. z o.o.
Resources and reserves	Risk related to insufficient knowledge of the parameters and characteristics of a deposit, both for exploration projects (estimated input data for orebody evaluation models), as well as for on-going mining operations.	Additional expenditures on exploratory work to enhance the precision of estimated resources and the level of knowledge of geological-mining conditions, optimisation of the drilling network, geological research, knowledge gained through access drifts, consultations with external experts. *More in section 2.2. Implementation of Company Strategy in 2014 (Pillar II – Resource base development)*
Waste management	Risk of the inability to store mine tailings, e.g.: due to an emergency at the Żelazny Most tailings pond or in the industrial lines used in their transportation.	Operation, construction and development of the tailings pond pursuant to the operating rules. Coopperation with a Team of International Experts (TIE) and the General Designer, introduction of Observation Methods during development recommended by the TIE, based on the evaluation of geotechnical parameters obtained from the results of monitoring performed, which allow conclusions to be made regarding the behavior of the facility.
Availability of materials and utilities	Risk related to the lack of availability of utilities (electricity, gas, water).	Ensure back-up systems for key utilities and on-going evaluation of the security of KGHM's power system. Conduct a variety of investments aimed at strengthening energy security, for exapmple the Gas-Steam Blocks.
Production and infrastructure	Risk related to industrial emergencies resulting in a shut-down of the main production line, both as a result of natural hazards as well as internal factors related to the applied technology.	Operating-Emergency Plans, Reports on Safety, Emergency Prevention Program, Fire Safety Instructions, documents related to preventing workplace explosions. Emergency drills. Cooperation with units of the Emergency Mine-Smelter Rescue Services and with State Fire Fighting Services. The Company undertakes a variety of on-going and systematic actions aimed at the identification, estimation and management of potential events of a *Force Majeure* nature, in accordance with the „Principles for identification of the risk of events of a *Force Majeure* nature and for assuring adequate insurance within the KGHM Polska Miedź S.A. Group"

Efficiency and costs	Risk related to the cost effectiveness of processing copper-bearing materials and cost conditions in the production process, including variable charge material parameters and the risk of significant increases in the prices of materials, services and utilities.	Monitoring trends on the copper-bearing materials market and maintaining costs at the planned levels. Creating multi-year plans and budgets to achieve profitability under the given market conditions. *More in section 2.2. Implementation of Company Strategy in 2014 (Pillar I – Improving productivity)*
Market		
Market Risk	Risk related to volatility in commodity prices (copper, silver and other metals), exchange rates and interest rates.	This risk is actively managed in accordance with the Market Risk Management Policy currently in force in the Company. A basic technique for managing market risk in the Company are hedging strategies utilising derivative instruments. Natural hedging is also applied. *More in section 2.6. Risk Management (Market, credit and liquidity risk)*
Credit Risk	Risk related to the lack of paid receivables by commercial customers and financial institutions.	This risk is actively managed in accordance with the Credit Risk Management Policy currently in force in the Company. The Company limits its exposure to credit risk by evaluating and monitoring the financial condition of its customers, setting credit limits and applying creditor security. *More in section 2.6. Risk Management (Market, credit and liquidity risk)*
Liquidity Risk	Risk related to the loss of liquidity, understood as a loss of the ability to pay liabilities on time and to obtain financing for operations.	This risk is actively managed in accordance with the Financial Liquidity Risk Management Policy currently in force in the Company. *More in section 2.6. Risk Management (Market, credit and liquidity risk)*
Equity investments and divestments	The risk of not receiving the expected return on an equity investment. Risk of loss of Company value, the failure to achieve assumed synergies, the loss of alternative profits, a decrease in the price of shares of listed companies.	The Company maintains on-going analysis of the effectiveness and justification of equity investment plans; feasibility studies of investment projects and on-going monitoring of the value of assets owned. *More in section 2.4. Equity investments*
External		
Administrative proceedings	The risk of restricting or suspending the Company's operations as a result of administrative and/or legal proceedings: administrative decisions not received, withdrawn or which undergo unfavourable changes.	The process of obtaining administrative decisions is conducted with an appropriate level of prudence and care. Deadlines are met. Being proactive (initiating procedures at an early stage and executing decisions with a margin of safety in terms of time). Legal counsel is employed when the Company is engaged in administrative proceedings. Appeals procedures are followed. The opinions of external experts are sought.
Natural hazards	The risk of employees' loss of life or health. Disruptions or restrictions in production as a result of seismic events and associated roof collapses, or destressings of the rock mass and the occurance of uncontrolled rock bursts.	Introduction of a wide variety of technological and organisational solutions and other active and passive methods to prevent roof collapses enabling restriction of the effects of dynamic events (roof collapses or rock mass destressings) in the mines. Preparation of reserve fields, capable of handling limited production. *More in section 1.1. Production processes (Workplace safety)*
	Risk related to gas hazards (methane and hydrogen sulphide).	The risk of gas hazards occuring is being assessed and principles are being developed for working under the risk of such hazards. Individual employee safety measures are applied as well as equipment and means for reducing concentrations of hydrogen sulphides and neutralising oppressive odors.
	Risk related to underground climate risk, which increases in tandem with increasing mine depth.	The construction of additional ventilation shafts, the use of centralised, workplace and individual air cooling systems as well as reduced working time.

Natural environment and climate change	The extraction and processing of copper ore at all stages has an unavoidable impact on various parts of the natural environment. Risk related to pricing and the placing of limits on CO_2 emissions.	Compliance with rigorous environmental standards imposed by law is possible thanks to the systematic modernisation of environmental protection installations, both those built in the past as well as new investments in this regard. A CO_2 Emissions Management Sysytem has been implemented as well as environmental management standards (ISO 14001). *More in section 2.5. Environmental protection*
Law and regulations	The risk of changes in the regulatory environment in areas such as geological-mining law, environmental protection and energy.	On-going monitoring of changes in the regulatory environment in Poland and the European Union as well as active participation in legislative processes. Taking preemptive actions to adapt the Company to organisational, infrastructural and technological changes. *More in section 3.5. Financial performance (Taxation)*
Taxes	The risk of there being no change in the royalty formula (the minerals extraction tax) and the risk of taxation arising from other regulations.	
Internal		
Work Safety	The risk of serious accidents or industrial illnesses caused by improper workplace organisation, the failure to follow procedures or the use of improper safety devices. The risk of temporary work stoppages caused by serious accidents.	Workplace health and safety standards are in force (18001/OHSAS); regular training in workplace health and safety standards, programs to identify potential accidents. *More in section 1.1. Production processes (Workplace safety)*
Information policy	The risk of the unintended disclosure of sensitive or inside information.	Internal procedures for managing inside information, being information of a confidential and secret nature as regards the Company, information security; confidentiality clauses and limits on the number of persons having access to sensitive information.
Global corporation	Risk related to the process of integrating and creating a global organisation, with the potential to cause interruptions in the Company's operations as a result of changes in the structure and business model.	An appropriate governance and management structure, elimination of barriers which might arise, assurance of a mobile and experienced staff for a model international organisation, systematic reviews of the results of integration and the strengthening of changes already introduced. *More in section 2.2. Implementation of Company Strategy in 2014 (Pillar V – Developing organisational know-how and capabilities)*
Stakeholders	The risk of negative ad campaigns and the risk of lack of acceptance by the public, local governments or other stakeholders for the conduct of development and exploration work.	Execution of the CSR Strategy, close cooperation with government bodies; meetings and negotiations with stakeholders, informational campaigns, conferences, publications. *More in section 2.2. Implementation of Company Strategy in 2014 (Pillar IV – Regional support)*
Human resources	The risk of not being able to acquire and keep human resources, for example in order to properly support development projects.	Programs aimed for example at raising the effectiveness of the processes of recruitment, finding successors and maintaining key positions. Employee mobility program. *More in section 1.8. Major Human Resources-related projects*
Security, IT and data protection	The risk of theft of assets of significant value, physical attacks, intentional unauthorised disclosures, unauthorised changes to or destruction of key data and information.	Strict adherance to and application of the principles, among others, of the Information Security Policy and Facility Protection Plans.
Project management	The risk of exceeding project/program budgets and schedules, exceeding defined scopes and failing to meet defined quality parameters as a result of the improper management of portfolios and projects.	Project Management in accordance with the KGHM Step Methodology as well as on-going monitoring and updating of schedules. On-going evaluation of the economic effectiveness of existing and anticipated development projects.

Market, credit and liquidity risk

The management of individual types of market, credit and liquidity risk is the subject of separate individual regulations in KGHM Polska Miedź S.A. and is covered by the following documents:

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

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

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

Market risk management

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

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

Commodity risk, Currency risk	In 2014, the Company was mainly exposed to the risk of changes in the prices of metals it sells: copper and silver. In addition, of major significance for KGHM Polska Miedź S.A. was the risk of changes in currency rates, in particular the USD/PLN exchange rate. In accordance with the Market Risk Management Policy, in 2014 the Company continuously identified and measured market risk related to changes in metals prices and exchange rates. Monitoring the size of market risk in the Company is based on analyses of the impact of market risk factors on the Company's operations (profit, balance sheet, cash flow), among others using the market risk measure Earnings-at-Risk, based on Corporate Metrics methodology. This measure indicates, for a given probability, the bottom level of profit for the period (e.g. with 95% probability, profit for the period in a given year will not be lower than…). EaR methodology allows the calculation of profit for the period reflecting the impact of changes in market prices of copper, silver and exchange rate in the context of planned budgets. The Company in addition continuously analysed the metals and currency markets. These analyses, along with assessment of the Company's internal situation, represented the basis for taking decisions on the appliaction of hedging strategies on the metals and currency markets. In 2014, the Company implemented a strategy hedging the copper price covering a total volume of 11 thousand tonnes with a time horozon falling in the period from August 2014 to June 2015. During this period the Company did not implement any silver price hedging strategies. However, in the first quarter of 2014, 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, which was reflected in revenues from sales in 2014 in the amount of PLN 204 million. In the first quarter of 2014, a restructure was performed of the hedging position on the currency market for 2015. The closure of the position and un-designation of the hedging transactions was reflected in the revaluation reserve from the measurement of financial instruments in the amount of PLN 93 million, which will increase revenues from sales for 2015 regardless of the USD/PLN exchange rate in this period. In addition, in the second half of 2014, planned revenues from sales were hedged with a total notional amount of USD 1 710 million with a time horizon falling in the period from October 2014 to December 2017. The effective strike price for the transaction for 2016 is around USD/PLN 3.25, while for 2017 it is around USD/PLN 3.30. As at 31 December 2014, the Company held an open hedged position on the copper market of 48 thousand tonnes and on the currency market of USD 2 220 million in planned revenues from sales. The total impact of derivatives on Company profit or loss in 2014 amounted to PLN 352 million, of which: – PLN 531 million was recognised in revenues from sales, and – PLN 179 million decreased other operating activities (wherein: the loss from realisation of derivatives amounted to PLN 61 million, and the loss from the measurement of derivatives amounted to PLN 118 million). As at 31 December 2014, the fair value of open positions in derivatives (on the copper and currency markets) amounted to PLN 299 million, while PLN 330 million was recognised in the revaluation reserve from the measurement of financial instruments. With respect to managing currency risk whose source is bank loans, the Company applies natural hedging, based on the drawing of credit in those currencies in which it earns revenues. All liabilities which comprised the balance of bank loans as at 31 December 2014 were drawn in USD, and following their translation to PLN they amounted to PLN 2 108 million.

Interest rate risk	Interest rate risk is the possibility of the negative impact of changes in interest rates on the Company's results. In 2014, the Company was exposed to such risk due to loans granted, free cash invested on deposits, participating in zero-balance cash-pool services and borrowings. As at 31 December 2014, the following positions were exposed to interest rate risk due to the amount of revenues impacted and the amount of interest costs: – intra-Group loans granted with a variable interest rate in the total amount of PLN 35 million, – bank deposits: PLN 308 million, including deposits of the Social Fund and the Mine Closure Fund, – receivables due to participation in a cash pool service: PLN 242 million, – payables due to participation in a cash pool service: PLN 36 million, – payables due to short-term bank loans: PLN 1 050 million (USD 299 million). As at 31 December 2014, the following positions were exposed to interest rate risk due to changes in the measurement of instruments with fixed interest rates: – payables due to loans drawn from the European Investment Bank: PLN 1 058 million (USD 302 million), – intra-Group loans granted to Fermat 1 S.a r.l. and 0929260 B.C. U.L.C in the total amount of PLN 2 011 million (USD 573 million). Holding financial liabilities denominated in USD, based on LIBOR, exposes the Company to the risk of higher interest rates which would result in higher interest costs. As a result, taking into consideration the global exposure of the Company to interest rate risk, in the third quarter of 2014 the Management Board of the Company decided to take advantage of the opportunity to draw loans from the European Investment Bank based on a fixed interest rate.
Price risk related to the purchase of shares of listed companies	Price risk related to the shares of listed companies held by the Company is understood as the change in their fair value due to changes in their quoted share prices. As at 31 December 2014, the carrying amount of shares of companies which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 921 million.

Credit risk management

Credit risk is defined as the risk that counterparties of the Company will not be able to meet their contractual obligations. In 2014, KGHM Polska Miedź S.A. was exposed to this risk, mainly in four areas:

Credit risk related to trade receivables	The Company limits its exposure to credit risk related to trade receivables by evaluating and monitoring the financial standing of its customers, setting credit limits and using debtor security. An inseparable element of the credit risk management process realised by the Company is the on-going monitoring of receivables and the internal reporting system. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are mostly based on prepayments or trade financing instruments which wholly transfer the credit risk to financial institutions. In 2014, the Company secured the majority of its receivables by promissory notes, frozen funds on bank accounts, registered pledges, bank guarantees, corporate guarantees, mortgages, documentary collection and letters of credit. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain. To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, as at 31 December 2014 the Company had secured 95% of its trade receivables (as at 31 December 2013: 74%). The concentration of credit risk in the Company is related to the terms of payment granted to key clients. Consequently, as at 31 December 2014 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 75% of the trade receivables balance (as at 31 December 2013: 64%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as above all due to the hedging used, the level of credit risk is low.

Credit risk related to cash and cash equivalents and bank deposits	The Company periodically allocates free cash in accordance with the requirements to maintain financial liquidity and limit risk and in order to protect capital and maximise interest income. Credit risk related to bank deposits is continuously monitored by the on-going review of the financial standing of those financial institutions with which it cooperates, and by maintaining an appropriately low level of concentration in individual financial institutions.
Credit risk related to derivatives transactions	All of the entities with which the Company enters into derivative transactions operate in the financial sector. These are mainly financial institutions, with the highest and medium-high ratings. According to fair value as at 31 December 2014, the maximum share of a single entity with respect to credit risk arising from open derivative transactions entered into by the Company and from unsettled derivatives amounted to 44%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

Credit risk related to loans granted	As at 31 December 2014, the balance of loans granted by KGHM Polska Miedź S.A. amounted to PLN 2 046 million, of which PLN 2 042 million were long-term loans, and PLN 4 million were short-term loans. The most important items are loans granted to companies of the KGHM Polska Miedź S.A. Group related to mining projects. Credit risk related to the loans granted depends on the risk related to the advancement of projects, and is estimated by the Company to be moderate. To limit risk due to loans granted, the Company continuously monitors the assets and financial results of its borrowers.

