ANNUAL REPORT 2009

KGHM POLSKA MIEDŹ S.A.

Man amongst
the elements

At the center of the world
of Polish copper
stands man.
Amongst the elements of the earth
with which we grapple and work,
copper and silver are created –
traditional resources of the modern age.

KGHM POLSKA MIEDŹ S.A.

		1997	1998	1999	2000	2001
Income statement						
Sales	m PLN	4 089	3 642	4 113	4 983	4 218
Profit on sales	m PLN	905	240	348	941	173
EBITDA*	m PLN	1 212	631	319	1 198	144
Profit before income tax	m PLN	914	310	–58	795	–147
Profit for the period	m PLN	502	179	–170	618	–190
Balance sheet						
Total assets	m PLN	4 937	4 975	4 884	5 757	7 557
Non-current assets	m PLN	3 558	3 698	3 579	4 177	4 735
Current assets	m PLN	1 364	1 242	1 250	1 381	2 657
Equity	m PLN	4 021	4 096	3 470	4 067	3 696
Liabilities and provisions	m PLN	846	775	1 187	1 380	3 634
Financial ratios						
Earnings per share (EPS)	PLN	2.51	0.89	–0.85	3.09	–0.95
Dividend per share (DPS)**	PLN	0.25	0.10	0.00	1.00	0.00
Price per share/Earnings per share (P/E)		5.4	14.0	–30.8	8.3	–13.7
Current liquidity		2.2	2.3	2.6	2.3	1.0
Quick liquidity		1.0	0.9	1.0	0.9	0.7
Return on assets (ROA)	%	10.2	3.6	–3.5	10.7	–2.5
Return on equity (ROE)	%	12.5	4.4	–4.9	15.2	–5.1
Debt ratio	%	14.2	13.5	14.3	15.9	38.2
Durability of financing structure	%	86.1	87.1	85.7	84.1	63.4
Production results						
Electrolytic copper production	'000 t	440.6	446.8	470.5	486.0	498.5
Metallic silver production	t	1 029	1 098	1 093	1 119	1 163
Macroeconomic data						
Copper prices on LME	USD/t	2 276	1 653	1 574	1 814	1 578
Silver prices on LBM	USD/troz	4.88	5.54	5.23	4.95	4.37
Exchange rate	PLN/USD	3.28	3.49	3.96	4.35	4.10
Other						
Market value of Company shares at end of period	PLN/share	13.50	12.50	26.20	25.80	13.00
Capital expenditure	m PLN	649	487	379	584	433
Equity investments***	m PLN	493	200	229	468	271
Electrolytic copper production cost	PLN/t	5 527	5 556	5 836	6 156	6 328
Electrolytic copper production cost	USD/t	1 685	1 590	1 472	1 417	1 544
Employment						
Mining		14 437	12 389	12 061	11 814	11 734
Smelting		5 485	5 094	4 851	4 820	4 724
Other		785	1 931	1 929	1 928	2 056
Total		20 707	19 414	18 841	18 562	18 514

* operating profit (in the years 1997-2006 profit (loss) before extraorinary items and taxation adjusted by interest cost) + depreciation/amortisation

** dividend for financial year

*** purchase and acquisition of shares

2002	2003	2004	2005	2006	2007	2008	2009	Change 2008=100
4 488	4 741	6 158	8 000	11 670	12 183	11 303	11 061	97.9
152	431	1 445	2 707	4 139	4 880	3 392	3 197	94.3
753	956	1 761	2 937	4 784	5 101	4 078	3 646	89.4
310	569	1 446	2 635	4 380	4 656	3 554	3 067	86.3
255	412	1 397	2 289	3 605	3 799	2 920	2 540	87.0
8 155	8 695	8 948	10 977	12 251	12 424	13 901	13 953	100.4
6 440	6 621	6 552	7 079	7 017	7 431	8 704	9 509	109.2
1 715	2 074	2 397	3 899	5 234	4 992	5 174	4 444	85.9
4 011	4 007	5 337	6 214	8 116	8 966	10 591	10 404	98.2
4 144	4 689	3 612	4 763	4 136	3 458	3 309	3 549	107.3
1.27	2.06	6.99	11.45	18.02	18.99	14.60	12.70	87.0
0.00	0.00	2.00	10.00	16.97	9.00	11.68	3.00	25.7
10.6	12.7	4.5	5.5	4.9	5.6	1.9	8.3	x 4.3
1.2	1.2	1.2	1.4	1.9	2.5	3.1	2.4	77.4
0.6	0.7	0.8	1.0	1.3	1.7	2.2	1.4	63.6
3.1	4.7	15.6	20.9	29.4	30.6	21.0	18.2	86.7
6.3	10.3	26.2	36.8	44.4	42.4	27.6	24.4	88.4
34.2	38.8	24.0	28.2	33.8	27.8	23.8	25.4	106.7
79.0	76.8	75.0	70.6	77.0	83.8	88.0	86.8	98.6
508.7	529.6	550.1	560.3	556.6	533.0	526.8	502.5	95.4
1 192	1 358	1 344	1 244	1 242	1 215	1 193	1 203	100.8
1 558	1 780	2 868	3 684	6 731	7 126	6 952	5 164	74.3
4.60	4.88	6.66	7.31	11.55	13.38	14.99	14.67	97.9
4.08	3.89	3.65	3.23	3.10	2.77	2.41	3.12	129.5
13.50	26.20	31.30	62.50	89.00	105.80	28.12	106.00	x 3.8
360	424	616	651	709	828	1 140	1 070	93.9
105	146	707	613	24	155	793	170	21.4
6 305	6 237	6 660	7 723	10 497	11 160	11 736	11 170	95.2
1 545	1 603	1 825	2 388	3 381	4 031	4 878	3 582	73.4
11 632	11 431	11 533	11 551	11 682	11 998	12 468	12 397	99.4
4 471	4 379	4 037	3 976	4 052	4 044	4 024	3 931	97.7
2 177	2 184	2 197	2 150	2 192	2 217	2 143	2 085	97.3
18 280	17 994	17 767	17 677	17 926	18 259	18 635	18 413	98.8

Contents

Company profile

The world of Polish Copper arose in the very heart of Europe, not quite 50 years after the discovery of a unique deposit of copper ore. Upon it there arose a modern enterprise, today a leader of the global copper and silver markets.

KGHM Polska Miedź S.A.

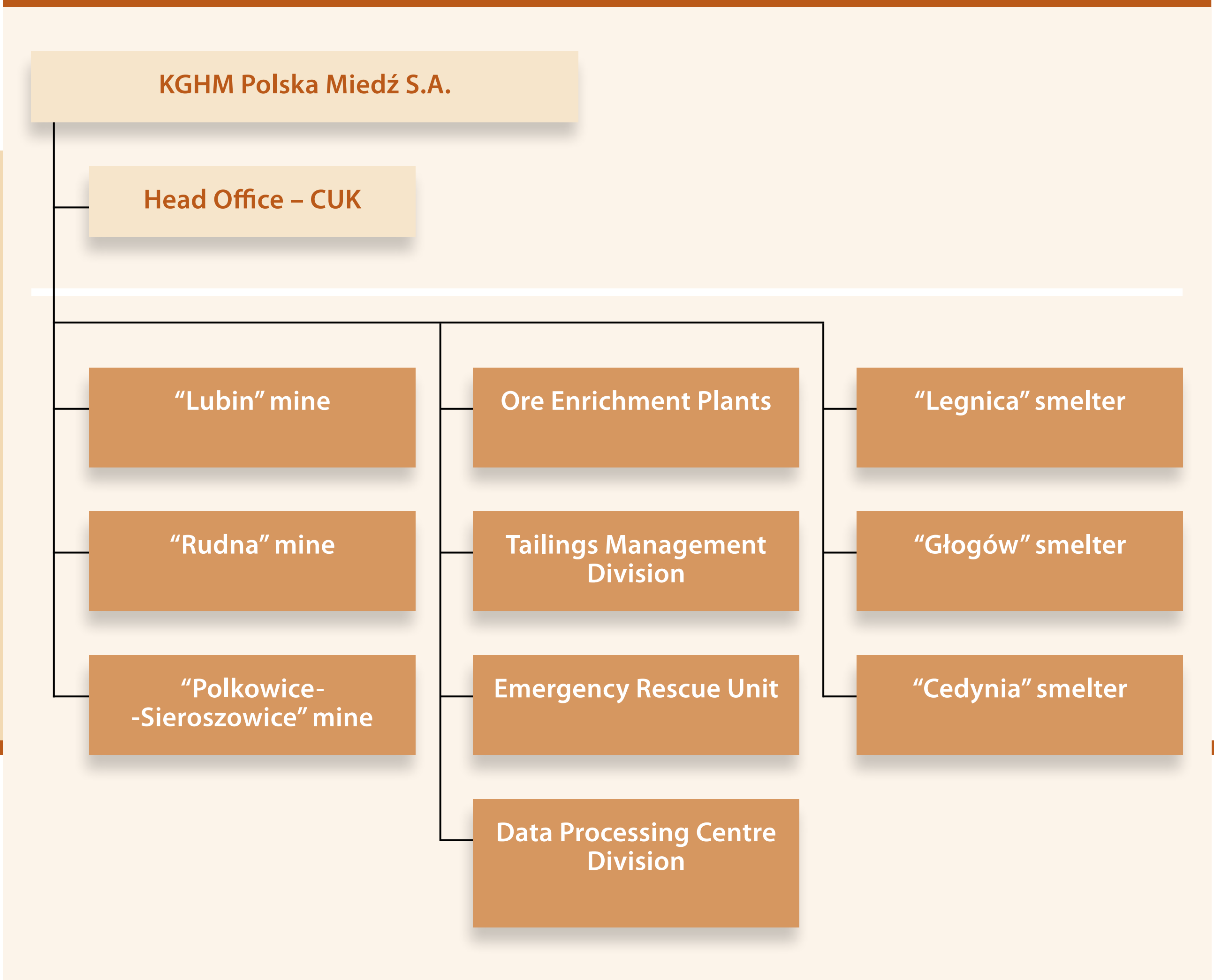
KGHM Polska Miedź S.A. is a company with long-held traditions, a modern vision and one continuously improving its means of production. The core business of KGHM involves:

- copper ore mining;
- copper production; and
- the production of precious metals and other non-ferrous metals.

The Company has its own copper ore deposits and an integrated production structure, composed of three mines, two copper smelters, a wire rod plant, and units supporting the core business.

The modern mining and copper ore processing methods and the modern organisational and management systems applied by the Company result in the environmentally-safe, high-quality production of copper and silver and other raw materials, such as gold, lead and sulphuric acid.

Structure/Divisions



KGHM Polska Miedź S.A. Grup

The scope of activities of the Parent Entity comprises the production of copper, precious metals and other smelter products. The remaining companies of the Group are diversified in terms of the type of activity. They offer products and services related to the core business of KGHM Polska Miedź S.A. (such as mine construction, the production of electrical power and heat, mining machinery and equipment and research and development), as well as services unrelated to the core business of KGHM Polska Miedź S.A., such as telecommunication, transportation, tourism and medicine.

Scope of activities of Group companies

Item	Entity	Type of activity
1.	**KGHM Polska Miedź S.A.**	mining of other non-ferrous metals ore, excavation of salt, production of copper and other non-ferrous metals, production of precious metals, casting of copper and copper alloys and other non-ferrous metals, stamping and roll forming of metal, waste management, wholesale sales of metals, metal ores, chemical products and waste and scrap, and engineering and related technical consulting
2.	**KGHM Ecoren S.A.**	production of ammonium perrhenate and road-building material; sale of raw material for the production of abrasives; the processing and recovery of metals from ore, minerals and industrial waste; galvanisation services
3.	**DIALOG S.A.**	cable and wireless telecom services; re-emission of television channels and rental/leasing of audio-visual content
4.	**PeBeKa S.A.**	mine construction with infrastructure; construction of roadway/railway tunnels, underground metro routes; underground and specialist construction
5.	**"Energetyka" sp. z o.o.**	generation, transmission and distribution of electrical and heating energy, water-sewage management
6.	**POL-MIEDŹ TRANS Sp. z o.o.**	railway cargo transport, passenger and cargo road transport; trade in fuels
7.	**KGHM Metraco S.A.**	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt; expediting services
8.	**PHP „MERCUS" sp. z o.o.**	trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables
9.	**KGHM Kupferhandelsges.m.b.H.**	copper trade
10.	**CBJ sp. z o.o.**	research and chemical-physical analysis; measurement of imissions and emissions; industrial research
11.	**"MCZ" S.A.**	hospital services; physician practice; activities related to protecting human health; occupational medicine

Scope of activities of Group companies – continuation

Item	Entity	Type of activity
12.	**KGHM CUPRUM sp. z o.o. – CBR**	R&D activities; research and technical analysis; technological and construction design; maintaining technical and technological documentation archives; geological-exploratory work and geodesic and cartographic activities
13.	**KGHM LETIA S.A.**	operation of a technology park; promotion of scientific achievement; technology transfer; property sale and leasing/rental
14.	**KGHM TFI S.A.**	creation and management of investment funds; management of portfolios comprising one or more financial instruments
15.	**Zagłębie Lubin S.A.**	management of a football club, organisation of professional sporting events
16.	**TUW-CUPRUM**	mutual insurance services for its members
17.	**PCPM sp. z o.o.**	promoting the development and expanding the use of copper and its alloys – market research, advertising; publishing
18.	**DFM ZANAM-LEGMET Sp. z o.o.**	production of mining machinery and equipment, construction machinery; machinery repairs; steel constructions
19.	**FADROMA S.R. SP. Z O.O.**	production of fittings for construction machinery; servicing of construction and mine loaders; steel constructions
20.	**INOVA Spółka z o.o.**	design and production of telecommunication systems and automated systems, measurement and control systems; lamphouse servicing; design and production of electrical machinery and equipment
21.	**WM "ŁABĘDY" S.A.**	coal and fine coal trading, railway scrap, smelter goods and steel grinding mediums
22.	**Walcownia Metali Nieżelaznych spółka z o.o.**	production of flat goods from copper and its alloys; rolling services
23.	**WFP Hefra SA**	production and sale of rust-proof, semi-silver-plated and silver-plated table settings
24.	**Ecoren DKE sp. z o.o.**	utilisation of used batteries and small-scale storage cells; the collection and processing of used electrical and electronic equipment
25.	**"PETROTEL" sp. z o.o.**	telecom operator
26.	**AVISTA MEDIA sp. z o.o.**	telephone central activities
27.	**INTERFERIE S.A.**	tourism services, including holiday resorts, health spas and hotels
28.	**PHU "Lubinpex" Sp. z o.o.**	food industry, trade, vending and catering services
29.	**"Mercus Software" sp. z o.o.**	implementation of complex IT systems, management and administration of computer networks, sale and servicing of computer equipment and software
30.	**PMT Linie Kolejowe Sp. z o.o.**	management of railway lines, maintenance of railway infrastructure, repair services
31.	**"BIOWIND" Sp. z o.o. ***	generation, transmission and distribution of electricity
32.	**WPEC w Legnicy S.A.**	production of heat from its own sources, transmission and distribution of heat, servicing
33.	**KGHM HMS Bergbau AG.**	exploration and exploitation of deposits of copper and other minerals

* "BIOWIND" Sp. z o.o. has not yet commenced operations within its planned scope

Calendar 2009

FEBRUARY

Strategy of KGHM Polska Miedź S.A.

On 23 February the Supervisory Board approved the "Strategy of KGHM Polska Miedź S.A." for the years 2009–2018". The vision of KGHM is to become a major global copper producer, increasing production of Cu to approx. 700 thousand tonnes.

MARCH

52nd anniversary of the discovery of the copper ore deposit

23 March 2009 marked the 52nd anniversary of the discovery of the copper ore deposit. 52 years ago, dr Jan Wyżykowski discovered the deposit at a depth of 655–658 m. This was the largest success of Polish geologists in the 20th century. On the global scale this is a unique deposit. It contains around 10% of global ore resources. As a result of the work of Polish geologists the Legnica-Głogów Industrial Belt was established, altering the face and living conditions of the region.

Underground laboratory

From 31 March to 1 April a meeting took place between scientists from Finland, France, Spain, Germany, Poland, Rumania, Switzerland, the United Kingdom and Italy who are responsible for the LAGUNA project (Design of a pan – European Infrastructure for Large Apparatus studying Grand Unification and Neutrino Astrophysics). During this meeting discussions were held on the construction of an enormous underground laboratory. One of the seven proposed sites for this venture was KGHM's Polkowice-Sieroszowice mine.

Evacuation of employees of KGHM Congo.

Due to the internal situation in the Democratic Republic of Congo and the possible threat to its employees in this country, the Management Board of KGHM decided to evacuate them to Poland. Three employees of KGHM had been working for KGHM Congo S.P.R.L. as well as one from the company Huta Stalowa Wola. All of them safely returned home.

APRIL

Letter of Intent

On 30 April TAURON Polska Energia SA and KGHM Polska Miedź S.A. signed a letter of intent on cooperation in the construction of a coal-fired power plant on the grounds of Elektrownia Blachownia in Kędzierzyn-Koźle. The companies committed to setting up a working team, whose job will be to prepare a concept of cooperation and a working model for this project.

MAY

Smelters Day

On 8 May the Company held Smelters Day celebrations. These smelter festivities are one of the two most important holidays in KGHM. The smelter festivities are an opportunity to identify and award deserving employees. The host for the festivities was the 30-year-old Cedynia Wire Rod Division.

JUNE

Appointment of Management Board

As a result of the expiration of the term of the Management Board of KGHM Polska Miedź S.A., on 15 June 2009 the Supervisory Board resolved that the subsequent (7th) term Management Board would be composed of two members, as follows: Herbert Wirth – granting him the responsibilities of the President of the Management Board, and Maciej Tybura – granting him the function of Vice President of the Management Board.

Prior to the meeting of the Supervisory Board, President Mirosław Krutin submitted a statement in which he announced that he would not be a candidate for the position of President KGHM Polska Miedź S.A.

On this same day the Supervisory Board approved Regulations regarding the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A. for the 7th term.

JULY

35th anniversary of the Rudna mine

17 July 2009 was the 35th anniversary of the creation of the Rudna Mining Division. The Rudna mine, as the most modern and largest mine in the region, has had a substantial impact on the development of KGHM.

Competition for President of the Management Board

On 20 July the Supervisory Board met with five candidates for President of the Management Board of KGHM Polska Miedź S.A. recommended by the competition committee. Voting was held following the meeting. The majority of votes were cast in favor of Herbert Wirth. President Wirth began his leadership of the company by appointing a Vice President for Production. The head of the Management Board of KGHM Polska Miedź S.A. also announced he would continue the approved Company strategy.

Dividend

On 16 June 2009 the Ordinary General Meeting of KGHM Polska Miedź S.A. decided that the sum of PLN 2.336 billion would be allocated as a shareholder dividend. This resulted in a dividend of PLN 11.68 per share.

Founding of new company

In June 2009 the company KGHM HMS Bergbau AG was founded. Its founder was KGHM Cuprum sp. z o.o. – CBR (a wholly-owned entity of KGHM), which obtained 74.9 percent of the shares, with the remaining 25.1 percent going to HMS Bergbau AG. The new company was founded under German law with its registered head office in Berlin.

AUGUST

Three-person Management Board

On 24 August the Supervisory Board in its meeting decided the Management Board would be composed of three persons. Ryszard Janeczek was also appointed to the Management Board. As 2nd Vice President he will deal with matters related to production.

SEPTEMBER

Medical packet

From the beginning of September, the employees of KGHM have had access to a medical packet provided by the medical entity Miedziowy Centrum Zdrowia. The additional medical care permits among others visits to certain medical specialists without authorisation by the primary care physician.

Success of rescuers

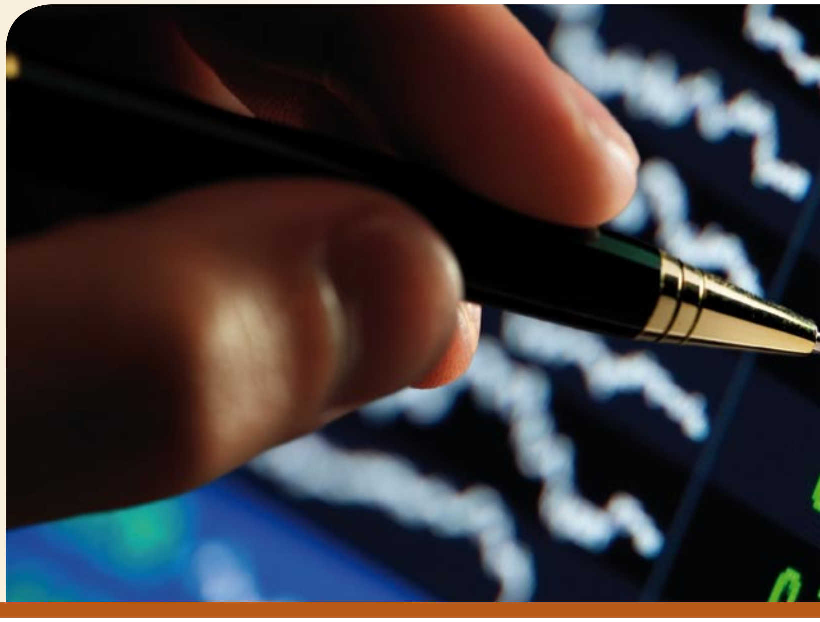
Rescue personnel of KGHM took third place at the 15th Polish Mountain Rescue Tournament. The group from KGHM participated in the non-mountain rescue category.

Certificates for the Legnica smelter

The Legnica smelter received Integrated management System Certificates, confirming that the division meets the standards PN-EN ISDO 9001:2001, PN-EN ISO 14001:2005, PN-EN 18001:2004 and the international specification OHSAS 18001:2007.

International Copper Ore Mining Congress

During the period 24–27 September the International Copper Ore Mining Congress met in Lubin. This was the first such congress in Poland. 350 scientists and specialists from the mining sector from around the world took part.



EU funds for KGHM

A turning point was reached with regard to the mining of thin deposit seams. KGHM received nearly PLN 40 million in EU funds. The project to develop technology for the mechanical mining of rock was among 206 recommended for financing by the Polish Agency for Enterprise Development.

OCTOBER

Procurement Manager of 2009

Artur Król, the Executive Director of the Central Procurement Office in KGHM, was awarded the title Procurement Manager of 2009 for the project "Reorganisation of Procurement in the KGHM Polska Miedź S.A. Group" This award was granted during the POLZAK 5th Procurement Forum.

NOVEMBER

Underground record

On 19 November an unusual record was achieved in the Rudna mine. At the depth of 1234 meters, commemorative coins of copper, silver and gold were minted to celebrate the 35th anniversary of the Mine Rescue Station.

RESPECT Index

KGHM Polska Miedź S.A. was among a select group of 16 listed companies forming the RESPECT Index which debuted on 19 November 2009 on the Warsaw Stock Exchange. These companies became the leaders of this ranking. This evaluation was impacted by the Company's activities in many areas, such as communications with various interest groups, the ethical standards applied in the Company, adherance to corporate governance principles, management, functioning on the stock exchange, and the extent to which growth is balanced.

Knight's Cross

Andrzej Katulski, an employee of the Mining Department of KGHM, received the Knight's Cross of the Order of Polish Revival. The award was granted on the occasion of the 20th anniversary of the founding of the Confederation of Polish Employers. The local Chapter of this Order awarded the work and commitment of Andrzej Katulski in the creation and strengthening of employers in our country.

DECEMBER

Miner's Day celebrations

Miner's Day 2009 celebrations began on 3 December. The organiser of the festivities was the Rudna mine, which celebrated the 35th anniversary of its creation. Construction of the Rudna mine was one of the most important investments in Polish mining in the 1970s.

Pioneering feat

In December a pioneering feat was accomplished involving the use of a mining combine. This machine, weighing nearly 80 tonnes, was transported in a mere two days over a distance of 8 km in the Lubin mine, from the southern region to the northern region. The machine will be used for the mechanical mining of ore.

Change in Statutes

An Extraordinary General Meeting was held on 9 December 2009, at which changes in the Statutes of the Company were resolved. These changes were related to expanding the authority of shareholders. The State Treasury now has the ability to independently convene General Meetings.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Letter of the Chairman of the Supervisory Board of KGHM Polska Miedź S.A.

Dear Shareholders,

It is a great pleasure to be able to address you. At a moment when KGHM Polska Miedź S.A. finds itself in such a good condition, summarising the year 2009 is exceptionally satisfying. In the past year we maintained our caution in creating the vision of the Company and were anxious about the predicted global crisis. Despite this, the year 2009 ended with an excellent financial result and superb perspectives. The profit of PLN 2.5 billion from revenues of PLN 11.1 billion is a result making KGHM one of the most renowned companies in our country.

Beyond a doubt our Company was aided by macroeconomic conditions. The price of copper rose by over 100 percent, although in terms of the average annual price it was lower than in 2008. We were also helped by a weaker zloty, which is why our profit was at a comparable level to that in prior years.

The tasks which the Supervisory Board set for itself in 2009 were to strengthen and gradually realise the long term development strategy of KGHM as a global producer of copper and silver while simultaneously working to ensure maximum productivity and reduction of the unit cost of production. An example of these activities is the implementation of the multi-year "Effectiveness" program.

We did not disappoint the shareholders of the Company. KGHM not only successfully defended itself from the global crisis, but also paid a handsome dividend of PLN 11.68 per share, i.e. 80 percent of the profit from 2008. The market value of the Company on the Warsaw Stock Exchange increased nearly four-fold.

I wish to take this opportunity to thank all of our shareholders for maintaining their faith in the Company and the Supervisory Board during the financial crisis. I also wish to thank all of the employees of KGHM Polska Miedź S.A., thanks to whose demanding but effective efforts we emerged from the crisis stronger than ever.

Chairman of the Supervisory Board

Jacek Kuciński

Annual report on the activities of the Supervisory Board

Excerpt from the annual Report on the activities of the Supervisory Board of KGHM Polska Miedź S.A. for financial year 2009, on the work of the Supervisory Board and including the evaluation of the work of the Supervisory Board.

I. Composition of the Supervisory Board of KGHM Polska Miedź S.A.

The composition of the 7th-term Supervisory Board in 2009 was as follows:

First name, surname	Function	Period when function served in 2009
Marek Trawiński	Chairman	01.01.2009 – 31.12.2009
Jacek Kuciński	Deputy Chairman	01.01.2009 – 31.12.2009
Marek Panfil	Secretary	01.01.2009 – 31.12.2009
Marcin Dyl	Member	01.01.2009 – 31.12.2009
Arkadiusz Kawecki	Member	01.01.2009 – 31.12.2009
Marzenna Weresa	Member	01.01.2009 – 31.12.2009
Members of the Supervisory Board elected by employees of the Company		
Józef Czyczerski	Member	01.01.2009 – 31.12.2009
Leszek Hajdacki	Member	01.01.2009 – 31.12.2009
Ryszard Kurek	Member	01.01.2009 – 31.12.2009

II. Principles and procedures of operations of the Supervisory Board of KGHM Polska Miedź S.A.

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A. in Lubin, in all of the Company's functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 (three) members are elected by the Company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board operates on the basis of prevailing law, the Statutes of the Company and the Regulations of the Supervisory Board of KGHM Polska Miedź S.A. in Lubin and Corporate Governance Principles.

The Supervisory Board continuously supervised the activities of the Company and realised its tasks based on the specific rights granted to the Supervisory Board of KGHM Polska Miedź S.A. by the Statutes of the Company under Chapter IVB, § 20, and in turn by the Regulations of the Supervisory Board under Chapter III, § 8.

The Supervisory Board performed its functions at meetings of the Supervisory Board convened for this purpose, as well as through its members delegated to work in the Committees.

During the reporting period, the Supervisory Board of KGHM Polska Miedź S.A. held 13 meetings, of which 8 meetings were held at the head office of the Company in Lubin, and 5 in the office of KGHM Polska Miedź S.A. in Warsaw.

The Supervisory Board at each meeting reviewed information regarding the current work of the Management Board, always reviewing the resolutions of the Management Board of the Company. The Supervisory Board also reviewed on an on-going basis information regarding the financial results of KGHM Polska Miedź S.A. for individual months of 2009 and accumulated results from the beginning of 2009. In accordance with the labour contracts with the members of the Management Board, the Supervisory Board reviewed the work of the Management Board on a quarterly basis, and considered the request of the Management Board regarding the payment of an advance on variable remuneration. The Supervisory Board also periodically reviewed the report of the Management Board on the realisation of donations, sponsoring, representation, marketing and advertising in KGHM Polska Miedź S.A. and in the Group, as well as the report on the realisation of consulting, advisory and analytical services performed by external entities on behalf of KGHM Polska Miedź S.A. and the Group. The Supervisory Board in particular analysed the realisation of investment tasks of the Company, analysing quarterly the report presented by the Management Board, at the request of the Supervisory Board, on the realisation of the budget for capital expenditures and on contracts entered into by the Company.

At each meeting the Supervisory Board reviewed its correspondence.

In order to improve communications between the Management Board and the Supervisory Board, the practice was continued of providing written information to the Management Board in the form of a letter from the Chairman of the Supervisory Board after each meeting of the Supervisory Board, with information on all of the decisions taken by the Supervisory Board during the meeting.

In 2009 the Supervisory Board passed 84 resolutions, including 1 resolution in the form of written voting (between meetings).

III. Assessment of the work of the Supervisory Board of KGHM Polska Miedź S.A.

This report describes the main directions of the activities of the Supervisory Board in financial year 2009. All of the members of the Supervisory Board properly performed their duties on the Supervisory Board, applying their knowledge and experience in the operation and supervision of commercial law companies.

IV. The Ordinary General Meeting of KGHM Polska Miedź S.A., which was convened on 17 May 2010, approved the performance of duties of all of the members of the Supervisory Board of KGHM Polska Miedź S.A.

Letter of the President of KGHM Polska Miedź S.A.

Dear Shareholders,

The year 2009 was a difficult period for the global economy as well as for the manufacturing sector. Because of the crisis many companies recorded a fall in revenues. KGHM Polska Miedź S.A. emerged from this time without major losses. The document which I have the pleasure of presenting to you shows a stable Company situation.

KGHM Polska Miedź S.A. accepted the strategy for the years 2009–2018. The goal of the Company is to become a major global copper producer and to increase production of this metal to around 700 thousand tonnes. The strategy for developing the Company is based on five areas: improving productivity, developing the resource base, diversifying sources of revenues and gaining independence from energy prices, regional support and finally developing organisational know-how and capabilities. KGHM intends to have around 30% of its revenues come from non-core business activities. Towards this end it assumes a gradual entrance into the power sector.

KGHM Polska Miedź S.A. ended the year with very good results. The first forecast for profit in 2009, at the peak of the crisis, assumed that KGHM Polska Miedź S.A. would achieve a profit of PLN 488 million. We improved this forecast several times. Finally, the year ended with a profit at the level of PLN 2.5 billion. Revenues from sales amounted to PLN 11.1 billion. It should be remembered that the results of KGHM, one of the largest exporters in this part of Europe, to a significant degree are exposed to market risk. The prices of copper and silver and the USD exchange rate significantly affect the Company's profit. In July 2008 the USD cost slightly above two zloties, while in February 2009 its rate had increased to nearly four zloties. Copper was characterised by similar volatility, beginning 2009 at 3 000 USD/tonne, and ending the year at 7 400 USD/tonne. It should be pointed out that, thanks to the weakening of the PLN versus 2008, KGHM improved its result, despite the fact that the average annual price of copper in 2009 was lower than the year before.

We are happy to report a decrease in the costs of producing copper from our internal concentrate: an average annual level of below PLN 10 thousand/tonne, and in the fourth quarter even below PLN 9 thousand/tonne. As part of the "Effectiveness" project which has been in effect since February 2009, whose goal is to further reduce the unit cost of copper production, over 70 programs are planned for realisation in all of the operational areas of KGHM Polska Miedź S.A. The potential for reducing costs was estimated at an annual average of over PLN 600 million, following the implementation of all programs.

During the past year we opened a Central Procurement Office, which has brought in a total of PLN 300 million in savings. Although the crisis undoubtedly led to a sharp reduction in the prices of services, the amount saved is mostly thanks to healthy competitive principles which have begun to be enforced in procurement policy.

Aware of the value of our employees and their development, in 2009 the project "System of periodic employee assessment in KGHM Polska Miedź S.A." was implemented. Its goal is the overall development of our staff. The system provides the organisation and the employee with important information with respect to his work, and represents a career motor for his personal development. Additionally, to maintain full transparency, staff recruitment by the Company is done in a competitive manner. Until now, KGHM has not had a system to motivate and plan the career path of its employees.

In 2009 the decision was made to finally end the investment in the Republic of Congo. In the same year we founded company KGHM HMS Bergbau AG, whose task is searching for deposits of copper and other metals in Europe. We founded KGHM Towarzystwo Funduszy Inwestycyjnych, whose goal is to create and conduct closed-end sector funds. The leadership of the Company also paid attention to the social sphere, investing in medical equipment in the company Miedźiowe Centrum Zdrowia and, as promised, have continued construction of the Zagłębie Lubin stadium.

Our Company was also appreciated by external auditors. Proof of this is the award by the newspaper Gazeta Giełdy Parkiet "Bull and Bear" for "best investment in a company from the WIG20" in 2009. KGHM Polska Miedź S.A. was also honored by the newspaper Puls Biznesu as Listed Company of the Year. Financiers recognised KGHM as a socially responsible company of the Warsaw Stock Exchange. KGHM Polska Miedź S.A. was included in a group of 16 listed companies meeting the criteria of the RESPECT Index which debuted on the Warsaw Stock Exchange. This is not only a form of promotion of our Company, but above all a confirmation of the high standards of responsible management in KGHM Polska Miedź S.A. In the past year we also found ourselves amongst the Leaders of Philanthropy.

This report is a compendium of knowledge about the Company KGHM, its results, activities and the decisions made in 2009. We are convinced that the information it contains will strengthen the well-placed trust of our shareholders, and will encourage potential investors to acquaint themselves with our Company.

President of the Management Board

Herbert Wirth

Report on the application of corporate governance principles

In July 2007, the Supervisory Board of the Warsaw Stock Exchange resolved the principles of corporate governance for joint-stock companies that are issuers of shares, convertible bonds or bonds with priority rights admitted to exchange trading. These corporate governance principles as described in the document "Code of Best Practice for WSE Listed Companies" represent an annex to resolution nr 12/1170/2007 of the Supervisory Board dated 4 July 2007 and which came into force on 1 January 2008. The contents of this document are available on the official website of the Warsaw Stock Exchange under the section on corporate governance (www.corp-gov.gpw.pl), as well as on the website of the Company (www.kghm.pl) under the section on corporate governance. KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, has made every effort to apply the corporate governance principles described in document "Code of Best Practice for WSE Listed Companies". The Company has endeavoured at every stage of its operations to carry out all of the recommendations respecting best practice for listed companies as well as suggestions directed to management boards, supervisory boards and shareholders.

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, the Company made the broadest possible use of both traditional as well as modern technology for the distribution of information about the Company (recommendation I.1 of the "Code of Best Practice for WSE Listed Companies"). In 2009 the Company decided not to comply only with the recommended on-line transmission of General Meetings, but has registered these meetings and made them available on the Company website in both Polish and English, and is available under the section Investor Zone/Transmissions.

At present the Company is not planning to offer live transmissions of its General Meetings, but will continue to register these meetings and make them available on its website.

In accordance with principle II.1.4 of the "Code of Best Practice for WSE Listed Companies", the Company should publish on its corporate website items such as proposed General Meeting resolutions together with justifications, at least 14 days prior to the date set for the meeting.

The proposed resolution on the appropriation of profit for financial year 2008 for the Ordinary General Meeting was provided at a later date than indicated by this principle. The Management Board had earlier informed shareholders (in current reports 18/2009 and 21/2009) of a planned change in the recommendation to the General Meeting regarding the appropriation of profit from financial year 2008 owing to an analysis of the financial position of the Company carried out at that time. The proposed resolution on the appropriation of profit from financial year 2008 was published by the Company immediately after the Management Board had taken appropriate decisions, i.e. 11 days prior to the date set for the Ordinary General Meeting.

This was the first time such a situation had occurred in the Company, and was of an incidental nature. KGHM Polska Miedź S.A. makes every effort to ensure that it is in compliance with obligatory dates.

General Meetings

The General Meeting of KGHM Polska Miedź S.A. is the Company's highest body. It meets in either an ordinary or an extraordinary form, based on prevailing law, the Statutes of the Company and the Regulations of the General Meeting. The Company's corporate documents are available on its website.

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 report of the Group of the Company, 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;
- amending 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 establishment 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 execute 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 of a statutory nature. Changes in the Company Statutes are made by the General Meeting in conformance with prevailing laws, in the manner and form prescribed by the Commercial Partnerships and Companies Code.

In 2009 the General Meeting of the Company made changes to the Statutes of the Company arising from changes to the act dated 15 September 2000 respecting the Commercial Partnerships and Companies Code (CPCC), which came into force on 3 August 2009 and related to the Decree of the Council of Ministers dated 24 December 2007 regarding the Polish Classification of Activities (PCA).

The updating of the CPCC has fundamentally altered the process of organising General Meetings and has assigned new rights to shareholders. Certain regulations are of an obligatory nature, while others are optional for companies.

From the new regulations of the CPCC, the Company has adopted only those regulations which are obligatory, i.e. those which require the publication of announcements and materials for the General Meeting on the Company website and the adoption of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication were, however, not adopted.

Apart from those changes arising from adaptation of the Statutes to the updated CPCC, changes were made to the Statutes relating to:

- realisation of the right to redeem shares. Regulations were refined which only allow for the voluntary (i.e. by shareholder permission) redemption of shares, and not their forced and automatic redemption;
- the possibility to make an interim dividend payment to shareholders on the anticipated dividend at the financial year's end. The Management Board of the Company has been authorised to adopt resolutions on the matter of an interim dividend payment to shareholders on the anticipated dividend at the financial year's end, if the Company is in possession of sufficient funds for said payment. The payment of an interim dividend requires the approval of the Supervisory Board;
- expanding the list of rights assigned to the General Meeting, in respect of which resolutions should be passed by a qualified majority of votes cast;
- decreasing the quorum from 1/3 to 1/4 in order to ensure that, in the case of the presence at the General Meeting of the shareholder representing 1/4 of the share capital, it will still be possible to pass resolutions;
- the right of the State Treasury to convene General Meetings in specified cases.

Due to the changes in the CPCC, the Company intends to submit a motion to the next General Meeting on the passage of new Regulations for the General Meeting of KGHM Polska Miedź S.A.

Shareholders and their rights

At 1 January as well as at 31 December 2009, the only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting was the Polish State Treasury, which – based on an announcement dated 16 May 2007 – held 83 589 900 shares, representing 41.79% of the share capital of the Company.

The remaining shareholders held shares representing less than 5% of the share capital – a total of 116 410 100 shares, representing 58.21% of the share capital and the same number of votes at the General Meeting. On 12 January 2010 the Company received an announcement from the Minister of the State Treasury, stating that on 8 January 2010 the State Treasury, represented by the Minister of the State Treasury, sold on a regulated market of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors. Following this sale, the State Treasury owns 63 589 900 shares of KGHM Polska Miedź S.A., granting the same number of votes and representing 31.79% of the share capital of the Company and of the total number of votes.

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 Regulations of the General Meeting. Shareholders are entitled to exercise their voting during General Meetings either personally or through a representative. All of the shares are bearer shares. Each share grants the right to one vote. There is no limitation to the transferral of ownership rights to the shares of the Company or with respect to the execution of voting rights attached to the shares of the Company, other than those generally prescribed by laws in force. The Company has not issued securities which would grant special proprietary rights in respect of the Company.

Until 22 December 2009 the Company had a depositary receipts program. The representative of the owners of GDRs at the General Meeting was the Depositary Bank, which executed its voting rights through its representative, in accordance with the instructions issued by the owners of the said GDRs and in accordance with the principles of the Depositary Agreement entered into with the Company. Due to the low effectiveness of the depositary receipts program of KGHM Polska Miedź S.A., the Depositary Agreement was terminated on 22 December 2009.

Supervisory Board

The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A., in all of the Company's functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 members are elected by the Company's employees. The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years. The Supervisory Board operates on the basis or prevailing law, the Statutes of the Company and the Regulations of the Supervisory Board.

The composition of the 7th-term Supervisory Board from 1 January to 31 December 2009 was as follows:

- Marek Trawiński Chairman;
- Jacek Kuciński Deputy Chairman;
- Marek Panfil Secretary;
- Marcin Dyl;
- Arkadiusz Kawecki;
- Marzenna Weresa

as well as the following employee-elected members:

- Józef Czyczerski;
- Leszek Hajdacki;
- Ryszard Kurek;

On 16 February 2010 Marek Trawiński submitted his resignation from membership in the Supervisory Board of KGHM Polska Miedź S.A. as of 17 February 2010. The cause of the decision of Marek Trawiński is the possibility that actions, which may be taken in the near future by a company in which he serves as a member of the management board, may create the potential risk of a conflict of interest with KGHM Polska Miedź S.A.

Supervisory Board Committees

Under the auspices of the Supervisory Board are two committees: the Audit Committee and the Remuneration Committee. These committees assist the Supervisory Board with respect to preparing evaluations and opinions and the taking of other actions aimed at decision-making by the Supervisory Board.

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 realisation of 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 rights, scope of action and manner of work of these Committees are described by regulations approved by the Supervisory Board.

The specific duties and composition of the Committees are as follows:

Audit Committee

In accordance with the Regulations of the Supervisory Board the duties 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 applied in the Company;
- the review of transactions with parties related to the Company, and of unusual transactions;
- the analysis and monitoring of post-control conclusions arising from the risk management process;
- conduct of the process of selecting independent auditors to audit the financial statements of the Company in order to recommend their acceptance by the Supervisory Board, and participation in commercial negotiations prior to the Company signing a contract with an auditor;
- continuous co-operation with the independent auditor of the Company during the audit, analysis and formulation of conclusions from the audit and opinion of the auditor respecting the financial statements, the auditor's letter to the Management Board and/or Supervisory Board, and the preparation of draft statements and evaluations required by the by-laws for Company bodies and other administrative institutions;
- providing an opinion on the internal auditing plan and the internal auditing regulations of the Company, and of changes of the director of internal auditing;
- analysis of the conclusions reached and the recommendations made by an internal audit of the Company, with monitoring of the degree of implementation of these recommendations by the Management Board of the Company;
- the monitoring of decrees and Company's regulations as regards accounting, finances and hedging against trade and financial risks, and exposure of the Company to serious harm.

The Act dated 7 May 2009 on certified auditors and their self-governing body, entities entitled to audit financial statements and on public supervision, which came into force in December 2009, required public companies to appoint Supervisory Board Audit Committees and listed tasks which should be in particular the responsibility of such Committees.

The law in addition calls for Audit Committees to include at least 3 members, of which at least one member should meet the criteria for independence and hold qualifications in the areas of accounting or financial review.

The following Members of the Supervisory Board served on the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. throughout 2009:
- Marcin Dyl;
- Marek Panfil;
- Marzenna Weresa.

Remuneration Committee

In accordance with the Regulations of the Supervisory Board the duties of the Remuneration Committee are as follows:
- to carry out the recruitment and employment of members of the Management Board by developing and organising draft documents and procedures to be submitted to the Supervisory Board for their acceptance;
- to develop draft agreements and samples of other documents related to the hiring of members of the Management Board, and supervision over the realisation of the contractual obligations entered into by the parties;
- to supervise realisation of the system of remuneration of the Management Board, in particular to prepare documents related to contingent pay and premiums, in order to submit recommendation to the Supervisory Board;
- to monitor and make periodic analyses of the remuneration system of the management staff of the Company and, if necessary, to formulate recommendations to the Supervisory Board;
- to supervise realisation of additional benefits received by the Management Board arising from labour contracts, such as: insurance, automobiles, housing, etc.

The following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A. in 2009:
- Leszek Hajdacki;
- Arkadiusz Kawecki;
- Jacek Kuciński.

At the end of the year the auditing and remuneration committees submit a report of their activities to the Supervisory Board. These reports, following approval by the Supervisory Board, are made available to shareholders in the materials for the General Meeting.

Management Board

The Management Board conducts the business of the Company and represents it externally. The duties of the Management Board include all those matters pertaining to the functioning of the Company which have not otherwise been assigned by law or the Statutes to the duties of other Company bodies. The Management Board operates based on prevailing law, the Statutes of the Company and the Regulations of the Management Board. The authority of the Management Board to pass decisions on the issuance or redemption of shares is statutorily limited. In accordance with §29 sec.1 point of 6 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. 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 Management Board is comprised of 1 to 7 persons appointed for a mutual term of office. The term of office 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. The Supervisory Board appoints and dismisses the employee-elected member of the Management Board.

During the period from 1 January to 16 June 2009 the composition of the Management Board, and the respective segregation of duties amongst the members of the Management Board, was as follows:

- Mirosław Krutin President of the Management Board;
- Herbert Wirth I Vice President;
- Maciej Tybura Vice President.

On 15 June 2009 Mirosław Krutin submitted a statement to the Chairman of the Supervisory Board, in which he announced that he would not be a candidate for the position of President of the 7th-term Management Board.

On 15 June 2009 the Supervisory Board resolved that the subsequent (7th) term Management Board of KGHM Polska Miedź S.A., commencing on 16 June 2009, would be composed of two members of the Management Board, and appointed the following persons thereto:

- Herbert Wirth, granting him the responsibilities of the President of the Management Board;
- Maciej Tybura, granting him the function of Vice President of the Management Board.

Simultaneously the Supervisory Board decided to commence the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A. for the 7th term.

On 20 July 2009 the Supervisory Board appointed Herbert Wirth to the position of President of the Management Board of KGHM Polska Miedź S.A. for the 7th term.

On 24 August 2009 the Supervisory Board appointed Ryszard Janeczek to the position of Vice President of the Management Board of KGHM Polska Miedź S.A. for the 7th term and granted Maciej Tybura the function of I Vice President of the Management Board.

At 31 December 2009 the composition of the Management Board, and the respective segregation of duties amongst the members of the Management Board, was as follows:

- Herbert Wirth President of the Management Board;
- Maciej Tybura I Vice President (Finance);
- Ryszard Janeczek Vice President (Production).

Description of the basic characteristics of internal control and risk management systems applied in the Company with respect to the process of preparing financial statements and consolidated financial statements

The Management Board of KGHM Polska Miedź S.A. is responsible for the internal control system and its effectiveness in the preparation of financial reports. The management of company risk in this regard is performed by the identification and assessment of areas of risk, with the simultaneous defining and undertaking of actions aimed at its minimalisation or total elimination.

KGHM Polska Miedź S.A. uses its many years of experience in the identification, documentation, record maintenance and control of economic operations, including set audit and inspection procedures supported by modern information technology used in the registration, processing and presentation of economic and financial data.

In order to ensure truth and accuracy in the keeping of accounting records of KGHM Polska Miedź S.A. and subsidiaries of the Group, based on fixed principles, and the generation on their basis of high-quality financial data for presentation, the following has been introduced for continuous use:

- an Accounting Policy for KGHM Polska Miedź S.A. and the Group and a Sector Chart of Accounts, in accordance with International Financial Reporting Standards;
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets;
- Sector Inventorisation Instructions;

and in addition, for KGHM Polska Miedź S.A.:

- Principles for Financial Management and for an Economic System;
- Documentation for an IT system for the processing of accounting data;

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of the Company and the Group, along with the established scope and principles of financial reporting based on International Financial Reporting Standards and other legal standards.

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of duties, uniformity of accounting records and control between 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 Company and its subsidiaries continuously adapts the IT information system to changing accounting principles or other legal standards, thanks to the high operational flexibility available to the IT system modules. The technical servicing of the system is ensured by the highly experienced specialists employed by the Company. KGHM Polska Miedź S.A. has full documentation of the IT system, both in the part meant for end-users, as well as in the technical part encompassing configuration, parameterization and calculation algorithms of the system. In accordance with article 10 of the Accounting Act dated 29 September 1994, documentation of the IT accounting system is periodically updated and confirmed by the head of the units, i.e. the Management Board of the Company and management boards of subsidiaries.

The Company has introduced organisational and systemic solutions with respect to ensuring the proper use and protection of systems and data, as well as secure access to data and hardware. Access to the resources of the financial and accounting system and financial reporting – separate and consolidated – is limited to the respective entitlements of authorised employees solely with respect to the duties which they carry out. 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.

One of the primary elements of control as respects the preparation of separate and consolidated financial statements of KGHM Polska Miedź S.A. is the verification of financial statements of the Company and financial statements of subsidiaries by external independent certified auditors. The tasks of the auditors include in particular: review of the half-year financial statements and preliminary audit and final audit of the annual financial statements. Selection of the certified auditor in the key companies of the Group is carried out from amongst renowned auditing firms, guaranteeing high standards of services and the required level of independence. In KGHM the selection of the certified auditor is carried out by the Supervisory Board, and in subsidiaries by Supervisory Boards or General Meetings.

The body which supervises the process of financial reporting in KGHM and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of the Company. 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 Company and prevailing laws;
- monitors the effectiveness of internal control systems, internal auditing 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.

A significant element of risk management with respect to the process of preparing financial statements of KGHM is the internal control carried out by internal auditing and internal control.

Internal auditing operates based on the “Regulations for internal auditing in KGHM Polska Miedź S.A.” approved by the Management Board of the Company and on the “Code of ethics for internal auditors in KGHM Polska Miedź S.A.” – developed based on International Professional Standards in Internal Auditing Practice published by the Institute of Internal Auditors. The Internal Audit Department has complete, assured independence in its auditing activities.

In performing auditing tasks in 2009, risk associated with the audited processes was identified and assessed, and the adequacy and effectiveness of control mechanisms, aimed among others at the reliability and uniformity of financial data being the basis for the preparation of financial statements required by law as well as management reports, was assessed. The Company is also undertaking to include companies from the Group in internal auditing.

Internal control operates based on the “Internal Control Regulations of KGHM Polska Miedź S.A.” approved by the Management Board of the Company. Internal (institutional) control is performed by a separate department in the organisational structure – the Department Internal Control. The internal control system in KGHM is based on the principle of independence and encompasses all Company processes, including those areas which directly or indirectly affect the correctness of the financial statements. Additionally, the obligation fully remains for each employee to control their own performance, and for every level of management staff to perform their control – within supervisory-related duties.

Amongst those areas of risk to which the Group is exposed, the most important is market risk. Due to the exposure of the Group to market risk (copper and silver prices and the USD/PLN exchange rate), derivative instruments to manage this risk are used.

Organisation of the process of market risk management in the Group as regards entering and realising transactions on the derivative instruments market is based on proxy authority granted by the management boards of Group companies.

Organisation of the market risk management process in the Company separates the functions of units responsible for entering transactions on the derivative instruments market from the functions of units responsible for their authorisation, settlement and the preparation of information on the measurement of these transactions. Such an organisational structure, in accordance with best practice in risk management, permits control over the process of entering into transactions and the elimination of derivative instruments transactions unauthorised by the Management Board.

The effectiveness of the control and risk management procedures in the process of preparing financial statements of KGHM Polska Miedź S.A. may be seen in the form of the high quality of these statements, as confirmed by the opinions put forth thus far by certified auditors from their auditing of the financial statements and by the high evaluations of the recipients of these statements. In addition, KGHM Polska Miedź S.A. regularly participates in the competition The Best Annual Report organised by the Institute of Accounting and Taxation under the patronage of the Warsaw Stock Exchange, gaining leading positions amongst listed companies.

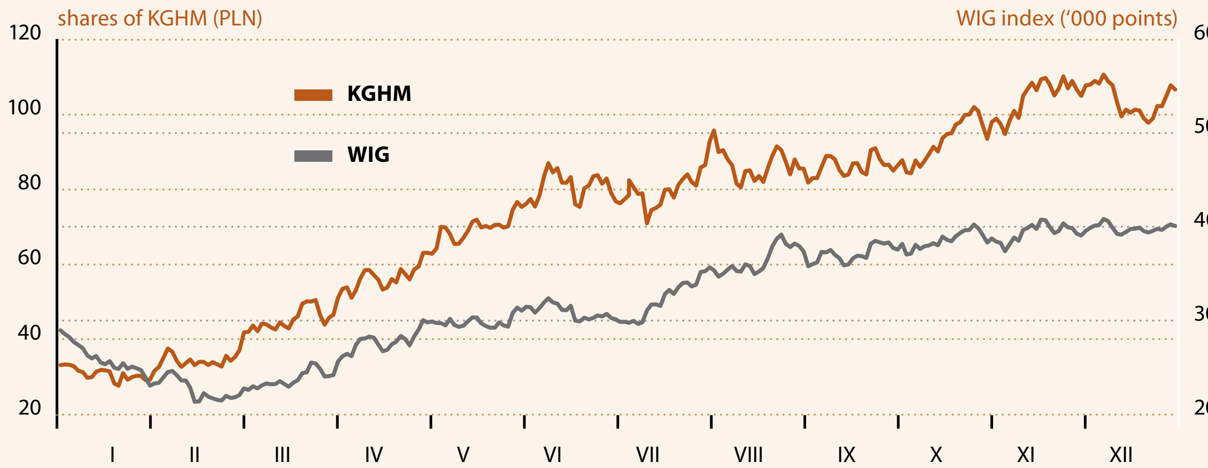
The Company on the securities markets

Company quotations in 2009

In July 1997 KGHM Polska Miedź S.A. debuted on the Warsaw Stock Exchange. The shares of the Company are traded on the primary market in a continuous trading system, and are a component of the WIG, WIG20 and RESPECT indices. This latter index was listed for the first time on the Warsaw Stock Exchange on 19 November 2009. KGHM Polska Miedź S.A. was included in the group of 16 listed companies which comprised the RESPECT Index – an index of socially responsible companies. These companies were the most highly assessed according to the RESPECT Rating, and became the leaders of this ranking, as confirmed by the project's auditor.

The global depositary receipts (GDRs) had been listed since July 1997 on the London Stock Exchange (LSE). Recently, investors' interest in this form of investment in the shares of KGHM Polska Miedź S.A. had diminished. The number of issued GDRs of the Company fell to around 0.5% of the share capital of KGHM Polska Miedź S.A., and for many months remained at this level. The GDR program ceased to be effective. As of 22 December 2009, at the Company's request, the GDRs were withdrawn from the list of securities admitted to trading on the LSE, and the GDR program of KGHM Polska Miedź S.A. was ended.

Share price of KGHM Polska Miedź S.A. versus the WIG index in 2009



Key share data of the Company on the Warsaw Stock Exchange

	Unit	2007	2008	2009
Number of shares issued	million	200	200	200
Closing price from the last day of trading in the year	PLN	105.80	28.12	106.00
Market value of the Company at year's end	million PLN	21 160	5 624	21 200
Highest closing price in the year	PLN	143.00	112.00	110.70
Lowest closing price in the year	PLN	79.40	21.40	27.50
Average trading volume per session	'000	730.8	1 124.3	1 222.1
Dividend paid in the financial year from appropriation of profit for the prior year	PLN/share	16.97	9.00	11.68

2009 was a very successful year for the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange. The Company's share price rose by 277%, from PLN 28.12 on the last trading session of 2008 to PLN 106.00 on 31 December 2009. During the year the WIG index of the Warsaw Stock Exchange rose by 47%, and the WIG20 by 33%.

In 2009, KGHM Polska Miedź S.A. was among leading companies in terms of turnover value on the Warsaw Stock Exchange. An average trading volume of the Company's shares per session on the Warsaw Stock Exchange in 2009 amounted to 1 222.1 thousand.

Dividend

The attraction of investing in the shares of KGHM Polska Miedź S.A. is due not only to their appreciation in value, but also to the amount of the dividend. In 2009 the Company paid a dividend of PLN 11.68 per share from appropriation of prior-year profit, giving a dividend yield of nearly 15.6% (calculated using the price from the record date).

The Ordinary General Meeting of KGHM Polska Miedź S.A. on 17 May 2010 resolved to pay a dividend for 2009 of PLN 3.00 per share.

The level of dividend payout in recent years makes the Company one of the leaders on the Polish market in terms of dividend yield.

Capital market ratios

		2007	2008	2009
EPS (PLN)	Profit (loss) for the period/number of shares	18.99	14.60	12.70
P/CE	Price per share/financial surplus per share*	5.0	1.7	6.9
P/E	Price per share/earnings per share	5.6	1.9	8.3
MC/S	Market capitalisation**/revenues from sales	1.7	0.5	1.9
P/BV	Price per share/book value per share***	2.4	0.5	2.0

* Financial surplus = profit for the period + depreciation.

** Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares x PLN 28.12 in 2008; PLN 106.00 in 2009).

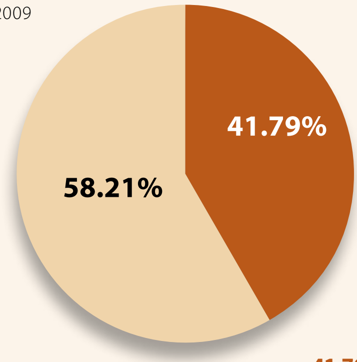
*** Carrying amount of the equity at the end of the reporting period.

Ownership structure

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

Ownership structure

As at 31 December 2009



State Treasury	41.79%
Other shareholders	58.21%

At 31 December 2009, the only shareholder of the Company holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting was the Polish State Treasury, which held 83 589 900 shares, representing 41.79% of the share capital of the Company and granting the right to the same number of votes at the General Meeting.

The remaining shareholders of the Company held shares representing less than 5% of the share capital – a total of 116 410 100 shares, representing 58.21% of the share capital and the same number of votes at the General Meeting.

On 8 January 2010, the State Treasury sold 20 million shares of KGHM Polska Miedź S.A. on a regulated market to qualified investors, thereby reducing its ownership of the share capital to 31.79%. Ownership of the share capital by the remaining shareholders is 68.21%.

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.

There is no restriction on the transferral of ownership rights to the shares of the Company or with respect to the execution of voting rights attached to the shares of the Company, other than those generally prescribed by laws in force. The Company has not issued securities which would grant special proprietary rights in respect of the Company.

In 2009 there was no change either in registered share capital or in the number of issued shares, nor were there any changes of ownership of significant blocks of shares of KGHM Polska Miedź S.A.

At 31 December 2009, among management and supervisory personnel only Ryszard Kurek, a Member of the Supervisory Board, owned shares of KGHM Polska Miedź S.A. (10 shares with a total nominal value of PLN 100). At 31 December 2009, the members of the Management Board and Supervisory Board of the Company did not own shares of the remaining related entities of the Company.

In 2009 the Company did not perform a buyback of its shares and does not have an employee share incentive program.

Realisation of Strategy for the years 2009–2018

Company Strategy

On 23 February 2009 the Supervisory Board of KGHM Polska Miedź S.A. approved the current Strategy of KGHM Polska Miedź S.A. The vision of strategic development, based on five main strategic areas, was developed for the years 2009–2018. Realising this Strategy, KGHM will become a major, global copper producer and will increase copper production to approx. 700 thousand tonnes annually. It is assumed that total expenditures on the relisation of new projects will amount to approx. PLN 19.8 billion over 10 years.

Realisation of Strategy in 2009:

Pillar I – Improve productivity (chief strategic goal – reverse/halt the rising trend in the unit cost of copper production). Four

strategic initiatives were defined, within which 22 strategic projects were identified, such as.
- commencement of work on applying mechanical ore mining;
- modernisation of the underground machine park in the mines;
- modernisation of production installations at the Głogów II smelter;
- modernisation of installations at the Ore Enrichment Plants;
- project "Effectiveness" – comprising 70 projects affecting all of the operational areas of KGHM (realised using TOP – Total Operational Performance – methodology, and Lean Management);
- centralisation of procurement within the KGHM Group.

Altogether in 2009, 18 projects were implemented, of which 12 are currently being realised.

Pillar II – Developing the resource base (strategic goal – increase the production of copper in concentrate to approx. 700 thousand tonnes annually). Four strategic initiatives were defined, comprising 11 strategic projects, including.
- further work on accessing and mining the Głogów Głeboki–Przemysłowy deposit;
- exploration of regions adjacent to the deposits of KGHM in Poland and Germany (the Weisswasser region – a JV was created with a German partner);
- investments in foreign mining assets (work performed in 2009 led to the signing in May 2010 of an investment contract with the Canadian company Abacus to create a JV company for the construction of a mine and to commence the mining of copper and gold from the Afton-Ajax deposit in British Columbia, with annual production capacity of 50 thousand tonnes of copper and 110 thousand ounces of gold).

Altogether in 2009 9 projects were commenced, of which 3 are being realised.

Pillar III – Diversifying sources of revenues (strategic goal – increase the share of revenues from diversified sources – apart from the core business – to 30% annually, and achieve substantial independence from the situation on the electrical power market). Four strategic projects were defined, involving:
- the development and optimal utilisation of internal power generating capacity;
- equity investment in the power sector – a contract was signed with the Tauron Group for a joint investment in the construction of power units in PKE Elektrowni Blachownia with a capacity of approx. 900 MW.

Pillar IV – Regional support (goal – strengthen the important position of the Company in the region, maintain good relations with stakeholders). Apart from the assumed continuation of current actions, two strategic projects were defined involving:
- supporting entreprenurial development, the transfer of technology and capital to the region of operation of KGHM (the KGHM Letia – Technology Park in Legnica);
- protecting the environment (a project to limit the amount of waste deposited in the Żelazny Most tailings pond – projected commencement of the project in 2010);
- supporting the arts, education and sport in the region – continuation of activities.

Pillar V – Developing organisational know-how and capabilities (goal – optimise Company structure and improve Group organisation). Five strategic projects were defined and 8 projects at the Group level, as well as nine development projects to be realised by individual Group companies. These include:

KGHM vision

Become a major global copper producer with annual copper production of around 700 thousand tonnes

1 – Improving productivity
- Investments in new technology
- Modernisation of infrastructure
- Optimalisation of production procedures and organisation

Reversing the trend of resing costs

2 – Developing the resource base
- Developing the deep deposit mining system
- Searching for new local deposits
- Takeovers in the mining sector
- Intensifying the processing of scrap

Increasing annual copper production to around 700 thousand tonnes

3 – Diversifying sources of revenues
- Continued investment in the telecoms sector
- Entrance into the power sector

~30% of revenues from non-core business activities

4 – Regional support
- Creating jobs by utilising the infrastructure of KGHM
- Supporting regional sport, health, arts, science and the environment

around 750 new jobs, growth in social activities

5 – Developing organisational know-how and capabilities
- Goal-oriented management
- Transparent information and data
- Employee development
- Developing the Group structure

- structural integration with respect to the core business;
- exploiting existing synergies within the Group;
- strategic separation of the Group's portfolio of companies and diversification of the ownership strategy (KGHM TFI S.A. was created, one of whose tasks is to support development projects within the Group).

It is expected that realisation of the Strategy will improve over the short term the cost competitiveness of KGHM on the global copper market. The initial results obtained thanks to the implementation in 2009 of selected projects – this is mainly with respect to the centralisation of procurement and the "Effectiveness" project – are highly satisfying. A halt was made to the trend of rapid growth in the unit copper production cost from internal concentrate. Substantial savings were achieved with respect to investment expenditures.

In the medium term (up to 10 years), as a result of expansion of its resource base, the Company will become a major, global copper producer. In the long term, diversification and investments in the power sector will enable KGHM Polska Miedź S.A. to become an international copper group with diversified revenue sources.

Results and forecasts

Despite the crisis which engulfed the global economy in the past year, KGHM Polska Miedź S.A. survived this difficult period without major problems. The Company ended 2009 with a good financial result. The profit of PLN 2.5 billion is a result placing KGHM Polska Miedź S.A. amongst the top companies in Poland.

Market conditions and trends

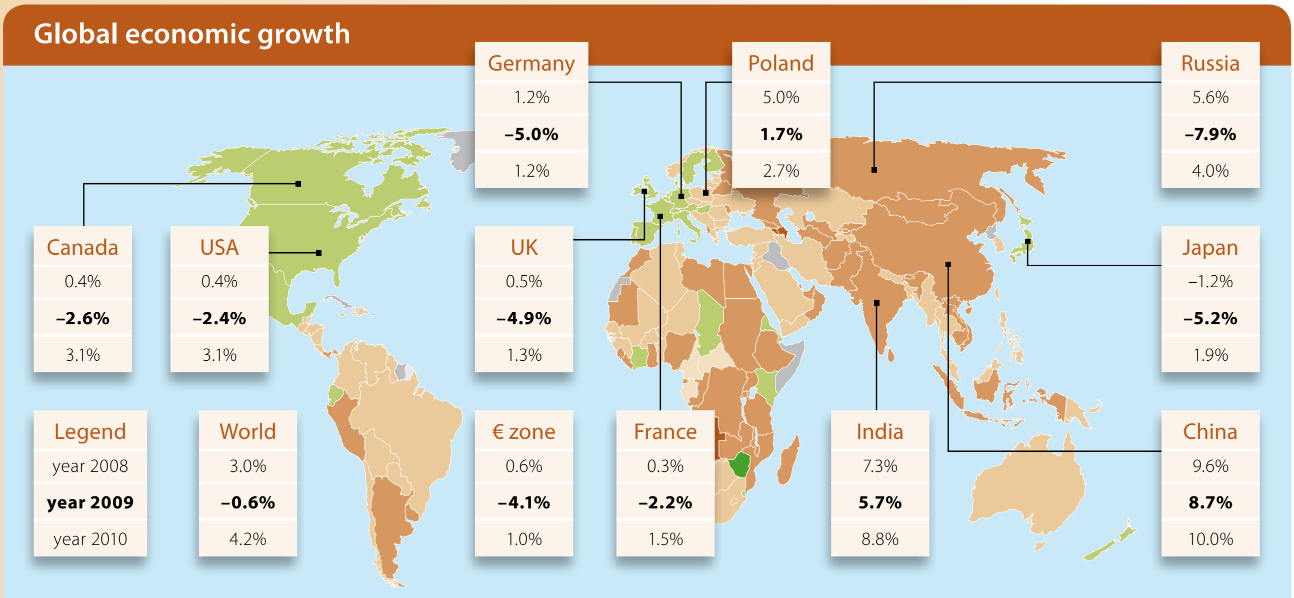
Global economy

The financial crisis which appeared in mid-2008 caused the greatest macroeconomic collapse in decades of the world's key economies. The rapid and radical reaction of many countries, in terms of both fiscal and monetary policy, enabled the easing and deferment of negative effects on their economies.

According to estimates by the International Monetary Fund, the global economy shrank in 2009 by 0.6%, versus an increase of 3.0% in the previous year. Developed economies experienced a fall in Gross Domestic Product of 3.2%. Especially painful was the subsequent financial volatility which affected Japan and the Euro zone, which economies recorded a drop in GDP respectively of 5.2 and 4.1%. In the United States, Gross Domestic Product fell by 2.4%. A counterweight to economic collapse in the developed countries was the good perspectives of developing nations, whose growth in GDP was a positive 2.4%.

The year 2009, despite the fall in global GDP, witnessed a return of optimism to the financial markets. Support came on the one hand from better-than-expected macroeconomic data, and on the other from a conviction that the value of financial assets would fall to irrationally-low levels. Economic indicators showed that the global economy was past the worst of the crisis. Low interest rates and the assurances of central bank heads in the key global economies that expansive monetary policies would be maintained sent a substantial flow of money into shares and the commodities market.

It is however worth noting that the foundations for this economic recovery are unstable. The increase in GDP, based on a variety of enormous stimulus packages and expansive monetary policy, represents a future threat, as the easing of the global financial crisis was in the end based on credit. Budgetary deficits in the developed economies reached ominous levels



Source: KGHM based on World Economic Outlook Update Projections, MFW, April 2010

of nearly 10% of GDP. According to estimates by the International Monetary Fund, if government debt is not radically restricted, by 2014 debt levels in developed countries will exceed 100% of GDP, meaning it will be 35% higher than prior to the crisis. Consequently, many countries face the challnge of economic reform, thanks to which they will be able to stave off an increasing debt spiral.

The fastest rate of growth of GDP amongst the key developing economies was achieved by China, which recorded a rate of 8.7%. Despite the fact that China was able to achieve such an impressive rate of economic growth, it is important to remember that this was the second year in a row of single-digit growth in GDP. This shows that despite the significant share of internal consumption in GDP, China was unable to avoid the impact of the global financial crisis.

Situation on the copper market

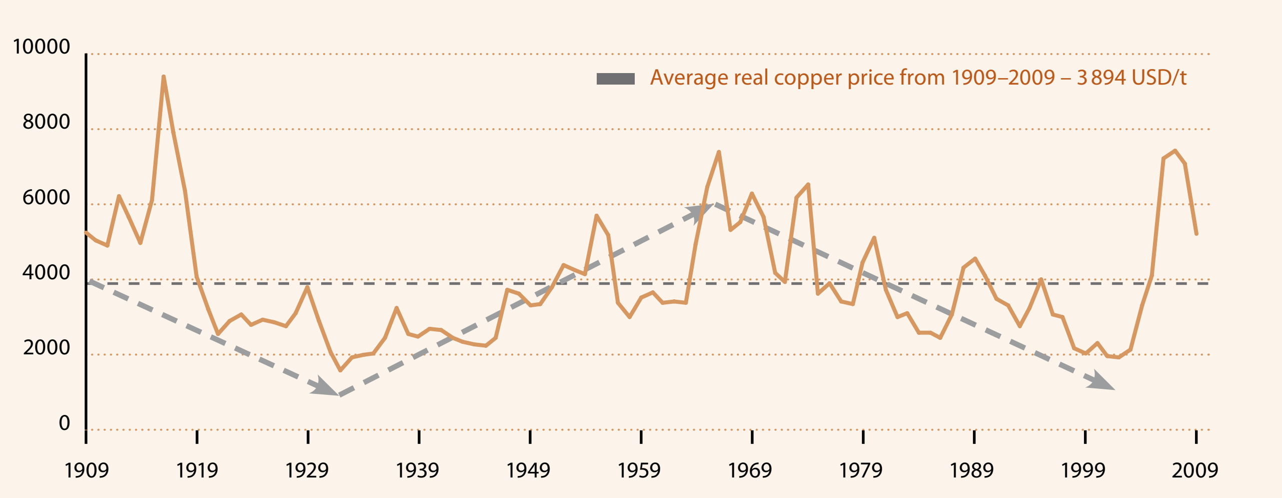
Throughout 2009 the price of copper on global markets systematically rose. In the first days of January the price of copper was 3 000 USD/t, while at the end of the year it amounted to 7 400 USD/t. Despite the rising trend, the average annual cash settlement copper price on the London Metal Exchange in 2009 was lower than in the prior year, and amounted to 5 164 USD/t, representing a decrease of 25.7% versus 2008 (6 952 USD/t).

In the fourth quarter of 2008 sentiment on the financial and commodities markets was extremely negative. Problems with liquidity in the global financial sector led to a major fall in share prices, as well as in metals prices. The global crisis worsened and fears rose dramatically on the rate of global economic growth. To stimulate their economies, central bank heads reduced primary lending rates to their lowest levels in history. In December 2008, the Federal Reserve in the United States set their lending rate at 0 – 0.25%, while the European Central Bank systematically reduced the main interest rate, until by May 2009 it reached 1%. By mid-2009 increased access to money, and thereby to liquidity on the financial market, halted the drop in macroeconomic indicators and led to a slow reawakening of demand for the red metal in western countries.

In 2009, enormous support for copper prices came from increased imports of this metal by China. Government investments in infrastructure, numerous stimulus packets and dynamic growth in the automobile sector (an increase of nearly 53% y/y) meant that copper consumption in this country in 2009 versus the prior year increased by nearly 2 million tonnes to 7.2 million tonnes. The share of China in refined copper consumption in 2009 (18.1 million tonnes) amounted to nearly 40%, which demonstrates the significance of China for the copper market. It was due to China that in 2009 on the refined copper market there was a deficit of 200 thousand tonnes.

The relatively good fundamentals of the copper market encouraged increased activity by financial investors who, taking advantage of very low interest rates around the world, sought

Real average annual copper price in the years 1908–2009 (USD/t)



Source: KGHM, based on CRU International

Daily cash settlement copper price on the LME (USD/t)

Source: KGHM

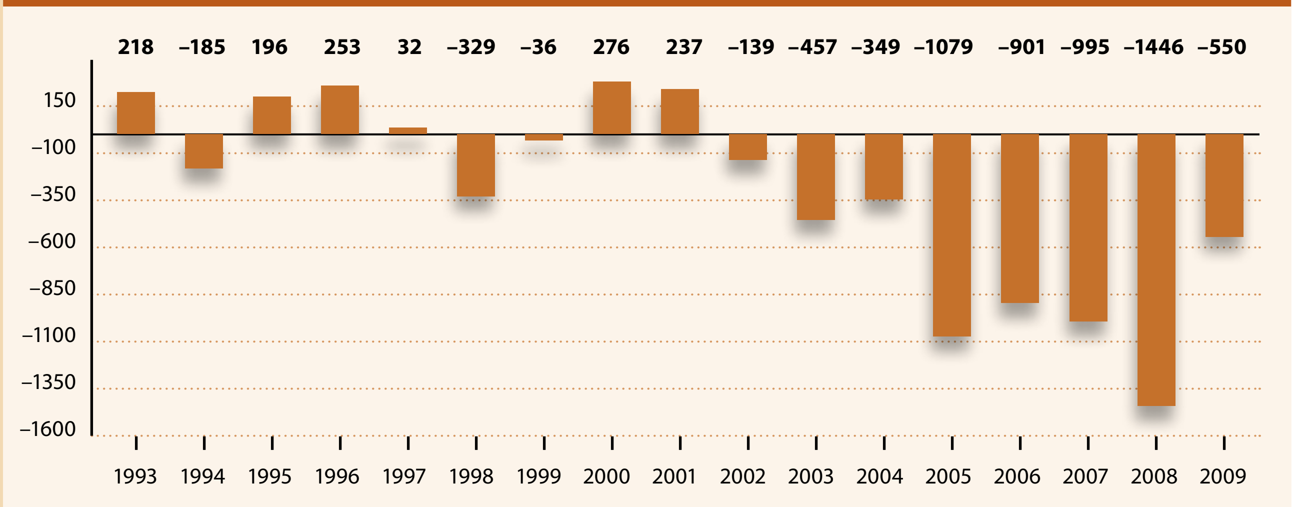
after interesting assets with high growth potential. Investors perceived copper as an attractive alternative to investments in shares, and eagerly added this metal to their buy lists. Fund activity led to the achievement by copper in December of levels close to their historic peaks.