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

Financial liquidity risk and management of capital

The Company's management of capital aims at providing both relevant funding capabilities for business development and at securing relevant liquidity.

Financial liquidity management	Financial liquidity is managed in accordance with the Management Board-approved „Financial Liquidity Management Policy". This document describes in a comprehensive manner the process of managing financial liquidity in the Company, indicating best practice procedures and instruments. The basic principles resulting from this document are: – the investment of financial surpluses in safe financial instruments, – limits for individual financial investment categories, – limits for the concentration of resources for financial institutions, – the need for an investment-level rating for banks in which financial surpluses are invested, and – the need to ensure stable and effective financing for the Company's operations. Borrowing by the Company is based on three pillars: – an unsecured, revolving syndicated credit facility in the amount of USD 2 500 million with a maturity of 11 July 2019 (with the option to extend for another 2 years), – an investment loan from the European Investment Bank in the amount of PLN 2 000 million with a financing period of 12 years, and – short-term bilateral bank loans in the amount of up to PLN 3 313 million with availability up to 2 years. These three sources of financing ensure the availability of PLN 14 081 million and fully cover the medium and long-term **liquidity needs** of the Company and Group. In 2014, the Company made use of borrowing which was available from all three of the above pillars. As at 31 December 2014, the Company held liabilities due to short-term bilateral bank loans and an investment loan in the amount of PLN 2 108 million (USD 601 million).
Management of capital	In order to maintain the ability to operate, taking into consideration the execution of planned investments, the Company manages capital so as to be able to generate returns for shareholders and provide benefits for other stakeholders. The Company assumes that the equity ratio shall be maintained at a level of not less than 0.5, and the ratio of Net Debt/EBITDA at a level of up to 2.0.

3. Review of financial performance

3.1. Assets

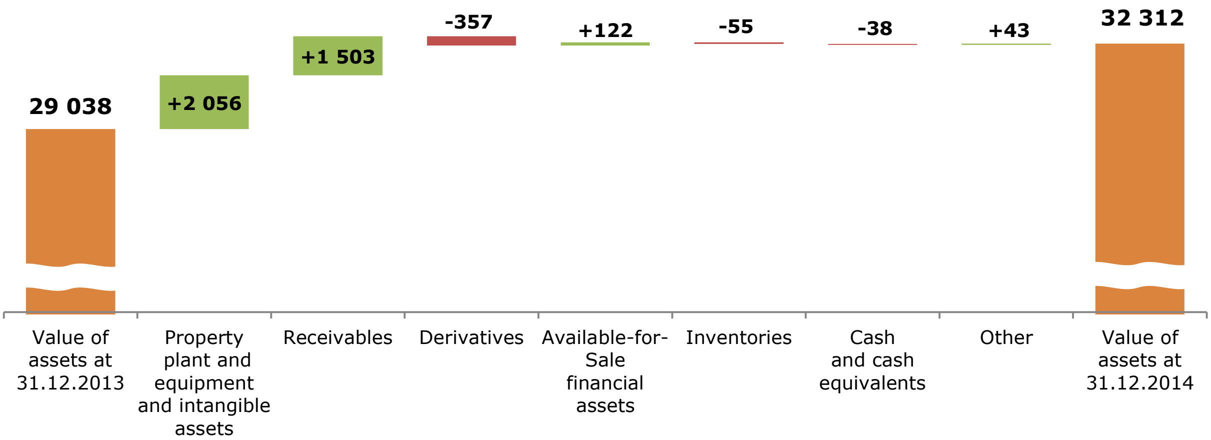
As at 31 December 2014, total assets amounted to PLN 32 312 million, an increase by PLN 3 274 million or by 11% as compared to the end of 2013.

Table 16. Current and non-current assets *(in PLN millions)*

	31.12.2013	31.12.2014	Change 2013=100	*31.03.2014*	*30.06.2014*	*30.09.2014*
Property, plant and equipment and intangible assets	**10 017**	**12 073**	120.5	10 367	10 780	10 260
Shares and investment certificates in subsidiaries and interests in joint ventures	11 777	**11 778**	100.0	11 777	11 779	11 788
Deferred tax asset	98	**111**	113.3	119	131	121
Available-for-sale financial assets	809	**931**	115.1	968	954	990
Financial assets for mine closure and restoration of tailing storage facilities	179	**208**	116.2	205	205	207
Derivatives	814	**457**	56.1	821	541	423
Trade and other receivables	2 789	**4 292**	153.9	2 330	2 987	3 455
Inventories	2 432	**2 377**	97.7	2 879	2 924	2 955
Cash and cash equivalents	123	**85**	69.1	548	325	380
Total assets	**29 038**	**32 312**	111.3	30 014	30 626	31 579

The increase in the value of assets was due to changes in the following items:

Chart 12. Changes in the value of assets in 2014 *(in PLN millions)*



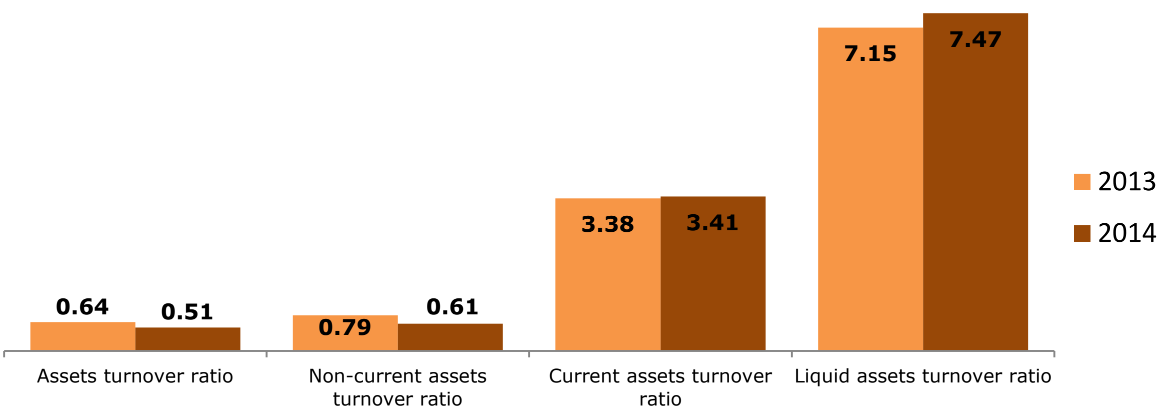
Description of changes in the above items in assets:

Increase	
Property, plant and equipment and intangible assets	The increase by PLN 2 056 million was mainly due to investments – expenditures amounted to PLN 2 416 million. Investment activities are described in detail in Section 2.3
Receivables	The increase in receivables by PLN 1 503 million was mainly due to: – loans granted to subsidiaries - receivables in this regard amounted to PLN 2 046 million as compared to PLN 259 million at the end of 2013, meaning an increase by PLN 1 787 million. These loans are described in detail in sections 2.4 and 3.4, – a decrease in trade receivables by PLN 208 million, – a decrease in non-financial receivables by PLN 166 million, – an increase in other receivables by PLN 90 million, including PLN 97 million in respect of the cash pool.
Available-for-sale financial assets	The increase in available-for-sale financial assets by PLN 122 million was mainly in respect of the partial reversal of a previously-recognised impairment of the value of shares of Tauron Polska Energia S.A. in the amount of PLN 124 million, As at 31 December 2014, the carrying amount of the shares of Tauron Polska Energia S.A. amounted to PLN 920 million (as at 31 December 2013: PLN 796 million).
Other assets	The increase in the value of other assets by PLN 43 million was mainly due to an increase in the value of financial assets for mine closure and the restoration of tailings storage facilities.

Decrease	
Derivatives	The decrease by PLN 357 million was mainly in respect of hedging instruments. Assets in respect of the copper market decreased by PLN 23 million, while assets in respect of the currency market decreased by PLN 334 million.
Inventories	In 2014 there was a slight decrease of 2% in the value of inventories as compared to 2013.
Cash and cash equivalents	In 2014 the Company recorded a decrease in cash and cash equivalents by PLN 38 million, which was mainly due to the higher cash outflows from investment and finance activities (-PLN 4 050 million) than inflows from operating activities (+PLN 4 000 million).

Assets effectiveness ratios were at the same level as recorded in 2013. The slight deterioration in the assets turnover ratio and in the non-current assets turnover ratio was due to the increase in the value of non-current assets (+17%) as a result of investments and loans granted to subsidiaries alongside a decrease in revenues from sales (-10%).

Chart 13. Assets effectiveness ratios



Ratios calculated based on end-of-year balances, pursuant to methodology described in Appendix A.

Cash flow

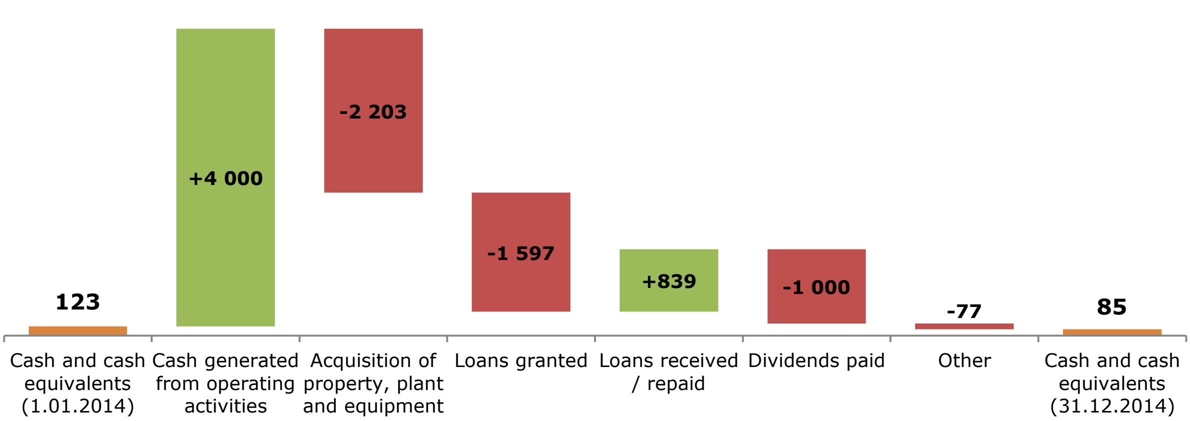
Table 17. Cash flow in 2014 *(in PLN millions)*

	2013	2014	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Profit for the period	**3 058**	**2 414**	*507*	*612*	*629*	*666*
Total adjustments to profit for the period:	2 107	**2 439**	*1 457*	*41*	*204*	*737*
Income tax recognised in profit or loss	1 138	**948**	*205*	*207*	*243*	*293*
Depreciation/amortisation	768	**818**	*206*	*213*	*210*	*189*
Adjustments in respect of derivatives	341	**205**	*395*	*(38)*	*(112)*	*(40)*
Other adjustments	34	**21**	*20*	*(25)*	*16*	*10*
Change in working capital	(174)	**447**	*631*	*(316)*	*(153)*	*285*
Income tax paid	(1 375)	**(853)**	*(283)*	*(124)*	*(223)*	*(223)*
Net cash generated from operating activities	**3 790**	**4 000**	*1 681*	*529*	*610*	*1 180*
Acquisition of property, plant and equipment and intangible assets	(2 174)	**(2 203)**	*(651)*	*(474)*	*(518)*	*(560)*
Loans granted	(239)	**(1 597)**	*(333)*	*(466)*	*(254)*	*(544)*
Other	(134)	**(28)**	*(31)*	*(21)*	*45*	*(21)*
Net cash used in investing activities	**(2 547)**	**(3 828)**	*(1 015)*	*(961)*	*(727)*	*(1 125)*
Proceeds from bank and other loans	1 546	**1 974**	*-*	*205*	*704*	*1 065*
Repayments of bank and other loans	(1 409)	**(1 135)**	*(257)*	*7*	*18*	*(903)*
Dividends paid	(1 960)	**(1 000)**	*-*	*-*	*(500)*	*(500)*
Other	(1)	**(61)**	*(1)*	*(3)*	*(49)*	*(8)*
Net cash used in financing activities	**(1 824)**	**(222)**	*(258)*	*209*	*173*	*(346)*
Total net cash flow	**(581)**	**(50)**	*408*	*(223)*	*56*	*(291)*
Exchange gains/losses on cash and cash equivalents	(3)	**12**	*17*	*-*	*(1)*	*(4)*
Movements in cash and cash equivalents	(584)	**(38)**	*425*	*(223)*	*55*	*(295)*
Cash and cash equivalents at beginning of the period	707	**123**	*123*	*548*	*325*	*380*
Cash and cash equivalents at end of the period	**123**	**85**	*548*	*325*	*380*	*85*

In 2014, the difference between the cash flow from operating activities and the cash flow used in investing activities was PLN 172 million. 59% of the cash flow from operating activities was due to the income tax paid (-PLN 853 million) and the minerals extraction tax (-PLN 1 520 million).

Investing activities were mainly impacted by expenditures on property, plant and equipment and intangible assets (-PLN 2 203 million) and loans granted to related entities for investments in the Group (-PLN 1 597 million). Cash used in financing activities was mainly composed of the higher amount of loans received than loans repaid (PLN 839 million) and the paid dividend (-PLN 1 000 million).

Chart 14. Cash flow in 2014 *(in PLN millions)*



3.2. Equity and liabilities

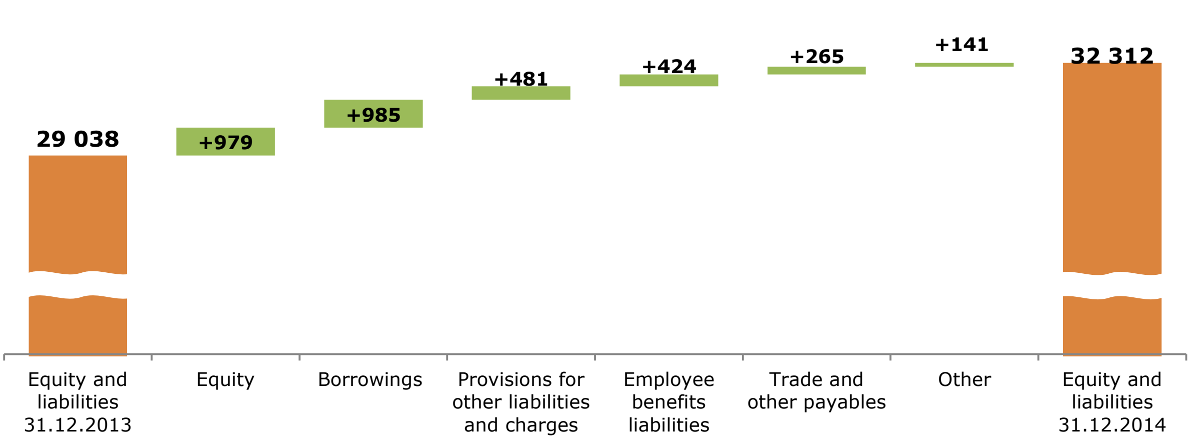
Equity was the basic source for financing assets, while its share in total assets decreased from 80% to 75%.

Table 18. Equity and liabilities *(in PLN millions)*

	31.12.2013	31.12.2014	Change 2013=100	*31.03.2014*	*30.06.2014*	*30.09.2014*
Equity	**23 298**	**24 277**	104.2	*24 012*	*23 296*	*23 808*
Share capital	2 000	**2 000**	100.0	*2 000*	*2 000*	*2 000*
Other capital	400	**(35)**	x	*607*	*279*	*162*
Retained earnings	20 898	**22 312**	106.8	*21 405*	*21 017*	*21 646*
Current and non-current liabilities	**5 740**	**8 035**	140.0	*6 002*	*7 330*	*7 771*
Trade and other payables	2 457	**2 722**	110.8	*2 663*	*3 526*	*3 047*
Borrowings	1 123	**2 108**	187.7	*862*	*1 069*	*1 861*
Derivatives	23	**158**	x 6.9	*338*	*249*	*96*
Current corporate tax liabilities	50	**56**	112.0	*42*	*60*	*43*
Employee benefits liabilities	1 533	**1 956**	127.6	*1 550*	*1 704*	*1 838*
Provisions for other liabilities and charges	554	**1 035**	186.8	*547*	*722*	*886*
Total equity and liabilities	**29 038**	**32 312**	111.3	*30 014*	*30 626*	*31 579*

The increase in equity and liabilities was due to changes in the following:

Chart 15. Change in equity and liabilities in 2014 *(in PLN millions)*

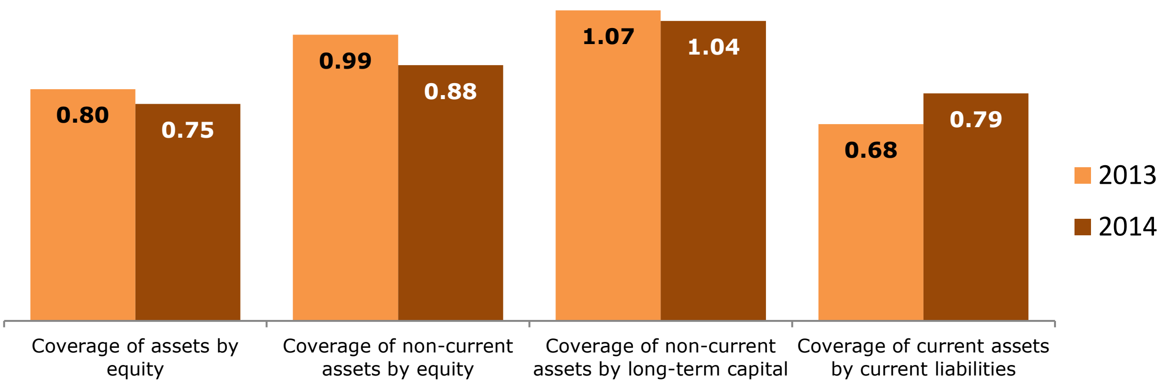


Description of changes in the above items of equity and liabilities:

Equity	The increase in equity by PLN 979 million was due to the following: – profit for 2014 in the amount of PLN 2 414 million – dividend on profit earned in 2013 in the amount of -PLN 1 000 million – other comprehensive income -PLN 435 million
Borrowings	In 2014, the amount of borrowings increased from PLN 1 123 million (USD 373 million) to PLN 2 108 million (USD 601 million). The increase in these liabilities was mainly due to the investment loan instalment from the European Investment Bank, which at the end of 2014 amounted to PLN 1 058 million (USD 302 million). A description of the loan agreements may be found in Section 3.4.
Provisions for other liabilities and charges	The increase in the value of provisions for other liabilities by PLN 481 million was due to the increase in the provision for future mine decommissioning costs by PLN 509 million as a result of a decrease in the nominal discount rate, alongside the use of the provision to cover mine closure costs in the amount of PLN 1 million and the amount of contributions to the funds created for the same purpose as these provisions in the amount of PLN 27 million.
Employee benefits liabilities	The increase by PLN 423 million was mainly due to the coal equivalent liabilities and was mainly due to a decrease in the discount rate. The main actuarial assumptions used to measure liabilities due to future employee benefits are presented in note 19 of the Financial Statements for 2014.
Trade and other payables	The increase in these liabilities by PLN 265 million was mainly due to liabilities due to the purchase and construction of property, plant and equipment and intangible assets (+PLN 160 million) and liabilities due to social taxation and insurance (+PLN 105 million).
Other	The increase in other liabilities by PLN 141 million was related to liabilities due to derivatives (+PLN 135 million) and income tax liabilities (+PLN 6 million). Liabilities related to currency market derivatives increased by PLN 147 million, while those related to copper market derivatives decreased by PLN 12 million.

Assets financing ratios in 2014 as compared to 2013 are shown in the following chart.

Chart 16. Assets financing ratios



Ratios calculated based on year-end balances, in accordance with methodology described in Appendix A.

3.3. Guarantees and collateral

As at 31 December 2014, contingent assets of the Company amounted to PLN 467 million and related mainly to guarantees received (PLN 178 million) and promissory notes receivable (PLN 154 million), to cover potential claims by the Company resulting from the non-execution or improper execution of agreements by contractors. Other contingent assets primarily involve receivables due to inventions and the implementation of projects (PLN 47 million) as well as the real estate tax on mining facilities (PLN 87 million).

Contingent liabilities as at 31 December 2014 amounted to PLN 1 647 million, including PLN 1 420 million which concern guarantees granted, and are described in **note 35** of the financial statements.

3.4. Financial liquidity and net financial debt

Principles of financial resource management

KGHM Polska Miedź S.A. manages its financial resources in accordance with the „Financial Liquidity Management Policy".

Under this Policy, the Company utilises instruments which enhance the effectiveness of the liquidity management process. One of the primary instruments used by the Company is the Cash Pool service, managed both locally and internationally. The Cash Pool service is aimed at optimising the management of cash resources, enabling control of interest costs, the effective financing of current working capital needs and the support of financial liquidity in the Group.

KGHM Polska Miedź S.A. invests periodically free cash in bank accounts. All of the entities in which the Company makes cash deposits operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of renowned international banks with investment-level ratings.

In managing its relations with banks which provide financing and cash management services, the Company only works with financial institutions of a high creditworthiness, a strong market position and which meet capital requirements. This allows the limiting of risk and the rationalisation of bank-related costs while guaranteeing high standards for the banking services provided.

In 2014 the Company began the process of debt consolidation in the Group by acquiring medium- and long-term financing. The consolidation of debt in the Group at the Parent Entity level is the basic tenet of the new financing strategy. This strategy will lead to substantial savings in the costs of servicing Group debt and conforms to best market practice as regards financing in large international groups. In addition, it will enhance the efficiency of liquidity management, simplify the borrowing structure and optimise financial and non-financial covenants in the Group.

The Company's net debt structure (liabilities due to borrowings less cash and cash equivalents) is shown below:

Table 19. Debt structure *(in PLN millions)*

	31.12.2013	31.12.2014	Change 2013=100	*31.03.2014*	*30.06.2014*	*30.09.2014*
Cash and cash equivalents	123	**85**	69.1	*549*	*325*	*380*
Liabilities due to bank loans	1 123	**1 050***	93.5	*862*	*1 069*	*1 861*
Liabilities due to other loans	-	**1 058***	x	-	-	-
Net debt	**1 000**	**2 023**	×2.0	*313*	*744*	*1 481*

** Liabilities due to bank and other loans includes accrued interest due as at the balance sheet date.*

Borrowings

Borrowing by the Company is based on three pillars:

Unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion with maturity of 11 July 2019 (with an option to extend for another 2 years)	On 11 July 2014, the Company signed an agreement for an unsecured, revolving syndicated credit facility in the amount of USD 2.5 billion (PLN 8 768 million, based on the exchange rate from 31 December 2014) with a five-year tenor with the option of extending for another 2 years. The option of extending may be exercised at the request of the Company on the first and second anniversaries of signing the agreement. 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. in the amount of USD 700 million. The consolidation of debt in the Group at the Parent Entity level is the basic tenet of the new financing strategy. This strategy will lead to substantial savings in the costs of servicing Group debt and conforms to best market practice as regards financing in large international groups. In addition, it will enhance the efficiency of liquidity management, simplify the borrowing structure and optimise financial and non-financial covenants in the Group. The Company expects to make gradual use of the loan. 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. Interest on the credit facility is based on LIBOR plus a margin, depending on the net debt/EBITDA ratio. The credit facility agreement obliges the Company to comply with the financial and non-financial covenants standard for this type of transaction. As at 31 December 2014 there were no instances of violation of the covenants stipulated in the aforementioned agreement.
Investment loan from the European Investment Bank for PLN 2.0 billion with a financing period of 12 years	On 1 August 2014, the Company signed an agreement for financing from the European Investment Bank for PLN 2 billion with a maximum repayment period for the instalments drawn of 12 years from the drawing date. The loan is available for a period of 22 months from the date of signing the agreement. Each of these loan instalments may be drawn by the Company in PLN, EUR or USD, with either a fixed or variable interest rate of WIBOR, LIBOR or EURIBOR plus a margin. 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 loan agreement obliges the Company to comply with the financial and non-financial covenants standard for this type of transaction. As at 31 December 2014 there were no instances of violation of the covenants stipulated in the aforementioned agreement.
Short-term bilateral bank loans in the amount of up to PLN 3.3 billion with availability up to 2 years	The Company holds open lines of credit in the form of short-term bilateral agreements in the total amount of PLN 3.3 billion. These are working capital facilities and overdraft facilities with availability up to 2 years. The maturities of these agreement are successively extended for subsequent periods. The funds obtained under these agreements are available in PLN, USD and EUR, with interest based on variable WIBOR, LIBOR and EURIBOR plus a margin. The funds obtained under these agreements are used to finance working capital and are a tool in managing short-term financial liquidity.

These three sources of borrowing ensure the availability of over PLN 14 billion and fully cover the medium and long-term liquidity needs of the Company and Group. In 2014, the Company made use of borrowing which was available from all three of the above pillars.

Debt position as at 31 December 2014

As at 31 December 2014, the Company held open lines of credit and an investment loan with total available borrowing capacity, after translation into the Polish zloty, of PLN 14 081 million, out of which PLN 2 108 million had been drawn. The following table presents a breakdown of these sources of financing.

Table 20. Available financing and loans drawn as at 31 December 2014 *(in PLN millions)*

Type of bank loan	Currency	Amount available	Amount drawn
Working capital facility and overdraft facility	USD, EUR, PLN	3 313	1 050*
Unsecured, revolving syndicated credit facility	USD	8 768	0
Investment loan	USD, EUR, PLN	2 000	1 058*
Total		**14 081**	**2 108**

** Liabilities due to bank and other loans includes accrued interest due as at the balance sheet date.*

As at 31 December 2014, all of the loans drawn, in the amount of PLN 2 108 million, were in USD.

Loans granted

As at 31 December 2014, KGHM Polska Miedź S.A. had granted the following loans to Group companies:

Table 21. Loans granted to Group companies as at 31 December 2014 *(in millions)*

Company	Loan principal	Currency	Interest	Repayment
Energetyka Sp. z o.o.	25.2	PLN	variable	31.12.2019
Zagłębie Lubin S.A.	5.0	PLN	variable	31.12.2022
Zagłębie Lubin S.A.	5.9	PLN	variable	31.12.2026
Fermat 1 S.a r.l.	77.1	USD	fixed	28.02.2018
Fermat 1 S.a r.l.	420.7	USD	fixed	31.12.2024
0929260 B.C. U.L.C	66.0	USD	fixed	31.12.2024

Interest on these loans is based on either a fixed rate or variable WIBOR plus a margin.

Loans granted in 2014

In the third quarter of 2014, KGHM Polska Miedź S.A. granted a loan to Zagłębie Lubin S.A. of PLN 7.5 million to be used for development of the KGHM Zagłębie Football Academy. As at 31 December 2014 the amount of PLN 5.9 million had been drawn.

In 2014, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a r.l. in the total amount of USD 420.7 million (PLN 1 476 million, as at the exchange rate of 31 December 2014) and to the company 0929260 B.C. Unlimited Liability Company in the amount of USD 66 million (PLN 231 million, as at the exchange rate of 31 December 2014). These loans are used to finance the development projects of the KGHM INTERNATIONAL LTD. Group and of KGHM AJAX MINING INC.

Loans granted in prior years

In 2009, KGHM Polska Miedź S.A. granted a loan to Energetyka Sp. z o. o. of PLN 50.3 million. Repayment is in equal quarterly instalments. As at 31 December 2014 the amount outstanding was PLN 25.2 million.

In 2013, KGHM Polska Miedź S.A. granted a loan to Zagłębie Lubin S.A. of PLN 5 million. Repayment will be made in equal quarterly instalments, starting from 31 March 2016. As at 31 December 2014 the amount outstanding was PLN 5 million.

In 2013, KGHM Polska Miedź S.A. granted a loan to Fermat 1 S.a r.l. of USD 71.9 million (or PLN 252 million, as at the exchange rate of 31 December 2014). Repayment is by 28 February 2018. After capitalising the interest as at 31 December 2014 the principal on the loan was USD 77.1 million (or PLN 270 million, as at the exchange rate of 31 December 2014).

Financial guarantees granted and received

As at 31 December 2014, the Company held guarantees granted in the total amount of PLN 1 420 million.

The main elements are:

- a letter of credit in the amount of PLN 482 million granted to secure a contract for the long-term supply of electricity to the JV Sierra Gorda S.C.M.,
- guarantees in the total amount of PLN 341 million granted as additional security for lease liabilities of the JV Sierra Gorda S.C.M.,
- a letter of credit in the amount of PLN 320 million securing future environmental liabilities of the Company related to the obligation to restore land after the conclusion of operations by the Żelazny Most tailings pond,
- a letter of credit in the amount of PLN 272 million securing future environmental liabilities of KGHM INTERNATIONAL LTD. related to the obligation to restore land after the conclusion of operations by the Robinson mine.

Evaluation of the likelihood of achieving investment goals given the resources held, including possible changes in the structure of financing these activities

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

3.5. Financial performance

In 2014, the Company earned a profit in the amount of PLN 2 414 million. The decrease in profit by PLN 644 million or by 21% as compared to profit earned in 2013 was mainly due to market-related factors (metals prices), over which the Company did not have a significant impact.