Despite the fall in the average annual copper price in 2009, in real terms it remains at above-average levels. The average real price of copper since 1908 is around 3 900 USD/t. The last long-term copper price increase cycle occurred after the Second World War, and was related to the rebuilding of Europe, as well as with the growth of Japan and Korea. The high copper prices of recent years are treated by some analysts as the signal of a new growth cycle. The main cause given is the industrialisation of China, followed by that of India.

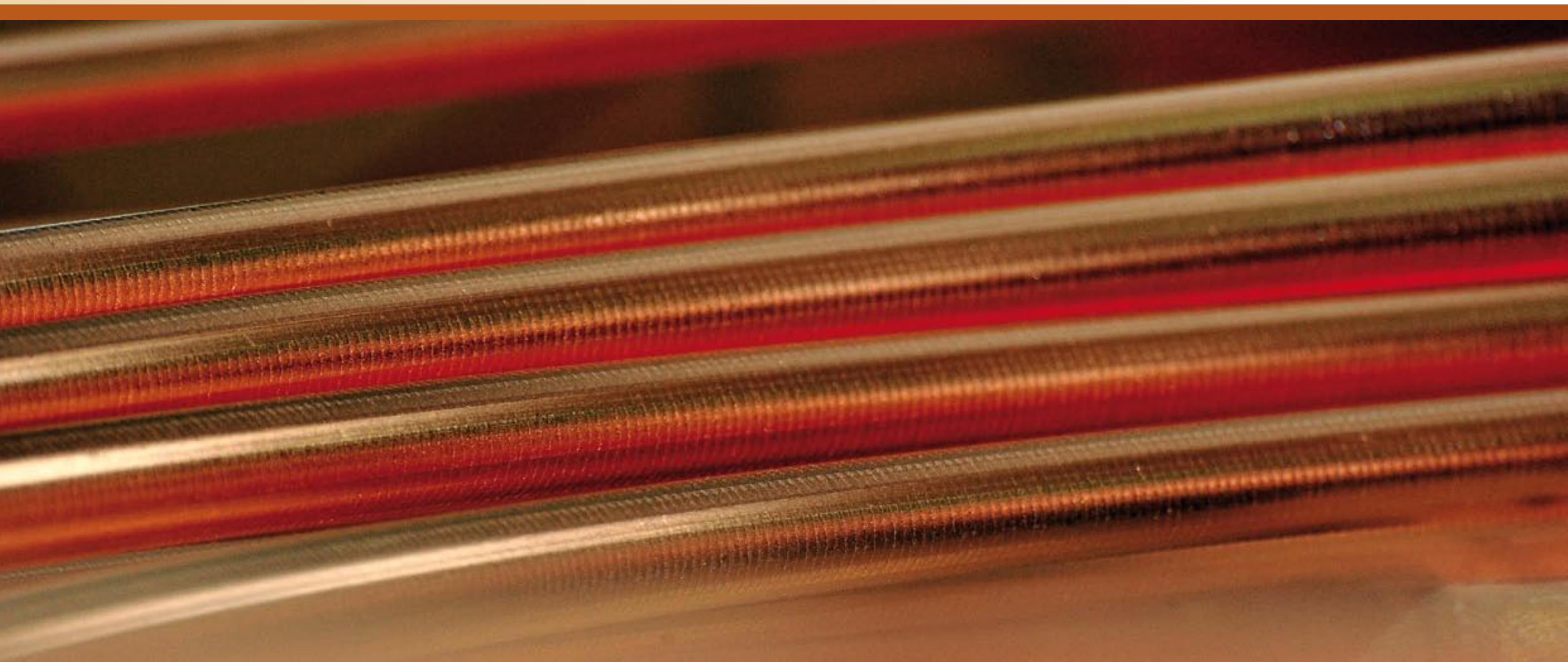
Copper production

Based on data published by the International Copper Study Group, global mine production in 2009 amounted to 15 744 thousand tonnes. The annual increase in production of nearly 1.4% (15 528 thousand tonnes in 2008) was caused by the lowest level in recent years of production losses versus planned production. According to Brook Hunt, copper producers in 2009 mined 550 thousand tonnes less copper than assumed at the start of the year. The main causes of adjustments to planned mine production were strikes, technical problems in mines and natural catastrophes. Increased fears about the condition of the global economy, and of the level of copper prices, caused certain small, high-cost mines to halt production. On the other hand, in several of the larger mines, such as Chuquicamata (Chile) and Tenke Fungumure (Congo), copper extraction was higher than initially projected, which resulted in an increase in mine production in 2009.

Mine production losses versus planned production in the years 1993–2009 ('000 tonnes)



Source: Brook Hunt – A Wood MacKenzie Company, Macquarie Research



Refined production in 2009 amounted to 18 321 thousand tonnes, or an annual increase of 0.5%. A trend which continues to be seen is the transfer of refined copper production to China, at the cost of other regions of the world. In 2009 Chinese smelters produced 327 thousand tonnes more copper than in the prior year. The largest percentage increase in production was however recorded in Africa (15.47% y/y). The accelerated realisation of projects in Congo led to an increase in refined copper production in this country by 107 thousand tonnes (169% y/y).

Refined copper production in 2008 and 2009 by region ('000 tonnes)

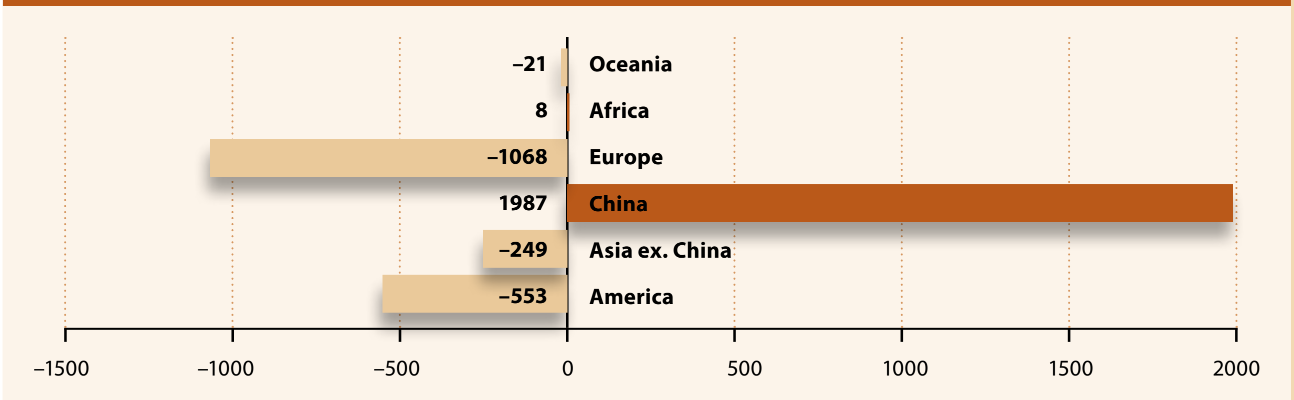
Region	2008	2009	Change [%]
Africa	584	675	15.47%
America	5792	5696	–1.65%
China	3795	4121	8.61%
Asia ex. China	3946	3936	–0.25%
Europe	3607	3447	–4.44%
Oceania	502	445	–11.18%
Total world	18 225	18 321	0.52%

Source: International Copper Study Group – April 2010

Copper consumption

Based on analysis performed by the ICSG, refined copper consumption in 2009 increased versus the prior year by 0.52% to 18 157 thousand, meaning an increase by 104 thousand tonnes. This situation was only made possible due to the enormous increase in consumption in China. Numerous infrastructural investments and government stimulus packets led to increased demand in China by 2 million tonnes, meaning an increase by 38% y/y. A large amount of copper went in particular to the construction, automobile and power sectors. The impact of China on the global copper market is increasing year by year. In 2009 this country was responsible for nearly 40% of global consumption, and if China continues to grow at such a rapid

Change in refined copper consumption in 2009 by global region ('000 tonnes)



Source: International Copper Study Group, April 2010

rate as at present, the significance of this country will also continue to grow. The large increase in consumption in China counterbalanced the rapid drop in demand in all other regions of the world. In developed countries the economic slowdown following the largest global crisis following the Second World War was painfully evident. The scale of the decrease in copper consumption in Europe and the USA (a decrease respectively by 22% and 18% y/y) demonstrates the enormity of the recent crisis. In other regions of the world changes in production have not been so substantial. Refined copper consumption in Africa increased by 8 thousand tonnes (3% y/y), while in Oceania it fell by 21 thousand tonnes (-14% y/y).

Copper inventories

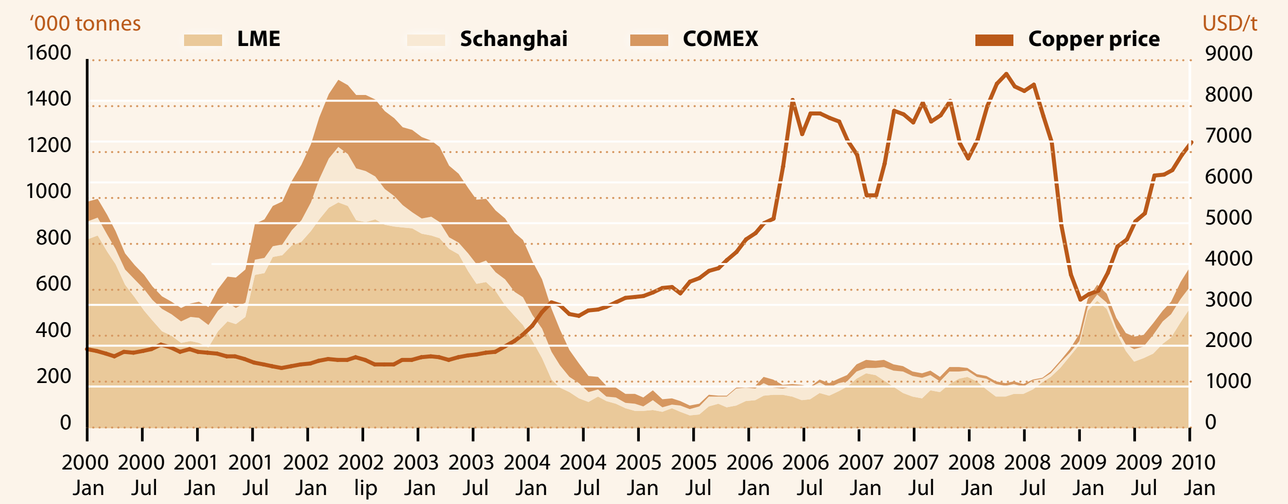
The rapid increase in copper imports to China in the first half of 2009 to a significant degree led to a decrease in inventories on the world's three markets. After a falling trend which lasted several months, by June exchange warehouses held barely 376 thousand tonnes of copper. However, by the end of summer, the situation on the market had reversed. Copper inventories systematically rose for the rest of the year, and by the end of December had reached 688 thousand tonnes. Despite the fact that this was the lowest level in 2009, it was still far from levels observed in 2002. At the end of the year the largest inventories were found in LME warehouses – 73% of all inventories, 14% on the market in Shanghai, and 13% on COMEX.

Investment funds

The influence of investment funds on the commodities market has been rising steadily for several years. Commodities are perceived as a hedge against inflation, as well as against depreciation of the USD. For this reason, investment portfolio managers have increasingly been investing in metals and other raw materials.

Since the beginning of the year there has been evident a rapid flow of money to funds investing on the copper market. To a substantial degree this has led to an increase in the price of this metal, despite the growth of inventories in global warehouses seen in the second half of the year. In future, the involvement of investment funds should continue to be an important factor shaping the price of copper. The collapse in the copper price in the fourth quarter of 2008 showed that investor sentiment is highly volatile, and that investors can very quickly withdraw their money from these funds if the market situation deteriorates.

Copper warehouse inventories in the years 2000–2009



Source: CRU International

Daily silver price in 2009 – fixing LBMA (USD/troz)

Source: KGHM

Silver market

The average annual price of silver in 2009 on the London Bullion Market was 14.67 USD/troz, and was only slightly lower than in the prior year (14.99 USD/troz). From the start of the year the price of silver remained in a roughly rising trend. The maximum price reached in continuous trading was 19.43 USD/troz, while the minimum price of silver recorded was 10.31 USD/troz.

The increase in the silver price was caused by a depreciation of the USD and by increased interest by investment funds. As in the case of other metals, investing in silver was treated by investors as a good alternative to investing in shares or bonds. By the end of the year the silver price had ceased increasing, and remained in the range 16–19 USD/troz.

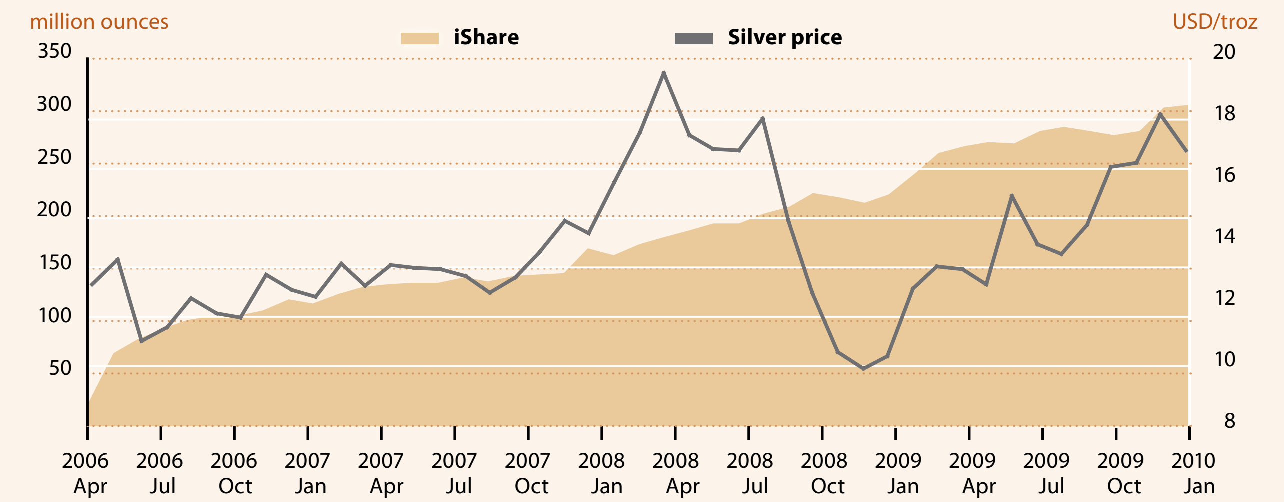
In the first half of 2009 the Gold/Silver Ratio, comparing the prices of silver and gold, remained at a rather high level. The price of silver was relatively low due to the economic crisis and to decreased industrial demand for silver. Gold was treated by investors as the safer asset, and therefore the more valuable one. Nonetheless, during the year silver gained in relation to gold, and the Gold/Silver Ratio returned to the level of 60 – being the average value of this ratio over the past decade.

In April 2006 the exchange-traded fund (ETF) iShares Silver Trust was established. This fund allows investors to take advantage of rising silver prices, without the need to physically own this metal. Thanks to this, access to this market has increased for a broader group of investors. The iShares fund, introduced by the bank Barclays, achieved enormous success, accumulating within the first five months of its existance over 100 million ounces of silver. By the end of 2009 the assets of this fund amounted to over 300 million ounces. Following the success of the iShares fund, other financial institutions also introduced similar products to the market. The importance of ETFs for the silver maket may be seen in the fact that annual silver mine production in 2009 amounted to 681 million troz. Investments in ETFs are of a long-term nature, as shown by the fact that despite the continued low price of silver at the turn of 2008 and 2009, the assets of these funds have systematically risen.

Gold/silver ratio in 2009

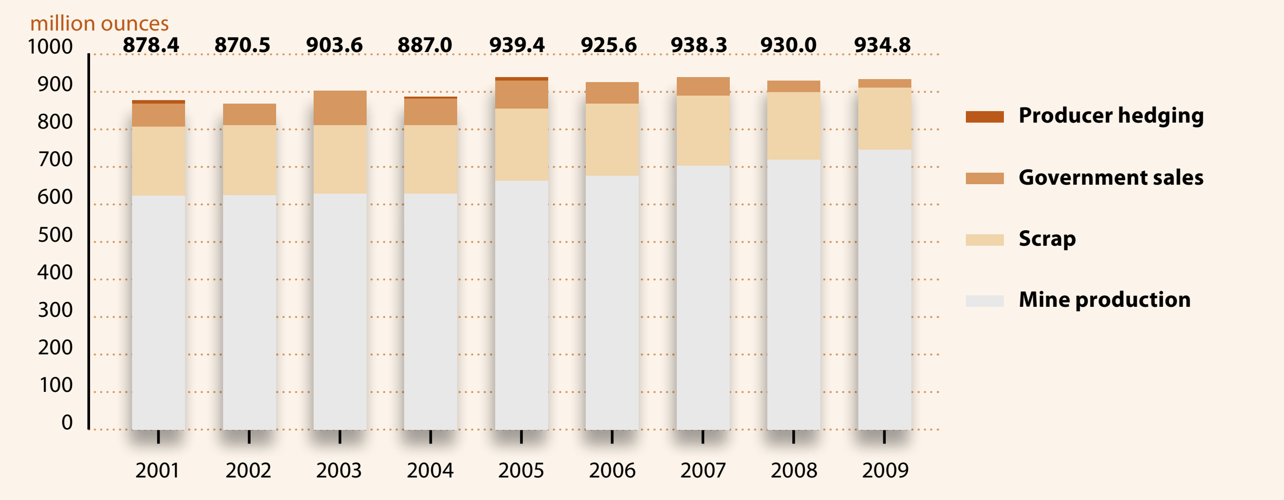
Source: KGHM

Assets of the largest ETF fund (iShares) in the period 2006–2009



Source: KGHM, based on CRU International

Silver supply in the years 2001–2009 (million ounces)



Source: KGHM, based on CRU International

Silver supply

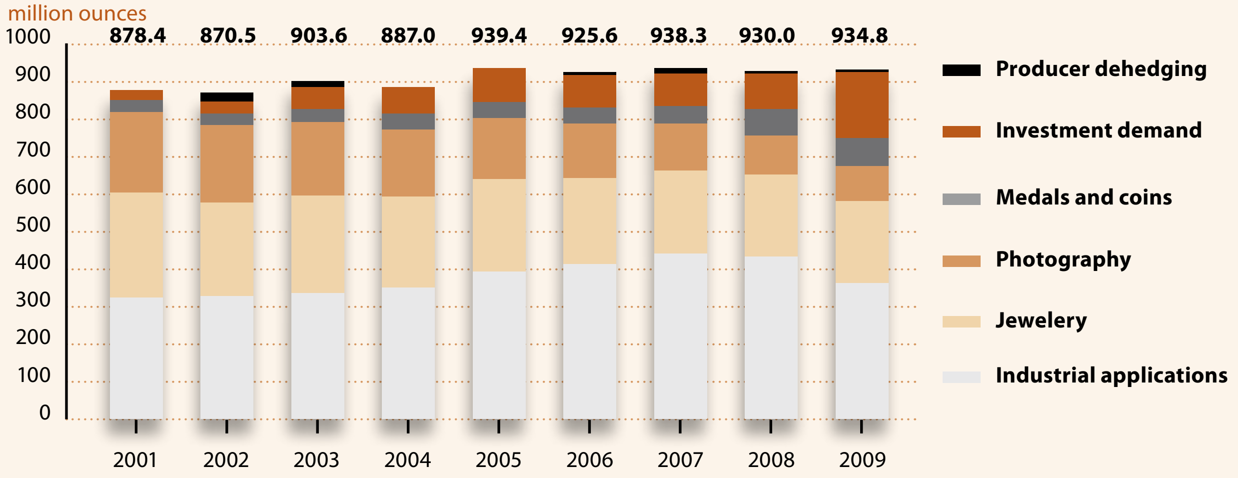
In 2009 total silver supply was essentially unchanged versus the prior year, and amounted to 935 million ounces. Mine production increased versus the prior year by 3.6%. This increase was observed in many regions of the world, with the largest increase in South America. Mines in Argentina and Peru, as well as one of the largest and newest mines in the world, San Cristobal in Bolivia, increased their production capacity. During this same time silver supply fell from the other two sources (scrap and government sales). A lower amount of recovered silver was especially evident in the photographic sector (a fall of 10.7%). This was mainly due to the falling demand in recent years for film-based photographic equipment, where silver is used to produce such film. The decrease in silver consumption by this sector has consequently led to decreased recovery in this regard. There was also decreased silver supply from the government sector, which last year sold only 22.5 million ounces, the least amount of this metal in a decade. There was only a minor reduction of Russian silver inventories, while China and India once again refrained from sales. The rise in the silver price in the past year discouraged producers from increasing their hedged positions.

Silver consumption

In 2009 economic demand for silver continued to decrease, and amounted to 752 million ounces. Demand for the metal fell primarily in the industrial sector. The recent financial crisis caused decreased demand for electronics and electrical equipment, which includes silver elements. Orders for silver by the photographic sector in 2009 fell by 14% versus the prior year. The growing interest in digital photography is gradually eliminating film-based photographic equipment from the market. One of the largest photographic equipment producers, Fuji Film, was forced in June 2009 to close one of its factories producing photographic equipment. Other producers, such as Kodak and Agfa, are acting in a similar manner, reducing production or replacing it with digital equipment. In 2009 there was only minimal growth in the use of silver in jewelery (by 0.5%), though this meant a halt to the falling trend observed in recent years. The only source of industrial demand which recorded an obvious increase in 2009 was coinage. The production of coins and medals increased in 2009 by 12.5% versus the prior year. During periods of financial volatility, demand usually rises for collectables, and in 2009 this demand was the highest in a decade. The growing interest in silver by financial investors is highly important. Investment demand in 2009 doubled versus the prior year, and already represents nearly 19% of total demand for this metal. The most significant factor in this increase in investment demand was the systematic inflow of funds to ETFs.

The scale of investor interest may be demonstrated by the fact that in 2009 the largest ETF, iShares, amassed nearly 86 million ounces of silver. Due to the rise in silver prices in 2009, some producers decided to close their hedged positions, which led to increased demand for silver by 8 million ounces.

Demand for silver in the years 2001–2009 (million ounces)



Source: KGHM, based on CRU International

Currency market

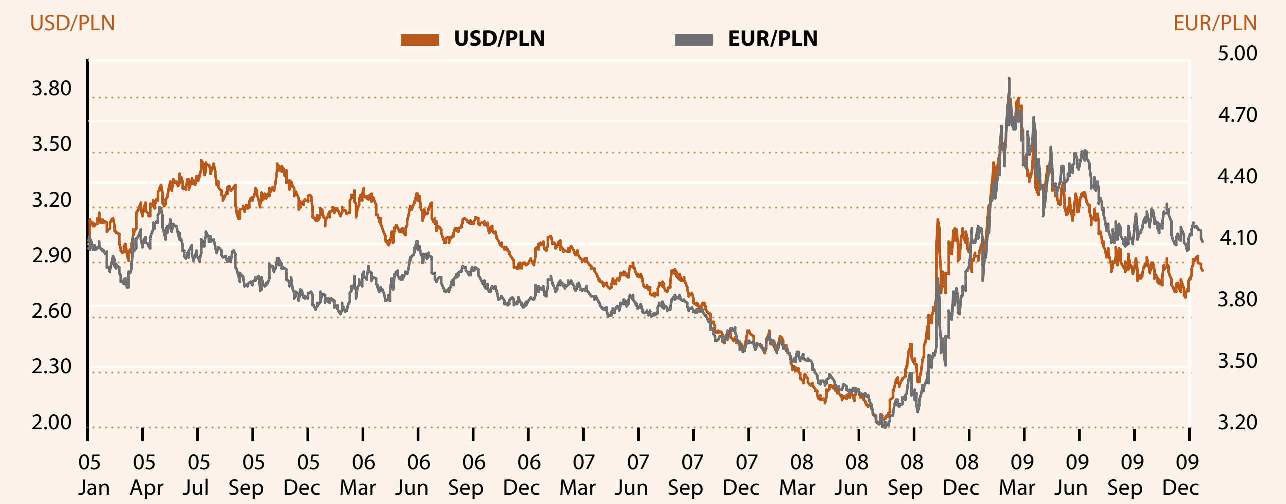
The year 2009 was decidedly better for the Polish economy than had been expected. Gross Domestic Product in Poland grew by 1.7%, which was substantial not only in regional terms, but also on a European scale. Poland also managed to successfully emerge from the largest global financial crisis in eighty years. The motor of economic growth was internal consumption and the relatively good situation on the labor market. Negative impact came from restricted external demand and substantial reduction in the size of investments due to the drop in foreign investing and the restricted availability of credit.

The greatest surprise for investors in 2009 was the scale of depreciation in the Polish zloty at the beginning of 2009. The increase in risk aversion on a global scale caused a rapid deterioration in sentiment towards the region. Many foreign investors assess investment risk in terms of regional baskets. The result was that negative signals from some of the countries in our region led to a withdrawal of funds from the entire region.

The rate of depreciation of the zloty versus the USD was never before so rapid. The depreciating trend begun in the second half of 2008 continued until February 2009, when the USD cost nearly PLN 4, and the Euro not much below PLN 5.

The range of zloty fluctuation versus the USD in 2009 was in the broad range of USD/PLN 2.6960 – 3.9143. During this period (based on NBP quotations) the average annual USD/PLN rate was 3.1181, and the EUR/PLN rate 4.3282. In both cases, these are levels significantly higher than in comparison to 2008 (respectively by 29.6% and 23.2%). In 2009 the minimum USD/PLN rate of USD/PLN 2.6960 was recorded in the second half of November, and the maximum of USD/PLN 3.9143 in mid-February During this period the Euro was cheapest at the beginning of January (3.8834 PLN), while the maximum of EUR/PLN 4.9300 was recorded in mid-February.

USD/PLN and EUR/PLN rates in the years 2005–2009 [fixing NBP]



Source: KGHM

The high liquidity of the Polish market enabled foreign investors to withdraw their capital from Poland. Additionally, many Polish exporters, for whom a weaker zloty should be an advantage, hedged themselves using options structures which destabilised their financial liquidity. Potential problems in the banking system and corporate problems increased speculative activity which weakened the zloty.

Resource base[1]

The resource base for the core business of KGHM Polska Miedź S.A. is the largest in Europe, and one of the largest globally, deposits of copper ore, situated between Lubin, Sieroszowice and Głogów. To exploit this deposit a mining zone of approximately 468 km^2 was created.

The copper ore deposit currently being worked lies at a depth of 600 to 1380 meters.

Among the numerous associated elements occurring together with the copper ore are those whose presence in the ore serve to increase the financial result of the Company, for example, silver, nickel and gold. Of particular economic importance for the Company is the relatively high silver content of the excavated ore (47 grams per tonnne of ore in 2009). Due to the thinness of the layer of mineralisation of precious metals, the lack of mineralisation continuity and its high irregularity, the concentrations documented are not treated as ore which meets economic criteria for separate mining operations. It should however be pointed out that a significant part of the precious metals contained in the copper ore are retained in the concentrate and recovered by the processing of anode slimes.

The amount of documented copper ore resources in areas licensed by KGHM Polska Miedź S.A. gives Poland 7th place globally in terms of its copper resources, and 3rd place in terms of its silver resources (per the 2010 U.S. Geological Survey).

1 Resource base – as at date of documentation for 2009 performed in accordance with the Decree of the Minister of the Environment dated 20 June 2005.

Table. 1. Balance ore resources of copper and other metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S. A. (at 31 December 2009)

Ore in production	Ore resources [m t]	Cu [%]	Ag [g/t]	Amount of Cu [m t]	Amount of Ag [t]
"Lubin-Małomice"	344	1.27	57	4.36	19 661
"Polkowice"	95	2.31	46	2.19	4 342
"Sieroszowice"	281	2.86	62	8.02	17 270
"Radwanice Wschód"	6	2.01	28	0.13	182
"Rudna"	452	1.79	43	8.09	19 471
"Głogów Głęboki Przemysłowy"	292	2.40	79	7.01	22 963
KGHM Polska Miedź S. A.	1 470	2.03	57	29.79	83 887

Current mining areas

KGHM Polska Miedź S.A. holds licenses for the mining of copper ore from the following regions:

- "Lubin-Małomice";
- "Polkowice";
- "Sieroszowice";
- "Rudna";
- "Radwanice-Wschód";
- "Głogów Głęboki Przemysłowy".

The licenses held by the Company entitle it to conduct copper ore mining until the year 2013 in the regions "Lubin", "Małomice", "Polkowice", "Sieroszowice" and "Rudna", until 2015 in the region "Radwanice Wschód", until 2046 in the region "Rudna II" and until 2054 in the region"Głogów Głęboki Przemysłowy".

The Company will be allowed to prolong the mining licenses which expire in the year 2013, in accordance with Polish law, until the completion of mining operations (i.e. exhaustion of the ore).

The estimated amounts of balance and industrial ore resources of the regions being worked by KGHM Polska Miedź S.A. are presented in tables 1 and 2, with reserve areas in table 3.

Reserve areas

Adjoining the area of the deposit currently being worked by KGHM Polska Miedź S.A. are the documented ore zones of "Gaworzyce" and "Radwanice Zachód", containing balance copper ore resources. These are treated at present as reserve areas which may in the future be brought into exploitation.

Following exhaustion of the ore, in a north-westerly direction from the ore currently being worked and from the "Głogów Głęboki Przemysłowy" deposit which is being prepared for exploitation, at a depth of up to 1500 m occur regions of proven increased copper mineralisation: "Głogów", "Bytom Odrzański" and "Retków", which – as they do not meet current criteria for being treated as mineable copper ore at a depth below 1250 m, they are not treated as documented copper ore balance resources.

Due to the continuation of high copper and silver prices on the global market, to gather further geological information on the copper ore deposits, KGHM Polska Miedź S.A. in the years 2007–2008 submitted requests for the granting of licenses for the evaluation of copper ore deposits in the documented zones of "Gaworzyce" and "Radwanice", to explore for copper ore deposits in the "Nowiny" zone and to explore for and evaluate deposits in the North Sudetic Basin.

In 2008, KGHM Polska Miedź S.A. received a license to evaluate the "Gaworzyce" copper ore deposit, and in 2009 to evaluate the copper ore deposit of "Radwanice" and in the North Sudetic Basin.

Tab. 2. Industrial ore resources of copper and other metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S.A. (at 31 December 2009)

Ore in production	Ore resources [m t]	Cu [%]	Ag [g/t]	Amount of Cu [m t]	Amount of Ag [t]
"Lubin-Małomice"	274	1.26	57	3.47	15 647
"Polkowice"	51	2.42	46	1.23	2 346
"Sieroszowice"	268	2.88	62	7.71	16 515
"Radwanice-Wschód"	6	2.01	28	0.13	182
"Rudna"	326	1.84	45	6.01	14 809
"Głogów Głęboki Przemysłowy"	267	2.40	78	6.42	20 801
KGHM Polska Miedź S. A.	1 194	2.09	59	24.98	70 300

Tab. 3. Balance ore resources of copper and other metals (Cu, Ag) in reserve areas to a depth of 1250 m

Ore not in production	Ore resources [m t]	Cu [%]	Ag [g/t]	Amount of Cu [m t]	Amount of Ag [t]
Bytom Odrzański	2.25	4.16	24	0.1	54
Retków	137.3	1.57	80	2.2	11 031
Gaworzyce	54.4	2.36	35	1.3	1 926
Radwanice Zachód	18.6	2.50	43	0.5	795

Production results

The main objectives set forth by the Management Board with respect to production in 2009 were:

- optimal utilisation of the resource base and of the production capacity of the Company; and
- optimisation of the copper content in ore and concentrate.

The objectives set forth required fulfilment of the following tasks:

- improving the ore selection system by:
  - selecting an appropriate size for the support pillars and the geometry of working fields in order to restrict the risk of rock collapse;
  - applying so-called partial backfill in thick ore deposits;
  - increasing the scope of selective mining (i.e. leaving a larger amount of uncrushed stone at the bottom of the mine) and utilising wheeled machines which are an appropriate height for the thickness of the ore;
- increasing the scope of drift work to prepare new working areas in the mines and improve knowledge of the deposit;
- adapting the production capacity of specific areas of the Ore Enrichment Plants to the amount and quality of ore supplied;
- improving enrichment parameters through the successive exchange of floatation equipment;
- 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;
- preparation and modernisation of the flash furnace unit at the Głogów smelter;
- maintenance of the main Contirod production line at the Cedynia wire rod plant in Orsk; and
- work on an investment comprising construction of the 4th Doerschel furnace at the Głogów smelter.

Mine production

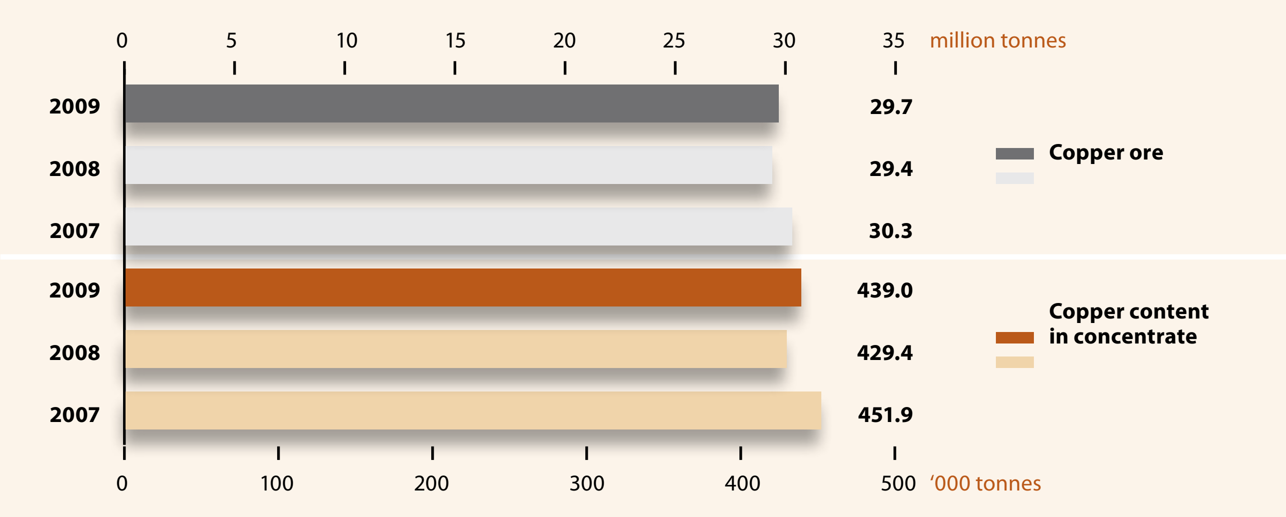
Ore extraction by dry weight in 2009 was higher by 0.3 million tonnes than in 2008. This increase in extraction in 2009 was mainly achieved thanks to an increase in daily ore extraction.

The average copper content in extracted ore amounted to 1.68% and was higher than that achieved in 2008 (1.64%) mainly due to an improvement in the purity of the extracted ore and to work in regions with higher copper ore mineralisation.

The increase in extracted ore and the improvement in its quality caused an increase in the amount of copper in extracted ore by 17.9 thousand tonnes, i.e. by 4%.

The increase in copper content in extracted ore had a direct impact on the amount of copper in concentrate produced, which was 2% higher versus 2008.

Mine production in the years 2007–2009



Smelter production

In comparison to the prior year the production of electrolytic copper decreased in 2009 by 24.3 thousand tonnes, i.e. by 5%, mainly due to the three-month maintenance on the flash furnace at the Głogów smelter.

The production of other smelter products (silver, wire rod, OFE rod and round billets) depends on the level of electrolytic copper production, the type of raw materials used and on market demand.

The lower level of wire rod production (by 14%) and of round billets (by 26%) is due to lower demand caused by the economic crisis, while the decrease by 10% in the volume of gold production is due to a lower content of this metal in purchased copper-bearing materials than in the prior year.

Copper processing

Copper cathodes are the basic product of KGHM Polska Miedź S.A., over 40% of which undergo further processing by the divisions of KGHM:

- the Cedynia Wire Rod Plant produces wire rod, oxygen-free copper rod and silver-bearing, oxygen-free copper rod;
- the Legnica smelter produces round billets.

The decrease in market demand for wire rod was the reason for the decrease in the production of this product by 18% versus the prior year.

Main directions in production

The main production goals set out by the Management Board in 2010, as in the prior year, are: optimal utilisation of the resource base and of the production capacity of the Company and optimisation of the copper content in ore and concentrate.

As a result of the above the key goals for 2010 will be:

- continued drift preparation work being realised in the direction of the Głogów Głeboki Przemysłowy deposit;
- the application of new drift preparation work technology using drift combines;
- restricting depletion and moving from mining areas with low copper content to those with higher copper content;
- continued exchange of floatation machinery;
- optimisation of the enrichment processes in order to counter the effects of a decrease in ore quantity-quality parameters;
- continued work on an investment comprising construction of the 4th Doerschel furnace at the Głogów smelter;
- renovation of the Sulphuric Acid Plant at the Głogów smelter;
- modernisation of electrolyte cleaning facilities at the Legnica smelter and the Głogów smelter; and
- construction of a concentrate warehouse at the Głogów smelter.