Table 22. Basic items in the statement of profit or loss *(in PLN millions)*

	2013	2014	Change 2013=100	*IQ'14*	*IIQ'14*	*IIIQ'14*	*IVQ'14*
Sales revenue	18 579	**16 633**	89.5	*3 800*	*3 927*	*4 116*	*4 790*
Total costs of products, merchandise and materials sold	(13 970)	**(13 120)**	93.9	*(3 024)*	*(3 103)*	*(3 214)*	*(3 779)*
Sales revenue minus total costs of products, merchandise and materials sold	**4 609**	**3 513**	76.2	*776*	*824*	*902*	*1 011*
Result on other operating activities, including:	(401)	**32**	x	*(58)*	*4*	*51*	*35*
- Measurement and realisation of derivatives	(377)	**(179)**	47.5	*(70)*	*(34)*	*(5)*	*(70)*
- Balance of interest income and costs*	26	**66**	×2.5	*6*	*16*	*14*	*30*
- Exchange differences	-	**157**	x	*(1)*	*(4)*	*63*	*99*
- Impairment of assets**	(90)	**(32)**	35.6	*(1)*	*-*	*-*	*(32)*
- Dividends	36	**45**	125.0	*-*	*45*	*-*	*-*
- Other	4	**(25)**	x	*8*	*(20)*	*(22)*	*8*
Operating profit (EBIT)	**4 208**	**3 545**	84.2	*718*	*828*	*953*	*1 046*
Net finance costs, including:	(12)	**(183)**	×15.3	*(6)*	*(9)*	*(81)*	*(87)*
- Exchange differences	27	**(124)**	x	*-*	*-*	*(61)*	*(63)*
Profit before taxation	4 196	**3 362**	80.1	*712*	*819*	*872*	*959*
Profit for the period	**3 058**	**2 414**	78.9	*507*	*612*	*629*	*666*
EBITDA (EBIT + depreciation/amortisation)	**4 976**	***4 363***	*87.7*	*924*	*1 041*	*1 163*	*1 235*

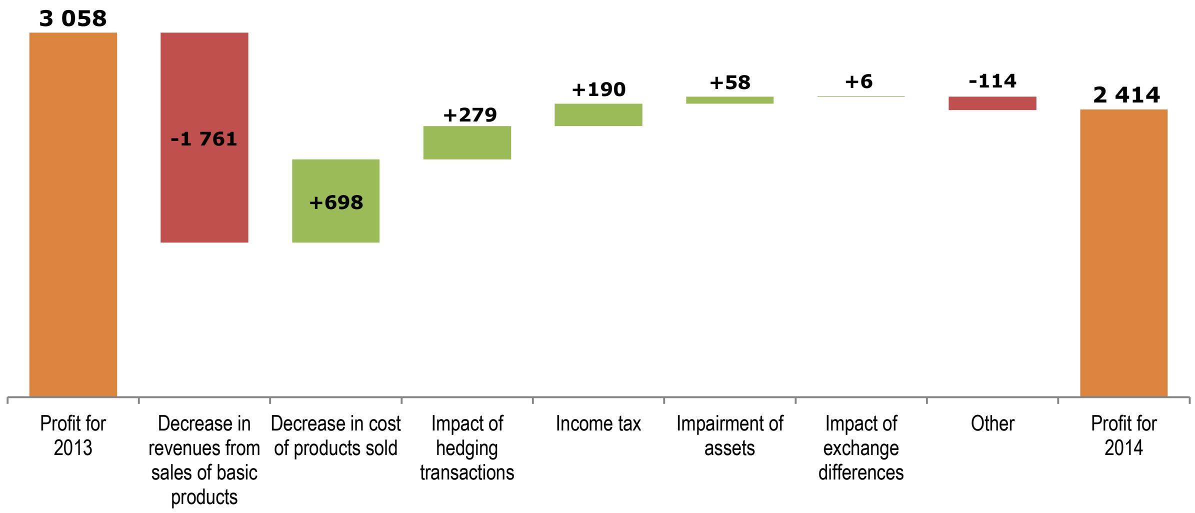
** with respect to interest from financial instruments recognised in other operating activities*
*** with respect to financial assets held for sale and the value of shares in a subsidiary and joint venture*

The main reasons for the change in profit between 2014 and 2013 (- PLN 644 million) are presented below.

Table 23. Main factors impacting profit

Item	Impact on profit (in PLN millions)	Description
Lower revenues from sales of basic products (Cu, Ag, Au) by PLN 1 761 million	-1 446	A lower copper price by 6%, silver by 20% and gold by 10%.
	-273	A decrease in the volume of copper sales by 21.2 kt with higher silver sales by 12 t and gold by 1 473 kg
	-42	A change in the exchange rate from 3.17 USD/PLN to 3.15 USD/PLN (strengthening of the PLN by 1%)
Lower total cost of products sold (cost of products sold, selling costs and admin. expenses) **by PLN 698 million**	+462	The decrease in costs, excluding the minerals extraction tax shown below, was mainly due to lower sales of copper by 21.2 kt alongside slightly higher expenses by nature (excluding the minerals extraction tax) – the increase used to produce copper from purchased copper-bearing materials).
	+236	A decrease in the minerals extraction tax from PLN 1 821 million in 2013 to PLN 1 585 million in 2014, due to lower metals prices
Impact of hedging transactions (+PLN 279 million)	+198	A lower result on other operating activities due to the measurement and realisation of derivatives
	+81	Change in the adjustment to revenues from sales due to hedging
Income tax	+190	The lower tax results from the lower tax base
Impairment loss on financial assets held for sale and the value of shares of a subsidiary and joint venture	+58	In 2014 impairment losses were recognised in the total amount of PLN 32 million (including on the shares of the subsidiary Zagłębie Lubin S.A. in the amount of PLN 15 million and shares of the joint venture Elektrownia Blachownia Nowa, PLN 15 million), while in 2013 impairment losses were recognised in the total amount of PLN 90 million, of which PLN 85 million were in respect of Tauron Polska Energia S.A.
Exchange differences (+PLN 6 million)	+157	Change in the result due to exchange differences in other operating activities
	-151	Result due to net exchange differences arising from sources of financing (presented in finance costs)
Other	-114	Including a decrease in revenues from sales of other products by PLN 112 million (including rock salt by PLN 42 million, rhenium by PLN 25 million and lead by PLN 11 million)

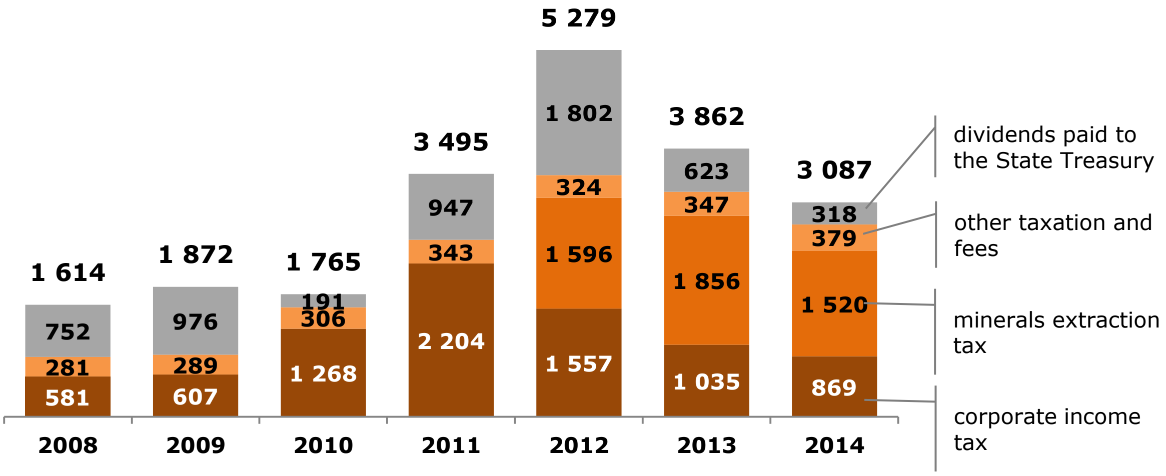
Chart 17. Change in profit *(in PLN millions)*



Taxation, fees and dividends paid to the State Treasury

In 2014, simiarly as in prior years, KGHM was one of the largest taxpayers in Poland, both to the national as well as local governments. The largest elements of these payments were the minerals extraction tax, PLN 1 520 million, and the corporate income tax, PLN 869 million.

Chart 18. Taxation and fees paid to the national and local governments, and dividends paid to the State Treasury *(in PLN millions)*



The effective tax rate incurred by KGHM in 2014 as a result of all forms of taxation was nearly 75%, and was decidedly the highest (by at least 30 percentage points) as compared to the tax rates of other countries with a developed mining sector. The effective tax rate was calculated as the relationship of the discounted value of taxation and fees incurred by the Company to the discounted value of free cash flow prior to the deduction of taxation and fees in the analysed forecast period (2014-2020). To maintain the comparability of the Company's results to its capital expenditures, the value of the free cash flow assumed to calculate the effective tax rate was increased by the amount of expected capital expenditures which do not have a direct impact on the Company's results in the analysed period.

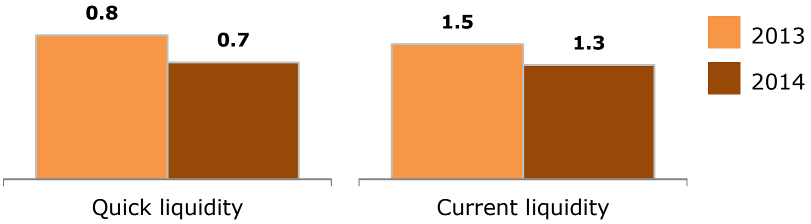
In the opinion of the Company's Management Board, in the long term such a high tax charge will restrict the Company's development possibilities. Therefore, as the Company has consistently indicated, in order for KGHM to function effectively in the international marketplace under conditions comparable to its global peers, in the opinion of the Company's Management Board it is necessary to enact the following changes in the formula for the minerals extraction tax:

- setting a tax level which is comparable to other countries, reflecting the high costs of mining and the investment needs of KGHM in the coming years which are related among others to replacing the resource base;
- a change in the tax formula aimed at eliminating the progressive increase in the tax charge, which leads to lower Company margins when metals prices increase and cost inflation occurs;
- make the minerals extraction tax deductible for corporate income tax purposes, which is standard practice in countries which charge this type of royalty;
- introduce mechanisms which promote the mining of new deposits and resource base development, which is also standard practice in countries which charge this type of royalty; and
- regular monitoring of the impact of the minerals extraction tax.

Financial ratios

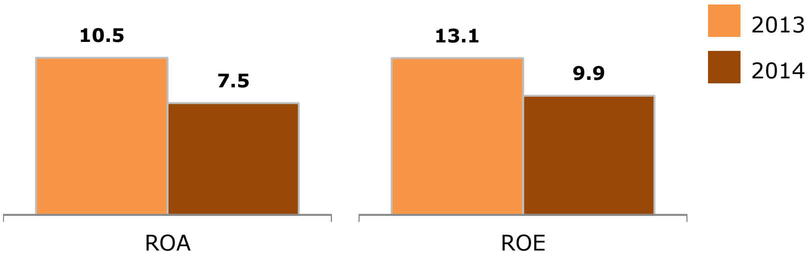
Basic ratios describing financial liquidity, the profitability of assets and equity and financing are shown in the following charts.

Chart 19. Liquidity ratios



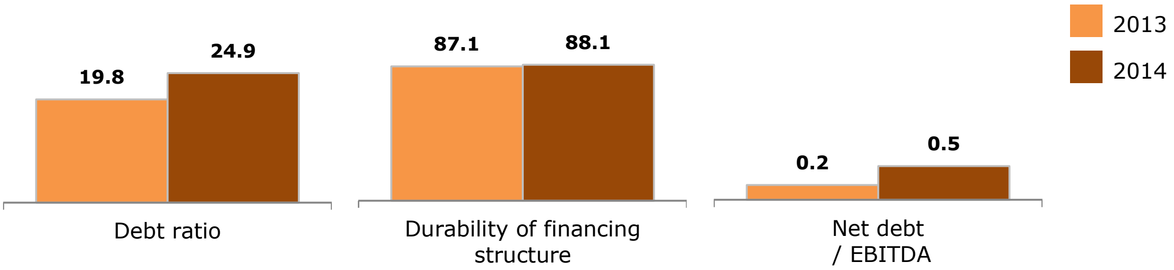
Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The decrease in these ratios as compared to 2013 was mainly due to the decrease in current assets, in particular trade receivables and derivatives. The liquidity ratios are currently at a safe level.

Chart 20. Profitability ratios



The decrease in profit, whose cause was described above, was the main reason for the deterioration in the ratios describing the return on assets (ROA) and the return on equity (ROE).

Chart 21. Financing ratios

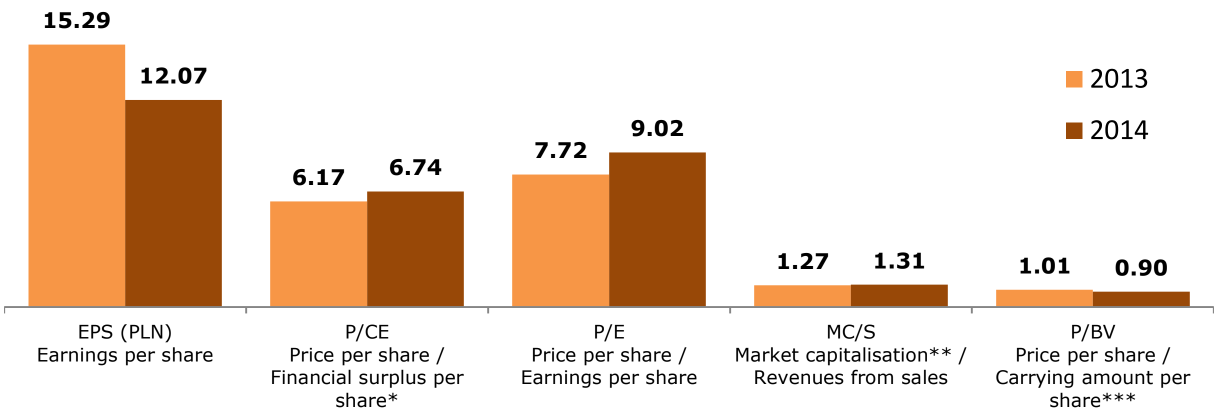


The increase in the debt ratio reflects the increase in the use of leverage. The level of debt remains however substantially lower than the average for the sector. The high and virtually unchanged ratio showing the durability of the financing structure confirms the long-term nature of the Company's borrowing structure.

The ratio Net debt/EBITDA demostrates the sound financial condition of KGHM Polska Miedź S.A. in accordance with the Company's Finacial Liquidity Management Policy, which assumes that this ratio will remain below the level 2.0.

The activities of the Company are described by the following ratios:

Chart 22. Capital market ratios



** Financial surplus = profit for the period + depreciation/amortisation*
*** Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares x PLN 118.00 in 2013; PLN 108.85 in 2014)*
**** Carrying amount (book value) of equity at the end of the reporting period*

The main reasons for the change in the capital market ratios as compared to 2013 were the lower profit for the period earned by the Company and the lower share price of KGHM from PLN 118.00 at the end of 2013 to PLN 108.85 at the end of 2014.

3.6. Operating costs

The Company's operating costs (total cost of sales, selling costs and administrative expenses) in 2014 amounted to PLN 13 120 million and were lower as compared to 2013 by 6% or PLN 850 million. The decrease in costs was mainly due to the lower volume of copper sales by around 21.2 thousand tonnes and to lower expenses by nature.

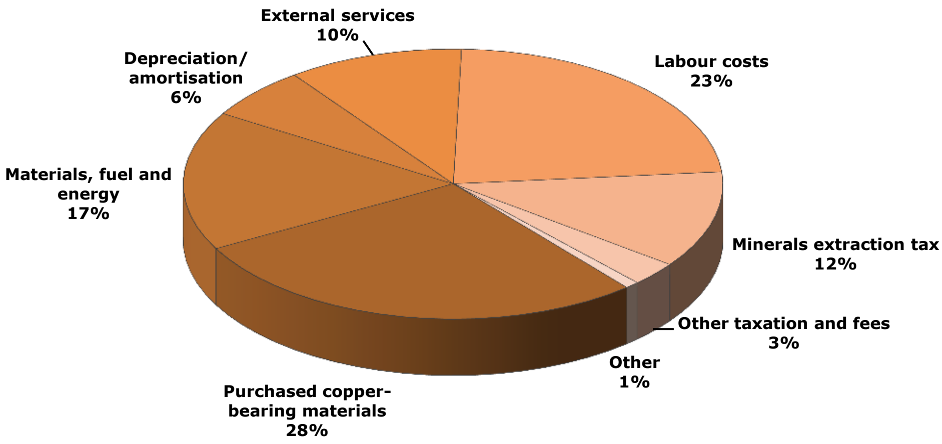
In 2014, total expenses by nature as compared to 2013 were lower by PLN 161 million, or 1%, mainly due to the lower minerals extraction tax (-PLN 336 million) alongside a higher value of purchased copper-bearing materials by PLN 217 million due to the higher volume consumed by 15 thousand tonnes of Cu with a lower purchase price. The total amount of purchased copper-bearing materials consumed was PLN 3 688 million, of which PLN 3 475 million were used to produce electrolytic copper with the rest used to produce wire rod and refined lead.

Expenses by nature, excluding purchased copper-bearing materials and the minerals extraction tax, were lower by PLN 42 million. Expenses by nature were impacted by:

- higher depreciation (+PLN 50 million) due to investments made in 2014,
- higher labour costs (+PLN 76 million) – mainly due to the higher provision for future employee benefits (+PLN 53 million) and a higher contribution to the employee retirement program, with a lower annual bonus expense (in 2013 20%; in 2014 18.5%),
- higher taxation and fees excluding the minerals extraction tax (+PLN 32 million) due to the need to introduce from 1 January 2014 a mining usufruct fee (+PLN 30 million),
- lower external services costs (-PLN 138 million) – mainly due to the lower scope of mine development work (-PLN 115 million) and lower costs of processing external materials, with respect to the costs of recovering rhenium from tailings (-PLN 17 million),
- lower costs of materials used in production, as well as fuels and energy (-PLN 87 million).

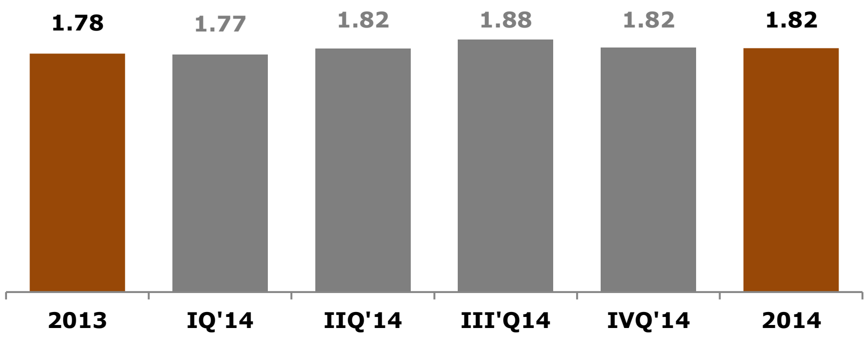
The structure of expenses by nature in 2014 is shown below. As compared to 2013, they were at nearly the same level.

Chart 23. Structure of expenses by nature in 2014



The Company's operating costs are decisively impacted by the costs of electrolytic copper production, whose share is about 93%.

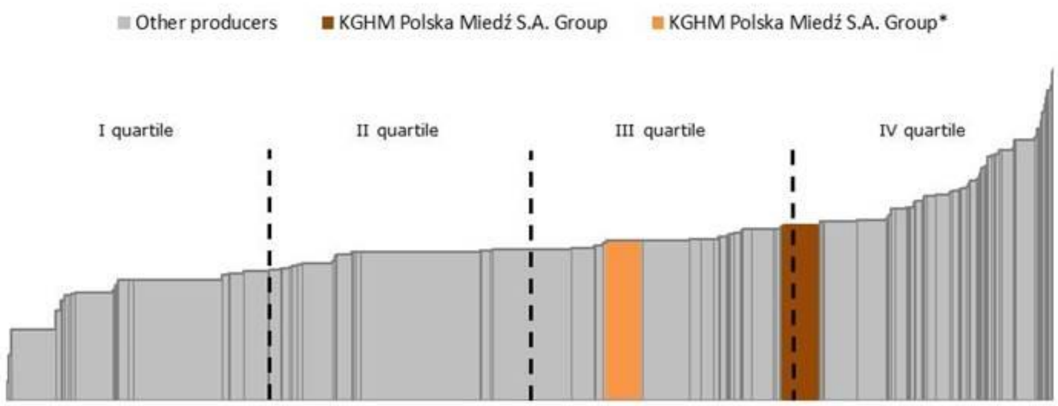
Chart 24. Cost of producing copper in concentrate – C1 *(USD/lb)*



Cost of producing copper in concentrate - 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)* was as follows: in 2013 1.78 USD/lb and in 2014 1.82 USD/lb. C1 cost was negatively impacted by the lower valuation of precious metals (silver and gold) due to lower prices (+0.18 USD/lb). However the increase in the C1 cash cost was limited by the lower amount of minerals extraction tax paid (-0.10 USD/lb) and the lower cost of producing concentrates from ore mined by the Company.

Chart 25. Cost of producing copper in concentrate – C1 vs the sector *(USD/lb)*

Source: Wood Mackenzie



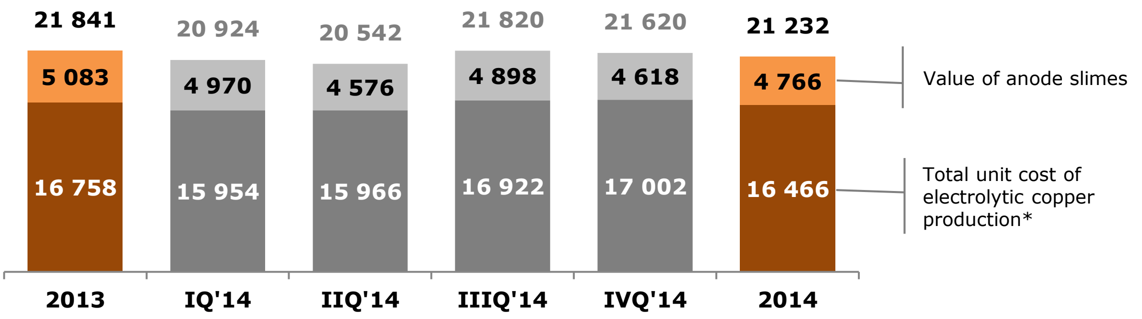
** Estimated position of the KGHM Polska Miedź S.A. Group on the cost curve based on exchange rates from 31 December 2014*

The level of C1 cost in 2014 placed the Company between the third and fourth quartiles on the cost curve (as estimated by Wood Mackenzie). The median C1 cost for the sector – 1.79 USD/lb – was similar to that recorded by the Company, mainly due to the large number of small, high-cost copper producers. The global weighted average C1 cost of paid metal production, amounted to 1.55 USD/lb.

The Company's position on the cost curve was negatively affected by the relatively low USD/PLN exchange rate in the first half of 2014 (this relationship is based on average exchange rates for the entire year and is illustrated by the brown column on the chart above). The weakening of the Polish zloty versus the American dollar in the second half of the year had a positive impact on the Company's competitive cost position. If the position on the cost curve were based on the exchange rates from 31 December 2014, the Company's position would be substantially better.

Another factor with a major negative impact on the competitiveness of KGHM Polska Miedź S.A. is the minerals extraction tax.

Chart 26. Pre-precious metals credit unit cost of electrolytic copper production – total *(PLN/t)*



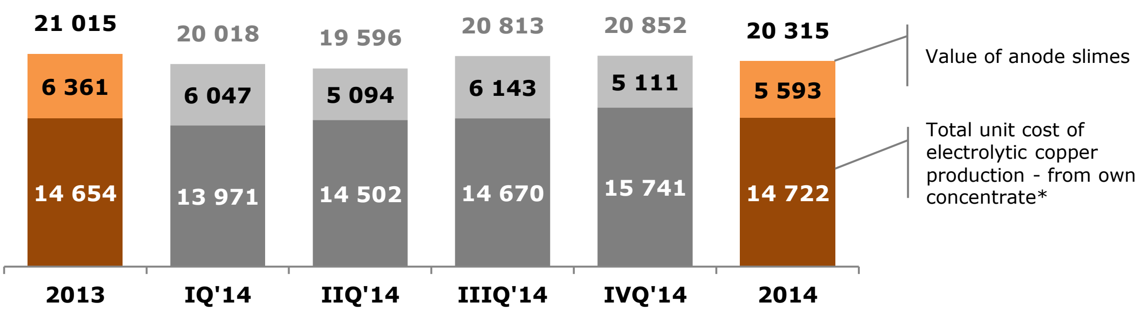
** The change in the methodology of measuring by-products in unit cost is described below*

The pre-precious metals credit unit cost of electrolytic copper production (unit cost prior to decrease by the value of anode slimes containing among others silver and gold) was lower in 2014 as compared to 2013 by 609 PLN/t, or 2.8%, mainly due to a lower minerals extraction tax (-426 PLN/t) with higher use of purchased copper-bearing materials by approx. 15 thousand tonnes of Cu (+397 PLN/t) and higher overall production of electrolytic copper by 12 thousand tonnes of Cu (including copper production from customer-supplied materials of approx. 8 thousand tonnes of Cu).

Taking into account the value of anode slimes, which were lower in value due to the drop in the price of silver by 20% and gold by 10%, the total unit cost of copper production as compared to 2013 amounted to 16 466 PLN/t and was lower by 1.7% (-292 PLN/t).

Since 2014 there has been a change in the method of measuring by-products in the unit cost of electrolytic copper production (total cost and from own mined materials) – analogously to the methodology for C1 cost - the value of Ag and Au is equivalent to the revenues from the sales of these metals (controlling presentation). Until now the measurement included a sales profitability factor (accounting presentation). The data for 2013 is shown under the conditions of 2014.

Chart 27. Pre-precious metals credit unit cost of electrolytic copper production – from own concentrate *(PLN/t)*



** The change in the methodology of measuring by-products in unit cost is described above*

The pre-precious metals credit unit cost of copper production from own concentrate was lower than that recorded in 2013 by 700 PLN/t, or 3.3%, mainly due to the minerals extraction tax (-398 PLN/t) and the lower expenses by nature described above (excluding the value of purchased copper-bearing materials and the provision for future employee benefits) alongside lower production from own concentrate by approx. 10 thousand tonnes, or 2.3%.

3.7. Achievement of 2014 targets and expected 2015 developments

The achievement of planning targets in 2014 and targets for 2015 are shown below:

Table 24. Achievement of 2014 Company targets and targets for 2015

	Unit	Budget 2014	Execution 2014	Execution	Budget 2015	Change 2014=100
Average annual copper price	USD/t	7 100	6 862	96.6	**6 800**	99.1
Average annual silver price	USD/oz t	22.00	19.08	86.7	**18.00**	94.3
Exchange rate	USD/PLN	3.05	3.15	103.3	**3.30**	104.8
Production of copper in concentrate	kt	420.0	421.3	100.3	**421.4**	100.0
Production of silver in concentrate	t	1 112	1 186	106.7	**1 138**	96.0
Electrolytic copper production	kt	567.5	576.9	101.7	**567.5**	98.4
- of which from purchased copper-bearing materials	kt	142.6	156.5	109.7	**152.4**	97.4
Metallic silver production	t	1 140	1 256	110.2	**1 160**	92.4
Sales volume of copper products	kt	562.8	573.3	101.9	**564.7**	98.5
Sales volume of silver products	t	1 115	1 262	113.2	**1 158**	91.8
Pre-precious metals credit unit cost of electrolytic copper production from own concentrate	PLN/t	20 906	20 315	97.2	**21 077**	103.8
Total unit cost of electrolytic copper production from own concentrate	PLN/t	15 435	14 722	95.4	**15 940**	108.3
C1 cash cost of producing copper in concentrate	USD/lb	1.94	1.82	93.8	**1.86**	102.2
Capital expenditures	PLN mn	2 565	2 416	94.2	**2 550**	105.5
Equity investments *	PLN mn	1 686	1 624	96.3	**1 651**	101.7

** Acquisition of shares and investment certificates of subsidiaries and loans granted*

Achievement of 2014 targets

The Company's 2014 production and sales targets were achieved. In the case of silver the targets were substantially exceeded (production higher by 10%, sales by 13%). Thanks to continued cost discipline, the unit costs recorded were better than planned. Planned capital expenditures were also in line with the target for 2014.

The only elements which underperformed were the metals prices. Though these are not under the Company's control, they were to a large extent offset by the more favourable USD/PLN exchange rate.

Expected Company financial situation

In 2015 the Company expects that metals prices will be similar to those recorded last year with a more favourable USD/PLN exchange rate. As a result, we expect copper prices expressed in PLN to be higher than in 2014 by 4%, and silver lower by 1%.

Likewise in terms of production, the Company expects to maintain a similar level of electrolytic copper production achieved in 2014. Only the volume of silver production is expected to be 8% lower than in 2014, mainly due to the lower content of silver in ore. The planned sales volumes are directly linked to production.

The Company expects that the cash cost of producing copper in concentrate (C1) will be higher by 2% and the pre-precious metals credit unit cost of copper production from own concentrate by 4%, as a result of the higher level of expenses by nature (mainly due to higher depreciation and a higher scope of mine development work than in 2014). The higher rate of increase in the total unit cost of electrolytic copper production from own concentrate (8%) is due to the lower amount and lower price of silver, and consequently the lower valuation of anode slimes.

In 2015 the Company plans to continue its investments program in line with the adopted strategy, with planned spending of PLN 4 201 million. The most important projects in the coming year are those described in Section 2: Sierra Gorda, Victoria, the Pyrometallurgy Modernisation Program and the Deposit Access Program (including the Deep Głogów Program).

4. Ownership structure and Company quotations

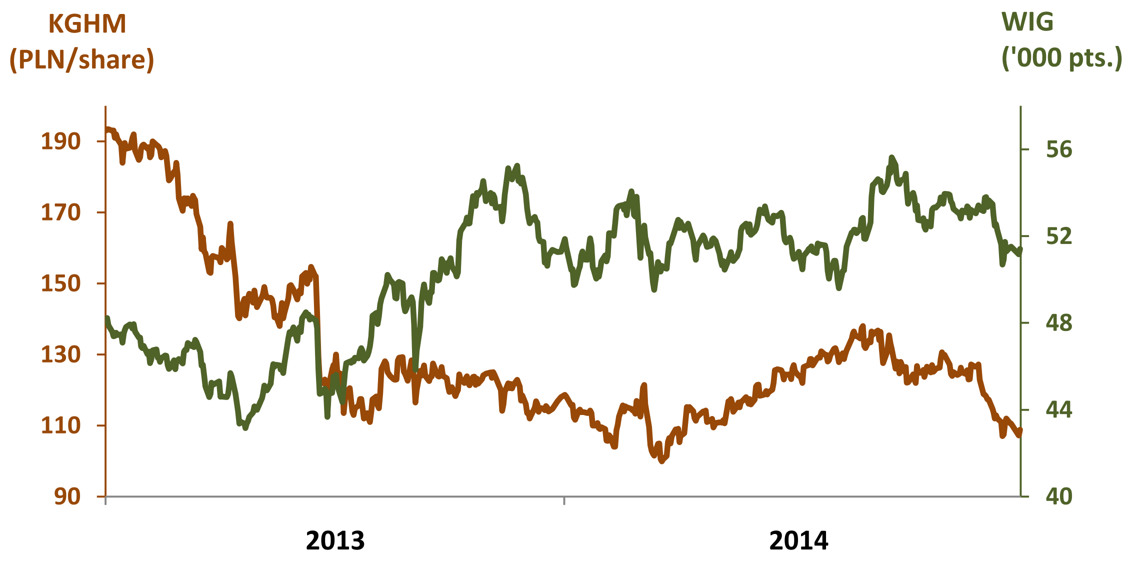
4.1. The Company on the Warsaw Stock Exchange

KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange in July 1997. The Company's shares are traded on the primary market in the continuous trading system and are a component of the WIG, WIG20 and WIG30 indices. Since 2009 the Company has also been amongst the group of socially-responsible companies which comprise the RESPECT Index. The Company's shares are included in the WIG-basic materials ("WIG-SUROWCE") sector index and the Wigdiv index.