Smelter production in the years 2007–2009

	Unit	2007	2008	2009
Electrolytic copper	'000 t	533.0	526.8	502.5
Wire rod (Contirod)	'000 t	250.9	206.2	177.5
Oxygen-free copper rod (UPCAST)	'000 t	10.9	11.8	13.8
Round billets	'000 t	19.0	20.2	14.9
Silver	t	1 215	1 193	1 203
Gold	kg	883	902	814

Financial results

Profit before income tax in 2009 amounted to PLN 3 067 million lower than in the comparable prior period. This result was impacted by (PLN million):

- profit on sales 3 197
- net finance costs (32)

Result on sales

in relation to 2008, profit on sales decreased by PLN 195 million, mainly due to:

- weakening of the PLN exchange rate from 2.41 to 3.12 USD/PLN PLN 2 912 million;
- lower average prices of copper products by 23% PLN (2 526) million;
- a decrease by 27.4 thousand t in the volume of sales of copper products PLN (453) million;
- and a lower positive adjustment of revenues due to the hedging of copper and silver prices PLN (144) million.

Other operating activities

The loss on other operating activities of PLN 99 million was mainly due to the following (PLN million):

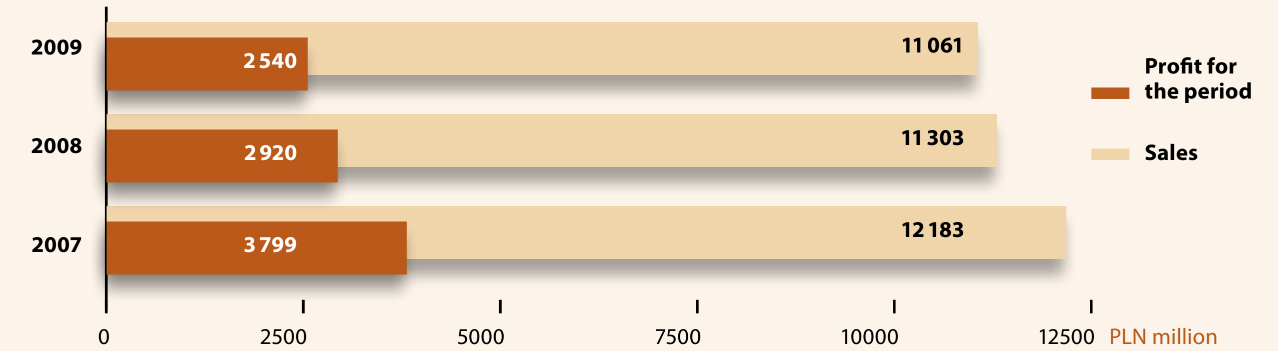
- income from dividends 455;
- loss on measurement and realisation of derivative instruments (539);
- interest income on financial instruments 80;
- foreign exchange losses (62);
- impairment losses on shares in a subsidiary –50;
- release of unused provisions, recognition of provisions 35.

The net finance costs of PLN (32) million were mainly due to the change in the level of provisions (unwinding of the discount effect) in the amount of PLN (30) million.

Income statement – basic items (PLN million)

	2008	2009
Sales	11 303	11 061
Operating costs	7 911	7 864
Profit on sales	3 392	3 197
Profit/(loss) on other operating activities	204	–99
Operating profit (EBIT)	3 596	3 098
Net finance costs	–43	–32
Profit before income tax	3 554	3 067
Profit for the period	2 920	2 540
EBITDA (EBIT + depreciation)	4 078	3 646

Sales and profit for the period in the years 2007–2009 (PLN million)



Market risk

In 2009 copper price hedging strategies represented approx. 34% (in 2008 35%) of sales of this metal realised by the Company. In the case of silver sales they amounted to approx. 25% (in 2008 32%). In the case of the currency market, hedged revenues from sales represented approx. 34% (in 2008 11%) of total revenues from sales realised by the Company.

In 2009 the result on derivative instruments was at the level of PLN (105 450) thousand (in 2008 PLN 367 990 thousand), of which:

- revenues from sales were increased by PLN 433 187 thousand (in 2008 PLN 579 991 thousand) – reclassified from accumulated other comprehensive income to revenues from sales in the reporting period;
- PLN (192 783) thousand (in 2008 PLN (99 575) thousand) adjusted other operating costs – loss from the realisation of derivative instruments;
- PLN (345 854) thousand (in 2008 PLN (112 426) thousand) adjusted other operating costs – loss from the measurement of derivative instruments.

The adjustment of other operating costs due to the measurement of derivative transactions results mainly from changes in the time value of options which are to be settled in future periods. Due to the existing hedge accounting of the Company, changes in the time value of options are not accounted for in accumulated other comprehensive income.

In 2009, the Company implemented copper price hedging strategies of a total volume of 264 thousand tonnes and a time horizon falling in the second half of 2009, 2010 and in the first half of 2011. The Company made use of options (Asian options) including puts, corridors, seagulls and producer puts. Additionally, the Company performed a restructurisation, implemented during the analysed period, of its seagull options strategy for 2010 of a total volume of 58.5 thousand tonnes through the buyback of sold puts. During the analysed period the Company did not implement adjustment hedge transactions.

In the case of the silver market, during the analysed period strategies for hedging the price of this metal were implemented of a total volume of 7.2 million troz and a time horizon falling in 2010. The Company made use of puts (Asian options). In 2009, there were no adjustment hedge transactions implemented on the silver market.

In the case of the forward currency market, in 2009 the Company implemented strategies hedging the USD/PLN rate for an amount of USD 1 410 million and a time horizon falling in the second half of 2009 and the entire year 2010. The Company made use of options (European options) including puts, corridors and producer puts. Additionally, the Company performed a restructurisation, implemented in prior periods as well as in the analysed period, of its option strategies for 2009 and 2010 of a total nominal amount of USD 630 million through the sale of purchased puts and the sale of corridors. These operations were recognised in accumulated other comprehensive income in the amount of PLN 147 912 thousand, which will adjust in plus revenues from sales in 2010. During the analysed period there were no adjustment hedge transactions implemented on the currency market.

In 2009 the position hedging the revenues of the Company was consistently developed, by entering into new transactions in derivative instruments for subsequent periods. It was also possible to restructure a portion of options strategies previously implemented. On the copper market, the redemption of put options sold within a seagull structure enables the full use of put options sold within this structure in case of any eventual decrease in the price of this metal in 2010. Meanwhile, the restructurisation of positions on the currency market is recognised in revenues from sales in the amount of PLN 147 912 thousand in 2010.

The Company remains hedged for a portion of copper sales planned in the first half of 2010 (78 thousand tonnes), in the second half of 2010 (58.5 thousand tonnes) and in the first half of 2011 (19.5 thousand tonnes), and for a portion of silver sales planned in 2010 (7.2 million troz). With respect to revenues from sales (currency market) the Company holds a hedging position for 2010 (USD 600 million).

The use of options structures enables participation in eventual rises in the prices of metals or in any weakening of the USD/PLN exchange rate.

Assets

In comparison to the end of 2008, total assets increased by less than 1% (PLN 52 million). There were significant changes in particular items of the balance sheet, including primarily property, plant and equipment and inventories, whose total amount increased by PLN 866 million (12%) as well as cash and cash equivalents and derivative financial instruments, which decreased during the year by PLN 1 215 million (48%).

The value of property, plant and equipment increased in 2009 by PLN 442 million (8%), mainly due to realisation of the investment program. Capital expenditures amounted to PLN 1 070 million, i.e. nearly twice as much as depreciation on property, plant and equipment (PLN 538 million).

The total carrying amount of shares was PLN 3 075 million, representing 22% of total assets at the end of 2009. As a result of equity investments the carrying amount of shares in subsidiaries and associates increased by PLN 117 million (4%). The largest cause of the increase in this balance sheet item was the increase in the share capital of “Energetyka” sp. z o.o. by PLN 154 million to be used for investments in the power sector (the purchase of shares of WPEC Legnica). Conversely, due to impairment, there was a decrease in the carrying amount of the shares of Zagłebie Lubin S.A. from PLN 100 million in 2008 to PLN 50 million at the end of 2009.

Current assets amounted to PLN 4 444 million and are more than twice as much as current liabilities. In the structure of current assets the highest-value item was inventories, which at the end of 2009 amounted to PLN 1 890 million. The increase in inventories by PLN 443 million (31%) was mainly in respect of semi-products, including copper concentrate, and was due to maintenance performed on the flash furnace at the Głogów II smelter and to purchases of concentrate on the market.

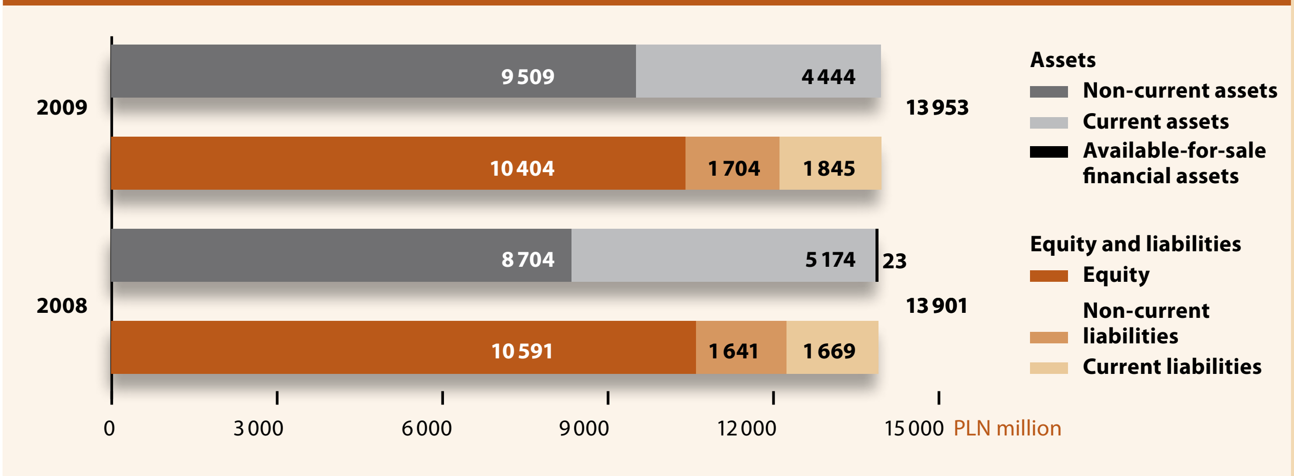
An important item in the structure of current assets was current receivables in the amount of PLN 1 315 million, of which:
- trade receivables (less allowance for impairment) PLN 1 003 million;
- other receivables PLN 312 million.

During the year trade receivables increased by PLN 504 million, i.e. by twice, with a decrease in their average amount by PLN 72 million (10%). This discrepancy is due to the significant volatility in receivables at the end of 2008 and start of 2009. Other receivables decreased by PLN 412 million (57%), mainly due to receivables on unsettled derivative instruments, of which there were none at 31 December 2009, but at the end of 2008 amounted to PLN 287 million.

Cash and cash equivalents amounted to PLN 975 million, and during the year decreased by PLN 818 million (46%), mainly due to the payment of a shareholders dividend in the amount of PLN 2 336 million.

Assets due to derivative financial instruments amounted to PLN 321 million (total non-current and current), which means a decrease in comparison to their carrying amount at the end of 2008 by PLN 396 million (55%).

Asset structure in the years 2008–2009



Equity and liabilities

In 2009 the basic source for financing assets was equity, exceeding by 9% the amount of non-current assets. The share of equity in total assets was 75% and was slightly lower than at the end of 2008 (76%).

The decrease in equity during the year by PLN 187 million was comprised of:
- accumulated other comprehensive income (PLN 392 million), mainly adjustment due to the reclassification of hedging instruments (reclassified to profit or loss);
- the profit for 2009, less the dividend for 2008 (PLN 204 million).

Total non-current and current liabilities amounted to PLN 3 549 million, i.e. PLN 240 million higher than at the end of 2008. Their share in the assets financing structure increased, as shown by the relation of liabilities to equity – an increase from 31% to 34%.

The largest item was trade and other payables (current and non-current) in the total amount of PLN 1 394 million, of which:
- trade payables in the amount of PLN 428 million (an increase by 13% during the year);
- payables due to the purchase and construction of fixed assets and intangible assets in the amount of PLN 181 million (a decrease by 45% during the year);
- other payables in the amount of PLN 785 million, of which: taxation and social security PLN 176 million, accruals, PLN 304 million, mainly respecting the annual bonus. Payables in this regard did not significantly change during the year.

A significant item is the liabilities due to employee benefits in the total amount of PLN 1 192 million, of which:
- the coal equivalent payment PLN 753 million;
- jubilee bonuses PLN 233 million;
- retirement and disability benefits PLN 181 million.

Liabilities due to derivative financial instruments amounted in total to PLN 335 million, and during the year increased by nearly a factor of nine.

The prevailing part of provisions for other liabilities (PLN 533 million – tal non-current and current) is a revalued provision for decommissioning costs of mines and other facilities (PLN 511 million).

Due to positive cash flow in 2009 the Company did not make use of bank loans.

Financial ratios

Liquidity ratios show the relationship of current assets, or their more liquid part, to current liabilities. The decrease in the liquidity ratios was mainly due to a decrease in cash and cash equivalents.

The decrease in the financial result resulted in the deterioration of the return on assets (ROA) and the return on equity (ROE) ratios.

The increase in the debt ratio is due to the increase in liabilities, mainly with respect to derivative financial instruments and to liabilities due to employee benefits, alongside a decrease in equity. The decrease in equity was the main cause of the decrease in the durability of financing structure ratio.

The basic ratios describing the economic activities of the Company

	2008	2009
Current liquidity	3.1	2.4
Quick liquidity	2.2	1.4
ROA – return on assets (%)	21.0	18.2
ROE – return on equity (%)	27.6	24.4
Debt ratio (%)	23.8	25.4
Durability of financing structure (%)	88.0	86.8

Operating costs

Operating costs are decisively impacted by the costs of electrolytic copper production, whose share in the Company's costs is over 90%.

The pre-precious metals credit unit cost of copper production (prior to decreasing by the value of silver and gold) in 2009 was higher versus 2008 by 510 PLN/t, i.e. by 4%, mainly due to:

- an increase in costs by type, of which:
- energy costs (315 PLN/t) and the value of external copper-bearing materials (242 PLN/t) due to higher purchase prices;
- labor costs, excluding the provision for future employee benefits (+190 PLN/t);
- depreciation/amortisation (+113 PLN/t);
- lower electrolytic copper production by 24.3 thousand t, i.e. by 5% (+367 PLN/t);
- the transferral to inventories of 37.1 thousand tonnes of copper in concentrate (–649 PLN/t).

The favorable valuation of anode slimes due to the increase in the price of gold and silver caused a decrease in the total unit cost of electrolytic copper production by 566 PLN/t, i.e. by 5%.

The pre-precious metals credit cost of copper production from internal concentrates increased by 271 PLN/t, i.e. by 2%, which was primarily due to the above-mentioned increase in costs by type and the decrease in the volume of copper production from internal concentrate by 5%.

The table below presents the basic ratios describing the economic activities of the Company.

In 2009 total costs by type increased by PLN 435 million, i.e. by 6%, mainly due to (in PLN million):

- the higher value of external copper-bearing materials 244;
- production-related energy costs 175;
- labor costs, mainly including provisions for future employee benefits 134;
- depreciation/amortisation 66

alongside a decrease in the costs of materials and fuels by PLN 76 million, a lower write-down of inventories by PLN 61 million and lower taxation due to waste storage by PLN 50 million.

Unit cost of electrolytic copper production

	Unit	2007	2008	2009
Pre-precious metals credit cost of	PLN/t	12 744	13 434	13 944
copper production	USD/t	4 603	5 583	4 472
of which: from internal concentrates	PLN/t	11 127	12 882	13 153
Total cost of	PLN/t	11 160	11 736	11 170
copper production	USD/t	4 031	4 878	3 582
of which: from internal concentrates	PLN/t	9 313	10 797	9 750
Electrolytic copper production	'000 t	533.0	526.8	502.5
of which: from internal concentrates	'000 t	440.7	421.7	398.6

Structure of costs by type (%)

	2007	2008	2009
Depreciation of property, plant and equipment and amortisation of intangible assets	6	6	7
Materials and energy consumption	45	44	46
including external copper-bearing materials	23	21	23
External services	12	13	12
Employee benefits costs	32	31	31
Taxes and charges	4	4	3
Other	1	1	0

Realisation of projected Company results

In a current report dated 23 February 2009, the Company published its Budget assumptions for 2009 as accepted by the Supervisory Board on the same day. The Budget assumes the achievement in 2009 of revenues from sales in the amount of PLN 7 048 million and profit of PLN 488 million.

Together with the improvement in macroeconomic conditions during the year, the Company updated its forecast. The final projection of financial results was published in a current report dated 12 November 2009.

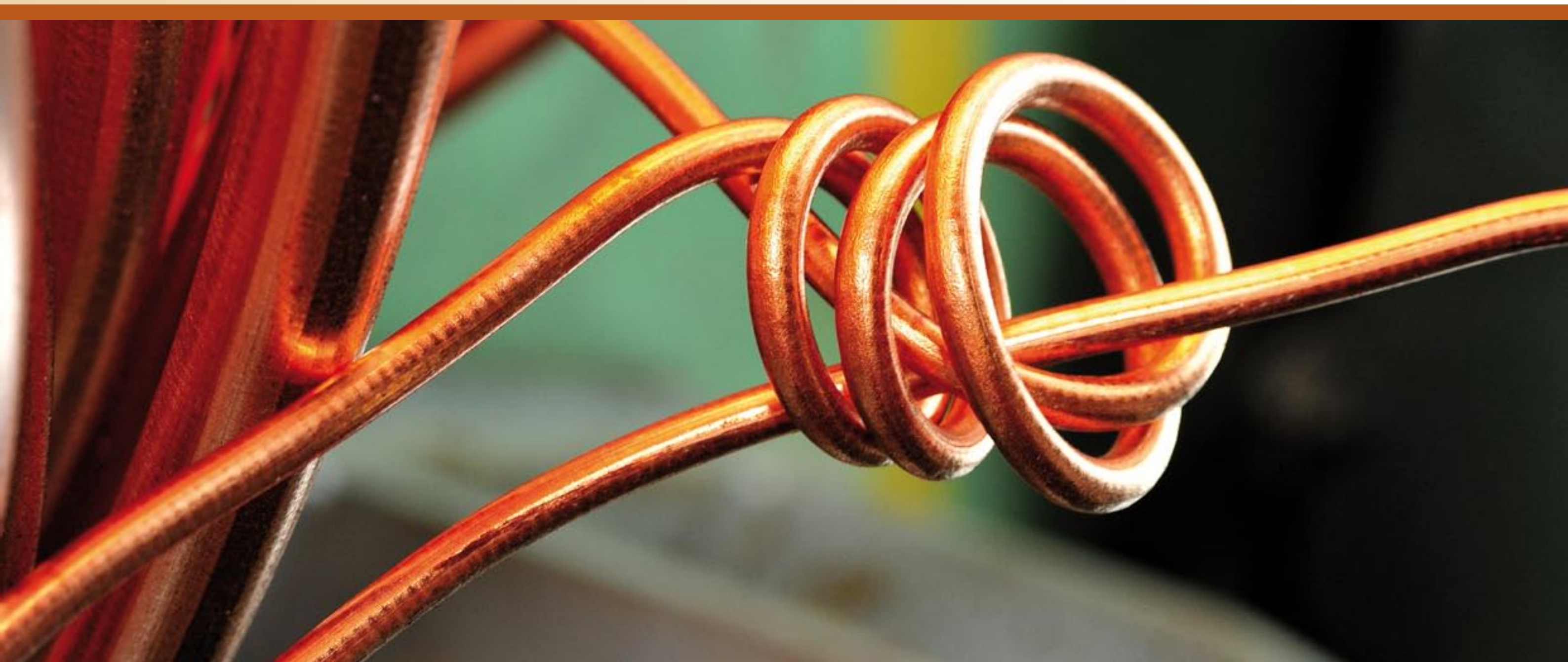
Basic assumptions, projected results and their realisation are shown in the following table.

The higher-than-expected profit is mainly the result of better-than-expected copper prices, alongside a lower-than-expected level of impairment losses due to the measurement of assets at year's end.

Realisation of the projected financial results of the Company for 2009

	Unit	Budget 2009 23.02.2009	Updated projection 14.05.2009	Adjusted Budget 24.08.2009	Adjusted projection 12.11.2009	Execution 2009	Execution %
Sales	million	7 048	9 065	9 662	10 829	11 061	102.1
Profit for the period	million	488	1 906	1 950	2 249	2 540	112.9
Average annual copper price	USD/t	3 200	3 800	4 500	5 045	5 164	102.4
Average annual copper price	PLN/t	9 280	12 350	13 950	15 791	15 781	99.9
Average annual silver price	USD/troz	10.00	12.60	13.00	14.53	14.67	101.0
USD/PLN exchange rate	USD/PLN	2.90	3.25	3.10	3.13	3.12	99.7
Electrolytic copper production	'000 t	512.0	496.0	500.9	500.9	502.5	100.3
Silver production	t	1 125	1 159	1 203	1 203	1 203	100.0
Total unit cost of electrolytic copper production	PLN/t	10 466	10 659	11 160	11 254	11 170	99.3
Capital expenditure	million	1 235	1 235	1 235	1 235	1 070	86.6
Equity investments*	million	939	939	369	369	220	59.6

* Includes purchase/sale of shares, increases/decreases of capital and owner loans and payments to capital



Projected Company financial situation in 2010

On 1 February 2010 the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2010. The basis for preparation of the Budget were the preliminary results for 2009 and the assumptions contained in specific operating plans. The accepted Budget assumes the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit for the period of PLN 2 898 million.

Details of the basic assumptions of the Budget for 2010 are presented below:

The change in the level of the planned total unit copper production cost in 2010 results mainly from an increase in labor costs, higher depreciation and the utilisation of internal semi-products inventories, alongside an unfavorable valuation of anode slimes.

The investment program assumed in the Budget is aimed at realisation of the following goals:

- replacing worn-out assets and maintaining production over the long term from domestic resources (the technical infrastructure of new mining regions);

Company Budget assumptions for 2010

	Unit	2009	Budget 2010
Sales	million	11 061	11 736
Profit for the period	million	2 540	2 898
Average annual copper price	USD/t	5 164	6 700
Average annual copper price	PLN/t	15 781	18 090
Average annual silver price	USD/troz	14.67	17.00
USD/PLN exchange rate	USD/PLN	3.12	2.70
Electrolytic copper production	'000 t	502.5	512.0
of which from external concentrates	'000 t	103.8	84.0
Silver production	t	1 203	1 100
Total unit cost of electrolytic	PLN/t	11 170	12 548
copper production	USD/t	3 582	4 648
Capital expenditure	million	1 070	1 633
Equity investments*	million	220	1 635

* Includes purchase/sale of shares, increases/decreases of capital and owner loans and payments to capital

The expected increase in electrolytic copper production in 2010 is mainly due to an increase in production from internal concentrates (utilisation of concentrate inventories created during the maintenance halt in the Głogów smelter in 2009) and due to initiatives undertaken with respect to realisation of the "Effectiveness" project.

The "Effectiveness" project, which has been in effect since February 2009, is aimed at reducing the unit copper production cost and encompasses all of the operational areas of the Company. The potential for improving effectiveness/reducing costs has been estimated at over PLN 600 million on an average annual basis after the implementation of all programs.

- improving productivity through realisation of projects resulting in reducing core business costs;
- additional revenues from improving the effectiveness of the production process.

The main elements in planned equity investments are the following projects resulting from the Company strategy:

- the acquisition of a foreign mining entity;
- the acquisition of investment certificates of Closed-end Funds, managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A.;
- investments within the KGHM Polska Miedź S.A. Group.

In realising these assumptions, on 4 May 2010 the Company signed an Investment Agreement with Abacus Mining & Exploration Corporation with its registered head office in Vancouver, regarding formation of a joint venture to advance the Afton-Ajax copper-gold mining project located in British Columbia in Canada.

The Investment Agreement provides for:

- The acquisition by KGHM Polska Miedź S.A. of a 51% interest in the joint venture company formed together with Abacus, through a cash contribution in the amount of USD 37 million (the equivalent of PLN 110.7 million pursuant to the National Bank of Poland exchange rate for USD/PLN of 4 May 2010). Abacus will bring to the joint venture all the rights it owns to the Afton-Ajax deposit. The cash will be used to carry out a Bankable Feasibility Study and for further exploration.
- An option to acquire by KGHM Polska Miedź S.A. a further 29% in the joint venture company for an amount not higher than USD 35 million (the equivalent of PLN 104.7 million pursuant to the National Bank of Poland exchange rate for USD/PLN of 4 May 2010). KGHM shall have the right to execute this option following completion of the Bankable Feasibility Study.

Realisation of the Investment Agreement is subject to approval by the shareholders of Abacus. In consideration of the above, the Parties have agreed to complete a definitive joint venture agreement by the end of the second quarter of 2010, and not later than 30 September 2010.

The continued high volatility in copper prices and the USD/PLN exchange rate means that projections of the financial results of KGHM Polska Miedź S.A. are characterised by high uncertainty. Based on analysis of the current macroeconomic situation, KGHM Polska Miedź S.A. does not foresee significant divergence from the projected assumptions for the 2010 financial result.

Investments and Research and Development

Report on expenditures incurred on the realisation of tangible investments in the Divisions of KGHM PM S.A. for 2009

The structure of investments realised during the reporting period is presented in the table below.

Investment activities were primarily aimed at the realisation of development projects and the replacement of equipment.

Major projects and facilities realised in 2009:

- Construction of the SW-4 shaft – work continued on freezing and excavating the shaft, which was deepened by 567.5 meters. Work was also carried out on surface infrastructure and on drift tunnelling (1 168.5 meters of was performed). Expenditures incurred: PLN 145 million of planned PLN 148 million.
- Głogów Głęboki Przemysłowy – work continued on drift tunnelling to access the Głogów Głeboki Przemysłowy mining area. During the reporting period 5 874 meters of tunnels were dug (altogether since 2005, 32 thousand meters of the planned 129 907 meters of tunnels have been developed, i.e. 25%). Work continued on developing the technical infrastructure with respect to: the underground power grid, dewatering system, horizontal transport system and ventilation. With respect to preparatory work on excavating the GG-1 shaft, work was completed on drilling test holes, geological documentation was developed and other design work was performed. A total of PLN 56.7 million was incurred of the planned PLN 60.7 million.

Structure of investment expenditures by Division ('000 PLN)

	2007	2008	2009
Mining	666	880	833.5
Smelting	129	243	219
Other activities	33	17	17
Total	828	1 140	1 070

Development-related investments ('000 PLN)

	2007	2008	2009
Development:	383	492	513
in mining	310	422	430
in smelting	54	62	78
in other Divisions	19	7,5	5

In 2009, an event occurred in the network of drift tunnels accessing the Głogów Głeboki Przemysłowy deposit which was characterised as an outburst of gas and rock. Work in this direction was halted until an explanation for the cause of this event was determined, and principles for safely working were developed. The event required an alteration of the order in the schedule of work.

- Investments related to developing the infrastructure of the excavation sections of the mines – for development of conveyor belts and retention tanks, the construction of underground electrical switching gear and power lines and the construction and outfitting of heavy machinery cells, investment expenditures were incurred of PLN 106 million of the PLN 114 million planned for 2009.
- Power and communications facilities – in this group investments were realised respecting electrical switching gear and power lines, and transformer stations, power supply units and electrical installations were modernised. Investment expenditures of PLN 30 million were incurred of the planned PLN 33 million.
- Ventilation and air conditioning equipment – during the reporting period a total of PLN 27.4 million was incurred of the planned PLN 28 million on investment expenditures to finance the realisation of ventilation equipment (ventilation belts, mine ventilators) and air conditioning equipment (air conditioning piping) in the mines.
- Investments related to conveyor belt and pipe transport – for the realisation of dewatering piping networks and conveyor belt in the Company's mines, expenditures were incurred as planned in the amount of PLN 19 million.
- With respect to replacement-related investments in the smelters:
  - mechanical assembly was completed on the concentrate drier at the Głogów II smelter – the drier was brought into operation in August 2009;
  - a contract was signed with Chemadex S.A. from Katowice to develop project documentation to replace the sulphuric acid plant at the Głogów I smelter, and selection was made of suppliers for the heat exchangers. During the tender process, contractors are selected for the construction/assembly work on the exchangers, delivery of the contact device and the starting unit;
  - in the sulphuric acid plant at the Głogów II smelter work was completed related to construction of the wet electrofilters and replacement of heat exchangers E202, E203, E205, E206 and E207;
  - in the Electrical Furnace and Convertors Section at the Głogów smelter work was completed on replacing the walls and cooling units of the electrical furnace;
  - at the Legnica smelter a steering and control system for the copper electrorefining process was realised, the electrolite heaters and cathode drawing equipment was replaced and other minor investments related to replacement were carried out.

Altogether, PLN 84.4 million was incured of the planned PLN 95 million on the replacement and modernisation of smelting machinery and systems.

- Investments were made related to improving and maintaining the safety of the Żelazny Most tailings pond and eliminating its environmental impact. Expenditures were incurred as planned in the amount of PLN 63 million.
- With respect to modernisation and replacement of the machinery park in the mines, 100% of planned purchases were realised. In 2009, 198 mining machines were purchased for PLN 195 million.
- The project for the Modernisation of pirometallurgy in the Głogów II smelter was realised according to plan. The modernised flash furnace was put into operation in August 2009. Work on adjusting and testing the installation was completed. Due to the lack of positive results with respect to the size of the feed to the furnace, the Director of the Głogów smelter appointed a team whose purpose is to determine the following:
  - the impact of organic coal content in concentrate on the size of the concentrate feed;

Replacement-related investments ('000 PLN)

	2007	2008	2009
Replacement	445	648	557
in mining, of which:	356	458	404
mining machinery	190	222	194
in smelting	75	181	141
in other Divisions	14	9	12

  - the conditions for minimalising the occurrence in the flash process of the oxides SO3 and NOX; and
  - optimisation of the mixture composition in order to achieve maximum smelting.
- With respect to the construction of a 4th Doerschel furnace, project documentation was developed, bidding was held to select a contractor for the construction-assembly work and a supplier for the furnace's power system was chosen.
- With respect to the Pirometallurgy Modernisation Program, a program was prepared for the Głogów I smelter during the reporting period:
  - the Finnish company OUTOTEC developed an updated base project;
  - BIPROMET S.A. worked on an update of the area management program as well as on an update of the environmental impact analysis for the project "Modernisation of pirometallurgy in KGHM Polska Miedź S.A. – the Flash Furnace at the Głogów I smelter;
  - AS BUD Brenno worked on construction of a new administration-social building at the Głogów I smelter.
- Construction of gas-steam blocks in the powerplants in Głogów and Polkowice – expenditures incurred by "Energetyka" sp. z o.o. to develop a technical-economic analysis for the selection of gas-steam blocks were reimbursed. A technical advisor was selected to develop technical documentation and to prepare tender procedures. Negotiations were held in November and December 2009 on the conditions for a contract respecting the supply of natural gas from PGNiG S.A. and the submission of bids to supply gas turbines – conclusion of the tender should occur in February 2010, while the signing of a contract with PGNIG by the end of March. The signing of a contract with PGNiG is a necessary condition for the signing of contracts for the supply of equipment. During the past period actions were also taken with respect to obtaining project financing from EU funds.

Main areas of investment activities in the years 2010–2014

The main areas of investment activities in the years 2010–2014 comprise the following key activities:

1. Development and increased effectiveness of the core business:
- increasing the resource base, including maintaining the level of copper production from domestic sources, by:
  - replacing production-related assets in the divisions;
  - developing the technical infrastructure of new mining regions;
  - construction of the SW-4 shaft;
  - realisation of the Głogów Głeboki Przemysłowy project, which will enable continuation of the current level of copper production over the long term; and
  - exploring the possibility of mining the Radwanice-Gaworzyce deposit;
- improving effectiveness, including restriction of basic operating costs and modernisation of production-related assets by:
  - replacing floatation machinery;
  - modernising pirometallurgy;
  - constructing gas-steam blocks;
  - more rapid exchange of mining machinery; and
  - other investments related to reducing costs, which are currently being analysed.

2. Diversification of activities and supporting the development of KGHM – increasing the production of salt associated with the copper ore, increasing the production of crude and refined lead and the production of copper from scrap.

Equity investments of KGHM

At 31 December 2009 KGHM Polska Miedź S.A. directly owned shares of 20 entities. Six of them have their own capital groups: KGHM Ecoren S.A., PHP "MERCUS" sp. z o.o., DIALOG S.A., POL-MIEDŹ TRANS Sp. z o.o., KGHM CUPRUM sp. z o.o. – CBR and "Energetyka" sp. z o.o.

The value of the equity investments of KGHM Polska Miedź S.A. in 2009 related to the acquisition of shares in Group companies amounted to PLN 170 million. They were financed by the internal funds of the Company. The Parent Entity carried out equity investments within the Group through the acquisition of shares in the increased share capital of the following Group companies:

POL-MIEDŹ TRANS Sp. z o.o.

In 2009 KGHM Polska Miedź S.A. twice acquired shares in the increased share capital of POL-MIEDŹ TRANS Sp. z o.o.

In February 2009 KGHM Polska Miedź S.A. acquired newly-created shares of the company and covered them, at their face value, by a contribution in kind in the form of perpetual usufruct of land with a total amount of PLN 150 thousand. This investment was aimed at regulating the legal status of the property.

In November 2009 KGHM Polska Miedź S.A. acquired newly-created shares of the company which will be covered, at their face value, by cash in the total amount of PLN 10 million. Payment for these shares was set in two instalments. The first instalment in the amount of PLN 8 million was paid in November 2009. The date for payment of the second instalment was set at 10 May 2010. The company used the funds obtained from this increase in share capital for partial financing of the purchase of electric locomotives.

The share capital of POL-MIEDŹ TRANS Sp. z o.o. following the above-mentioned increases amounts to PLN 150.5 million. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

"MCZ" S.A.

In 2009 KGHM Polska Miedź S.A. acquired shares in the increased share capital of "MCZ" S.A. twice – in June in the amount of PLN 900 thousand and in November in the amount of PLN 600 thousand. In both cases the Company acquired the shares of the new issue and covered them, at their face value, by cash. The company used the funds obtained from this increase in share capital for the purchase of medical equipment. The share capital of "MCZ" S.A. following the above-mentioned increases amounts to PLN 54 million. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

CBJ sp. z o.o.

In December 2009 KGHM Polska Miedź S.A. acquired shares in the increased share capital of CBJ sp. z o.o. and covered them, at their face value, by cash in the total amount of PLN 2 million. The company used the funds obtained from this increase in share capital for realisation of investments related to automatisation of the processes of selecting samples for analysis. The share capital of CBJ sp. z o.o. following the increase amounts to PLN 5 million. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

"Energetyka" sp. z o.o.

In December 2009 KGHM Polska Miedź S.A. acquired shares in the increased share capital of "Energetyka" sp. z o.o. and covered them, at their face value, by cash in the total amount of PLN 153.5 million. The company used the funds obtained from this increase in share capital for partial financing of the purchase of 85% of the shares of WPEC Legnica S.A. The share capital of "Energetyka" sp. z o.o. following the increase amounts to PLN 402 million. The percentage share of KGHM Polska Miedź S.A. in the share capital of this company did not change.

KGHM TFI S.A.

A description of this equity investment may be found in the chapter "KGHM Polska Miedź S.A. Group" in the section "Changes in the structure of the Group".

Other equity investments

In 2009 KGHM Polska Miedź S.A. continued to invest in the AIG Emerging Europe Infrastructure Fund. The fair value of the investment in this Fund at 31 December 2009 was PLN 8 million. In 2009 the Company paid a management fee of PLN 99 thousand.

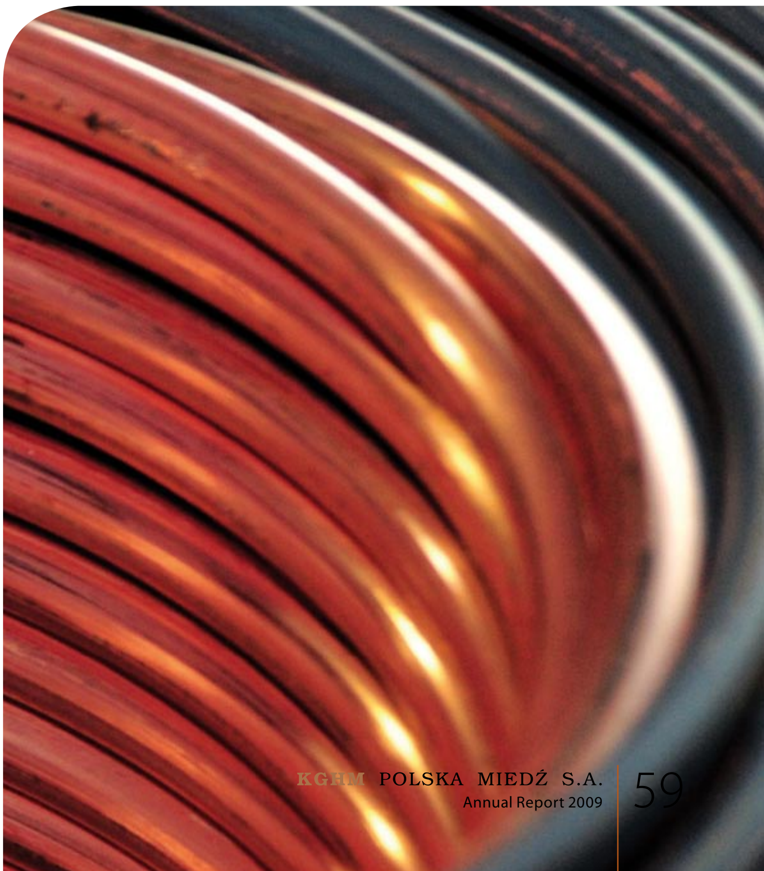
Sale of shares

In January 2009 KGHM Polska Miedź S.A. sold all of the shares it owned in Polskie Towarzystwo Reasekuracji Spółka Akcyjna with a total nominal amount of PLN 12.5 million, representing 11.88% of the share capital of this company. The shares' sale price amounted to PLN 20 million. The purchase price of these assets amounted to PLN 12.5 million.