In 2014 KGHM's share price decreased by 7.75%, from PLN 118.00 on 30 December 2013 to PLN 108.85 on the last trading day of 2014. During this period the WIG index increased by 0.26%, while the other main indices – WIG20 and WIG30 – decreased by 3.54% and 1.97% respectively.

The Company's shares reached their highest closing price for the year of PLN 138.00 on 27 August 2014. The lowest closing price amounted to PLN 99.90 and was recorded on 20 March 2014.

Chart 28. Share price of KGHM Polska Miedź S.A. versus the WIG Index



Key data on the share performance of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange in the years 2013-2014 are presented in the following table:

Table 25. Key share price data of the Company on the Warsaw Stock Exchange

Symbol: KGH ISIN: PLKGHM000017	Unit	2013	2014
Number of shares issued		**200 000 000**	**200 000 000**
Closing price from the last day of trading in the year	PLN	**118.00**	**108.85**
Market capitalisation of the Company at year's end	bn PLN	**23.6**	**21.8**
Change in share price from the end of the prior year	%	(37.89)	(7.75)
Highest closing price in the year	PLN	193.50	138.00
Lowest closing price in the year	PLN	111.00	99.90
Average trading volume per session	shares	950 299	883 361

4.2. Dividends

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 appropriated from profit for financial year 2013 as a shareholder dividend, amounting to PLN 5.00 per share. The dividend date was set at 8 July 2014 with the dividend being paid in two instalments: 18 August 2014 – PLN 2.50 per share and 18 November 2014 – PLN 2.50 per share.

Table 26. Dividend payouts in 2013 - 2014

	Unit	2013	2014
Dividend paid in the financial year from the appropriation of profit for the previous year	mn PLN	1 960	**1 000**
	PLN/share	9.80	**5.00**
Dividend yield*	%	8.3	**4.6**

** dividend per share paid in the given financial year divided by the closing price in the last trading day in the given financial year*

On 26 January 2015, the Management Board of KGHM Polska Miedź S.A. resolved to adopt a Dividend Policy for KGHM Polska Miedź S.A. The Dividend Policy is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the Company's funds.

The Dividend Policy assumes that the Management Board will recommend allocation of up to one-third of the profit for the period for the previous financial year as a dividend, while taking into account the current and anticipated financial situation of the Company and the Group. In particular, in making its recommendation the Management Board will take into account the Company's anticipated requirements for capital to complete the Company's development program as well as a safe debt level for the Group.

On 16 March 2015, the Management Board of KGHM Polska Miedź S.A. resolved to recommend the payment of a dividend from profit for financial year 2014 in the amount of PLN 800 milion (or PLN 4.00 per share)

In developing this recommendation, the Management Board of KGHM Polska Miedź S.A. took the following into consideration:

- the principles of the adopted Dividend Policy;
- the level of capital expenditures in the Group which must be incurred to meet the targets set forth in the Company Strategy for the years 2015 – 2020; and
- a safe level of debt.

Below are the dates described in the recommendation and related to payment of the dividend from profit for financial year 2014:

- a dividend date (the day on which the right to dividend is set) of 27 May 2015;
- the day on which the first instalment on the dividend is paid in the amount of PLN 2.00 per share of 18 June 2015; and
- the day on which the second instalment on the dividend is paid in the amount of PLN 2.00 per share of 19 October 2015.

The final decision regarding the amount of dividends paid is made by the General Meeting of KGHM Polska Miedź S.A.

4.3. Ownership structure and Company outstanding shares

As at 31 December 2014, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 million and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. Each share grants the right to one vote at the General Meeting. The Company has not issued preference shares.

There was no change in either registered share capital or in the number of issued shares in 2014.

As far as the Management Board is aware, there was also no change in the ownership structure of significant blocks of shares of KGHM Polska Miedź S.A. during the same period. The only shareholder who as at 1 January 2014 as well as at 31 December 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 Company's shareholder structure as at 31 December 2014 and at the date of signing of this report is as follows:

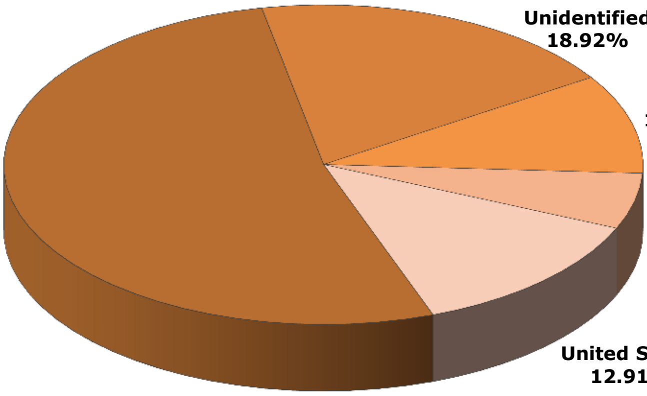
Table 27. Shareholder structure as at 31 December 2014 and at the date of signing of this report

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

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

Other shareholders, whose total ownership of the share capital and share in the total number of votes amounts to 68.21%, are mainly institutional investors, both domestic and international.
Following is the geographic distribution of the Company's shareholder structure. The data is based on research into the Company's shareholder structure performed in the fourth quarter of 2014.

Chart 29. Geographic distribution of the shareholder structure of KGHM Polska Miedź S.A. (%)



52.45% of the shareholders are from Poland, 12.91% are from the USA, and 5.66% are from the United Kingdom. The ownership of 81.08% of the shares issued by the Company were identified in the research.

The Company does not hold any treasury shares.

The Management Board of the Company is unaware of any agreements which could result in changes in the proportion of shares held by present shareholders in the future.

Based on the information held by KGHM Polska Miedź S.A., as at 31 December 2014 and at the date of signing of this report, the following Members of the Management Board of KGHM Polska Miedź S.A. held the Company's shares:

Table 28. KGHM Polska Miedź S.A. shares held by the Members of the Management Board of KGHM Polska Miedź S.A. as at 31 December 2014 and at the date of signing of this report

position /function	name	Shares held as at 31 December 2014	Shares held at the date of signing of this report	Nominal value of shares (PLN)
President of the Management Board	Herbert Wirth	1 900	1 900	19 000
First Vice President of the Management Board	Jarosław Romanowski	1 900	1 900	19 000
Vice President of the Management Board	Marcin Chmielewski	1 993	1 993	19 930
Vice President of the Management Board	Jacek Kardela	1 900	1 900	19 000
Vice President of the Management Board	Wojciech Kędzia*	1 900	-	19 000
Vice President of the Management Board	Mirosław Laskowski**	-	-	-

** submitted his resignation from the function of Vice President of the Management Board, effective as at 31 January 2015*

*** assumed the function of Vice President of the Management Board, effective as at 1 February 2015*

Based on the information held by KGHM Polska Miedź S.A., as at 31 December 2014 and at the date of signing of this report, the following Members of the Supervisory Board of KGHM Polska Miedź S.A. held the Company's shares:

Table 29. KGHM Polska Miedź S.A. shares held by the Members of the Supervisory Board of KGHM Polska Miedź S.A. as at 31 December 2014 and at the date of signing of this report

position /function	name	Number of shares held as at 31 December 2014 and at the date of signing of this report	Nominal value of shares (PLN)
Member of the Supervisory Board	Józef Czyczerski	10	100
Member of the Supervisory Board	Leszek Hajdacki	1	10

Based on information held by KGHM Polska Miedź S.A., Members of the Company's Management Board and Supervisory Board did not hold shares of the related entities of KGHM Polska Miedź S.A.

The Company did not have an employee share incentive program in 2014.

5. Corporate governance statement

In accordance with §91 sec. 5 point 4 of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of recognising information as equivalent as required by the laws of a non-member state and §29 sec. 5 of the Bylaws of the Warsaw Stock Exchange, the Management Board of KGHM Polska Miedź S.A. herein presents the Corporate governance statement in 2014.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, in 2014 was subject to the corporate governance principles described in the document „Code of Best Practice for WSE Listed Companies" (an appendix to Resolution No. 19/1307/2012 of the Warsaw Stock Exchange Supervisory Board dated 21 November 2012). These principles are available at the official website of the Warsaw Stock Exchange devoted to this subject (www.corp-gov.gpw.pl), as well as at the website of KGHM Polska Miedź S.A. under the section devoted to corporate governance: http://kghm.com/en/investors/corporate-governance/governance-compliance.

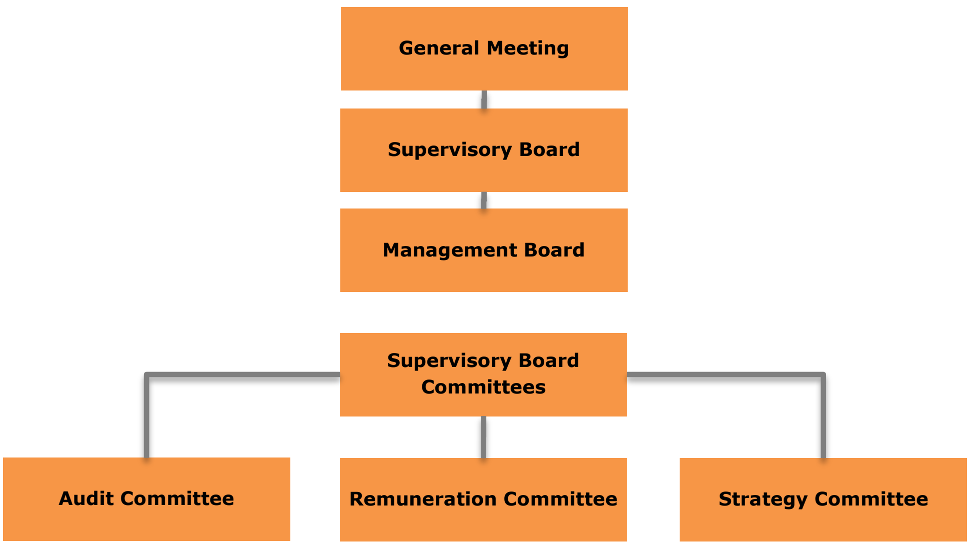
The Company has endeavoured at every stage of its operations to carry out the recommendations and principles respecting best practice for listed companies.

In 2014, KGHM Polska Miedź S.A. did not comply with the recommendation described in chapter I point 12 of the „Code of Best Practice for WSE Listed Companies", regarding providing assurance by the Company that its shareholders will have the possibility to personally, or through a proxy, exercise their voting rights during General Meetings from a location other than that of the Meeting, using electronic means of communication.

The Company also refrained from application of the principle set forth in Section IV point 10 of the „Code of Best Practice for WSE Listed Companies", according to which the Company should provide its shareholders with the possibility to participate in General Meetings using electronic means of communication, based on real-time webcasts of General Meetings as well as real-time bilateral communication, based on which shareholders may take the floor during a General Meeting from a location other than that of the Meeting.

In the Company's opinion, introduction of the possibility of participation in General Meetings using electronic means of communication may carry risks of a legal and technical nature leading to interference with the efficient conduct of General Meetings, and as a result to the possible questioning of any resolutions adopted. In the Company's opinion, current principles of participation in the General Meetings of KGHM Polska Miedź S.A. enable all shareholders to exercise the rights attached to owning the shares and protect the interests of all shareholders. The Company is considering introducing the aforementioned principle and recommendation in situations when their technical and legal aspect no longer raises any doubts, and when such introduction will be justified by a real need for this form of communication with shareholders.

Diagram 5. Corporate governance structure



5.1. General Meeting

The General Meeting of KGHM Polska Miedź S.A. is the Company's highest authority. It meets at least once a year, with any additional meetings in extraordinary form, based on generally prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A. General Meetings are convened by the Company's Management Board. In situations defined by the Commercial Partnerships and Companies Code, General Meetings may be convened by the Supervisory Board or by shareholders. The Statutes of KGHM Polska Miedź S.A. also authorise the Polish State Treasury to convene a General Meeting.

The General Meeting of the Company is convened by an announcement published on the Company website and in the manner set forth in the Act dated 29 July 2005 on public offerings and conditions governing the introduction of financial instruments to organised trading, and on public companies (Journal of laws from 2009, no. 185, item 1439). A General Meeting may adopt resolutions if at least one-fourth of the share capital is represented. Resolutions are usually adopted by a simple majority of votes cast, unless the law or the Company's Statutes state otherwise. The principles for conducting a General Meeting are set forth by the Commercial Partnerships and Companies Code and the Company's Statutes. Additional questions related to the functioning of the General Meeting are regulated by the Bylaws of the General Meeting of KGHM Polska Miedź S.A. adopted by the General Meeting of KGHM Polska Miedź S.A. on 17 May 2010, which are available on the Company's website, www.kghm.com.

The duties of the General Meeting include in particular:

- examining and approving the report of the Management Board on the Company's activity and the financial statements, including the consolidated financial statements of the Company Group, for the prior financial year,
- adopting resolutions on the distribution of profits or coverage of losses,
- acknowledging the fulfilment of duties performed by members of the bodies of the Company,
- changing the subject of the Company's activity,
- changes in the Company Statutes,
- increasing or decreasing the share capital,
- the manner and conditions for retiring shares,
- merging, splitting and transforming the Company,
- dissolving and liquidating the Company,
- issuing convertible bonds or senior bonds,
- consenting to the disposal and lease of an enterprise or of an organised part thereof, as well as the attachment of limited property rights to same,
- all decisions relating to claims for redress of damage suffered during the foundation of the Company, or from management or supervisory activities,
- purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the Company or by related companies for a period of at least three years,
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to exercise their rights.

The introduction of changes to the Company Statutes requires a resolution by the General Meeting and an entry in the National Court Register. Changes in the Company Statutes are made by the General Meeting in accordance with generally prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code, by a majority three-fourths of the votes cast in the presence of persons representing at least half of the share capital.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the Company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and relevant materials for the General Meeting on the Company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

5.2. Shareholders and their rights

The only shareholder of KGHM Polska Miedź S.A. holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting on both 1 January 2014 and 31 December 2014 was the Polish State Treasury.