The intentions of the Company with respect to equity investments are primarily aimed at:
- investments in the main strategic area – mining;
- investments within the KGHM Polska Miedź S.A. Group; and
- the acquisition of investment certificates for the Closed-End Investment Funds managed by KGHM Towarzystwo Funduszy Inwestycyjnych S.A.

Dividends

In 2009 KGHM Polska Miedź S.A. received dividends from the following entities:
- Polkomtel S.A., PLN 418 million, incl. an interim dividend for 2009 of PLN 113 million;
- KGHM Ecoren S.A., PLN 22 million;
- KGHM Metraco S.A., PLN 10 million;
- KGHM Polish Copper Ltd., PLN 5 million.



Research and Development

R&D work in KGHM Polska Miedź S.A. is closely connected to the Company's strategy and is aimed at three basic areas:

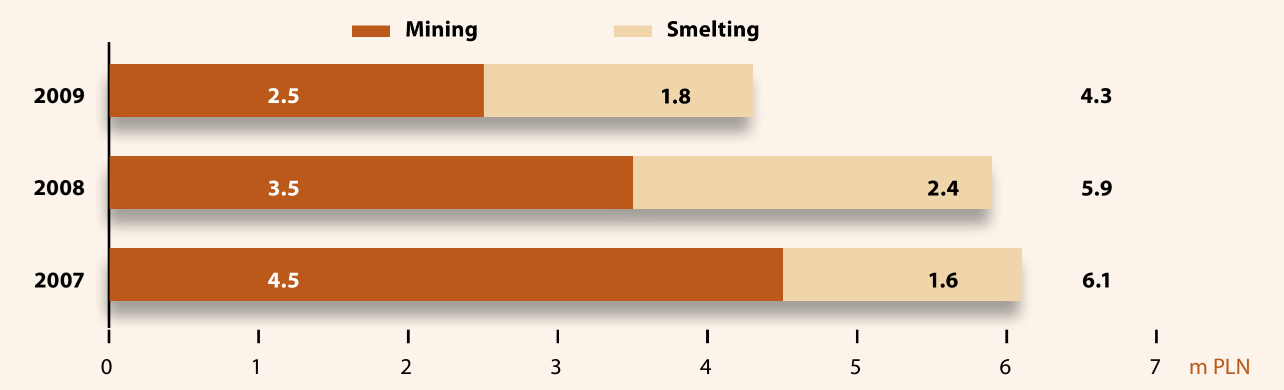
- development and expansion of the core business;
- diversifying activities; and
- supporting the development of KGHM.

KGHM Polska Miedź S.A. is pursuing new forms of cooperation with R&D facilities and scientific institutions. The Company has participated in the initiation of several R&D projects of significance to the Company financed by the National Centre for Research and Development under the auspices of the IniTech program, in which KGHM Polska Miedź S.A. has declared its role as an end-user for the developed methods. An important initiative of this type is the R&D project titled "Technology for hydrometallurgical treatment of semi-products and copper concentrates by the Lubin Ore Enrichment Plant", which is being realised by the Chemical Department of the Wrocław University of Technology.

Examples of activity in international sector projects with respect to R&D of a private-government initiative character are: Company participation in EFRB (Explosive-Free Rock Breakage Initiative) projects, involving the search for alternative methods for explosion-free breakage of hard rock, and the initiative MIFU (Mine of the Future), i.e. designing model future mines.

R&D work is mainly financed by the Company's internal funds. In certain cases the Company makes use of public funds.

R&D expenditures (m PLN)



Amongst the main directions in the search for innovative technology in future years will be the following:

Mining

- work on developing mining technology – excavation and drift work in the mines of KGHM Polska Miedź S.A. using mining combines;
- development of modified and/or new technology for the mining of deep deposits;
- research into automatisation, visualisation and controlling mining processes;
- improving safety during mining operations under conditions of associated threats;
- searching for possibilities to reduce production costs, to improve the use of machinery and equipment, the consumption of materials and energy, and better organisation of work;
- development of processing procedures in terms of increasing the amount of recovered useful elements aimed at reducing the costs of this process;
- development of technology enabling a reduction in the amount of stored waste using the hydrotechnical method;
- ensuring the safe operation of the Żelazny Most tailings pond.

Smelting

- research into the usefulness of new technology for the smelters of KGHM Polska Miedź S.A. in order to reduce processing costs;
- searching for technology to enable the full use of individual concentrate smelting units;
- comparative research into various technological methods for realising the copper scrap smelting circuit at the Legnica smelter;
- searching for ways to improve the parameters of currently-applied copper electrorefining technology;
- minimalisation of the impact of the Parent Entity's smelting operations on the environment;
- searching for possibilities to manufacture new products.

Employment in KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. at the end of 2009 was 18 413 persons, which was 1.2% lower than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 370 and was lower than the level of employment in 2008 by 116 persons.

Human Resource Management System

In 2009 a broad variety of changes were made in the Human Resource Management System. They involved the system of employee assessment, selection and adaptation. With respect to the assessment system, changes were made to the catalogue of skills, reference levels and functional areas. Training was also held with respect to future assessment – altogether over 3000 people were involved.

The new principles for selecting employees for KGHM Polska Miedź S.A. is based on the use of an IT system developed by the COPI division.

E-recruitment is aimed at improving the process of employee selection, improving its effectiveness and introducing uniform principles of recruitment and selection throughout the Company.

The basis for selection is the list of skills established for each position.

In the system of adaptation for newly-hired employees, an orientation program was introduced presenting the main elements of the core business of KGHM Polska Miedź S.A.

Employee retirement program (PPE)

On 2 March 2004 the Insurance and Pension Fund Supervision Committee registered the employee retirement programs in the Divisions and Head Office of the Company. The PPE in KGHM Polska Miedź S.A. operates as an agreement on the payment of a contribution by the employer to the following employee investment funds:

1. PZU Fundusz Inwestycyjnego Otwartego Akcji KRAKOWIAK.
2. PZU Fundusz Inwestycyjnego Otwartego Papierów Dłużnych POLONEZ.
3. PZU Fundusz Inwestycyjnego Otwartego Stabilnego Wzrostu MAZUREK.

The funds are managed by the Towarzystwo Funduszy Inwestycyjnych PZU S.A. with its registered head office in Warsaw. The basic contribution financed by the employer was covered, and since September 2009 amounts to 5% of employee wages. At 31 December 2009, 84% of employees belonged to the program.

from the CLA) amounts to PLN 5 150. This contribution is sufficient to meet employees' social needs to a significantly greater extent than is the standard case in other companies. The total amount of these contributions, statutory and additional, in 2009 amounted to PLN 94.6 million.

18.4 thousand employees and over 17 thousand retirees and those receiving disability payments benefit from the Social Fund. These benefits are also enjoyed by family members.

Among others, the Social Fund finances:

- Holiday benefits.
  Holiday benefits are given to all employees. Their amount depends on the amount of the average monthly income per family member. The average amount of these benefits in 2009 aws approx. PLN 2 054 per employee.

- Holidays for children and youth.
  KGHM organises and subsidises various forms of recreation for children and youth. In 2009 nearly 6 400 children used these benefits to attend various types of camps. The amount of the holiday subsidy depends on the personal, material and family situation of the person entitled to make use of the Fund.

End-of-period employment (# of persons)

	2006	2007	2008	2009
Mines	11 682	11 998	12 468	12 397
Smelters	4 052	4 044	4 024	3 931
Other divisions	2 192	2 217	2 143	2 085
KGHM Polska Miedź S.A.	17 926	18 259	18 635	18 413

Purpose and use of the Social Fund in KGHM Polska Miedź S.A. in 2009

In KGHM Polska Miedź S.A. Social Funds are established separately in each of the Company's Divisions. Use of these funds is based on regulations established by the employer in concert with the trade unions.

In KGHM Polska Miedź S.A., apart from the basic statutory contribution to the Social Fund, additional contributions are made based on the Collective Labour Agreement. The amount of this contribution varies from 106% to 166% of the national average monthly wage which forms the basis for calculating the statutory contribution. The total per-employee average contribution to the Social Fund (both basic and additional, deriving

- Housing loans.
  The employer grants loans from the Social Fund for the construction or purchase of flats and homes, and for their maintenance and modernisation. The granting of loans for the construction or purchase of flats or homes is made separately by each Division, in amounts from PLN 10 000 to PLN 55 000.

- Financing of school-related expenses.
  Employees with children attending school, from first grade to graduation, but no longer than to the completion of 21 years of age, receive financing to cover school-related expenses. In 2009 this financing amounted to PLN 1 866.74.

- Financing of holiday travel.
  Employees employed underground, after an unbroken period of 3 years of work, are entitled once per year to be covered for their costs of holiday travel. In 2009 this financing amounted to PLN 70 or PLN 44.10 per person, depending on any discounts held for railway travel, and covered all of the employee's family members.

- Health-related holidays.
  In 2009 the Company financed 21-day Health-related holidays for 440 employees.

- Apart from these benefits, the following was financed by the Fund, depending on the separate provisions of the Divisional Funds:
  - financial assistance for employees, retirees and those receiving disability benefits who have problems materially or with their health;
  - packages for children on Children's Day and Christmas;
  - coupons (listing attached);
  - cultural and artistic activities;
  - sport-recreation activities.

Employment in the Group

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

The highest employment is in the Parent Entity. In 2009 the average level of employment was 18 370 positions. Among the remaining Group companies the highest average number of employees in 2009 was recorded by:

- PeBeKa S.A. 1 604;
- POL-MIEDŹ TRANS Sp. z o.o. 1 369;
- DFM ZANAM-LEGMET Sp. z o.o. 1 163;
- DIALOG S.A. 942.

In 2009 average employment in the Group increased in comparison to 2008 by 406 positions. This was related to expansion of the Group by two subsidiaries, WPEC w Legnicy S.A. (523 positions) and FADROMA S.R. SP. Z O.O. (65 positions).

Excluding the change in employment in the Group related to the acquisition of new entities, in 2009 there was a decrease in employment. The greatest change was recorded by the Parent Entity (a decrease of 116 positions) and was in respect of white collar positions, followed by PeBeKa S.A. (a decrease of 94 positions) which was due among others to completion of realisation of a contract for construction of the Warsaw metro. There was a significant increase in employment in AVISTA MEDIA Sp. z o.o. (by 71.5%, i.e. increase by 88 positions) due to commencement of a TeleCentrum in Legnica.

Average employment by period (positions)

Description	2008	2009
White collar	8 747	8 957
Blue collar	19 731	19 927
Total	28 478	28 884

Independently of the benefits deriving from the Social Fund, retirees and those receiving disability benefits receive so-called coal-equivalent financing for the equivalent of 2.5 tonnes of coal annually. In 2009 this equivalent amounted to PLN 1 511.55 per entitlee.


KGHM POLSKA

KGHM Polska Miedź S.A. in the 21st century – Company development projects

The Company's development requires the introduction of modern design solutions serving both workers and the organisation. Man, as an entity in the organisational structure, the creator of change and progress, is set in KGHM at the center of attention. The development of individual elements does after all serve to develop the group and organisation. This allows KGHM to be perceived as a modern company, meeting global business and organisational standards.

Project Effectiveness

The goal of project Effectiveness is to reduce the unit cost of copper production. The project was begun in February 2009, and will be continued over the next three years. In the first two waves (of the seven planned) 10 programs were implemented. The project team consists of over 20 Change Leaders in KGHM, supported by consultants from the firm McKinsey & Company. These leaders were continuously trained during the program, in order subsequently to be able to independently carry out productivity improvement programs.

Apart from its economic effects, the project will improve the knowledge and awareness of KGHM's employees with respect to the organisation of work and the cost of materials and energy. Thanks to this it also increased the activeness of employees during the organisation of an Innovation Market together with project Effectiveness.

Over 80 workshops have been held to date, in which 1 500 employees have been involved. During these workshops nearly 2 000 ideas were introduced. Following detailed analysis, 200 initiatives were selected for implementation.

Estimated savings are around PLN 80 million. These are due to the implementation of initiatives, which we have separated into those to be implemented immediately and those which require further testing prior to implementation. The targeted level of savings will be achieved once all of the projects have been implemented, which may take up to two years. Employees offer various ideas – some of these may be realised without financing, while some require investment. An assumption of the project is that such initiatives require a return on investment within a maximum of three years.

Examples:
- **Smelting** – Application of a modern system of mixing concentrate with black liquor in shaft furnace technology. An initiative allows for reduced consumption of black liquor without decreasing the quality of briquetted concentrates.
- **Ore enrichment plants** – Application of modern feed collectors in the floatation machines allows for reduced electricity consumption.
- **Mining** – The introduction of organisational changes based on optimising the schedule of two-way employee transport, introducing a transport schedule for machines from the working sections to the mechanical sections, and the creation of instructions for the replacement of sectional machinery.

In the first quarter of 2009 the team presented the updated results of its work, comprising the entire production process, from extraction of the copper ore and ore enrichment to final smelting, and following analysis indicated a potential for improved productivity/reduced costs at the average annual level of over PLN 600 million, following the implementation of initiatives resulting from all of the implemented programs. This change in the projected level of savings, in relation to previous assumptions, is due to the updating of detailed ore selection plans and reflects projected macroeconomic conditions.

Involved in the project are the Management Board of KGHM, the management staff of the Divisions, lower and mid-management and other employees.

It is crucial that these solutions be developed by the efforts of all employees and supported and implemented by them.

Primary drivers of improved productivity in specific areas – examples:

Mines:
- more effective use of machine working time through organiational change – logistical reorganisation of shaft transport, optimised start/end times through various types of underground machines;
- greater machine availability – shortened waiting time for spare parts;
- optimised ore haulage routes – maximum use of cheapest directions, optimised use of conveyor belts.

Ore Enrichment Plants:
- decreased energy and materials consumption – optimised use of mills, crushers, pumps;
- increased processing through the application of new methods for equipment representing bottlenecks in the enrichment process.

Smelters:
- analysis of the amount of non-recoverable copper losses in specific production stages, and the introduction of initiatives aimed at sealing the process;
- optimised consumption of coke, black liquor, gas and electricity in smelting;
- decreased maintenance costs through optimised maintenance plans.

Labor costs in production and auxilliary functions:
- optimised labor costs through automisation of selected production stations;
- optimised administrative support functions.

Procurement Policy of the KGHM Polska Miedź S.A. Group

2009 was the first year in which the Procurement Policy of the KGHM Polska Miedź S.A. Group was in force, developed as part of the project „Reorganisation of procurement in the KGHM Polska Miedź S.A. Group”

The main goals of this project are:
- To reduce operating costs;
- To improve the effectiveness of invested funds;
- To ensure transparency in the procurement decison process;
- To monitor all procurement by the introduction of a uniform system of procurement management;
- To ensure the effective realisation of cost optimisation projects, by:
  - standardising assortments;
  - optimising technical specifications;
  - unifying contractual clauses (setting standards).

1. Financial aspect

From the date of implementation of the Procurement Support System (June 2009), 1907 tenders were carried out totalling PLN 1156000 thousand under the new regulations. The savings achieved as a result of fully completed tenders carried out under the Procurement Support System (altogether 360 tenders) amounted on average to around 21% in terms of estimated value. In addition, apart from the Procurement Support System (i.e. to June 2009) tenders were carried out – under then-existing regulations – in the form of electronic auctions.

As a result of the above-mentioned tenders, carried out under the Procurement Support System (both full tenders and those performed using an auction platform), prices were negotiated which led to total savings of around PLN 194 million in respect of the estimated amounts (prices from past periods or estimates based on actual cost calculations). As a result of negotiations with suppliers of materials and services and with work contractors, total savings were achieved of around PLN 109 million.

As a result of implementing the project Reorganisation of Procurement in the KGHM Polska Miedź S.A. Group in 2009, significant effects were achieved, which are presented in the following sections:
1) financial aspect;
2) process aspect;
3) assortments aspect;
4) organisational aspect.

In terms of orders placed by KGHM Polska Miedź S.A., price levels were achieved which were 7.5% lower on average than prices prevailing in 2008, and maintaining at least these levels is the goal of the Central Procurement Office for 2010.

Based on tenders carried out to date, a tremendous potential was identified to achieve savings in subsequent years, both in the operational and in the investment spheres.

2. Process aspect

With respect to the process aspect, details were sorted out and responsibilities assigned resulting from procurement decisions undertaken at specific stages of the tender realisation process, including:

1) the implementation of new regulations with respect to tenders carried out by the Company – implementation of the Procurement Policy of the KGHM Polska Miedź S.A. Group together with associated documentation, i.e.:
   a) Regulations on incurring liabilities in KGHM Polska Miedź S.A.;
   b) Principles for selecting contractors for work and services and suppliers of goods, and rules for entering into contracts on behalf of KGHM Polska Miedź S.A.;
   c) Regulations of Tender Committees;
   d) Model Regulations for Auctions;
   e) A Code of Ethics for the KGHM Polska Miedź S.A. Group;
   f) A methodology for the strategic management of assortment groups in KGHM Polska Miedź S.A.;
2) establishing an orders plan, divided into Central Procurement and Local Procurement;

3) identifying units responsible for initiating specific procurement procedures;
4) establishing a model of realisation of procurement tasks for the KGHM Polska Miedź S.A. Group and performance centers providing logistical support for the procurement process in the KGHM Polska Miedź S.A. Group.

3. Assortments aspect

In terms of assortments, standardised requirements were defined (which are now applied) for all assortments for which tenders are carried out. These requirements were established in cooperation with specialised organisational units in the Company's Divisions. Also identified were potential suppliers, who were invited to submit offers for the tenders announced by KGHM Polska Miedź S.A.

4. Organisational aspect

In terms of organisation, it must be stressed that the Procurement Support System encompasses all of the procedures carried out with respect to tenders. Implementation was carried out in two phases, the first encompassing all of the Divisions of KGHM Polska Miedź S.A., and the second involving implementation in the company PHP Mercus Sp. z o.o.

Another project of significance in organisational terms is the implementation of a uniform electronic procurement system (e-procurement) available to everyone working under the Companies Procurement Policy. In 2009 the preliminary concept was developed and a test version was prepared for this tool, with initial testing planned for the first half of 2010.

Inventor's Market in KGHM Polska Miedź S.A.

The Inventor's Market is a permanent event in the life of the Company. It fills a crucial role in inspiring employees to think creatively and encourages them to seek solutions which could lead both to improving working conditions as well as to substantial economic benefits for the Company.

The ideas put forth have various applicability. They usually involve one or more sections of one of the Company's divisions, though occasionally they have wider application to other organisations (such as the mines and smelters).

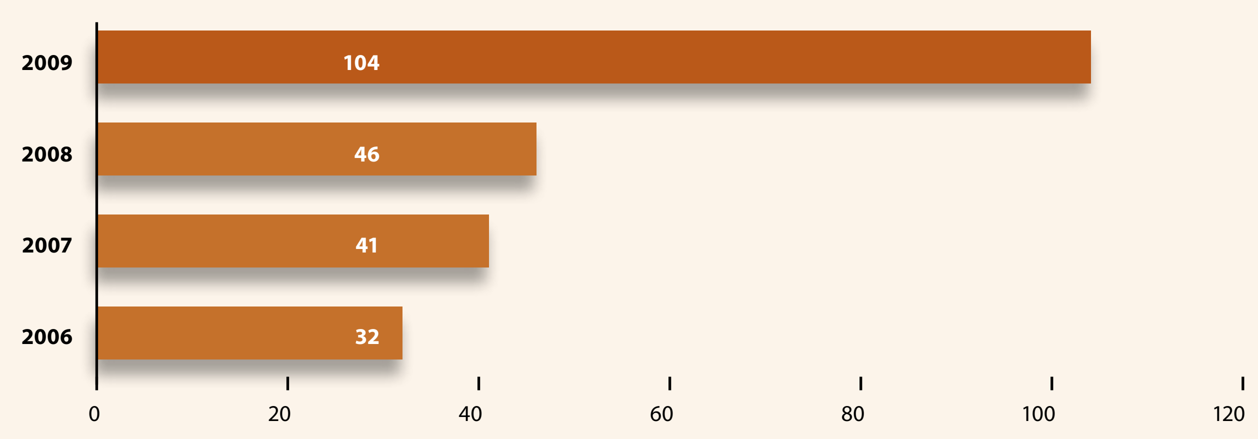
The Inventor's Market has substantial benefits for both parties – the employee author of a given project receives a cash award whose amount is specified by the Inventor's Market Regulations, while the employer, thanks to implemetation of the idea, may for example reduce production costs or improve workplace safety. Apart from this, of particular importance is the aspect of the employee's identification with the Company and their active engagement in its development.

Rudna mine, for improving the reliability and continued operation of the press filters in the Ore Enrichment Plants, and for creating and outfitting a repair station to enable the efficient and safe repair of ceramic caissons in the Głogów smelter. In February 2010 the Company's management introduced further rules concerning innovation which are more advantageous for employees, financially as well as procedurally. These actions are aimed at ensuring the further development of employee initiative in the coming years.

Human Resources Policy

The Human Resource Management System of KGHM Polska Miedź S.A. assumes that people are the most important factor in the Company. They are the creator of change and highly-competent professionals, working in an atmosphere of openness, partnership, courteousness and honesty. People in KGHM create added value, establish standards, values and organisational culture, participate in the internal market, and have their own needs and aspirations.

Number of projects submitted to the Inventor's Market



Until 2005, inventor's markets were organised independently by each of the Company's divisions. Since 2006, in tandem with the approval in KGHM of new rules respecting invention-related activities, operation of these markets has been taken over by the Department of Inventions in the Head Office. Following the initial period of familiarising employees with the new Company policy concerning innovation, in subsequent years the number of ideas submitted has systematically risen (see chart). In 2009 interest in the market exceeded the wildest expectations of the organisers – in each of the Divisions of KGHM over 100 suggestions were collected! An optimistic signal for the future is the high activity of middle management. Among the most interesting ideas put forth during Market'09 are an idea for using ice water (until now lost during the filtration process) from the central air conditioning unit in the

The determinant of all actions with respect to personnel management is the Company strategy, based on which a personnel strategy is developed detailing the directions, goals and principles for managing human potential. The personnel strategy sets forth key procedures aimed at developing and fully utilising the creative potential of employees, and directs actions towards the realisation of significant Human Resource goals by:

- developing organisational capabilities and effectiveness – optimising the process of management and organisational structure;
- optimising labour costs;
- improving employee hiring (e-recruiting) – optimising the selection and utilisation of staff potential;
- increasing productivity: evaluation, modeling of competance and its development;

- increasing Company value by developing social potential;
- ensuring for the Company continuity of succession for key positions – continuity of realised tasks, promotions and professional development;
- building effective motivational systems;
- creating a pro-effectiveness model of cultural organisation.

Realisation of the long-term personnel strategy requires the integration of various activities and HR management tools. The model for such integration is Skills Management, representing a common platform for developing human potential.

The adaptation of skills to specific functional areas, as well as professional groups and their constant development, forms the basis for the realisation of the strategic and operating goals of KGHM.

The basic goal of skills management is the creation of a skills model for the Company as a whole, along with a skills profile for individual stations. The skills model, systematically modified, is the basis for creating additional tools with respect to human resources management, such as the recruitment and selection system, the employee evaluation system, career paths, and the establishment of a management reserve staff.

The Company Strategy, its goals and tasks, are realised by people. These people create the Company and actively participate in its life. For this reason very important is who they are and what they do, in order to strengthen the position of the organisation. An important role in building a major position for the Company is the recruitment and selection of employees. In August 2009, the Management Board of KGHM Polska Miedź S.A. introduced new principles for the selection of employees, which are currently being carried out through the use of an electronic system developed by the COPI Data Center Division, based on the skills described for each position.

Recruitment process

The purpose for introducing an electronic recruitment system (E-Recruitment), is the continuous effort to improve the effectiveness of employee selection by coordinating actions with respect to planning for staffing needs and staff movement, introducing uniform recruitment and selection principles throughout the Company, making better hiring decisions, implementing mechanisms for establishing a candidate data base (Central Candidate Base), fuller use of the internal labor market, and increased control over the hiring process.

An important tool supporting realisation of the Company's strategic assumptions is the Employee Periodic Evaluation System. Developed in 2005 and further modified in 2009, the process of evaluation aims to collect, review, compare, update and utilise information obtained from employees and about employees. The goal of the EPES is to outline the results of an employee's work as well as those skills of potential benefit to the Company. Actions in this respect are directed identifying candidates for reserve management staff, improving skills, encouraging desireable attitude and behavior, developing professional knowledge, making decisions with respect to advancement, etc.

Employee Periodic Evaluation System:

a) supplies an employee's superiors with information on the level of professional skills and qualifications of the employee as well as the degree to which an employee has been effective in accomplishing the tasks assigned to him;
b) increases employee effectiveness through modelling of professional skills and shaping their attitude and behavior in a desireable manner from the point of view of KGHM's business strategy;
c) diagnoses employee potential, enables the optimum utilisation of their qualifications, enables the systematic development of auxilliary staff and defines the development path of individual employees;
d) identifies the training needs of KGHM employees;
e) outlines long-term expenditures on planned training;
f) improves communication between the employee and his superiors;
g) assess the effectiveness of expenditures incurred by KGHM on development-related activities.

In 2009 a variety of changes were made to the EPES, such as creating a catalogue of skills, reference levels, the amount of skills for specific functional areas and positions. Training for assessors and assessees was also carried out. Altogether over 3000 persons underwent training .

In January 2010 the first assessment was made of employees throughout the Company. The assessment system covered white-collar employees who had worked at least three months in a given Division to the time of the assessment. 4055 persons underwent assessment.

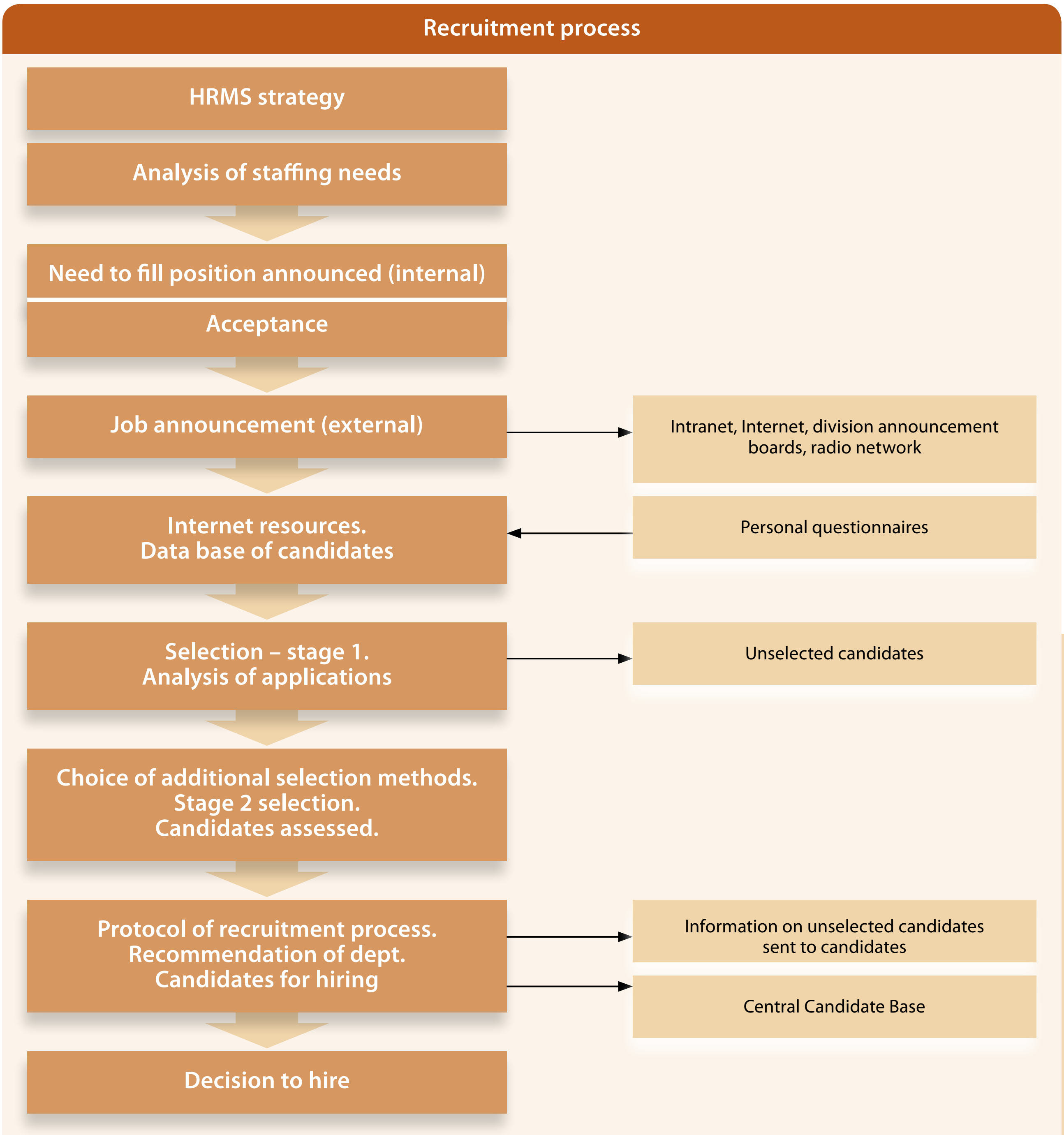
Assessment was carried out using carefully-selected criteria, i.e. those skills (attitude, behavior, knowledge, abilities, personal traits and predisposition), which enable an effective realisation of tasks for a given position. Each employee had the opportunity to familiarise himself with the assessment criteria (being those skills set forth in the catalogue of skills), as well as with the results of the final assessment, and to take advantage of an appeals process.

Assessment results:

- defining of skill deficits and developmental needs, being the basis for creating a realistic plan and effectively utilising the training budget;
- recommendations provided with respect to individual employees, such as promotion, pay grade, financial awards, recommendations to reserve staff, projects, etc.

One of the results of employee assessment is the identification of reserve staff. The process of identifying reserve staff is based on reviewing employees in terms of skills defined for a given professional group and functional area.

With respect to higher management staff recommended as reserve staff, an Assessment Centre/Development Centre is used as an additional tool and assessment method. The purpose of



the AC/DC – a complex assessment method utilising exercises and games simulating professional situations for assessing employees – is as follows:

- to develop credible information on employee traits;
- to identify the best candidates for specific roles in KGHM through the use of objective techniques;
- to rank candidates;
- to create a reserve staff for KGHM Polska Miedź S.A. and its separate Divisions;
- to develop separate, individualised growth and improvement programs.

The reserve staff thus selected guarantees that, for each functional level, key positions can be filled by effective and committed employees.

For KGHM Polska Miedź S.A., the knowledge, skills, abilities, motivation and values of its employees are of crucial importance as a competitive factor in a modern organisation. The management of people has changed, from a routine administration of personal affairs to a key factor in strategic development and a professional method for effectively utilising and developing its human capital.


KGHM
POLSKA MIEDŹ S.A
CCC


Corporate social responsibility

KGHM Polska Miedź S.A., apart from its role as a leader in the local economy, also serves a mission of corporate responsibility. The development of the Company reflects a clearly-defined engagement in its environment, and the building of relationships with it through charitable and sponsoring activities. At the same time the Company undertakes important enterprises which are uniform with social goals and values.

Additional Medical Services Packet

On 1 September 2009 a company belonging to the KGHM Group – "Miedziowe Centrum Zdrowia" S.A. – commenced realisation of new medical services, called the Additional Medical Services Packet. The main recipients of these services are the employees of KGHM Polska Miedź S.A. and of the KGHM Polska Miedź S.A. Group.

From the very beginning the offer was very well received, as shown by the growing number of beneficiaries (to 1 May 2010 over 7 800 persons had signed up).

Realisation of this program by "Miedziowe Centrum Zdrowia" represents for the employees of KGHM who are patients of "MCZ" a substantial enhancement of the offer based on contracts entered into with the National Health Fund. These contracts do not full cover the needs of society for specialist medical services. Hence the idea of introducing additional medical services comprising interesting medical services, while ensuring high standards.

Realisation of this program by "MCZ" is under continuous assessment (such as using patient satisfaction surveys). As a result the company expanded the services offered to those companies in which at least 60% of employees sign up for the Additional Medical Services Packet. This means among others that the beneficiaries employed in these companies will have the right to receive:

- unlimited access to those specialist doctors specified in the valid contracts;
- flu shots once per year;
- access to 24-hour, year-round emergency services in the "MCZ" S.A. hospital in Lubin;
- unlimited access to rehabilitation without the need for primary physician permission.

The program offered by "MCZ" includes:

- two visits per year, without the need for primary physician permission to see a given specialist;
- laboratory services: hematology, biochemistry and other analysis;
- rehabilitation;
- ultrasonograph analysis;
- at-rest EKG.

Sponsoring

Sponsoring in KGHM Polska Miedź S.A. fills an important role in forming positive association with the corporate brand, in building relations with local communities, in supporting regional development and in increasing the level of identification of employees with the organisation. The predominant trait of the image created is the social mission of KGHM. Today the economic activities of the Company are a decisive factor for the existance of a substantial portion of local society. The Company is aware of its responsibility for the further development of the region, and undertakes numerous actions not only of a strictly economic nature, but of a social one as well. Sponsoring is one of the tools used to realise these actions.

KGHM participates in organizations and acts as a patron of significant enterprises for the local community as well as the nation. In 2009 these included the Theater Festival in Legnica, Dymarki Kaczawskie 2009 and the exhibition in the Głogów Museum of Archeology and History, "Nevermore…".

The Company treats sport as an important aspect of social life, and therefore supports both professional sport of the highest class as well as amateur sport. As the largest employer in the region, it appreciates the significance of sport for adult-oriented relaxation as well as its role for youth. KGHM Polska Miedź S.A. is the owner of Zagłębie Lubin SA. The football club KGHM Zagłębie Lubin plays a large, integrative role among the employees. In 2009 the team played its first match in the newly-built stadium Dialog Arena. This is the most modern sport facility in Poland, built thanks to funds from KGHM. This modern stadium effectively promotes not only the Company, but also the town and region.

Also in 2009 KGHM was one opf the main sponsors of a cycle of sporting events, such as the Tennis Tournament KGHM Polish Indoors 2009, the XXXIV Piast Run 2010 and the Lower Silesia Regional Chess Tournament. The total amount dedicated to sponsoring in 2009 was over PLN 13 million.

KGHM also supports institutions of higher learning and scientific institutes, as well as ensuring closer relationships and creating bridges between industry and the scientific community. The Company, both financially and through its expertise, assists enterprises related thematically with problems encountered by KGHM and the region. In 2009 KGHM was organizationally and financially involved in numerous scientific conferences and symposiums, such as the International Copper Ore Mining Congress, the Spring Copper Belt Oncological Workshops, and the 90th anniversary of the AGH University of Science and Technology.

KGHM Zagłębie Lubin

From a historical perspective, 2009 must be recognized as one of the watershed moments in the over-60 year history of the club. KGHM Zagłębie Lubin achieved its primary goal, which was a return to the First League, with the club celebrating its advance to the highest class of team sport together with its fans in its new stadium.

In March 2009 the club began the spring season in a modern football facility. The opening ceremony was widely reported throughout the country, as the Dialog Arena stadium is currently the most modern stadium in Poland. The sale of the name to the company Dialog S.A. was the first such event in the country. The opening of the facility was accompanied by an effective ceremony and especially positive commentary by the media and public. Journalists from all over Poland were complementary regarding work on the club's infrastructure, underscoring the proper direction of changes in the image of Zagłębia, as well as of the First League. The stadium has become one of the postcards of the town, and voting by the fans of other clubs named it as the friendliest football stadium, in the country in terms of comfort while watching matches and the quality of its infrastructure. Attendance at the Dialog Arenie in 2009 was nearly 8 000 per match, while cheering and fan-prepared decorations frequently earned positive comments by reporters and fans alike.

KGHM Zagłębie Lubin began 2009 as a vice-leader of the First League. The team fulfilled the hopes of its fans, and was well on the way to advancement. When Orest Lenczyk was selected during the year as trainer, he began an effective march to the First League, and as the first auxilliary team of the First League, celebrated its advance to the football elite. Apart from its advance, the club also enjoyed having the best striker in the First League. This was Ilijan Micanski, who scored 26 goals. Another "Copper" player, Szymon Pawłowski, was the victor of the so-called "Canadian classification", which comprises a ranking of goals and assists. This assister of Zagłębia was in the orbit of interest of the then-selecter of Polish representation – Leo Beenhakker. Another Lubin player, Michał Goliński, was selected to the staff.