This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A. and the same numer of votes at the General Meeting, representing 31.79% of the share capital and of the total number of votes.

136 410 100 of the shares and voting rights, i.e. 68.21% of the share capital and of the total number of votes, were held by other institutional and individual shareholders (see also Section 4.3).

Shareholders of the Company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Bylaws of the General Meeting of KGHM Polska Miedź S.A.

Shareholders are entitled to exercise their voting rights either personally or through a proxy. The authority to participate in a General Meeting and to exercise voting rights should be granted in writing or in electronic form.

All of the shares are bearer shares. Each share represents one vote.

There is no limitation to the transfer of ownership rights to the shares of the Company or with respect to the execution of voting rights on the shares of the Company, other than those generally prescribed by laws in force.

The Company has not issued securities which would grant special control rights in respect of the Company.

A shareholder is entitled in particular to the following:

- to convene an Extraordinary General Meeting if the said shareholder represents at least half of the share capital or has been authorised by a court of registration and represents at least one-twentieth of the share capital,
- to announce draft resolutions during a General Meeting which are in regard to matters introduced to the agenda,
- in accordance with the Statutes, the Polish State Treasury as a shareholder may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted,
- to request that a matter included in the agenda be removed or not considered,
- to order the convening of an Extraordinary General Meeting and to include specified matters on the agenda of this General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital,
- to order the inclusion of specified matters on the agenda of the next General Meeting, if the shareholder or shareholders represent at least one-twentieth of the share capital.

Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory authority of KGHM Polska Miedź S.A., in all of the Company's functional areas. At present, the Supervisory Board has 9 members appointed by the General Meeting, and 3 of them were elected by the Company's employees. The members of the Supervisory Board are appointed for a mutual term in the office, which lasts three years. The Supervisory Board selects from among its members a Chairman of the Supervisory Board, his Deputy and a Secretary. The Supervisory Board should meet at least once a quarter. For resolutions of the Supervisory Board to be valid all of the members of the Supervisory Board must be invited to attend and resolutions must be adopted by an absolute majority of votes in the presence of at least one-half of the members.

The duties of the Supervisory Board include in particular the following:

- evaluating the separate and consolidated financial statements and the report of the Management Board on the activity of the Company and the Group for the given financial year,
- evaluating the proposals of the Management Board with respect to the distribution of profits or coverage of losses,
- submitting to the General Meeting an annual written report on the results of the evaluation of the documents referred to in the first two points above,
- submitting to the General Meeting annual requests for granting approval of the Management Board's members with respect to their activities,
- examining and controlling the activity and financial condition of the Company, and submitting to the Ordinary General Meeting an annual, brief assessment of the standing of the Company,
- choosing an auditor to audit the statements referred to in point 1,
- suspending from their duties for important reasons some or all of the members of the Management Board,
- temporarily delegating a member or members of the Supervisory Board to carry out the duties of members of the Management Board who are unable to carry out their duties,
- establishing the remuneration of members of the Management Board, as well as the other conditions of agreements or contracts concluded with them,
- approving the Bylaws of the Management Board of the Company,
- approving the Company's annual and long-term operating plans,
- stating its opinion on any request of the Management Board addressed to the General Meeting,
- at the request of the Management Board, expressing its consent to:
  - the purchase and sale of real estate, of perpetual usufruct or of a stake in real estate (this does not require a resolution of the General Meeting),
  - the granting of guarantees and loans to commercial entities in which the Company owns less than 1/3 of the voting rights at the General Meeting of such entities,
  - establishing and acceding to commercial partnerships and companies,
  - disposing of shares in subsidiaries of the Company,
  - establishing branches, companies, representative offices and other organizational or economic entities abroad,
  - obtaining or acquiring shares of another Company,
  - the establishment and liquidation of foundations,
- appointing and recalling members of the Management Board, with due regard being given to § 12 of the Statutes of the Company,

- expressing an opinion on investments by the Company in fixed assets, which meet one of the following conditions:
  - investments having a value of more than 10% of the budget for expenditures on investments in tangible assets of the Company for a given financial year,
  - investments of more than 5% of the budget for expenditures on investments in tangible assets of the Company for a given financial year, if the investment does not meet the criteria for planned effectiveness in comparison to the accepted rate of return on equity in the Company.

The Supervisory Board operates on the basis of generally prevailing law, the Statutes of the Company and the Bylaws of the Supervisory Board. The Bylaws and Statutes of the Company are available on the Company's website, www.kghm.com.

The composition of the 8th-term Supervisory Board as at 1 January 2014 was as follows:

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

In 2014 the following changes were made to the composition of the Supervisory Board:

- On 23 June 2014, the General Meeting appointed the following persons to the 9th-term Supervisory Board: Tomasz Cyran, Bogusław Fiedor, Andrzej Kidyba, Marcin Moryń, Jacek Poświata and Barbara Wertelecka–Kwater, as well as the following persons elected by the employees of the Company: Józef Czyczerski, Leszek Hajdacki and Bogusław Szarek.
- On 15 July 2014, the Supervisory Board appointed the following members of the Supervisory Board to the positions of Chairman, Deputy Chairman and Secretary:
- Marcin Moryń Chairman
- Tomasz Cyran Deputy Chairman
- Bogusław Szarek Secretary

Following these changes, the composition of the 9th-term Supervisory Board as at 31 December 2014 and at the date of signing of this report was as follows:

- Marcin Moryń Chairman
- Tomasz Cyran Deputy Chairman
- Bogusław Szarek Secretary
- Bogusław Stanisław Fiedor
- Andrzej Kidyba
- Jacek Poświata
- Barbara Wertelecka-Kwater
- Józef Czyczerski
- Leszek Hajdacki

Tomasz Cyran, Bogusław Stanisław Fiedor, Andrzej Kidyba and Jacek Poświata have submitted declarations on the fulfilment of independence criteria described in III. 6 of the „Code of Best Practice for WSE Listed Companies."

Supervisory Board Committees

Though the Board performs its tasks collectively, it delegates some of the work. The persons and committees to whom these tasks are delegated are described below:

The Audit Committee is responsible for supervision in the areas of financial reporting, the internal control system, risk management and internal and external audits.
The Remuneration Committee is responsible for supervising the performance of the duties set forth in the contracts signed with the Management Board, the remuneration system and benefits paid out in the Company and Group, training and other benefits provided by the Company, as well as audits performed by the Supervisory Board in this regard.
The Strategy Committee supervises the realisation of Company strategy, the Company's annual and long-term operating plans, supervising the coherence of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the Company and any changes thereto, as well as on the Company's annual and long-term operating plans.

The detailed rights, scope of activities and manner of work of these Committees are described by bylaws approved by the Supervisory Board.

Audit Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Audit Committee are as follows:

- supervision on behalf of the Supervisory Board of the process of financial reporting in the Company, including the process of reporting to the Supervisory Board,
- analysis and/or evaluation of the accounting principles adopted by the Company,
- review of transactions carried out by the Company which the Audit Committee regards as important,
- analysis and monitoring of the conclusions resulting from control of the risk management processes in the Company,
- conduct of the process of selection of independent auditors to audit the financial statements of the Company in order to recommend the choice made to the Supervisory Board, and participation in the commercial negotiations held prior to the Company's signing of the agreement with the auditor,
- on-going cooperation with the independent auditor of the Company during the audit, analysis and drawing of conclusions from the audit and opinion of the auditor regarding the financial statements, the auditor's letter to the Management Board and/or the Supervisory Board, and the preparation of draft reports and assessments required under the regulations for the Company's bodies or other administrative institutions,
- issuing an opinion on the Company's internal audit plan and on the rules of the internal audit, and on any changes in the position of the internal audit director,
- analysis of the conclusions and recommendations of the Company's internal audit including the monitoring of the degree of implementation of recommendations by the Company's Management Board,
- monitoring of the rules applied in the Company in the areas of accounting, finances and hedging against the trade and financial risks and the risk of exposing the Company to serious harm, and
- other tasks ordered by the Supervisory Board.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board as at 1 January 2014:

- Marek Panfil Committee Chairman
- Krzysztof Kaczmarczyk
- Iwona Zatorska–Pańtak

Following changes in the Supervisory Board, from 15 July 2014 the composition of the Audit Committee was as follows (as at 31 December 2014 and as at the date of signing of this report):

- Bogusław Fiedor Committee Chairman
- Bogusław Szarek Deputy Committee Chairman
- Tomasz Cyran
- Leszek Hajdacki (appointed on 18 December 2014)

Remuneration Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Remuneration Committee are as follows:

- management of the affairs associated with the recruitment and employment of Management Board members by preparing and arranging the draft documents and processes to be submitted for the acceptance by the Supervisory Board,
- preparation of the draft agreements and other model documents in relation to the employment relationship established with the Management Board members and supervision of the execution of contractual obligations of the parties,
- supervision of implementation of the Management Board remuneration system, specifically the preparation of payment documents as regards variable elements and bonus-based remuneration in order to submit recommendations to the Supervisory Board,
- monitoring and periodic analyses of the remuneration system of senior management of the Company and, if necessary, the preparation of recommendations for the Supervisory Board,
- supervision of the proper execution of additional benefits for the Management Board resulting from employment contracts, such as insurance, company cars, apartments, etc., and
- other tasks ordered by the Supervisory Board.

As at 1 January 2014 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:

- Iwona Zatorska – Pańtak Committee Chairwoman
- Krzysztof Kaczmarczyk
- Andrzej Kidyba
- Bogusław Szarek

Following changes in the Supervisory Board, from 15 July 2014 the composition of the Remuneration Committee was as follows (as at 31 December 2014 and as at the date of signing of this report) :

- Tomasz Cyran Committee Chairman
- Leszek Hajdacki Deputy Committee Chairman
- Józef Czyczerski

- Marcin Moryń
- Barbara Wertelecka-Kwater

Strategy Committee

In accordance with the Bylaws of the Supervisory Board the tasks of the Strategy Committee are as follows:

- on behalf of the Company's Supervisory Board, performing tasks related to the supervision of issues associated with the Company's strategy and with the annual and long-term operating plans of the Company,
- monitoring implementation of the Company's strategy by the Management Board and issuing opinions on the degree to which the existing strategy is able to deal with changes in the actual situation,
- monitoring implementation of the Company's annual and long-term operating plans by the Management Board, and assessment of whether these plans need to be modified,
- assessment of the conformity of the annual and long-term operating plans of the Company to the Company's strategy as implemented by the Management Board, and the presentation of any proposed changes in all such Company documents,
- submission to the Company's Supervisory Board of its opinions regarding the draft strategies of the Company and any changes thereto, and regarding the annual and long-term operating plans of the Company as presented by the Company's Management Board, and
- other tasks ordered by the Supervisory Board.

As at 1 January 2014 the following Members of the Supervisory Board served on the Strategy Committee:

- Aleksandra Magaczewska Committee Chairwoman
- Krzysztof Kaczmarczyk Deputy Committee Chairman
- Marek Panfil
- Jacek Poświata
- Bogusław Szarek

Following changes in the Supervisory Board, from 15 July 2014 the composition of the Strategy Committee was as follows (as at 31 December 2014 and as at the date of signing of this report):

- Barbara Wertelecka-Kwater Committee Chairwoman
- Andrzej Kidyba Deputy Committee Chairman
- Józef Czyczerski
- Leszek Hajdacki
- Marcin Moryń
- Jacek Poświata
- Bogusław Szarek

After the end of the year the Audit, Remuneration and Strategy Committees submit a report of their activities to the Supervisory Board.

5.3. Management Board

The duties of the Management Board include all matters pertaining to the functioning of the Company which have not been reserved by the Commercial Partnerships and Companies Code and the Statutes of the Company to the duties of General Meeting and Supervisory Board. The detailed description of the Management Board's scope of duties and obligations and the manner in which it functions may be found in the Bylaws of the Management Board. Currently the Management Board is composed of 5 members, appointed for a mutual mandate. The mandate of the Management Board lasts three years. The number of members of the Management Board is set by the Supervisory Board, which appoints and dismisses the President of the Management Board, and at his request appoints and dismisses the remaining members of the Management Board, including those serving as First Vice President and as the Vice Presidents of the Management Board, with due regard to §12 sec. 5 and sec. 7 to 12 of the Company Statutes, regarding the appointment and dismissal of an employee-elected Member of the Management Board. Members of the Management Board, including any employee-elected Member of the Management Board, may be dismissed by the Supervisory Board prior to the completion of their mandate, which does not impair their rights resulting from employment contracts or other legal relationships involving fulfilling their functions as members of the Management Board. The result of elections for an employee-elected member of the Management Board, or the result of voting in the matter of his dismissal, is binding for the Supervisory Board, if at least 50% of the Company's employees took part in the voting for his election or dismissal. The election and dismissal of an employee-elected Member of the Management Board requires an absolute majority of the votes cast.

The Management Board operates based on generally prevailing law, the Statutes of the Company and the Bylaws of the Management Board of KGHM Polska Miedź S.A. For resolutions of the Management Board to be valid at least two-thirds of the members of the Management Board must be present. Resolutions of the Management Board are usually approved by a simple majority of the votes cast.

In the case of a tie vote being cast for a given resolution either for or against, the President of the Management Board casts the deciding vote.

A detailed list of the matters requiring a resolution of the Management Board is included in the Regulations of the Management Board of KGHM Polska Miedź S.A. approved by the Supervisory Board.

The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. The shares of the Company may be redeemed given shareholder consent through their acquisition by the Company. A resolution of the General Meeting on the redemption of shares may be preceeded by an agreement entered into with a shareholder. In accordance with §29 sec. 1 point 6 of the Statutes of the Company, any increase in share capital or issuance of shares requires the approval of the General Meeting. The same holds true for the issuance of bonds (§29 sec. 1 point 10 of the Statutes of the Company). The Management Board of the Company does not have the authority to increase the share capital or issue the shares of the Company under conditions specified in art. 444-446 of the Commercial Partnerships and Companies Code.

The composition of the 8th-term Management Board and the delegation of duties amongst its Members in 2014 was as follows:

- Herbert Wirth President of the Management Board
- Jarosław Romanowski First 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)

In addition, on 18 December 2014 Wojciech Kędzia submitted his resignation from the function of Member of the Management Board, effective as at 31 January 2015, and on 18 December 2014 the Supervisory Board appointed Mirosław Laskowski as a Member of the Management Board of KGHM Polska Miedź S.A. in the function of Vice President of the Management Board, with an effective date of 1 February 2015.