The past year showed the importance to the club of working with youth. The junior and senior teams, which represent the direct farm clubs of the First League, ended the 2008/2009 season in first place. The senior juniors of Zagłębia, after winning the regional tournament, advanced to the central tournament. The players of Andrzej Turkowski, strengthened by players from the second team, advanced to the finals, which as a complete team won the Polish Championship. Likewise the junior juniors, after winning the Lower Silesia Junior Junior League, won the title of best team in Lower Silesia.

With respect to realization of the marketing strategy, in May 2009, KGHM Zagłębie Lubin opened the first team shop in Poland with official souvenirs. This shop, located in the Cuprum Arena shopping mall, was highly praised not only by its customers, but also by marketing agencies involved in sport merchandising. The products for sale as well as the shop's decoration drew in many customers, which is best shown by its financial results. This shop, apart from its football gadgets, also sells tickets to the matches of Zagłębia both in Lubin as well as out of town.

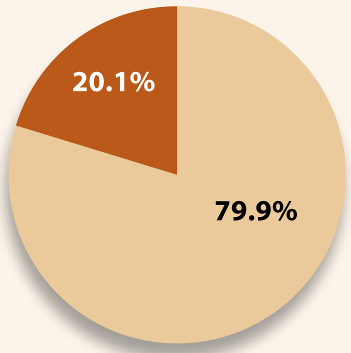
Foundation

The charitable activities of KGHM are realized by the Polish Copper Foundation, which supports many important institutional initiatives as well as donations to individuals.

Cash donations provided by the Foundation to institutions are aimed at supporting goals such as protecting the environment; science, education and learning; culture, art and protecting items of cultural importance; promoting physical fitness and sport, recreation for children and youth; public order and safety and also countering social ills.

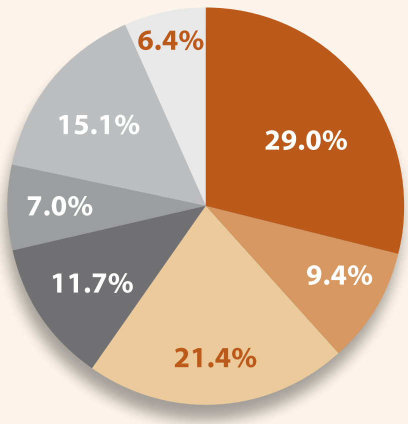
In 2009 the Foundation provided cash donations of over PLN 5 million to 210 institutions. In addition, in an effort to help counteract the effects of natural disasters, the Foundation also provided over PLN 2.5 million to help eliminate the effects of flooding in the Kłodzko Valley.

Help for individuals



	Protecting health	79.9%
	Social assistance	20.1%

Help for institutions



	Protecting health	29.0%
	Protecting the national heritage	9.4%
	Science and education	21.4%
	Sport and physical fitness	11.7%
	Culture and art	7.0%
	Regionalism	15.1%
	Other social activities	6.4%

Financial support to individuals is provided in two areas. The first involves saving lives and protecting health. This comprises the costs of recuperation and rehabilitation, non-refundable medical procedures and medicine and the costs of purchasing medical equipment for the handicapped. The second area of charitable assistance involves help related to financial and material needs and to accidents. In 2009 the Foundation provided financial support to 767 people in the total amount of PLN 1.7 million.

KGHM Polska Miedź S.A. Group

The KGHM Polska Miedź S.A. Group comprises over 30 companies. They offer a wide range of products and services both related and unrelated to the core business of KGHM Polska Miedź S.A. The Group's companies are separate legal entities, whose broad spectrum of economic activity forms the rich world of Polish Copper, established as a modern enterprise with global standards.

Structure of the Group

KGHM Polska Miedź S.A.

- **KGHM Ecoren S.A.** – 100%
  - INOVA Spółka z o.o. – 100%
    - TUW-CUPRUM – 0.25%
  - **DFM ZANAM-LEGMET Sp. z o.o.** – 100%
    - FADROMA S.R. Sp. z o.o. – 98.04%
    - TUW-CUPRUM – 0.25%
  - Ecoren DKE Sp z o.o. – 100%
  - **WM "Łabędy" S.A.** – 89%
    - Walcownia Metali Nieżelaznych Sp. z o.o. – 94.88%
  - INTERFERIE S.A. – 61.55%
    - TUW-CUPRUM – 0.49%
  - WFP Hefra SA – 98%
- **PHP "MERCUS" sp. z o.o.** – 100%
  - "Mercus Software" sp. z o.o. – 100%
  - PHU "Lubinpex" Sp. z o.o. – 100%
  - PHU "Mercus Bis" Sp. z o.o. – 32.26%
  - PMT Linie Kolejowe sp. z o.o. – 1%
  - TUW-CUPRUM – 0.49%
- KGHM Polish Copper Ltd. in liquidation – 100%
- KGHM Kupferhandelsges. m.b.H. – 100%
- "MCZ" S.A. – 100%
- KGHM Metraco S.A. – 100%
- **DIALOG S.A.** – 100%
  - AVISTA MEDIA Sp. z .o.o – 100%
  - "PETROTEL" sp. z o.o. – 99.99%
- KGHM TFI S.A. – 100%
- **"Energetyka" sp. z o.o.** – 100%
  - "BIOWIND" sp z o.o. – 100%
  - WPEC w Legnicy S.A. – 85%
- Zagłębie Lubin S.A. – 100%
- **KGHM CUPRUM sp. z o.o. – CBR** – 100%
  - KGHM HMS Bergbau AG. – 74.9%
- **POL-MIEDŹ TRANS Sp. z o.o.** – 100%
  - PMT Linie Kolejowe sp. z o.o. – 99%
- PeBeKa S.A. – 100%
  - TUW-CUPRUM – 1.60%
- CBJ sp. z o.o. – 100%
  - INTERFERIE S.A. – 2.06%
- TUW-CUPRUM – 93.80%
- KGHM LETIA S.A. – 85.45%
- PCPM sp. z o.o. – 82.86%
- Polkomtel S.A. – 24.39%
- INTERFERIE S.A. – 2.06%

As at 31 December 2009

Changes in the structure of the KGHM Polska Miedź S.A. Group

In 2009 the following changes occurred in the structure of the Group:

Acquisition of shares of "BIOWIND" sp. z o.o.

In January 2009 an agreement was entered into between "Energetyka" sp. z o.o. and two physical persons for the acquisition of the shares of the company "BIOWIND" sp. z o.o. with its registered head office in Gdańsk. Based on this agreement, "Energetyka" sp. z o.o. acquired 100% of the shares of "BIOWIND" sp. z o.o. The total cost of acquisition amounted to PLN 455 thousand. The shares were paid for in cash. The acquisition of these assets was financed using the internal funds of "Energetyka" sp. z o.o.

The purchase of shares of "BIOWIND" sp. z o.o., holding a lease on property (around 300 hectares) in the Warmińsko-Mazurskie Voivodeship, enables the commencement of formal procedures aimed at realising an investment related to the construction of a wind farm.

Acquisition of shares of "PETROTEL" sp. z o.o.

In January 2009 DIALOG S.A. purchased from minority shareholders 2 009 shares of "PETROTEL" sp. z o.o., as a result of which the share of DIALOG S.A. in the share capital of "PETROTEL" sp. z o.o. increased to 99.56%. In March 2009 DIALOG S.A. purchased a further 35 shares, and currently owns 99.99% of the share capital of "PETROTEL" sp. z o.o. The total cost of acquisition of 24.93% of the shares of "PETROTEL" sp. z o.o. amounted to PLN 11 million.

Acquisition of shares of Ecoren DKE sp. z o.o.

In January 2009 an agreement for the acquisition of the shares of DKE sp. z o.o. was signed between KGHM Ecoren S.A. and SITA POLSKA SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ,. Based on this agreement, KGHM Ecoren S.A. acquired 380 shares of DKE sp. z o.o. having a total nominal value of PLN 380 thousand. At the end of 2009 KGHM Ecoren S.A. owned 100% of the share capital of DKE sp. z o.o. The shares were acquired for PLN 3 million and paid for in cash. The acquisition of these assets was financed using the internal funds of KGHM Ecoren S.A.

The acquisition from a minority shareholder of the shares of DKE sp. z o.o. was aimed at gaining full control over the entity, whose core business is convergent with that being developed by KGHM Ecoren S.A.

In February 2009 a change in the name of DKE sp. z o.o. to Ecoren DKE sp. z o.o. was registered.

Loss of control over the company KGHM CONGO S.P.R.L.

Due to safety-related threats and the inability to carry out its business operations, in March 2009 the Management Board of the company KGHM CONGO S.P.R.L. departed the territory of the Democratic Republic of Congo, leaving the company's assets without any supervision. Due to the loss of ability to direct the financial and operational policy of the company KGHM CONGO S.P.R.L. for the purpose of achieving benefits from its operations, the Management Board of KGHM resolved to settle the losses recognised in the consolidated financial statements from the date control was obtained over KGHM CONGO S.P.R.L. to the date on which the Parent Entity lost control over this entity as a profit/loss due to loss of control over a subsidiary. As a result of settlement a gain was set due to loss of control in the amount of PLN 21 million. In addition, an allowance for impairment of receivables was recognised in profit or loss in the amount of PLN 21 million covering the outstanding liabilities of KGHM CONGO S.P.R.L. towards the Parent Entity. In December 2009 an application for the voluntary liquidation of this company was submitted to the Commercial Court in Lubumbashi. Liquidation commenced on 1 January 2010, in accordance with the laws in force in the Democratic Republic of Congo.

Founding of KGHM HMS Bergbau AG

In June 2009 KGHM CUPRUM sp. z o.o. – CBR, together with HMS Bergbau AG, founded a company called KGHM HMS Bergbau AG. This entity was founded under German law, and its registered head office is in Berlin. KGHM CUPRUM Sp. z o.o. – CBR acquired 74.9% of the shares of the new entity, while HMS Bergbau AG acquired the remaining 25.1%. The cost of acquiring these shares was PLN 168 thousand.

KGHM HMS Bergbau AG was founded for the purpose of exploration and evaluation of deposits of copper and other metals in Europe. The first project to be pursued by the company will involve exploration within the territory of Saxony in Germany. The foundation of KGHM HMS Bergbau AG is related to the Strategy of KGHM Polska Miedź S.A. for the years 2009–2018 which was approved in February 2009 with respect to that part of the Strategy involving development of the resource base.

Founding of KGHM TFI S.A.

In June 2009 KGHM Polska Miedź S.A. founded the company KGHM Towarzystwo Funduszy Inwestycyjnych Spółka Akcyjna (KGHM TFI S.A.), in which it acquired 100% of the shares with a total nominal value of PLN 3 million, covered by cash. The subject of activities of KGHM TFI S.A. is the creation and management of investment funds and the management of financial instruments portfolios.

Acquisition of FADROMA-SERWIS-REMONTY spółka z ograniczoną odpowiedzialnością

In July 2009 DFM ZANAM-LEGMET Sp. z o.o. acquired 600 shares of the company FADROMA S.R. SP. Z O.O. for PLN 825 thousand. In October 2009 DFM ZANAM-LEGMET Sp. z o.o. acquired a further 53 shares of FADROMA S.R. SP. Z O.O. for the amount of PLN 73 thousand. The total share of DFM ZANAM-LEGMET Sp. z o.o. in FADROMA S.R. SP. Z O.O. at the end of 2009 was 98.05%. The acquisition by DFM ZANAM-LEGMET Sp. z o.o. of shares of FADROMA S.R. SP. Z O.O. was aimed at acquiring an entity from the same business sector.

Acquisition of WPEC w Legnicy S.A.

In December 2009 the company "Energetyka" sp. z o.o. acquired from the State Treasury of Poland 10 030 thousand shares of the company Wojewódzkie Przedsiębiorstwo Energetyki Cieplnej w Legnicy Spółka Akcyjna during the process of privatisation. The cost of acquisition was PLN 203 million.

The acquisition by "Energetyka" sp. z o.o. of shares of WPEC w Legnicy S.A. was aimed at achieving the effect of synergy arising from the combination of the existing resources of two significant market entities from the power sector.

In 2009, there were no changes in the basic management principles of the Group.

Capital Group

KGHM Polska Miedź S.A.

The Parent Entity of the Group is KGHM Polska Miedź S.A.

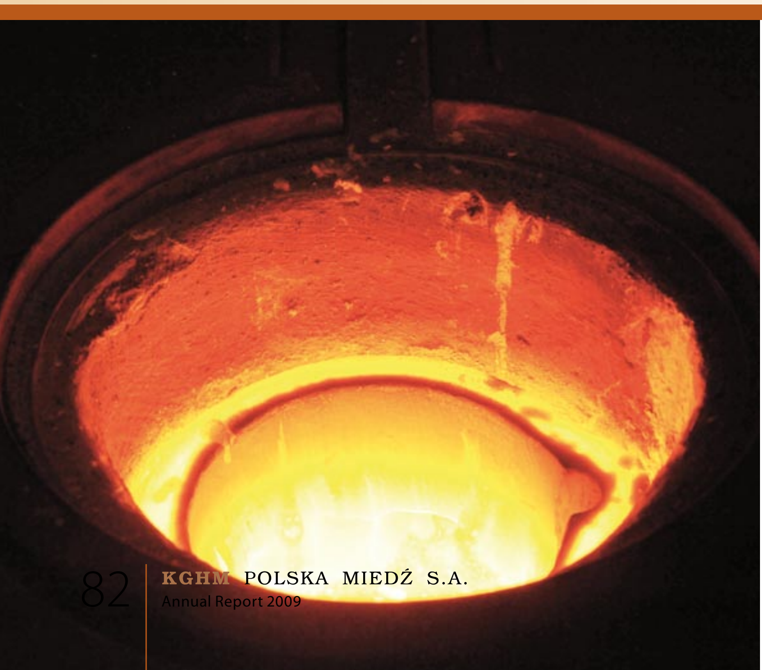
At 31 December 2009 the Group was composed of thirty three subsidiaries. Eight subsidiaries formed their own Groups: KGHM Ecoren S.A., PHP "MERCUS" sp. z o.o., DIALOG S.A., POL-MIEDŹ TRANS Sp. z o.o., KGHM CUPRUM sp. z o.o. – CBR, "Energetyka" sp. z o.o., WM "ŁĄBĘDY" S.A. and DFM ZANAM-LEGMET Sp. z o.o.

In 2009 the KGHM Polska Miedź S.A. Group earned revenues from sales of PLN 12.1 billion. Despite the unfavorable macroeconomic conditions at the beginning of 2009 the result on sales in 2009 was not significantly different from that of the prior year. Profit of the period of the Group was PLN 2.4 billion.

The results achieved by the Parent Entity had a significant impact on the results of the Group in 2009. The profit of the period of KGHM, shown in the separate financial statements for 2009,

Consolidated income statement

[m PLN]	2008	2009
Sales	12 655	12 120
Cost of sales	(8 490)	(7 923)
Gross profit	4 165	4 197
Operating profit	3 186	2 679
Profit before income tax	3 396	2 904
Profit for the period	2 766	2 359



amounted to PLN 2.5 billion. This amount was impacted, apart from the effects of the core business of KGHM Polska Miedź S.A., by the dividend received from Polkomtel S.A.

Review of financial results

The sales revenues of the Group in 2009 were lower compared to those in 2008 by PLN 4% (i.e. by PLN 535 million). A significant cause was the decrease in revenues of the Parent Entity, due to the low level of copper prices at the start of 2009 and the decrease in the volume of copper sales. The sales revenues of KGHM Polska Miedź S.A. represented around 85% of the revenues of the entire Group.

The costs of sales decreased during the analysed period by PLN 566 million. This was affected by the decrease in sales and lower impairment losses on property, plant and equipment and intangible assets by PLN 266 million. Profit on sales in 2009 did not significantly change versus the comparable prior period.

The loss on other operating activities was mainly due to a loss on the measurement and realisation of derivative instruments in the amount of PLN 532 million.

Adjustment of the result for 2009, due to accounting using the equity method of shares of an associate, caused a decrease in profit by PLN 152 million (share in profit of PLN 270 million, dividends received (PLN 418 million)).

Finally, profit for the period in the analysed period decreased versus the prior period by 15%, i.e. by PLN 407 million.

Structure of the profit for the period of the KGHM Polska Miedź S.A. Group

Details [PLN million]	Profit for 2009
KGHM Polska Miedź S.A.	2 540
Subsidiaries	(54)
including the most important:	
DIALOG S.A.	7.0
KGHM Metraco S.A.	5.8
"MCZ" S.A.	5.9
"PETROTEL" sp. z o.o.	5.9
PHP „MERCUS" sp. z o.o.	3.4
INTERFERIE S.A.	2.9
PeBeKa S.A.	2.2
Walcownia Metali Nieżelaznych spółka z o.o.	(2.5)
AVISTA MEDIA Sp. z o.o.	(2.7)
KGHM CONGO S.P.R.L. (until 28 February 2009)	(5.7)
DFM ZANAM-LEGMET Sp. z o.o.	(14.7)
Zagłębie Lubin S.A.	(60.6)
Total profit of Group entities	2 486
Consolidation adjustments	(127.6)
Profit of the Group attributable to shareholders of the Parent Entity	2 359
Profit attributable to the minority interest	0.57
Total profit for the period	2 359

A significant loss for 2009 was recorded by the subsidiary Zagłębie Lubin S.A. This is mainly due to the recognition by the company of an impairment loss on assets – a football stadium. In the separate financial statements of Zagłebie Lubin S.A. this caused a loss in the amount of PLN (50) million, and a loss in the consolidated financial statements of the Group in the amount of PLN (37.5) million.

Group entities

The largest impact on the results of the Group is from:

- the Parent Entity – KGHM Polska Miedź S.A.

followed by companies from the telecommunications sector:

- DIALOG S.A. – a subsidiary, the results of this company have a direct impact on the consolidated financial statements of the Group;

- Polkomtel S.A. – an associate, its impact on the consolidated financial statements of the Group is from valuation of this company using the equity method.

DIALOG S.A.

KGHM owns 100% of the share capital of DIALOG S.A.

DIALOG S.A. has its own capital group.

In 2009 the sales of the DIALOG S.A. Group were lower than those in the comparable prior period by PLN 33 million. This decrease in revenues was due to restriction of low-margin transit services. After excluding these transit services, the sales of the DIALOG S.A. Group, despite the general downward market trend in fixed-line telephony, were higher by PLN 24 million, i.e. by 5% versus 2008. The increase in sales was mainly in respect of services provided based on external infrastructure (WLR, 1011 and BSA), which in comparison to revenues achieved in regard of these services 2008 amounted to PLN 24 million.

The DIALOGmedia package introduced in 2008, combining fixed-line telephony, Internet access and digital TV and video on demand, gained customer interest, with their number increasing to 21 thousand at the end of December 2009 (an increase in 2009 by 17.5 thousand, of which 6.8 thousand were in the 4th quarter alone).

In 2009 the DIALOG S.A. Group continued to realise a project on the introduction of mobile telephone services as a so-called virtual operator (MVNO) – commercial commencement of these services took place in February 2010. Thanks to the acquisition in November 2009 of the bankrupt company Nyska Sieć Informatyczna Sp. z o.o., DIALOG S.A. gained access to the infrastructure of a new geographical region with great sales potential, and became the owner of a modern telecommunications network using ETTH technology.

At present DIALOG S.A. is carrying out the strategy of the company for the years 2009–2015, which assumes investments in the development of infrastructure based on the most modern technology, new services and selective acquisitions. Work is currently underway in the company related to the development of an operational plan for implementation of the strategy, which in particular

Financial data DIALOG S.A. Group (m PLN)

	2008	2009
Sales	554	520.9
Operating profit /(loss)	(301.6)	34.7
EBITDA*	83.4	135.4
Profit /(loss) for the period	(284)	10.4

* EBITDA calculated as the result on operating activities increased by depreciation/amortisation and impairment loss

Financial data DIALOG S.A. (m PLN)

	2008	2009
Sales	548	493.8
Operating profit /(loss)	(305.4)	32.6
EBITDA*	76.3	122.9
Profit /(loss) for the period	(292.1)	9.8

* EBITDA calculated as the result on operating activities increased by depreciation/amortisation and impairment loss

Despite this decrease in revenues, the DIALOG S.A. Group achieved better financial results in 2009 than in 2008. A higher result on operating activities and higher EBITDA (respectively by PLN 336 million and PLN 52 million) was recorded. The loss incurred by the Group in 2008 was mainly due to an impairment loss on property, plant and equipment in the amount of PLN 268 million.

During the analysed period the DIALOG S.A. Group increased its customer base, in both voice and data transmission services. At the end of December 2009 it had 445.2 thousand ringing lines in its own network and 250.3 thousand WLR lines (an increase of 54% versus the end of 2008). The number of customers using data transmission services amounted to 157.2 thousand.

will include definition of the following: a product development map in terms of realisation of the company's strategy, a sales strategy, pricing policy and a marketing strategy, as well as an operational plan to implement strategic initiatives will be prepared.

In November 2009 DIALOG S.A. signed an agreement respecting financing from the European Regional Development Fund (in the amount of 40% of expenditures) to realise a project titled "Implementation of innovative services based on an access network using passive optical network (PON) technology". It is the largest project of its type in Poland. Realisation of this project will enhance the possibility of increasing company sales through the sale of larger service packages. The project encompasses seventy thousand housing units in the following voivodeships: dolnośląskie, lubuskie and łódzkie.

Plus

Polkomtel S.A.

KGHM Polska Miedź S.A. owns 24.39% of the share capital of Polkomtel S.A.

The carrying amount of the shares of Polkomtel S.A. in the consolidated financial statements at 31 December 2009 accounted for using the equity method is PLN 1 346 million.

On 9 June 2009 the Ordinary General Meeting of Polkomtel S.A. resolved to allocate profit for 2008. In accordance with the decision of the shareholders, the amount of PLN 1 250 million.

KGHM Polska Miedź S.A. received, proportionally to its shareholding, the amount of PLN 305 million. The dividend was paid in two instalments.

Financial data Polkomtel S.A. (m PLN)	2008	2009
Revenues from operating activities	8 547	8 104
Operating profit /(loss)	1 889	1 533
EBITDA	3 106	2 840
Profit /(loss) for the period	1 361	1 107

On 18 November 2009 the Supervisory Board of Polkomtel S.A. adopted a resolution in which it gave its consent to the payment of an interim shareholder dividend towards the dividend for 2009 in the total amount of PLN 464 million. KGHM Polska Miedź S.A., proportionally to its shareholding, consequently received in December 2009 the amount of PLN 113 million.

Other major Group companies

KGHM ECOREN

KGHM Ecoren S.A.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

This company is involved in the production of metals and their compounds as well as the management of industrial waste. It applies an innovative approach to reducing emissions to the environment caused by humanity's economic activities.

The main areas of activity of the company are:
- the production of ammonium perrhenate from waste generated by the Głogów smelter;
- the production of road-building material;
- the processing of furnace waste from the smelters; and
- the processing of old electrical and electronic equipment.

The products of KGHM Ecoren S.A. are mainly recovered from the waste generated by the production of copper in KGHM Polska Miedź S.A.

Major strengths
- one of the five top global producers of rhenium;
- carrying out ventures aimed at reducing the environmental impact of KGHM Polska Miedź S.A. caused by its generation of industrial waste;

- a significant role in the strategy of diversification of KGHM Polska Miedź S.A. as respects waste management and the production and recovery of metals.

Main directions of growth
- developing modern metals recovery technology, in particular the production of nickel, cobalt and zinc compounds using waste from KGHM Polska Miedź S.A.;
- increasing the production of ammonium perrhenate by increasing its processing of waste;
- acquiring new sources of raw materials for the production of road-building material;
- the processing of old electrical and electronic equipment.

Significant events in 2009
- building of an installation for the production of rhenium eluates at the Głogów I smelter;
- building of an installation for the production of metallic rhenium KGHM LETIA S.A. Legnica Technology Park;
- production of the first metallic rhenium pellets (December 2009);
- the company received PLN 12.2 million in EU funds for realisation of an investment related to the "Implementation of innovative hydrometallurgical technology for the treatment of crude nickel sulphate" as part of a competition on the financing of investments of a high innovative potential organised by the Polish Agency for Enterprise Development.

Financial data
KGHM Ecoren S.A. for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	93.7	133.2	106.2
Net profit/(loss)	27.8	24.8	–21.1
Share capital	213.3	213.3	213.3
Total assets	311.1	303.6	307.6

KGHM CUPRUM sp. z o.o. - CBR

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales
- research and development work in the following sectors: geology, mining, machinery, power, environmental protection and restructuring companies, and providing expert opinions in these areas;
- the work carried out comprises all stages of R&D activity, from initial research to the project stage, the evaluation of environmental impact and feasability analysis to supervising realisation of a project.

Major strengths
- the company has the status of a Research and Development Center pursuant to the act on certain forms of support of activities related to innovation;
- pursuant to the act on the principles of financing scientific work, the company is recognised as a scientific entity;
- KGHM CUPRUM sp. z o.o. – CBR also functions as a Sector Point of Contact and participates in projects performed under the "7th Framework Program of the European Union";
- the company performs research and development work for most of the investments of KGHM Polska Miedź S.A. related to the core business, and maintains the technical (geological) and technological archives of KGHM Polska Miedź S.A.;

- the company cooperates with a range of Polish and foreign centers of learning involved in science and research, with a highly-qualified staff holding specialties which include environmental protection, geology and hydrogeology;
- high quality services confirmed by over 40 years of experience and by ISO 9001 and ISO 14001 certificates.

Main directions of growth
- exploration – searching for new deposits;
- increasing its participation in mining R&D, and the processing of non-ferrous metals and other minerals;
- expanding the range of services provided by its accredited laboratories.

Significant events in 2009
- the company received a statutory subsidy from the Ministry of Science and Higher Education in the amount of PLN 1.1 million;
- in February 2009 the company was one of the first such companies in Poland to receive a certificate of conformity with the new standard ISO 9001:2008 and successfully passed an audit confirming that the services it offers conform with the standards ISO 9001 & 14001 and received accreditation for its laboratories;
- in June 2009 KGHM CUPRUM sp. z o.o. – CBR, together with HMS Bergbau AG, founded a company called KGHM HMS Bergbau AG, and acquired 74.9% of the shares of the new entity; the newly-founded company is involved in the exploration and evaluation of deposits of copper and other metals in Europe;
- through the subsidiary – KGHM HMS Bergbau AG – the company engaged in exploration for deposits in Saxony in Germany;
- KGHM CUPRUM sp. z o.o. – CBR in 3 projects under the "7th Framework Program of the European Union", which will be realised in the years 2009–2013 and amount in total to over EUR 1 m.

Financial data KGHM CUPRUM sp. z o.o. – CBR for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	25.3	27.2	30.4
Net profit	1.1	0.3	0.3
Share capital	8.5	8.5	8.5
Total assets	51.7	55.0	57.7

PeBeKa S.A.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

Przedsiębiorstwo Budowy Kopalń PeBeKa Spółka Akcyjna in Lubin is one of the top construction companies in Lower Silesia as well as one of the top construction companies in Poland. Using the experience gained over fifty years in constructing all of the mine shafts of KGHM Polska Miedź S.A., the company provides services not only in the field of mining, but also in the sectors of transportation, industry and environmental protection. Its core services comprise:
- underground construction, including:
  - main tunnels and rooms;
  - shafts and drifts;
  - complete equipping of mines with technical infrastructure;
  - underground railways and tunnels;
  - the reconstruction of historic mining facilities;
- comprehensive work:
  - industrial infrastructure and public utilities together with pipelines and their maintenance;
  - transport-related facilities;
  - sport facilities;
  - special foundation work.

Major strengths

- In business for 50 years;
- the company is the primary contractor for the shafts and mine infrastructure belonging to KGHM Polska Miedź S.A. – it has built over 1000 km of horizontal tunnels (drifts, rooms) with infrastructure, 29 shafts with a combined depth of 27.7 km, and is currently engaged in the construction of a further 30 shafts;
- the company has constructed mine shafts and tunnels in Europe, Africa, Asia, and in Central and South America;
- the company has mastered the construction of communication tunnels through its experience in the construction of such tunnels in Algeria, roadway tunnels in Turkey, Hong Kong and Israel, hydrotechnical tunnels in Malaysia, and metro tunnels in Algeria, Ankar and in Warsaw;
- the company is involved in renovating underground mines (the company has years of experience with the Wieliczka salt mine);
- PeBeKa S.A. has carried out numerous investments involving general and specialty construction (underground passgeways, securing and stabilizing land, and housing, such as in Polkowice, Warsaw and Wieliczka);

Significant events in 2009

- the company performed mine work for KGHM Polska Miedź S.A. related to gaining access to new deposits in the region "Głogów Głęboki Przemysłowy" (drift work and construction of the SW-4 shaft);
- in March the company signed a contract with KGHM Polska Miedź S.A. to construct a central air conditioning unit in the Polkowice-Sieroszowice mine at a depth of more than 1000 m;
- in April 2009 as part of the 13th competition organised by the company BOSCH-Elektronarzędzia, PeBeKa S.A. received the award "Green Drill" for taking second place in the category "Public Utility Construction" for building the A-23 Młociny metro station, as the final station of the first line of the Warsaw underground railway;
- in August 2009 the company won a tender to modernise a section of railway line No. 8, the Warszawa Zachodnia – Warszawa Okęcie line, together with connecting infrastructure to the Okęcie airport;
- PeBeKa S.A., in a consortium with HOCHTIEF Polska Sp. z o.o. and HOCHTIEF Construction AG Sport Facilities, continued work on the football stadium of Zagłębie Lubin S.A. in Lubin;

Financial data PeBeKa S.A. for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	468.1	592.1	323.6
Net profit	2.6	1.5	3.4
Share capital	30.8	49.5	64.6
Total assets	212.3	250.0	233.6

- the company is part of the syndicate to build the football stadium in Lubin.

Main directions of growth

- strengthening its position in mine construction;
- developing its expertise in general, underground and civil construction;
- increasing its potential with respect to projects for KGHM Polska Miedź S.A.;
- expanding its engineering knowhow, applying new technology and production solutions;
- work on implementing new technology for the mechanical working of hard rock masses.

- the company completed a five-year work project in Germany, as part of which it built 3 818 meters of tunnelling linking two of the outer shafts of the "Auguste Victoria" coal mine in Marl;
- work was carried out on a project to implement new mechanical mining technology in the mines of KGHM Polska Miedź S.A. using a mining combine.

Centrum Badań Jakości sp. z o.o.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

The company offers the following services:
- analysis and measurement of factors which are harmful in the workplace;
- measurements of emmissions;
- the analysis of water, waste and waste runoff;
- the microbiological analysis of foodstuffs;
- soil analysis;
- industrial research;
- research into permanent waste;
- research on fuels and smelter materials from the copper industry.

Main directions of growth
- increasing sales of its services (the puchase of research laboratories and mobile laboratories);
- maintaining the level of its sales to KGHM Polska Miedź S.A. and increasing its external market share;
- increasing revenues from the sale of non-industrial research;
- expanding the scope of research services offered;
- improving its integrated management system.

Significant events in 2009
- in May 2009 the Polish Center for Testing and Certification renewed the accreditation of CBJ sp. z o.o. in its expanded, updated and flexible form;
- the company sucessfully passed a recertifying audit with respect to adherance to the standard PN-EN ISO 9001:2009 and subsequently was issued a Quality Management System Certificate;
- the Extraordinary General Meeting of CBJ sp. z o.o. in December 2009 resolved to increase the share capital by PLN 2.2 million to be used to finance the investment project "Automation of the process of preparing and measuring samples from copper ore enrichment";

Financial data
Centrum Badań Jakości sp. z o.o.
for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	38.4	39.6	41.0
Net profit	2.9	2.5	1.9
Share capital	2.9	2.9	2.9
Total assets	30.5	30.7	35.0

Major strengths
- primary provider of industrial research and analysis for the core business of KGHM Polska Miedź S.A.;
- the company holds accreditation issued by the Polish Center for Testing and Certification with respect to physical-chemical and microbiological analysis of foodstuffs;
- high quality of services – the company holds an Integrated Management System Certificate in accordance with the standards Pn-enen ISO 9001, PN-N 18001 and OHSAS 18001 issued by the Polish Center for Testing and Certification.
- CBJ sp. z o.o. is the first commercial laboratory in Poland to receive flexible accreditation by the Polish Center for Testing and Certification, allowing it to present its customers with a wide range of accredited research with respect to the environment, the workplace and foodstuffs.
- in 2009 the company received the following awards: a gold statuette from the International Eurocertification Competition 2008, the certificate "Solid Company 2008" and the title "Business Gazelle 2008".

ZANAM-LEGMET Sp. z o.o.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

- the core business is the production and servicing of mining machines (loaders, haulers, drilling-bolting rigs, auxilliary machines);
- the production and servicing of conveyor belts;
- the production of steel castings;
- the production of bolts for bolting and crushers;
- steel-based constructions.
- work is being performed on manufacturing new, modernized machinery with superior working parameters and increased functionality for the mining of ore under harsh thermal and terrain conditions in the mines of KGHM Polska Miedź S.A.:
  - LKP-1601B loaders with complete mechatronic solutions for individual designs;
  - the lowest 9-tonne loader in the world, with a rear-axle cradle – LKP-0900B;
  - drillers and bolters with a height of 170 cm with variable hydrokinetic and hydrostatic drive;
  - supplemental hydrostatic rear-wheel drive for haulers;
  - PRZ 800 – a completely integrated ore loading point for the L-800 conveyor belt;
  - an underground monitoring system and transfer of data on machines;
  - high-capacity carriers and long-distance haulers to reduce unit transport costs;
  - surface crushers with functionality;

Financial data ZANAM-LEGMET Sp. z o.o. for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	235.3	270.1	274.7
Net profit	4.6	5.1	–14.7
Share capital	36.0	36.0	36.0
Total assets	103.3	111.7	121.9

Major strengths

- the company is the largest producer in Poland of mining machinery for use in methane-free, underground mines;
- the company's largest customer is KGHM Polska Miedź S.A. – in 2009 the company supplied approx. 38% of the requirements of KGHM Polska Miedź S.A. for self-propelled mining machines and approx. 90% of conveyor belts;
- the company's products are unique, such as desulphurization and dedusting installations, tall chimneys, floatation machinery, shaft equipment (cages and skips), mobile containerised installations for producing asphalt or concrete, barking machines;
- the machines built by the company are innovative solutions for underground ore mining and haulage systems (the small conveyor belt L-800 is designed for development works); an hydraulic tightening station with improved working specifications; an 8t loader (LKP-0806) with complete auxilliary mining accessories; an auxilliary vehicle (SWKS-1T) with a percussion hammer with unique vehicle steering and turning control using a joystick);
- nearly 200 of the machines produced by the company are at work in mines in Russia and other CIS countries (tractors, loaders, drillers, fuel-lubrication vehicles, transport vehicles).

Main directions of growth

- increasing the share of the company's core business in its sales;
- maximum satisfaction of KGHM Polska Miedź S.A. with respect to meeting its need for the production and aftersale servicing of mining and haulage systems;
- increasing the potential of the Service Center;
- improving the quality of its products and services;
- gaining access to external markets;
- implementing new products to meet the needs of KGHM Polska Miedź S.A.;
- creating dealerships and export offices.

Significant events in 2009

- the company was awarded at the International Mining, Power Industry and Smelting Fair in Katowice for its SWB-2N/Z ripping vehicle in the competition "Innovative solutions in mining machinery and equipment construction" in the category "New machinery and technology";
- a "Company Remedial Program" was developed and approved.

Financial data POL-MIEDŹ TRANS Sp. z o.o. for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	441.8	463.2	421.3
Net profit	0.4	7.7	0.3
Share capital	140.4	140.4	140.6
Total assets	206.7	229.7	241.1

POL- MIEDŹ TRANS Sp. z o.o.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

POL-MIEDŹ TRANS Sp. z o.o. operates in the following scope:

- roadway – passenger, commodity and specialist;
- railway – commodity and specialist;
- trade in oil-based products;
- repair of wheeled and railway vehicles and specialty equipment;
- laboratory services – the analysis of oil-based products.

Major strengths

- the company is the main supplier of KGHM Polska Miedź S.A. with respect to passenger and commodity transport, and directly supplies fuel to the divisions of KGHM Polska Miedź S.A.;
- the company is one of the largest domestic railway firms using its own wagons and locomotives, on both its own railway lines and on those of the state railway PKP;
- the company operates on the expediter market, working with numerous major partners on the market.

Main directions of growth

- increasing its share of the domestic market in mass railway transport and becoming the leader in private railway transport in western Poland;
- maintaining its position as the largest independent distributor in Lower Silesia of a full range of oil-based products, maintaining its role as the sole supplier of oil-based products to KGHM Polska Miedź S.A.

Significant events in 2009

- liquidation of the company division Repair-Maintenance Center, some of whose duties, such as maintaining infrastructure, were assumed by the subsidiary PMT Linie Kolejowe sp. z o.o. with its registered head office in Polkowice;
- realisation of an investment related to railway stock, including a sined contract for the purchase of electrical locomotives.

ENERGETYKA

"Energetyka" sp. z o.o.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

The company operates in the following scope:
- the generation of heat;
- the generation of electricity;
- the distribution of heat;
- the distribution and sale of electricity;
- the generation and distribution of potable water from its own sources;
- the collection and treatment of sewage;
- the collection and treatment of industrial waste and the utilisation of water from waste flows;
- the production of industrial water;
- services related to these activities.