5.4. Internal control and risk management systems as applied by the Company in the process of preparing separate and consolidated financial statements

The Company's system of internal control and risk management in the process of preparing financial statements is performed in the following manner:

Supervision of the application of uniform accounting principles by the Parent Entity and the companies of the KGHM Polska Miedź S.A. Group during the process of preparing reporting packets to prepare the consolidated financial statements of the KGHM Polska Miedź S.A. Group	In order to ensure truth and accuracy in the keeping of the accounting records of the Parent Entity and the uniformity of the accounting principles applied when preparing the financial statements of Group subsidiaries, the Management Board of the Parent Entity has introduced an Accounting Policy for the Group in accordance with International Financial Reporting Standards approved by the European Union which is regularly updated in compliance with new regulations. Control over the accounting principles applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and of Group subsidiaries is based on the control mechanisms embedded in the functioning of the reporting systems. The reporting packets of subsidiaries are also reviewed by appropriate units in the Parent Entity as well as by an independent auditor during the process of reviewing and auditing the consolidated financial statements of the Group.
Centralisation of financial and accounting services	KGHM Polska Miedź S.A. performs its accounting activities within a centralised financial and accounting services structure. Bookkeeping in the Parent Entity is performed by the Accounting Services Center under the Head Office of KGHM Polska Miedź S.A. The centralisation of accounting services under a model which provides for the transparent breakdown of duties and responsibilities ensures minimisation of the risk of bookkeeping errors and high-quality financial statements. The accuracy and security of the accounting procedures was confirmed by an external audit aimed at „Assessment of the functioning of the financial and accounting control procedures as a result of the centralisation of these processes". Further actions are being taken aimed at optimising the functioning of the accounting services and enhancing the security of the process of bookkeeping accounting services.
Finance and accounting systems	KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control over ledgers: special purpose ledger, general ledger and subledgers. Access to this data at various levels and in various units is available via a well-developed reporting system. The Parent Entity continuously adapts the IT information system to changing accounting principles or other legal standards. The solutions chosen by the Parent Entity are implemented in the systems of Group entities. To ensure the legitimate utilisation and protection of systems, data, secure access to data and computer equipment, appropriate organisational and systemic solutions have been introduced. Access to the resources of the financial and accounting system, as well as accounting during the process of separate and consolidated financial reporting, is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. These entitlements are subject to regular review and audits. As a result of the centralisation of financial and accounting services, an external audit was performed called the „Review of the delegation of responsibilities under the SAP system", which was aimed at eliminating the potential risk of improper delegation of responsibilities and the potential for conflicts between authorised persons. Control over this access is carried out at each stage of financial statements preparation, beginning with the entering of source data, through the processing of data, to the generation of output information. A key element helping to limit the risk of errors and improprieties when accounting for economic activities are the actions taken which are aimed at increasing the use of IT tools to

	automate control over and the settlement of purchases by the Company. These actions include: – on-going expansion of the scope of the Workflow system of electronic document settlement and approval; – implementation of the EDI system for the electronic transmission of data between the system in the Parent Entity and IT systems in Group companies; and – customer settlement based on e-invoices for procurement and sales.
Corporate risk management	Under the Corporate Risk Management Policy and Procedures and the Corporate Risk Committee Rules adopted in 2013, corporate risk management is an on-going process in the KGHM Polska Miedź S.A. Group. Risks associated with the Group's various operations are continuously identified, assessed and analysed in terms of their possible restriction. The Corporate Risk Management and Conformity Department is responsible for coordination of the entire corporate risk management process and for developing the methods and tools used by managers in KGHM Polska Miedź S.A., its subsidiaries and projects. This Department is responsible for risk monitoring and escalation, and for reporting incidents. These activities also comprise risk management with respect to the process of preparing the separate financial statements of the Parent Entity and the consolidated financial statements of the Group.
Internal audit	A fundamental element of risk management with respect to the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A. is the work carried out by the Department of Auditing and Internal Control. Consequently this work indirectly augments the process of preparing financial statements as well as their accuracy. The Department of Auditing and Internal Control carries out its tasks based on the "Integrated Audit Plan of KGHM Polska Miedź S.A. for the years 2011-2015" approved by the Management Board of KGHM Polska Miedź S.A. and the annual „Integrated Audit and Internal Control Plan" for the given calendar year. These documents were developed in conformity with the International Standards for the Professional Practice of Internal Auditing published by the Institute of Internal Auditors and approved by the Supervisory Board. The goal of internal auditing and internal control is to provide the Management Board and Supervisory Board of the Parent Entity with independent and objective information on internal control and risk management systems as well as with analyses of business processes within KGHM Polska Miedź S.A. and Group companies. Apart from internal audit and institutional control, the obligation fully remains in the Parent Entity for each employee to exercise self-control in respect of their duties and for every level of management staff to perform their control as part of the supervisory duties.
External audit	In accordance with prevailing law, KGHM Polska Miedź S.A. submits its separate financial statements and consolidated financial statements to review and auditing by a certified auditor. The Supervisory Board selects the certified auditor through a tender process, based on the recommendations of the Audit Committee and the report on the tender conducted by the Committee. The appropriate entity to audit the separate and consolidated financial statements of KGHM Polska Miedź S.A. for the years 2013-2015 is PricewaterhouseCoopers Sp. z o.o. As part of the audit work performed the certified auditor performs an independent evaluation of the accounting principles applied by Parent Entity in preparing the financial statements and the accuracy and truthfulness of the separate and consolidated financial statements. The effectiveness of the internal control system and the risk management system in the process of preparing the financial statements is regularly confirmed by the unqualified opinions issued by the certified auditor from its audit of the separate and consolidated financial statements of KGHM Polska Miedź S.A.
Supervision over the process of financial reporting	The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of the Parent Entity. The Audit Committee, in accordance with its duties as set forth in the Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision (Journal of Laws 2009.77.649), in particular: – monitors the process of financial reporting in terms of compliance with the Accounting Policy approved by the KGHM Polska Miedź S.A. Group and prevailing laws, – monitors the effectiveness of internal control systems, internal audit and risk management, – monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and – recommends to the Supervisory Board an entity entitled to audit financial statements. Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the truth and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A. Proper management of the process of keeping records and preparing financial statements ensures the security of the data and the high quality of the information provided.

Appendix A: Methodology of calculating ratios used in the report

Assets effectiveness ratios

$$\text{Assets turnover ratio} = \frac{\text{Sales revenue}}{\text{total assets}}$$

$$\text{Non-current assets turnover ratio} = \frac{\text{Sales revenue}}{\text{non-current assets}}$$

$$\text{Current assets turnover ratio} = \frac{\text{Sales revenue}}{\text{current assets}}$$

$$\text{Liquid assets turnover ratio} = \frac{\text{Sales revenue}}{\text{current receivables + cash and cash equivalents}}$$

Assets financing ratios

$$\text{Coverage of assets by equity} = \frac{\text{equity}}{\text{total assets}}$$

$$\text{Coverage of non-current assets by equity} = \frac{\text{equity}}{\text{non-current assets}}$$

$$\text{Coverage of non-current assets by long-term capital} = \frac{\text{equity + non-current liabilities}}{\text{non-current assets}}$$

$$\text{Coverage of current assets by current liabilities} = \frac{\text{current liabilities}}{\text{current assets}}$$

Economic activity ratios

$$\text{Current liquidity} = \frac{\text{current assets}}{\text{current liabilities}}$$

$$\text{Quick liquidity} = \frac{\text{current assets – inventories}}{\text{current liabilities}}$$

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

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

$$\text{Debt ratio} = \frac{\text{total liabilities}}{\text{equity and liabilities}} \times 100$$

$$\text{Durability of financing structure} = \frac{\text{equity + non-current liabilities}}{\text{equity and liabilities}} \times 100$$

Capital market ratios

$$\text{EPS} = \frac{\text{profit for the period}}{\text{number of issued shares}}$$

$$\text{P/CE} = \frac{\text{price per share}}{\text{financial surplus per share *}}$$

$$\text{P/E} = \frac{\text{price per share}}{\text{earnings (profit for the period) per share}}$$

$$\text{MC/S} = \frac{\text{market capitalisation}}{\text{Sales revenue}}$$

$$\text{P/BV} = \frac{\text{price per share}}{\text{book value (carrying amount) per share}}$$

** Financial surplus per share = profit for the period + depreciation/amortisation*

Appendix B: Current reports of the Company published in 2015 – to the date of preparation of the annual report

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

On 26 January 2015 the Company's Supervisory Board approved the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020 with an outlook to 2040 submitted by the Management Board. Adoption of the Strategy is connected with the prior completion of key provisions of the previous Strategy, which was approved on 23 February 2009. Detailed information on the approved Strategy may be found in Section 2.1.

26 January 2015 – Dividend Policy

On 26 January 2015 the Company's Management Board adopted a resolution related to the Dividend Policy for KGHM Polska Miedź S.A. The Dividend Policy of KGHM Polska Miedź S.A. is part of its on-going efforts to ensure a balance between dividends paid out to shareholders and opportunities to efficiently invest the Company's funds. Detailed information on the Dividend Policy may be found in Section 4.2.

4 March 2015 – Change in the publication dates of statutory financial reports

On 4 March 2015 the Management Board of KGHM Polska Miedź S.A. announced a change in the dates of publication of the financial report for the full year 2014 and the consolidated financial report for the full year. These reports will be published on 16 March 2015.

Appendix C: List of tables, diagrams and charts

Tables

Charts

Diagrams

Appendix D: Major events affecting the Company's activities in 2014 *

Date	Description
10.01.2014	Agreement with Grupa Azoty Zakłady Azotowe „Puławy" S.A. and Gdańskie Zakłady Nawozów Fosforowych "Fosfory" Sp. z o.o. assumptions for cooperation regarding exploration for, evaluation and extraction of deposits of potassium salts, phosphorus, rock salt and nonferrous metals as part of a joint venture
16.01.2014	Signing of a Letter of Intent with the company Grupa Azoty S.A.
30.01.2014	Change in a significant contract with Polskie Górnictwo Naftowe i Gazownictwo SA
11.03.2014	Information on the completion of a sea water pipeline for the Sierra Gorda mine
8.04.2014	Information on the completion of pre-stripping at the Sierra Gorda mine
17.04.2014	Information on the start of production from the Deep Głogów deposit below 1200 meters
12.05.2014	Management Board recommendation on payment of dividend
14-15.05.2014	Election by employees of persons to the Supervisory Board of the Company
23.06.2014	Resolution of the Ordinary General Meeting on the appropriation of profit for financial year 2013
23.06.2014	Change in composition of the Company's Supervisory Board
11.07.2014	Syndicated loan agreement
18.07.2014	Conclusion of public consultations regarding development of the Żelazny Most tailings pond
30.07.2014	Start of production by the Sierra Gorda mine in Chile
1.08.2014	Signing of a loan agreement with the European Investment Bank
4.08.2014	Positive judgment by the Supreme Court in Chile regarding environmental permits for the Sierra Gorda project
3.09.2014	Signing of a Shareholders Agreement with respect to the project for preparation and building of a nuclear power plant
1.10.2014	Official inauguration of the Sierra Gorda mine
3.11.2014	Commissioning of the generation of electricity and heat by the gas-steam blocks in the Głogów and Polkowice power plants
25.10.2014	First shipment of copper concentrate from the Sierra Gorda mine
1.12.2014	Contract with Prysmian S.p.A. for the sale of copper wire rod in 2015 and 2016
2.12.2014	Information on the completion of exploration work in the Gaworzyce-Radwanice concession
18.12.2014	Information on changes in the Company's Management Board
29.12.2014	Significant commercial contract with Tele-Fonika Kable S.A.
26.01.2015	Approval by the Supervisory Board of the Strategy of KGHM Polska Miedź S.A. for the years 2015-2020
26.01.2015	Adoption by the Management Board of a Dividend Policy for KGHM Polska Miedź S.A.

** including events following the end of the reporting period – to the date of signing of the annual report*

Appendix E: Useful terms and abbreviations

Barren rock	Rock which accompanies the extraction of mineral ore and, due to its lack of minerals in sufficient quantities, is not considered as useful.
BAT	Best Available Technique, as defined in Directive 96/61/EC, means the most effective and advanced stage in the development of activities and their methods of operation which indicate the practical suitability of particular techniques for providing in principle the basis for emission limit values designed to prevent and, where that is not practicable, generally to reduce emissions and the impact on the environment as a whole.
Copper cathodes	The basic form of electrolytically-refined copper; the product of electrolytic copper refining.
Copper concentrate	The product of enriching or concentrating low-grade copper ore.
Copper equivalent	Total volume of production of all metals translated into copper based on market prices
Copper wire rod	Drawn copper rod, usually with a diameter of 6-12 mm, universally used as a starting material in the cable industry.
Deposit	Natural collection of minerals in the earth, arising as a result of various geological processes.
EBITDA	Earnings before Interest, Taxes, Depreciation and Amortisation.
Electrolytic copper	The product of electrolytic copper refining.
Electrolytic copper refining technology	A process involving the electrolytic refining of metal, in this case copper. The periodic removal of portions of the electrolite is required to maintain the level of contaminates at an acceptable level, which is a deciding factor in the quality of electrolytically-refined copper. The contaminated electrolyte and slimes are used as the raw material in the recovery of some of the metals accompanying the copper, such as silver, gold, selenium and nickel.
Electrorefining	The process of electrolising dissoluble anodes which are produced from refineable alloys. During this process, an electric current is run through a solution (the electrolite) in which the anodes and copper starting sheets are placed side by side. As a result the copper ions migrate to and collect on the copper starting sheets, while the other elements remain in the electrolite in solution or collect on the bottom forming anode slimes, which can be further processed to recover precious metals such as gold and silver.
Flotation (ore enrichment)	A stage in the process of breaking down ore into fragments of varying composition of useful elements which exploits differences in the degree of wettability of individual mineral grains. Well-wetted minerals fall to the bottom of the flotation tank, while the poorly-wetted grains (those whose wettability decreases due to the action of so-called collecting agents, e.g. xanthates) collect at the surface of the froth created from froth-inducing agents.
Flotation tailings	Waste remaining after the ore enrichment process; can be utilised or stored.
ISO	International Organization for Standarization
LTIFR	Lost-time injury frequency rate – number of accidents per million worked hours
Muck	Rock removed from a mine face. Contains both ore and barren rock.
NBP	National Bank of Poland
Net debt	Liabilities due to loans less cash and cash equivalents
OFE rod	Oxygen-free copper wire rod produced at the Cedynia wire rod plant using UPCAST technology
Open-pit	Open area (hole) left after the excavation of soil, rock and ore from the surface of the earth.
Ore	Rock which contains one or more useful elements. Ore can be monometallic (containing a single metal) or polymetallic (containing more than one metal).
Pillar (mining)	An unremoved mass of rock in an underground mine used to support the ceiling against collapse.
REACH	Registration, Evaluation, Authorisation and Restriction of Chemicals – decree issued by the European Parliament and the European Council on the safe use of chemicals through their registration and evaluation, and in certain cases through the issuance of permits and restrictions in the sale and use of certain chemicals
Silver smelting and electrolytic refining technology	Comprised of: batch preparation (the mixture of batch elements followed by drying); the smelting of Doré metal and the casting of anodes (melting of the batch in a Kaldo furnace to remove slag or gasify impurities followed by casting of the product [99% silver] into anodes); silver electrorefining (forming into cathodes containing a min. 99.99% Ag); melting in an electric induction furnace and the casting of refined silver into commercial form (billets or granules).
Troy ounce (oz t)	A unit of measure mainly used in English-speaking countries. The troy ounce (abbreviated as oz t) is universally used in jewellery and precious metals commerce. 1 troy ounce equals 31.1035 grams.
YoY	year on year, i.e. comparison between one year and the next year

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
16 March 2015	Herbert Wirth	President of the Management Board	
16 March 2015	Jarosław Romanowski	First Vice President of the Management Board	
16 March 2015	Marcin Chmielewski	Vice President of the Management Board	
16 March 2015	Jacek Kardela	Vice President of the Management Board	
16 March 2015	Mirosław Laskowski	Vice President of the Management Board	