Main directions of growth
- increasing the generation of heat and electricity;
- ensuring most of the energy needs of KGHM Polska Miedź S.A.;
- increasing the energy security of KGHM Polska Miedź S.A. and its other customers for heat;
- increasing its share of the local heating supply market, including consolodation of the local market;
- searching for ways to make use of alternative energy sources;
- reducing the environmental impact of the company.

Significant events in 2009
- "Energetyka" sp. z o.o. participated in the privatisation of the company WPEC w Legnicy S.A.; in December 2009 it purchased 85% of this entity, substantially increasing its share of the regional heating market;
- In January 2009 it purchased 100% of the shares of "BIOWIND" sp. z o.o., whose task will be to construct a wind farm;
- After performing tests on a line for the incineration of coal together with biomass in the Lubin power plant, the company was issued the first certificate attesting that it generates electricity using a renewable energy source;
- The company reduced the amount of incinerated coal and of CO_2 emissions and optimised the mutual operation of its boiler units (thanks to completed modernisation of equipment);
- modernisation completed on the replacement of turbo unit no. 1 (AP-4) in the Legnica power plant;
- new transit pipelines were built (replacing pipes dating to the 1960s) for servicing the villages of Sobin, Jędrzychów and Nowa Wieś Lubińska (distribution losses minimalised).

Financial data „Energetyka" sp. z o.o. for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	211.1	213.5	234.2
Net profit	0.9	0.9	0.08
Share capital	221.5	248.8	248.8
Total assets	328.2	378.0	597.2

Major strengths
- complete supply of energy and sewage management for KGHM Polska Miedź S.A.;
- guaranteeing the heating needs of neighboring towns – Polkowice, Głogów, Lubin – using its own power plants;
- the production and distribution of potable water for neighboring communities.

KGHM METRACO

KGHM Metraco S.A.

Percentage of company owned by the KGHM Group – 100%

Subject of activities – sales

Wholesale trade:
- scrap and raw material semi-products (main business);
- chemical products;
- refined lead;
- roadway and industrial salt;

Major strengths
- complex servicing of the core business of KGHM Polska Miedź S.A. in raw and other materials (black liquor, other chemicals, copper scrap);

- external sales of the byproducts of KGHM's core business (sulphuric acid, refined lead, copper sulphate, nickel sulphate, selenium);
- in-depth knowledge of the metals and chemicals markets;
- the largest share of the copper scrap market in Poland.

Main directions of growth
- increasing the purchase of copper scrap for the smelters as part of the resource base development strategy of KGHM Polska Miedź S.A.;
- building its position as a major international supplier of sulphuric acid;
- increasing the sale of road salt on the domestic and European markets;
- expanding its customer base for refined lead due to the planned increase in production by the Legnica smelter;
- expanding its commercial activities beyond the KGHM Polska Miedź S.A. Group.

Significant events in 2009
- completion of an investment on the Scrap Turnover Base, related to ensuring an increased supply of copper scrap to the divisions of KGHM Polska Miedź S.A., based among others on the purchase and installation of a high-capacity hydraulic press, modernisation of its power supply, technical supplementation of its production system;
- The company successfully passed a certifying audit confirming its adherance to the standard PN-EN ISO 9001:2000;
- The company was issued an AEO certificate by the Director of the Customs Office in Wrocław, which entitles KGHM Metraco S.A. to make use of simplified customs procedures with respect to safety and security, as well as other simplified procedures provided for by customs law;
- The company commenced realisation of a project for the construction and use of a sulphuric acid storage and loading base at a Polish port.

Financial data KGHM Metraco S.A. for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	1 313.3	1 315.2	1 639.5
Net profit	13.2	9.7	5.9
Share capital	2.5	2.5	2.5
Total assets	116.1	104.2	124.3

PHP "MERCUS" sp. z o.o.

Percentage of company owned by the KGHM Group - 100%

Subject of activities – sales

The company operates in four sectors:

- material logistics, mainly on behalf of the divisions of KGHM Polska Miedź S.A. and companies of the Group;
- production – bundled electrical cables for producers of home appliances, and high-pressure hydraulic lines for machinery and equipment used in mining and construction;
- wholesale and retail sales – department stores, warehouses, furniture showrooms, auto dealers, etc.;
- international trade – the import of machinery and equipment.

Main directions of growth

- increased production of bundled electrical cables, including the introduction of a new assortment of bundled cables based on modern technology;
- development of its sales network;
- expansion of its logistical supply services beyond the KGHM Polska Miedź S.A. Group.

Significant events in 2009

- introduction of an integrated Purchase Support System;
- opening of an Interior Design Gallery in Polkowice;
- implementation of the new Axapta IT system;
- opening of a Multi-brand Auto Dealership offering Opels, Chevrolets and Fords;
- expanding the sales market for its bundled electrical cables – receipt of a sales certificate for North America;
- receipt of title Fair Play Enterprise and the program's Gold Statuette.

Financial data PHP „MERCUS" sp. z o.o. for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	577.7	699.4	639.8
Net profit	3.9	3.9	4.3
Share capital	10.7	10.7	10.7
Total assets	157.2	190.8	146.0

Major strengths

- a strategic role for KGHM Polska Miedź S.A., as the main logistical operator and supplier of KGHM's core business in materials and spare parts;
- possession of its own network of wholesale and retail sales outlets and its own foreign trade office;
- in-depth knowledge of the markets for and producers of the goods which it sells;
- the company has been on the market since 1991.

INTERFERIE S.A.

Percentage of company owned by the KGHM Group – 65.67%

Subject of activities – sales

- the sale of domestic and foreign tourism-related services, including: holidays, spas and hotels;
- the organisation of courses for schools, conferences and symposiums, casual events etc.;
- intermediary in the sale of tourism services – realised by the tourism office of INTERFERIE;

Major strengths

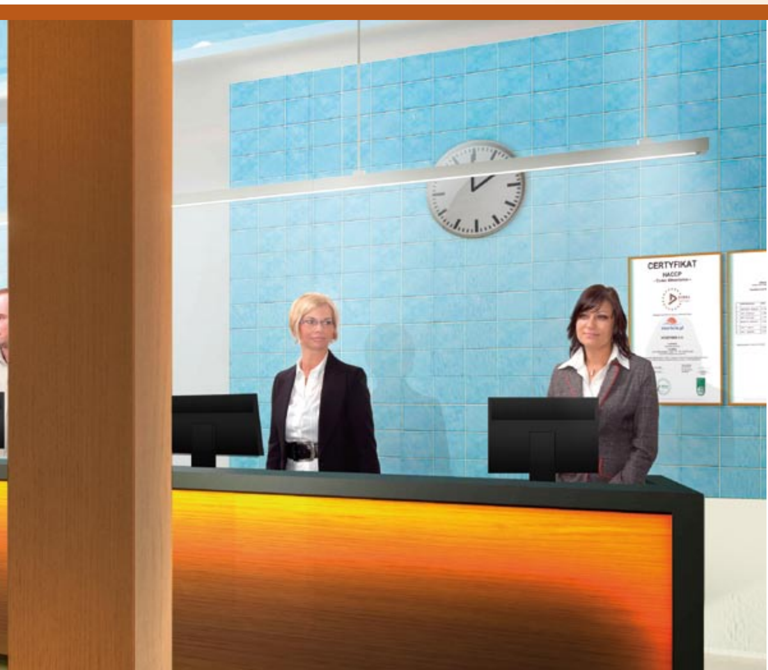
- INTERFERIE S.A. is the largest tourism company in Lower Silesia and one of the largest in Poland;
- the company owns numerous tourist facilities, from high-class hotels to basic residential quarters for workers;
- the company specialises in the organisation of medical and rehabilitation-type holidays.

Main directions of growth

- realisation of an investment program aimed at developing its tourist facility base, to enable expansion of its recreational offer combined with medicine/rehabilitation through the purchase or construction of new facilities, and the modernisation of existing ones;
- asset restructurisation – the sale of less profitable facilities and of facilities which are inconsistent with the strategy of the company;
- the construction of a high-standard, spa-type facility;
- increasing sales on behalf of foreign tourism agencies (mainly from Germany and Scandinavia).

Financial data INTERFERIE S.A. for the years 2007–2009

(m PLN)	2007	2008	2009
Sales	36.6	37.5	43.0
Net profit	1.1	0.8	2.9
Share capital	72.8	72.8	72.8
Total assets	103.3	107.4	110.8



Significant events in 2009

- new foreign customers for the company's facilities gained with respect to health-related tourism;
- permission granted for the construction of a hotel in Świnoujście and for the demolition of the old facility Barbarka II, and the respective construction and demolition projects prepared.

Condensed financial statements

The accompanying condensed financial report of KGHM Polska Miedź S.A. with its registered head office in Lubin was prepared by the Management board of the Company based on the audited full-year financial statements for 2009 in accordance with International Financial Reporting Standards approved by the European Union.

For a complete understanding of the material and financial condition of the Company and its financial results for the financial period from 1 January to 31 December 2009, the complete financial statements of the Company must be read in conjunction with the registered auditor's opinion and report concerning these financial statements (the full text of these statements are on the enclosed CD and on the website www.kghm.pl)

Independent auditors' opinion on the condensed financial statements to the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

We have audited the financial statements for the year ended 31 December 2009 of KGHM Polska Miedź S.A. ("the Company") located in Lubin at M. Skłodowskiej-Curie 48 ("the full financial statements"), based on which the Management Board of the Company prepared the attached condensed financial statements for the year ended 31 December 2009 ("the condensed financial statements"). The full financial statements were prepared under International Financial Reporting Standards approved by the EU and on the basis of properly prepared accounting records.

We conducted our audit of the full financial statements, based on which the condensed financial statements were prepared, in accordance with chapter 7 of the Polish Accounting Act dated 29 September 1994 and on the general practice applied in Poland of auditing financial statements based on existing auditing standards issued by the National Council of Statutory Auditors with respect to the Act dated 7 May 2009 on statutory auditors and their self-governance, audit firms authorised to audit financial statements and public oversight (Journal of Laws 2009, no. 77,item 649), and subsequently on 26 March 2010 we issued an unqualified opinion on these financial statements.

In our opinion the attached condensed financial statements, in all material aspects, conform to the full financial statements based on which they were prepared.

To better understand the material and financial situation of the Company as at 31 December 2009 and its financial result for the period from 1 January 2009 to 31 December 2009, as well as the scope of our audit, the attached condensed financial statements should be read together with the full financial statements based on which they were prepared, as well as the independent auditors' opinion on these financial statements.

on behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Key Certified Auditor

Marek Musiał
certified auditor
No. 90036

Warsaw, 30 June 2010

Balance sheet

Assets

	At	
	31 December 2009	31 December 2008
Non-current assets		
Property, plant and equipment	5 937 513	5 515 028
Intangible assets	76 147	80 904
Shares in subsidiaries	1 915 224	1 795 013
Investments in associates	1 159 947	1 163 640
Deferred tax assets	167 062	–
Available-for-sale financial assets	17 700	21 034
Held-to-maturity investments	67 097	59 545
Derivative financial instruments	58 034	6 501
Trade and other receivables	110 173	61 900
Total non-current assets	9 508 897	8 703 565
Current assets		
Inventories	1 890 286	1 446 802
Trade and other receivables	1 314 598	1 222 501
Held-to-maturity investments	580	–
Derivative financial instruments	263 247	711 096
Cash and cash equivalents	975 198	1 793 580
Total current assets	4 443 909	5 173 979
Non-current assets held for sale	224	23 020
Total assets	13 953 030	13 900 564

amounts in tables in thousand PLN, unless otherwise stated

Equity and liabilities

	At	
	31 December 2009	31 December 2008
Equity		
Share capital	2 000 000	2 000 000
Accumulated other comprehensive income	127 228	518 748
Retained earnings	8 276 729	8 072 544
Total equity	10 403 957	10 591 292
Liabilities		
Non-current liabilities		
Trade and other payables	17 472	24 962
Borrowings and finance lease liabilities	11 576	17 173
Derivative financial instruments	61 354	–
Deferred tax liabilities	–	31 516
Liabilities due to employee benefits	1 098 399	975 697
Provisions for other liabilities and charges	515 619	591 320
Total non-current liabilities	1 704 420	1 640 668
Current liabilities		
Trade and other payables	1 376 049	1 476 088
Borrowings and finance lease liabilities	6 109	7 120
Current corporate tax liabilities	78 183	64 866
Derivative financial instruments	273 503	3 771
Liabilities due to employee benefits	93 122	73 289
Provisions for other liabilities and charges	17 687	43 470
Total current liabilities	1 844 653	1 668 604
Total liabilities	3 549 073	3 309 272
Total equity and liabilities	13 953 030	13 900 564

amounts in tables in thousand PLN, unless otherwise stated

Income statement

Statement of comprehensive income

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Income statement		
Continued activities		
Sales	11 060 540	11 302 913
Cost of sales	(7 127 255)	(7 215 430)
Gross profit	3 933 285	4 087 483
Selling costs	(107 303)	(79 791)
Administrative expenses	(629 077)	(615 316)
Other operating income	870 598	1 224 792
Other operating costs	(969 411)	(1 020 804)
Operating profit	3 098 092	3 596 364
Finance costs – net	(31 523)	(42 735)
Profit before income tax	3 066 569	3 553 629
Income tax expense	(526 384)	(633 251)
Profit for the period	2 540 185	2 920 378
Other comprehensive income due to:		
Available-for-sale financial assets	(10 834)	8 099
Cash flow hedging instruments	(472 524)	617 862
Income tax related to items presented in other comprehensive income	91 838	(120 996)
Other comprehensive net income for the financial period	**(391 520)**	**504 965**
Total comprehensive income	**2 148 665**	**3 425 343**
Earnings per share for the annual period (in PLN per share)		
– basic	12.70	14.60
– diluted	12.70	14.60

amounts in tables in thousand PLN, unless otherwise stated

Statement of changes in equity

Statement of changes in equity

	Share capital	Retained earnings	Accumulated other comprehensive income due to:		Total equity
			Available-for-sale financial assets	Cash flow hedging instruments	
At 1 January 2009	2 000 000	8 072 544	10 265	508 483	**10 591 292**
Dividend for 2008	–	(2 336 000)	–	–	**(2 336 000)**
Total comprehensive income	–	2 540 185	(8 776)	(382 744)	**2 148 665**
At 31 December 2009	2 000 000	8 276 729	1 489	125 739	**10 403 957**
At 1 January 2008	2 000 000	6 952 166	3 705	10 078	**8 965 949**
Dividend for 2007	–	(1 800 000)	–	–	**(1 800 000)**
Total comprehensive income	–	2 920 378	6 560	498 405	**3 425 343**
At 31 December 2008	2 000 000	8 072 544	10 265	508 483	**10 591 292**

amounts in tables in thousand PLN, unless otherwise stated

Statement of cash flows

Statement of cash flows

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Cash flow from operating activities		
Profit for the period	2 540 185	2 920 378
Adjustments to profit for the period	567 006	668 899
Income tax paid	(619 806)	(840 106)
Net cash generated from operating activities	2 487 385	2 749 171
Cash flow from investing activities		
Purchase of shares in subsidiaries	(177 106)	(128 134)
Purchase of shares in associates	–	(737 686)
Proceeds from sale of shares in associates	–	8 542
Purchase of property, plant and equipment and intangible assets	(1 161 762)	(1 080 603)
Proceeds from sale of property, plant and equipment and intangible assets	14 195	7 447
Purchase of available-for-sale financial assets	–	(202 123)
Proceeds from sale of available-for-sale financial assets	20 000	204 540
Purchase of held-to-maturity investments financed from the resources of the Mine Closure Fund	(8 132)	(25 481)
Proceeds from sale of held-to-maturity investments financed from the resources of the Mine Closure Fund	–	9 829
Establishment of deposits	(400 500)	–
Termination of deposits	400 500	–
Loans granted	(69 432)	(7 866)
Repayment of loans granted	1 044	53
Interest received	6 319	326
Dividends received	454 628	236 939
Advances granted for the purchase of property, plant and equipment and intangible assets	(14 229)	–
Other investment expenses	(12 228)	(7 561)
Net cash used in investing activities	(946 703)	(1 721 778)

amounts in tables in thousand PLN, unless otherwise stated

Statement of cash flows – continued

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Cash flow from financing activities		
Repayments of loans	(4 000)	(6 000)
Payments of liabilities due to finance leases	(3 310)	(2 568)
Interest paid	(252)	(453)
Dividends paid	(2 336 000)	(1 800 000)
Net cash used in financing activities	(2 343 562)	(1 809 021)
Total net cash flow	(802 880)	(781 628)
Exchange gains/(losses) on cash and cash equivalents	(15 502)	40 213
Movements in cash and cash equivalents	(818 382)	(741 415)
Cash and cash equivalents at beginning of the period	1 793 580	2 534 995
Cash and cash equivalents at end of the period	975 198	1 793 580
including restricted cash and cash equivalents	6 722	2 587

amounts in tables in thousand PLN, unless otherwise stated

Condensed consolidated financial statements

The accompanying condensed financial report of the KGHM Polska Miedź S.A. Group with its registered head office in Lubin was prepared by the Management board of the Company based on the audited full-year financial statements for 2009 in accordance with International Financial Reporting Standards approved by the European Union.

For a complete understanding of the material and financial condition of the KGHM Polska Miedź S.A. Group and its financial results for the financial period from 1 January to 31 December 2009, the complete financial statements of the Group must be read in conjunction with the registered auditor's opinion and report concerning these financial statements (the full text of these statements are on the enclosed CD and on the website www.kghm.pl)

Independent auditors' opinion on the condensed consolidated financial statements to the Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

We have audited the consolidated financial statements for the year ended 31 December 2009 of the KGHM Polska Miedź S.A. Group ("the Group"), in which the Parent Entity is KGHM Polska Miedź S.A. ("the Company") located in Lubin at M. Skłodowskiej - Curie 48 ("the full consolidated financial statements"), based on which the Management Board of the Company prepared the attached condensed financial statements for the year ended 31 December 2009 ("the condensed financial statements"). The full consolidated financial statements were prepared under International Financial Reporting Standards approved by the EU and on the basis of properly prepared accounting records.

We conducted our audit of the full consolidated financial statements, based on which the condensed financial statements were prepared, in accordance with chapter 7 of the Polish Accounting Act dated 29 September 1994 and on the general practice applied in Poland of auditing financial statements based on existing auditing standards issued by the National Council of Statutory Auditors with respect to the Act dated 7 May 2009 on statutory auditors and their self-governance, audit firms authorised to audit financial statements and public oversight (Journal of Laws 2009, no. 77,item 649), and subsequently on 26 March 2010 we issued an unqualified opinion on these consolidated financial statements.

In our opinion the attached condensed financial statements, in all material aspects, conform to the full consolidated financial statements based on which they were prepared.

To better understand the material and financial situation of the Group as at 31 December 2009 and its financial result for the period from 1 January 2009 to 31 December 2009, as well as the scope of our audit, the attached condensed financial statements should be read together with the full consolidated financial statements based on which they were prepared, as well as the independent auditors' opinion on these consolidated financial statements.

on behalf of
Ernst & Young Audit Sp. z o.o.
Rondo ONZ 1, 00-124 Warsaw
Reg. No. 130

Key Certified Auditor

Marek Musiał
certified auditor
No. 90036

Warsaw, 30 June 2010

Table of contents to the consolidated financial statements

Consolidated statement of financial position

Assets

	Note	At 31 December 2009	At 31 December 2008
Non-current assets			
Property, plant and equipment	6	7 673 437	7 136 307
Intangible assets	7	268 195	151 581
Investment property	8	17 164	18 083
Investments in associates	9	1 346 272	1 498 116
Deferred tax assets	21	347 395	188 992
Available-for-sale financial assets	10	19 412	31 213
Held-to-maturity investments	11	67 144	59 592
Derivative financial instruments	12	58 034	6 501
Trade and other receivables	13	10 586	22 774
Total non-current assets		9 807 639	9 113 159
Current assets			
Inventories	14	2 072 434	1 608 369
Trade and other receivables	13	1 531 341	1 469 959
Current corporate tax receivables		9 329	1 741
Available-for-sale financial assets	10	8 976	–
Held-to-maturity investments	11	580	–
Derivative financial instruments	12	263 375	711 127
Cash and cash equivalents	15	1 197 077	2 065 763
Total current assets		5 083 112	5 856 959
Non-current assets held for sale	16	6 674	29 987
Total assets		14 897 425	15 000 105

The accounting policies and other explanatory information presented on pages 116 to 188 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Equity and liabilities

	Note	At	
		31 December 2009	31 December 2008
Equity			
Equity attributable to shareholders of the Parent Entity			
Share capital	17	2 000 000	2 000 000
Accumulated other comprehensive income	18	126 301	517 456
Retained earnings		8 429 651	8 407 049
Total equity attributable to shareholders of the Parent Entity		10 555 952	10 924 505
Minority interest		67 875	58 360
Total equity		10 623 827	10 982 865
Liabilities			
Non-current liabilities			
Trade and other payables	19	36 230	44 289
Borrowings and finance lease liabilities	20	120 854	98 055
Derivative financial instruments	12	61 354	–
Deferred tax liabilities	21	41 785	68 182
Liabilities due to employee benefits	22	1 183 350	1 039 423
Provisions for other liabilities and charges	23	527 421	599 315
Total non-current liabilities		1 970 994	1 849 264
Current liabilities			
Trade and other payables	19	1 575 896	1 756 752
Borrowings and finance lease liabilities	20	219 816	192 923
Current corporate tax liabilities		79 104	65 952
Derivative financial instruments	12	273 717	4 930
Liabilities due to employee benefits	22	106 704	83 531
Provisions for other liabilities and charges	23	47 367	63 888
Total current liabilities		2 302 604	2 167 976
Total liabilities		4 273 598	4 017 240
Total equity and liabilities		14 897 425	15 000 105

The accounting policies and other explanatory information presented on pages 116 to 188 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Consolidated statement of comprehensive income

Consolidated statement of comprehensive income

	Note	For the period	
		from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Income statement			
Continued activities			
Sales	24	12 119 910	12 654 885
Cost of sales	25	(7 923 233)	(8 489 581)
Gross profit		4 196 677	4 165 304
Selling costs	25	(230 159)	(225 540)
Administrative expenses	25	(783 444)	(778 127)
Other operating income	27	495 572	1 043 759
Other operating costs	28	(999 308)	(1 019 034)
Operating profit		2 679 338	3 186 362
Finance costs - net	29	(45 259)	(57 494)
Share of profits of associates accounted for using the equity method		270 072	267 579
Profit before income tax		2 904 151	3 396 447
Income tax expense	32	(544 981)	(630 581)
Profit for the period		2 359 170	2 765 866
Other comprehensive income due to:			
Available-for-sale financial assets		(10 384)	7 169
Cash flow hedging instruments		(472 524)	617 862
Income tax related to items presented in other comprehensive income		91 753	(120 693)
Other comprehensive net income for the financial period		(391 155)	504 338
Total comprehensive income		1 968 015	3 270 204
Profit for the period attributable to:			
shareholders of the Parent Entity		2 358 602	2 766 179
minority interest		568	(313)
Total comprehensive income attributable to:			
shareholders of the Parent Entity		1 967 447	3 270 517
minority interest		568	(313)
Earnings per share attributable to the shareholders of the Parent Entity during the period (in PLN per share)	33		
– basic		11.79	13.83
– diluted		11.79	13.83

The accounting policies and other explanatory information presented on pages 116 to 188 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Consolidated statement of changes in equity

Consolidated statement of changes in equity

	Note	Attributable to shareholders of the Parent Entity					Attributable to minority interest	Total equity
		Share capital	Retained earnings	Accumulated other comprehensive income due to:		Total		
				Available-for-sale financial assets	Cash flow hedging instruments			
At 1 January 2009		2 000 000	8 407 049	8 972	508 484	10 924 505	58 360	**10 982 865**
Dividends for 2008 paid		–	(2 336 000)	–	–	(2 336 000)		**(2 336 000)**
Total comprehensive income	18	–	2 358 602	(8 411)	(382 744)	1 967 447	568	**1 968 015**
Transactions with minority interest		–	–	–	–	–	8 947	**8 947**
At 31 December 2009		2 000 000	8 429 651	561	125 740	10 555 952	67 875	**10 623 827**
At 1 January 2008		2 000 000	7 440 870	3 039	10 079	9 453 988	47 621	**9 501 609**
Dividends for 2007 paid		–	(1 800 000)	–	–	(1 800 000)	(74)	**(1 800 074)**
Total comprehensive income	18	–	2 766 179	5 933	498 405	3 270 517	(313)	**3 270 204**
Transactions with minority interest		–	–	–	–	–	11 126	**11 126**
At 31 December 2008		2 000 000	8 407 049	8 972	508 484	10 924 505	58 360	**10 982 865**

The accounting policies and other explanatory information presented on pages 116 to 188 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Consolidated statement of cash flows

Consolidated statement of cash flows

	Note	For the period	
		from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Cash flow from operating activities			
Profit for the period		2 359 170	2 765 866
Adjustments to profit for the period	35	994 786	1 046 072
Income tax paid		(633 207)	(852 213)
Net cash generated from operating activities		2 720 749	2 959 725
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents		(217 590)	(28 969)
Purchase of shares in associates		–	(737 686)
Proceeds from sale of shares in associates		–	8 542
Purchase of property, plant and equipment and intangible assets		(1 465 749)	(1 331 545)
Proceeds from sale of property, plant and equipment and intangible assets	35	23 386	17 580
Purchase of held-to-maturity investments		–	(77 796)
Proceeds from sale of held-to-maturity investments		–	77 796
Purchase of available-for-sale financial assets		(58)	(201 862)
Proceeds from sale of available-for-sale financial assets		20 000	208 440
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(8 132)	(25 481)
Proceeds from sale of held-to-maturity investments financed from the resources of Mine Closure Fund		–	9 829
Establishment of deposits		(400 523)	–
Termination of deposits		400 500	–
Loans granted		–	(100)
Proceeds from repayments of loans granted		1 048	–
Interest received		5 692	1 004
Dividends received		418 474	183 162
Advances granted for purchase of property, plant and equipment and intangible assets		(22 030)	(14 629)
Other investment expenses		(10 765)	(7 409)
Net cash used in investing activities		(1 255 747)	(1 919 124)

The accounting policies and other explanatory information presented on pages 116 to 188 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Consolidated statement of cash flows – continuation

	Note	For the period	
		from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Cash flow from financing activities			
Proceeds connected with minority interest transactions		57	–
Purchase of the company's own shares for redemption		(9)	–
Proceeds from loans and borrowings		98 136	77 702
Repayments of loans and borrowings		(56 941)	(85 190)
Payments of liabilities due to finance leases		(8 333)	(4 484)
Interest paid		(14 756)	(15 317)
Dividends paid to shareholders of the Parent Entity		(2 336 000)	(1 800 000)
Dividends paid to minority interest		–	(74)
Other financial proceeds		96	–
Net cash used in financing activities		(2 317 750)	(1 827 363)
Total net cash flow		(852 748)	(786 762)
Exchange (losses)/gains on cash and cash equivalents		(15 938)	40 429
Movements in cash and cash equivalents		(868 686)	(746 333)
Cash and cash equivalents at beginning of the period	15	2 065 763	2 812 096
Cash and cash equivalents at end of the period	15	1 197 077	2 065 763
including restricted cash and cash equivalents		15 833	2 648

The accounting policies and other explanatory information presented on pages 116 to 188 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Accounting policies and other explanatory information to the consolidated financial statements prepared for 2009

1. General information

Name, registered office, business activities

KGHM Polska Miedź S.A. (the "Parent Entity") with its registered office in Lubin at M.Skłodowskiej-Curie Street 48 is a 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 Parent Entity was issued with tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764.

KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 Divisions: 3 mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 smelters (Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant), Ore Enrichment Plant (OEP), Tailings Plant, Mine-Smelter Emergency Rescue Unit and Data Center. The composition of the Group was presented in Note 4.

The shares of KGHM Polska Miedź S.A. are listed on the Stock Exchange in Warsaw. As of 22 December 2009, due to the termination of the deposit agreement with Deutsche Bank Trust Company Americas, the GDRs (global depository receipts) of the Parent Entity listed on the London Stock Exchange (LSE) were removed from the list of securities admitted to trading in the LSE.

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

The principal activities of the Group 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 goods;
- holding management activities;
- geological and exploratory activities;
- general construction activities with respect to mining and production facilities;
- generation and distribution of electricity, steam and hot water, production of gas and distribution of gaseous fuels through a supply network;
- scheduled and non-scheduled air transport; and
- telecommunication and IT activities.

Activities involving the exploitation of copper ore, salt deposits and common minerals are carried out based on licenses held by KGHM Polska Miedź S.A., which were issued by the Minister of Environmental Protection, Natural Resources and Forestry in the years 1993–2004.

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

Period of operation of the Group

KGHM Polska Miedź S.A. has been conducting its business since 12 September 1991. The Parent Entity and subsidiaries have 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.

Composition of the Management Board of the Parent Entity

During the period from 1 January 2009 to 15 June 2009, the composition of the Management Board and the segregation of its duties were as follows:
- Mirosław Krutin President of the Management Board;
- Herbert Wirth I Vice President of the Management Board (Development);
- Maciej Tybura Vice President of the Management Board (Finance).

On 15 June 2009, Mr. Mirosław Krutin submitted to the Chairman of the Supervisory Board a statement in which he announced that he will not be a candidate for the position of VIIth term President of the Management Board.

On 15 June 2009 the Supervisory Board resolved that the next-term (VIIth term) Management Board of KGHM Polska Miedź S.A. shall be comprised of two Members, and appointed the following individuals:

- Herbert Wirth – granting him the responsibilities of the President of the Management Board;
- Maciej Tybura – granting him the function of Vice President.

Simultaneously, the Supervisory Board resolved to commence the recruitment process for the position of President of the Management Board of KGHM Polska Miedź S.A. for the VI-I[th] term.

On 20 July 2009 the Supervisory Board appointed Herbert Wirth to the function of President of the Management Board of KGHM Polska Miedź S.A. for the VII[th] term.

On 24 August 2009 the Supervisory Board of the Parent Entity appointed Mr. Ryszard Janeczek as the Vice President of the Management Board of KGHM Polska Miedź S.A. for the VII[th] term and granted Maciej Tybura the function of I Vice President of the Management Board.

As at the date of authorisation of these financial statements for issue, the composition of the Management Board and segregation of duties were as follows:

- Herbert Wirth President of the Management Board;
- Maciej Tybura I Vice President of the Management Board;
- Ryszard Janeczek Vice President of the Management Board.

Authorisation of the financial statements

These financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 26 March 2010.

Going concern assumption

These consolidated financial statements were prepared under the assumption that Group companies will continue as going concerns in the foreseeable future. As at the date of authorisation of these financial statements, there are no circumstances that would indicate a threat to the going concern assumption by the Group companies.

In order to fully understand the financial position and the results of the activities of the Group, these consolidated financial statements should be read jointly with the separate annual financial statements of KGHM Polska Miedź S.A. for the period ended 31 December 2009. These financial statements will be available on the website of the Parent Entity www.kghm.pl on dates consistent with the current report concerning dates of publication of the annual report and the consolidated annual report for the 2009.

2. Main accounting policies

2.1 Basis of preparing financial statements

These financial statements have been prepared in accordance with the International Financial Reporting Standards approved by the European Union using the same principles for the current and comparative period.

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

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

Standards and interpretations in force applied by the Group as of 1 January 2009

IFRS 8 Operating segments
IAS 1 Presentation of Financial Statements
IAS 23 Borrowings costs
Amended IFRS 2 Vesting conditions and Cancellations
Amended IAS 32 Financial Instruments: Presentation and amended IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
Amended IFRS 1 First-time Adoption of International Financial Reporting Standards and amended IAS 27 Consolidated and Separate Financial Statements
IFRIC 13 Customer Loyalty Programmes
Improvements to International Financial Reporting Standards 2008
IFRIC 15 Agreements for the Construction of Real Estate
IFRIC 16 Hedges of a Net Investment in a Foreign Operation
IFRS 4 Insurance Contracts and IFRS 7 Financial Instruments: Disclosures
IFRIC 9 Embedded Derivatives – improvement to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement

Application of the changes to IFRS 2, IAS 32, IAS 1, IFRS 1 and IAS 27, IFRIC 15, IFRIC 16, IFRIC 9 and IAS 39 has no effect on the financial statements of the Group. Additionally, application of the remaining standards and interpretations has no significant effect on the accounting policy of the Group, with the exception of the changes to IAS 1, IAS 23, IFRS 8 and IFRS 7, and apart from the changes to IAS 23, the remainder mainly effect the presentation of information in the financial statements. IFRIC 15 was adopted for application by the European Union for annual periods beginning after 31 December 2009.

The effect of changes on the following financial statements is presented below:

The updated IAS 1 Presentation of Financial Statements

The changes were mainly in respect of the titles and scope of the key items of the financial statements, i.e.:

to 31 December 2008	from 1 January 2009	
Title	Title	Scope
Balance sheet	Statement of financial position	Change in the title "other reserves" to "accumulated other comprehensive income"
Income statement	Statement of comprehensive income	The elements comprising this statement are the income statement and other comprehensive income which until now represented the item of income and costs in other reserves
Statement of changes in equity	Statement of changes in equity	Detailed presentation of changes in equity arising solely as the result of transactions with owners
Cash flow statement	Statement of cash flows	no change
Balance sheet date	End of the reporting period	no change

IFRS 8 Operating segments

This Standard replaced IAS 14 Segment reporting, and introduced a management approach to segment reporting based on internal reports that are reviewed by the entity's chief operating decision maker in order to allocate resources to the segment and assess its performance. Details on the application of IFRS 8 are presented in note 5 of this report.

The updated IAS 23 Borrowing Costs

As a result of changes introduced by the IASB to IAS 23 based on excluding the possibility of recognising the borrowing costs attributable to a qualifying asset directly in the costs of the period, the Group changed the accounting principles with respect to recognition of these costs. These costs will now be capitalised, in accordance with IAS 23.

However, since 1 January 2009, there have occurred no economic events within the Group which would require the capitalisation of borrowing costs, and therefore the updated IAS 23 has no impact on either the measurement or presentation of these financial statements.

IFRS 7 Financial Instruments: Disclosures

The amendments to IFRS 7 introduce the requirement to apply and present a three-level hierarchy for making fair value measurements, as well as requirements to provide additional disclosure in terms of the relative reliability of fair value measurements and of any transfers between these levels. In addition, the amendments expand the existing requirements in terms of disclosure respecting liquidity risk.

Application of these amendments expands the scope of disclosures respecting financial instruments, in particular in terms of the classification of individual financial instrument classes to the level of fair value, depending on the type of measurement.

Details on the implementation of these amendments to IFRS 7 are presented in note 33 of this report.

In these financial statements Standards and interpretations were not used prior to their coming into force and adoption by the European Union Standards and interpretations published which did not come into force by the publication date of these financial statements:

"Eligible Hedged Items". An amendment to IAS 39 "Financial Instruments: Recognition and Measurement"

On 31 July 2008 the International Accounting Standards Board issued an amendment to IAS 39, "Eligible Hedged Items". This amendment clarifies the principles for qualification as well as the conditions which a financial position must meet to be qualified as hedged. The changes introduced clarify how the existing principles underlying hedge accounting should be applied in two particular situations, and in particular in a situation of (1) designation of a one-sided risk in a hedged item (i.e. changes in the cash flows or fair value of a hedged item above or below a specified level of a determined variable), and (2) designation of inflation representing a portion of the cash flow of a financial hedged item. The introduction of Application Guidance was necessary due to the diversity of solutions being practiced in this regard. This amendment, which requires retrospective application, will be in effect for periods beginning on or after 1 July 2009, and will not affect the financial statements of the Group.

IFRIC 17 "Distributions of Non-cash Assets to Owners"

On 27 November 2008 the International Accounting Standards Board issued interpretation IFRIC 17 "Distributions of Non-cash Assets to Owners". This interpretation is aimed at standardising practice in the accounting treatment of distribution of non-cash assets to owners. Until now existing standards did not address how an entity should measure and account for distributions of assets other than cash when it pays dividends to its owners. The interpretation provides guidance as to when a liability should be recognised, how it and any related assets should be measured and when to cease recognition of such assets and liabilities. It also explains the resulting consequences. The interpretation is effective for annual periods beginning on or after 1 July 2009 and will not affect the financial statements of the Group.

amounts in tables in thousand PLN, unless otherwise stated

IFRS 1 "First-time Adoption of IFRS"

On 27 November 2008 the International Accounting Standards Board issued a revised version of IFRS 1 First-time Adoption of IFRS. No substantive changes have been introduced by this revision. The revision only updates the structure of the standard, and is aimed at improving its transparency. The revised standard is applicable for annual periods beginning on or after 1 July 2009.

IFRIC 18 Transfers of Assets from Customers

On 29 January 2009 the International Accounting Standards Board issued interpretation IFRIC 18 Transfers of Assets from Customers. This interpretation is aimed primarily at public utilities, as it clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). In some cases, the entity receives cash from a customer that must be used only to acquire or construct the item of property, plant, and equipment in order to connect the customer to a network or provide the customer with ongoing access to a supply of goods or services. This interpretation is applicable for assets received after 1 July 2009 for annual periods beginning on or after 1 November 2009. The interpretation will not affect the financial statements of the Group, as Group companies are not involved in activities which would involve it receiving property, plant, and equipment or cash for the construction of such assets from its customers.

Improvements to International Financial Reporting Standards 2009

In April 2009, as part of its annual review of the Standards, the International Accounting Standards Board published its "Improvements to IFRSs" 2009. This is a collection of amendments and explanations which, while necessary, are not so urgent or significant as to be the subject of separate projects. There are 12 amendments altogether, the majority of which are of an explanatory or terminological character. Each amendment introduced has a separate effective date, although most of the amendments are effective for annual periods beginning on or after 1 January 2010. The Group is considering the impact of the amendment to IAS 17 Leasing on the financial statements.

Amended IFRS 2 "Group cash-settled share-based payment transactions"

The amended IFRS 2 was published by the International Accounting Standards Board on 18 June 2009. The amendments to IFRS 2 relate to the method of accounting for goods and services purchased as part of a share-based payment transaction, and explain that the use of the term 'group' in IFRS 2 has the same meaning as in IAS 27. The changes in this Standard become effective for annual periods beginning on or after 1 January 2010 and will not have any effect on the financial statements of the Group.

IFRS 3 "Business Combinations"

The amended IFRS 3 was issued by the International Accounting Standards Board on 10 January 2008 and replaces the currently binding IFRS 3. Implementation of this standard is connected with the completion of the second phase of the process of converging international and American approaches to business combinations, carried out by the IASB together with the American Financial Accounting Standards Board. The Standard gives more detailed guidance for application of the purchase method for business combinations. The Standard becomes effective for annual periods beginning on or after 1 July 2009 and will be applied to the accounting for business combinations effected after this date.

IAS 27 "Consolidated and Separate Financial Statements"

The amended IAS 27 was published by the International Accounting Standards Board on 10 January 2008 and replaces the currently binding IAS 27. Implementation of this standard relates to the completion of the second phase of the process of converging international and American approaches to business combinations, carried out by the IASB together with the American Financial Accounting Standards Board. IAS 27 requires the recognition of changes in the share held in a subsidiary as an equity transaction. For this reason such a change does not affect goodwill, and there is no recognition of gains or losses. The amended standard also changes the manner of recognising losses incurred by a subsidiary, exceeding the value of the investment, as well as the manner of recognising loss of control over the subsidiary. The amended Standard becomes effective for annual periods beginning on or after 1 July 2009. As these changes are to be applied prospectively, they will affect future acquisitions and transactions with minority interest.

"IFRS for Small and Medium-sized Entities"

On 9 July 2009, the International Accounting Standards Board issued the IFRS for Small and Medium-sized Entities (SMEs). This Standard deals with principles and problems of significance for SMEs, simplifying requirements and reducing the scope of disclosures required in the full version of the Standards. Its requirements have been adapted to the needs and capabilities of SMEs. This Standard does not affect the financial statements of the Group.

Amended IFRS 1 First-time Adoption of IFRS

On 23 July 2009 the International Accounting Standards Board published "Additional Exemptions for First-time Adopters of IFRS" as an amendment to IFRS 1 "First-time Adoption of IFRS". This amendment does not introduce significant changes, its purpose being to provide additional exemptions to entities while transitioning to IFRS, with respect to exemption from a) retrospective application of IFRSs for oil and gas assets, and b) reassessment of existing leasing contracts in accordance with IFRIC 4, when the application of their national accounting requirements produced the same result. The amended standard will be effective for annual periods beginning on or after 1 January 2010, and will not have an impact on the financial statements of the Group.

Classifications of rights issues – an amendment to IAS 32 Financial instruments: Presentation

On 8 October 2009 the International Accounting Standards Board published the document Classifications of rights issues as an amendment to International Accounting Standards 32 Financial instruments: Presentation. This amendment specifies the manner of accounting for rights issues given a situation in which the issued financial instruments are denominated in a currency other than the functional currency of the issuer. If such instruments are offered proportionally to the existing shareholders of the issuer in exchange for a fixed amount of currency, they should be classified as equity instruments regardless of the functional currency of the issuer. The amendment to this standard becomes effective for annual periods beginning on or after 1 February 2010, and will not affect the financial statements of the Group.

Amended IAS 24 Related Party Disclosures

On 4 November 2009 the International Accounting Standards Board published an updated version of IAS 24 Related Party Disclosures. This amendment introduces a modified definition of related parties and introduces a partial exemption from the requirement to disclose information related to transactions between parties related to government bodies. The Group expects that, following the adoption of the amendment to this standard, while the scope of disclosures of transactions between companies related to the State Treasury will decrease, it will still be necessary to monitor these transactions. The amendment to this standard becomes effective for annual periods beginning on or after 1 January 2011.

IFRS 9 Financial instruments

On 12 November 2009 the International Accounting Standards Board published IFRS 9 "Financial instruments". This standard is the result of the initial stage of work by the Board aimed at replacing IAS 39 Financial Instruments: Recognition and Measurement. This standard essentially simplifies the principles for classifying financial assets, introducing only two categories for their classification: (1) measurement at fair value, and (2) measurement at amortised cost. This classification, made at the time the financial asset is initially recognised, should result from the business model adopted by the entity for managing the assets and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets at the moment of initial recognition, in subsequent financial periods and with respect to the reclassification of these assets and the recognition of profits and losses arising from these assets. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will affect the financial statements of the Group, in particular with respect to presentation. Due to the extended adoption period, it is not possible at the present time to assess the potential changes in value which could affect the statement of financial position, the statement of comprehensive income and the statement of changes in equity. Changes in value may arise from the measurement of equity instruments, which, due to the lack of an active market, the Group currently measures at cost, less any impairment losses. It is however expected that they will not have a significant impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

On 26 November 2009 the International Accounting Standards Board published IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments. This interpretation provides guidelines with respect to accounting for the extinguishment of a financial liability by the issue of equity instruments. In accordance with IFRIC 19 issued equity instruments should in such a case be measured at fair value on the date the liability is settled, while the difference between the measurement of the equity instruments and that of the settled liability is recognised in profit or loss in the period in which settlement was made. This interpretation becomes effective for annual periods beginning on or after 1 July 2010, and will not affect the financial statements of the Group.

Prepayments of a Minimum Funding Requirement as an amendment to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

On 26 November 2009 the International Accounting Standards Board published minor amendments to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. These amendments represent a correction of this interpretation, and affect those limited cases in which an entity is subject to minimum funding requirements and makes prepayments towards these requirements. The amendments explain that such prepayments decrease the value of future contributions made to satisfy the said minimum funding requirements. The amendments become effective for annual periods beginning on or after 1 January 2011, and will not affect the financial statements of the Group.

Amended IFRS 1 First-time Adoption of IFRS

On 28 January 2010 the International Accounting Standards Board published Limited Exemption from Comparative IFRS 7 Disclosures for first-time adopters of IFRS as an amendment to IFRS 1 First-time Adoption of IFRS. This update does not introduce significant changes, but is intended to provide additional exemptions when transitioning to IFRS with respect to the implementation of disclosure requirements in accordance with IFRS 7. The amendments become effective for annual periods beginning on or after 1 July 2010, and will not affect the financial statements of the Group.

As at the date of publication of these financial statements, the European Union had not yet approved the following from amongst the above standards and interpretations: Improvements to IFRS 2009, Amended IFRS 2 Group cash-settled share-based payment transactions, IFRS for Small and Medium-sized Entities, Revised IFRS 1 First-time Adoption of IFRS, Revised IAS 24 Related Party Disclosures, IFRS 9 Financial Instruments, IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments, Prepayment of minimum funding requirements as an amendment to IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, and Limited Exemption from Comparative IFRS 7 Disclosures for first-time adopters of IFRS as an amendment to IFRS 1 First-time Adoption of IFRS.

2.2. Accounting policies

2.2.1. Property, plant and equipment

The following are considered to be items of property, plant and equipment:
- assets held by the entity for use in production, supply of goods and services or for administrative purposes;
- assets which are expected to be used during more than one year;
- assets which are expected to generate future economic benefits that will flow to the entity; and
- assets whose value can be measured reliably.

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 property, plant and equipment are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.24.

Foreign exchange differences arising from foreign currency liabilities, related to the purchase or construction of an item of property, plant and equipment, are recognised in profit or loss in the period in which they are incurred.

Upon initial recognition, in the costs of property, plant and equipment 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, are included. In particular, in the initial cost of items of property, plant and equipment discounted decommissioning costs of assets relating to underground mining, as well as of other facilities which, in accordance with binding laws, must be liquidated upon the conclusion of activities, are included.

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 an asset is brought into use, throughout the period set out in the asset group decommissioning plan within the schedule of mine decommissioning.

The decommissioning costs of other facilities recognised in their initial cost are amortised beginning from the moment an item of property, plant and equipment is brought into use, throughout the period of use and in accordance with the method used for the depreciation of those items of property, plant and equipment to which they have been assigned.

Property, plant and equipment acquired before 31 December 1996 and brought into use after this date, for which expenditures were incurred to the end of 1996, were restated to account for the effects of hyperinflation in accordance with IAS 29, Financial reporting in hyperinflationary economies.

As at the end of the reporting period, items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Principles for the impairment of assets are presented in point 2.2.10.

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 only if it is probable that future economic benefits associated with the item will flow to the entity, and the cost of the item 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.

Items of property, plant and equipment (excluding land) are depreciated using the straight-line method over their anticipated useful life. The residual value and useful life of an asset and the method of depreciation applied to items of property, plant and equipment are reviewed at least at the end of each financial year.

The useful lives, and therefore the depreciation rates of items of property, plant and equipment used in the production of copper, are adapted to the plans for the closure of operations.

For individual groups of 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;
- Other property, plant and equipment, including tools and instruments: 5–10 years.

Depreciation begins when an item of property, plant and equipment is available for use. Depreciation ceases at the earlier of the date that 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 basis for the calculation of depreciation is the cost of an item of property, plant and equipment less its estimated residual value.

The individual significant parts of an item of property, plant and equipment (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 depreciation rates reflecting their anticipated useful lives.

An asset's carrying amount is written down to its recoverable amount, if the carrying amount of the asset (or a cash-generating unit to which it belongs) is greater than its estimated recoverable amount.

The asset's carrying amount includes costs of necessary regular major overhauls, including for the purpose of certification.

Specialised spare parts 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. Spare parts and servicing equipment whose use is restricted to only certain items of property, plant and equipment are recognised in a similar manner. Other spare parts and servicing-related equipment with an insignificant cost 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. Intangible assets

Intangible assets include identifiable non-monetary assets without physical substance:
- development costs;
- goodwill;
- software;
- acquired concessions, patents, licenses;
- other intangible assets; and
- intangible assets not yet available for use (under construction).

Goodwill

Goodwill represents the excess of the cost of acquisition of an entity over the fair value of the Group's interests in the identifiable net assets of the acquired subsidiary at the date of the acquisition, or of the acquired associate at the date of the acquisition of the investment. Goodwill on acquisition of a subsidiary is recognised in intangible assets. Goodwill on acquisition of investments in associates is included in the carrying amount of such investment.

Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

Testing for impairment is performed and any potential impairment loss is recognised in accordance with the policies described in note 2.2.10 "Impairment of non-financial assets".

The carrying amount of goodwill relating to the entity which was disposed of enters into determination of the gain or loss on disposal of subsidiaries and associates.

Development costs

The entities of the Group carry out development projects which are primarily aimed at reducing copper production costs, increasing the production capacity of smelters and mines, improving the technical parameters of manufactured products, and improving copper production technology.

An intangible asset arising from development is recognised if the entity can demonstrate:

a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
b) the intention to complete the intangible asset and use or sell it;
c) its ability to use or sell the intangible asset;
d) the manner in which the intangible asset will generate probable future economic benefits;
e) the availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset; and
f) its ability to measure reliably the expenditures attributable to the intangible asset that have been incurred during its development.

Internally generated costs of development projects recognised as an item of intangible assets is the sum of expenditure incurred from the date when the intangible asset arising from development first meets the criteria for recognition.

Capitalised development costs are recognised as an intangible asset not available for use and are not amortised until the moment when the given intangible asset is completed and the decision has been taken to implement it. Such intangible assets are, however, tested annually for impairment. The amount of the impairment is recognised in profit or loss.

Internally generated intangible assets are amortised using the straight-line method over the period of their anticipated use.

Research expenditure is recognised as an expense as incurred.

Other intangible assets

Other intangible assets are measured at cost at initial recognition.

Any borrowing costs incurred for the purchase or construction of a qualifying item of intangible assets are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.24.

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 financial 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 any accumulated amortisation and accumulated impairment losses.

Intangible assets (excluding goodwill and intangible assets not yet available for use) are amortised using the straight-line method over their anticipated useful lives, which are as follows for the specific types of intangible assets:
- Development costs – 5–15 years;
- Software – 2–8 years;
- Concessions, licenses and patents – 2–5 years;
- Other intangible assets, including rights to geological information – 50 years.

The amortisation method and the amortisation rate of intangible assets are subject to review at the end of each reporting period.

As in the case of goodwill, intangible assets not yet available for use (under construction) are not amortised, but are tested annually for impairment. Any potential impairment loss is recognised in profit or loss.

There are no intangible assets in the Group with an indefinite useful life.

The principles of impairment losses recognition are presented in detail in point 2.2.10.

2.2.3. Investment property

Investment property is property which the Group treats as a source of income from rentals, or for capital appreciation, or both. Investment property also includes property held under an operating lease agreement, as long as it would otherwise meet the definition of investment property. Investment property (other than that held under an operating lease agreement) is initially measured at cost. Transaction costs are included in the initial measurement. The initial cost of the right to use an investment property (a property interest) held under a lease is recognised at the lower of the fair value of the property and the present value of the minimum lease payments.

At the end of subsequent reporting periods ending the financial year investment property is measured at fair value. Any gain or loss arising from a change in the fair value of the investment property affects profit or loss for the period in which it arises.

Investment property is derecognised on disposal, or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal.

2.2.4. Investments in subsidiaries and associates

a) Subsidiaries

Subsidiaries in the consolidated financial statements of the KGHM Polska Miedź S.A. Group are those entities which the Group has the power to govern in terms of their financial and operating policies in order to achieve benefits from their activities. Such control is exercised through ownership of the majority of the total number of votes in the governing bodies of these entities, i.e. in their management and supervisory boards. The existence and effect of potential voting rights that are currently exercisable or convertible are also considered when assessing whether the Group controls a given entity.

The purchase method is used to account for the acquisition of subsidiaries by the Group.

The carrying amount of investments held by the Group in each subsidiary is eliminated, along with the respective portion of equity of each subsidiary. The excess of the carrying amount of the investment over the fair value of the Group's interest in the identifiable net assets acquired is recognised as goodwill. The excess of the fair value of the Group's interest in the net assets acquired over the cost of acquisition is recognised directly in profit or loss.

The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Inter–company transactions, balances, income, expenses and unrealised gains recognised in assets are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.

Minority interest in the net assets of consolidated subsidiaries are recognised as a separate item of equity.

Consolidation of subsidiaries is discontinued from the date on which control ceases.

The Group treats transactions with minority interest as transactions with third parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in profit or loss. Purchases from minority interest give rise to goodwill, being the difference between any consideration paid and the Group's interest in the carrying amount of the net assets acquired.

b) Associates

Investments in associates, i.e. entities over which the Group has significant influence but does not control, and in which it participates in setting both the financial and operating policies of the entity, are accounted for using the equity method in the consolidated financial statements.

These investments are initially recognised at cost. The Group's net investment in an associate includes goodwill, as set at the date of acquisition, less any accumulated impairment losses on investments.

The Group's share of post-acquisition profits or losses of associates is recognised in its profit or loss, and its share of post-acquisition movements in other equity is recognised in the respective item of the equity. The cumulative post-acquisition movements in equity are adjusted against the carrying amount of the investment. When the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses, unless it has incurred obligations or made payments on behalf of the associate.

The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate.

2.2.5. Financial Instruments

2.2.5.1. 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;
- held-to-maturity investments;
- available-for-sale financial assets;
- financial liabilities measured at fair value through profit or loss;
- other financial liabilities;
- derivative hedging instruments.

Financial instruments are classified based on their characteristics and the purpose for which they were acquired. Classification is made upon 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 hedging instruments or as instruments measured at fair value through profit or loss.

The carrying amount of cash flows 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 with a maturity period of less than 12 months from the end of the reporting period is classified as a current asset or current liability.

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

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 Group upon initial recognition as at fair value through profit or loss. A financial asset or financial liability may be designated by the Group when initially recognised as at fair value through profit or loss only if:

a) such classification eliminates or significantly reduces any inconsistency in respect of measurement or recognition (also defined as "an accounting mismatch"), that would otherwise arise from measuring assets or liabilities 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 derivative instruments, unless they have been designated as hedging instruments.

Assets and liabilities in this category are classified as current (current liabilities), if they are expected to be realised within 12 months from the end of the reporting period.

Loans and receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the Group transfers monetary resources, delivers goods or services directly to the client, and does not intend to classify these receivables to financial assets measured at fair value through profit or loss.

Loans and receivables are classified as current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables with maturities greater than 12 months after the end of the reporting period are classified as non-current assets. Loans and receivables are included in trade and other receivables.

Cash and cash equivalents are classified as loans and receivables. Cash and cash equivalents are a separate item in the statement of financial position.

Held-to-maturity investments (HtM)

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity, except for assets classified as measured at fair value through profit or loss or available for sale, as well as financial assets meeting the definition of loans and receivables.

Available-for-sale financial assets (AfS)

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 the category of financial assets measured at fair value through profit or loss, as well as financial assets which were acquired on a secondary market and which have a fixed maturity date, but which the Group does not intend and is not able to hold until maturity.

Available-for-sale financial assets are included in non-current assets unless the Group intends to dispose of the investment within 12 months of 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.

Hedging instruments (HI)

Derivative instruments designated and qualifying for hedge accounting are classified into a separate category called: "Hedging instruments". The Group presents as "hedging instruments" the entire fair value of a transaction, even if the Group excludes part of change in fair value of the instrument from the effectiveness measurement.

2.2.5.2. 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 are initially recognised at fair value.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group 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 Group loses control over a given asset.

2.2.5.3 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 hedging instruments

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

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 financial assets 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 calculated using the effective interest rate method. When available-for-sale financial assets are derecognised, the total cumulative gains and losses which had been recognised in other comprehensive income are reclassified from equity to profit or loss as reclassification adjustment.

The disposal of investments of the same type but with a different cost basis is accounted for using FIFO.

Loans and receivables, held-to-maturity investments

Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest rate method.

Other financial liabilities

After initial recognition, the Group 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.

If the transfer of financial assets does not qualify them for derecognition because the Group retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the Group continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received. In subsequent periods, the Group recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability

- financial guarantee agreements, measured at the higher of:
  - 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.

2.2.5.4. Fair value

Fair value is considered to be the purchase price of a financial instrument or, in case of liabilities, the sale price of an instrument, unless there are any indicators that a financial instrument was not purchased at fair value.

At the end of the reporting period, the fair value of financial instruments, for which an active market exists, is established based on the current bid/ask prices. If the market for a financial instrument is not active (and in relation to non-quoted securities), the Group establishes fair value using appropriate valuation techniques. Valuation techniques used include comparison with recent arm's length market transactions, if available, reference to the current fair value of another instrument that is 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.

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 case of the purchase or sale of commodity forwards, fair value was estimated based on forward prices for the maturity dates of specific transactions. In 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 rates, quotations given by Banks/Brokers are used.

Currency interest rates and currency volatility ratios obtained from Reuters are used. Forwards and swaps on copper market are priced based on the forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets, whereas the standard German-Kohlhagen model is used for European options pricing on currency markets.

The fair value of unquoted debt securities is established as the present value of future cash flows resulting from those instruments, discounted using the current interest rate.

The fair value of participation units held in open-end cash investment funds is determined based on the valuations quoted by those funds. The fair value of shares held in close-end investment funds is measured based on the analysis of information included in the financial statements of the funds.

The fair values of other financial instruments held by the Group are determined based on market prices or on valuation techniques which use as input data only observable market variables from active markets.

2.2.5.5. 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 prolonged decrease of the fair value of a financial instrument below its amortised cost.

If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the acquisition 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 from equity to profit or loss as a reclassification adjustment. Impairment losses on equity instruments recognised in profit or loss are not reversed through profit or loss. 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 computed 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. The carrying amount of financial assets is determined by using a separate account for impairment losses (credit losses).

Loans and receivables, 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).

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

2.2.5.6. Embedded derivatives

Initial recognition of derivatives

Embedded derivatives are separated from host contracts and accounted for separately as at the date of transaction, if all of the following conditions are met:
- the hybrid (combined) instrument is not measured at fair value, with changes in fair value recognised in profit or loss;
- the characteristics and risks of the embedded derivative are not closely related to the characteristics and risks of the host contract; and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Re-assessment of contracts for possible bifurcation of embedded instruments is made whenever there is a significant change to the contract that significantly modifies cash flows arising from the contract.

These criteria in particular are deemed as being met for contracts involving metals sales or the purchase of copper-bearing materials, in which prices are set after the date of sale or purchase. In such cases the Group accounts for the embedded derivative instrument separately from the host sale/purchase contract. From the moment of bifurcation, the embedded derivative instrument is measured at fair value at the end of each reporting period. From the date of bifurcation, the embedded derivative instrument is classified as a financial asset or liability measured at fair value through profit or loss. Any change in the balance of the embedded derivative instrument is accounted for as an adjustment respectively of revenues from sales or costs of sales.

2.2.5.7. Hedge accounting

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

The Group does not recognise either fair value hedges or hedges of net investment in foreign operations. Hedging instruments are designated as cash flow hedges.

Derivatives used in cash flow hedges

In a cash flow hedge, a derivative used as a hedging instrument is an instrument which:

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

Gains and losses arising from changes in the fair value of the hedging instrument in a cash flow hedge are recognised as 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 reclassified into 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.

Hedge accounting includes the use of forecasted cash flow hedges. 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 Group 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 hedging transactions, the Group documents the relationship between hedging instruments and the hedged items, as well as the objective of entering into a particular transaction. The Group also documents its assessment, both at the date of inception of the hedge as well as on an on-going basis, of whether the derivative instruments used in hedge relationships are and will be highly effective in offsetting changes in the cash flows of the hedged items.

Discontinuation of hedge accounting

Derivative instruments cease to be accounted for as hedging instruments when they expire or are sold, terminated or settled, or when the Group revokes its designation of a given instrument as a hedging instrument. The Group 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 accumulated other comprehensive income until the hedged item affects profit or loss.

If the hedge of a firm commitment or forecast 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 forecast transaction will not occur, then the gain or loss recognised in equity is immediately transferred to profit or loss.

2.2.6. Inventories

Inventories consist of the following items:
- materials;
- semi-products and work in progress;
- finished goods; and
- goods for resale.

Inventory additions are measured in accordance with the following principles:
- materials and goods for resale – at cost;
- finished goods, semi-products – at actual manufacturing cost;
- work in progress – based on valuation of the work-in-progress inventories.

Inventory disposals are measured in accordance with the following principles:
- materials and goods for resale – at average cost based on the weighted average cost of a given item;
- finished goods and semi-products – valuation as the difference between the closing balance of inventories and the value of any additions, and giving due regard to the balance at the beginning of the reporting period.

Inventories are measured in accordance with the following principles:
- materials and goods for resale – at average cost as set for inventory disposal;
- finished goods, semi-products and work in progress – based on cumulative actual manufacturing costs and giving due regard to 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.

2.2.7. 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 the Group 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.

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.

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

2.2.8. Cash and cash equivalents

Cash and cash equivalents includes cash in hand and in bank accounts, on-demand bank 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.

2.2.9. Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as held for sale, if their carrying amount is to be recovered principally through sale transactions rather than through continuing use, under condition that they are available for immediate sale in their present condition subject only to terms that are customary for sales of such assets (or disposal groups) and their sale must be highly probable.

Before the initial classification of assets (or disposal groups) as held for sale, the carrying amount of the asset is measured in accordance with applicable standards.

At the moment of reclassification these assets are measured at the lower of the carrying amount and fair value less costs to sell.

2.2.10. Impairment of non-financial assets

Goodwill and intangible assets not yet available for use are not amortised, but are tested annually for impairment.

A depreciable asset is tested for impairment whenever an event or change in circumstances indicates that its carrying amount may not be recoverable. Amongst the fundamental and most important external indications of possible impairment for Group companies listed on active markets are the continuation over the long term of a situation in which the carrying amount of their net assets exceeds their market value. In addition, amongst the most significant indications are unfavourable technical, market and economic changes to the environment in which Group companies operate, including on the destination markets for their products, as well as 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 assets of Group companies. Internal factors taken into account in determining whether 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 from expenditures incurred on their acquisition or construction, if a given asset independently generates cash flow.

An impairment loss is recognised as the amount of the carrying value of the given asset which exceeds its recoverable amount. The recoverable amount is the higher of two amounts: fair value less costs to sell, and value in use.

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). 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 initially allocated to goodwill, if any. The remaining amount of the impairment 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.

Impairment losses are recognised in profit or loss.

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.

2.2.11. Equity

Equity consists of:
1. Share capital.
2. Accumulated other comprehensive income, which consists of:
   - accumulated income/costs from re-measurement set at the fair value of the cash flow hedging instruments in the portion reflecting an effective hedge;
   - accumulated income/costs from re-measurement to fair value of financial assets classified as available-for-sale; and
   - the impact of income tax related to income/costs presented in other comprehensive income.
3. 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.

In equity, "total comprehensive income" represents profit or loss for the period and other comprehensive income for the reporting period.

2.2.12. Liabilities

Liabilities are present obligations of the Group 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 loans, other loans (borrowings) and finance lease liabilities;
- trade payables;
- other financial liabilities; and
- other non-financial liabilities.

Current trade payables are recognised in the statement of financial position at their nominal value. The carrying amount of these liabilities reflects the approximate amount representing the level of amortised cost, calculated using the effective interest rate. Current trade payables are not discounted.

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, for which the payment has not yet been made, an invoice has not been received or a formal agreement reached with the supplier, including amounts due to employees.

Accruals include among others:
- remuneration and the related surcharges paid on a one-off basis, relating to annual periods;
- accrued costs of local fees and taxes;
- short-term accruals for unused annual leave.

2.2.14. Deferred income

Deferred income includes mainly monetary resources received to finance the acquisition or manufacture of assets under construction or development work, which are recognised as income over the periods necessary to match them with the depreciation of the assets financed by these resources.

The value of fixed assets, assets under construction and intangible assets acquired for free as grants, is accounted for in accordance with this Policy, note 2, point 2.2.26. Government grants.

2.2.15. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) 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, costs of decommissioning of technological facilities in the copper smelters and other facilities (jointly: decommissioning costs) 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;
- the effects of court proceedings and of disputed issues;
- 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 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 exploitation forecasts (for mining facilities), and technical-economic expertise prepared either by specialist external firms or within the Parent Entity. Provisions are reviewed at the end of the reporting period.

The amount of provisions set at 1 January 2004, i.e. at the transition date for application of IFRS for the purposes of preparing the consolidated financial statements, recognised in the cost of property, plant and equipment, was calculated based on the optional exemption set out in IFRS 1, First-time Adoption of IFRS. Beginning from 1 January 2004, all changes arising from changes in the amount of provisions are recognised in accordance with IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities.

In accordance with IAS 1, “Presentation of Financial Statements” provisions are presented in the statement of financial position as either current or non-current.

2.2.16. Employee benefits

The Group pays retirement benefits due to one-off retirement-disability rights, post-mortem benefits, coal equivalent payments and jubilee bonuses according to the Collective Labour Agreements.

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 reflect 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 future benefit payment, with maturities similar to those of the liabilities due to be paid. According to IAS 19, 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 interest rate on government bonds at the end of the reporting period should be applied.

Actuarial gains and losses increase or decrease costs recognised in profit or loss in the period in which they arose.

Costs of past employment related to defined benefit plans are accounted for in profit or loss systematically, using the straight-line method, over the period until the benefits become vested.

The Parent Entity participates in an Employee Retirement Plan. With respect to this Plan, the Parent Entity has no legal or constructive obligation to pay any employee benefits if the related insurance firm does not have sufficient assets to cover its obligations in respect of the Plan participants after their period of employment.

2.2.17. Income taxes (including deferred tax)

Income taxes in the income statement 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 tax 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 all 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 all deductible temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognised to the extent that 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 recognised irrespective of the period in which their realisation is to occur.

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. A deferred tax liability is likewise not recognised on temporary differences arising from the initial recognition of goodwill.

Deferred tax is recognised in the income statement for a given period, unless the deferred tax:
- arises from transactions or events which are directly recognised in accumulated other comprehensive income – in which case the deferred tax is also recognised in accumulated other comprehensive income, or
- arises from a business combination – in which case the deferred tax affects goodwill or the excess of interest in the fair value of net assets over the cost of acquisition.

Deferred tax assets and deferred tax liabilities are offset if the entities of the Group have a legally enforceable right to set off current tax assets against 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 and other liabilities not recognised in the statement of financial position

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.

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;
- liabilities arising from implementation contracts, calculated based on future outcome; and
- other contingent liabilities arising from the contracts.

Other liabilities not recognised in the statement of financial position include, among others:
- liabilities towards the State Treasury due to perpetual usufruct of land;
- liabilities towards local government entities due to payments in respect of perpetual usufruct of land acquired for a fee on a secondary market, expressed in the total amount of future minimum payments arising from contracts;
- liabilities towards other entities due to payments arising from non-cancellable operating lease contracts, expressed in the total amount of future minimum payments arising from the contract.

2.2.19. Statement of comprehensive income

The statement of comprehensive income is comprised of the income statement and other comprehensive income.

2.2.20. Income statement

The cost of sales format is applied as the basic costs accounting method in the income statement. Profit or loss is calculated as the total amount resulting from the subtraction of costs from income, and excluding elements of other comprehensive income

2.2.21. Revenues

Revenues from sales 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. Revenues from sales which are recognised at such an amount are adjusted at the end of each reporting period by any change in the fair value of embedded derivative instruments, which are separated from the host sales contract in accordance with point 2.2.5.6. Sales revenues are adjusted for the gain or loss from the settlement of derivative instruments hedging future cash flows, in accordance with the general 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.

Recognised in sales revenues are revenues arising from ordinary operating activities of the Group, i.e. revenues from sales of products, services, goods for resale and materials, reflecting any rebates granted and any other decreases in selling prices.

In addition, revenue for the given reporting period which affects the financial result of the period includes:

other operating income, which is indirectly related to the activities carried out, in particular:
- income and gains from investments;
- gains from the measurement and realisation of trading derivative instruments and the ineffective portion of gains from the realisation and re-measurement to fair value of derivative hedging instruments;

- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities;
- reversal of impairment losses on held-to-maturity investments, available-for-sale financial assets, and on loans;
- release of unused provisions, previously charged to other operating costs; and
- gains on disposal of property, plant and equipment and intangible assets;

finance income, representing primarily income related to financing of the activities of the Group, including:

- net foreign exchange gains arising exclusively on liabilities from sources of financing of the Group's activities (loans, bank loans, bonds, finance leases etc.);
- gains on realisation and re-measurement to fair value of derivative instruments used to hedge liabilities financing the Group's activities.

Moment of recognition of revenues

Revenues from the sale of products, goods for resale and materials are recognised when:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods for resale, finished goods and materials;
- the Group has ceased to have a continued involvement in the management of goods for resale, finished goods and materials sold to the extent usually associated with inventories over which it has ownership rights, and no longer exercises 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 Group; and
- the costs incurred or to be incurred by the Group in respect of the transaction can be measured reliably.

Revenues from the sale of services are recognised when:

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

Interest income is recognised on an accruals basis, using the effective interest method.

Income from dividends is recognised when the shareholder's right is set.

2.2.22. Costs

The Group 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 the withdrawal of funds by its shareholders or owners.

Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, 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 at the end of each reporting period by any change in the fair value of embedded derivative instruments, which are separated from the host purchase contract in accordance with point 2.2.5.6.

Costs are accounted for both by type and by the cost centres, and are reported in the income statement using the costs by function (cost of sales) format as the primary cost reporting format.

The total cost of products, goods for resale and materials sold comprises:

- the manufacturing cost of products sold;
- the cost of goods for resale and materials sold;
- selling costs; and
- administrative expenses.

In addition, costs for the given reporting period which affect the financial result of the period include:

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

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

and also **finance costs** related to financing of the activities of the Group, including in particular:

- overdraft interest;
- interest on short- and long-term loans, credits and other sources of finance, including discounted liabilities;

- net foreign exchange losses arising on liabilities from sources of financing of the Group's activities;
- changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of the discount effect).

2.2.23. 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 Group 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 Group.

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;
- at the average exchange rate set for a given currency by the NBP (National Bank of Poland) prevailing on the date of the transaction. 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. the 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. the 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 and translation of foreign currency monetary assets and liabilities (other than derivatives) denominated in a foreign currency, are recognised in profit or loss. Foreign exchange gains or losses arising on the measurement of foreign currency derivatives, are recognised in profit or loss as a re-measurement to fair value provided they do not represent the change in the fair value of the effective cash flow hedge or a hedge in a net investment in a foreign operation. In such a case they are recognised in equity, 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.

2.2.24. Borrowing costs

Borrowing costs are recognised as a cost in profit or loss in the period in which they were incurred. Borrowing costs, which are directly attributable to the acquisition, construction or production of a qualifying asset, affect its initial value as an element of its cost. Such costs are capitalised when it is probable that they will result in future economic benefits to the entity, and the costs can be measured reliably.

Borrowing costs consist of interest and other borrowing-related costs incurred, and include in particular:

- interest costs calculated using the effective interest method in accordance with IAS 39;
- financial charges 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 interest costs.

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

Borrowing costs for loans which were drawn without a specified purpose, but which were allocated to finance the acquisition or production of a qualifying asset, affect the initial value of the qualifying asset by the amount of the capitalisation rate applied to the expenditures on that asset. The capitalisation rate is the weighted average of all borrowing costs of an entity that are outstanding during a given period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Exchange differences on borrowings drawn in a foreign currency (both specific and general) affect the initial value of the qualifying asset to the extent in which it represents an adjustment of interest costs. The amount of the exchange differences adjusting the interest cost is the difference between the cost of interest on similar financing which the Group would have drawn in its functional currency and the financing cost incurred in the foreign currency.

2.2.25. Leases

A lease is classified as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership of assets. The leased asset is capitalised at the inception of the lease at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

A depreciable asset acquired in a finance lease is depreciated over the shorter of its useful life and the lease term.

Where the substantial part of the risks and rewards incidental to ownership of an asset is retained by the lessor, the lease contract is classified as an operating lease.

2.2.26. Government grants

Monetary grants for assets are presented in the statement of financial position as deferred income.

Grants are not recognised until there is a reasonable assurance that the entity will comply with the conditions attaching to them, and that the grants will be received.

Monetary grants are recognised systematically as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They are not credited directly to equity.

A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable, together with disclosure of this fact.

Grants related to income are presented as income, separately from the related costs which the grants are intended to compensate. Grants are recognised as income regardless of whether they were received in the form of cash or as a decrease of liabilities.

Non-monetary grants are recognised in the accounts at their fair value.

The principles of utilisation of CO_2 are presented in note 2, point 2.2.28.

2.2.27. Segment reporting

Segment reporting involves the grouping of segments by the component parts of the Group:

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

The Management Board of KGHM Polska Miedź S.A. is the main body responsible for making decisions as to the allocation of resources and for assessing segment results (the chief operating decision maker, or CDM). Management information provided to the CDM is prepared at the Parent Entity and entities of the Group level. Each of the identified operating segments in the Group represents a specific company and has a segment manager who is directly accountable to and maintains regular contact with the CDM to discuss the financial results, forecasts and plans related to the segment.

As a result of analysis of aggregation criteria and quantitative thresholds the following reporting segments have been identified: "The production of copper, precious metals and other smelter products" and a segment aggregating all of the remaining operating segments under the name "All other segments".

2.2.28. Emission rights

The entities of the Group participate in a program to limit emissions of carbon dioxide based on the Kyoto protocols of 11 December 1997, which commit government bodies, including those in Poland, to control and reduce emissions of greenhouse gases. Based on signed agreements the goal was established to reduce the emissions of carbon dioxide to a specified level. As a result, the Polish government allocates emission allowances in an amount covering the permitted carbon dioxide emission limit. Emission rights are granted in accordance with the National Plan for Allocating Proprietary Rights for the emission of carbon dioxide, which is developed for each subsequent settlement period.

At inception, proprietary emission rights received from the government and any associated non-monetary government subsidies (accounted for as deferred income) are measured at fair value. Purchased proprietary rights are measured at cost. Proprietary rights represent an intangible asset. At the end of the reporting period, these rights are measured at cost less any impairment. Proprietary rights received without cost are accounted for in the amount of the difference between the fair value of the rights received and the amount of the associated deferred income.

Subsidies are settled simultaneously with the redemption[1] of proprietary emission rights. The Group applies the principle of net liabilities to granted proprietary emission rights. In accordance with this principle a provision is recognised when actual emissions exceed the amount of rights allotted and actually held. Such liabilities are accounted for at the fair value of the proprietary emission rights which the given entity is to redeem, plus any eventual costs or penalties due to a deficit of the proprietary emission rights necessary to resolve this deficit. A provision is created to cover the product manufacturing cost. This provision is settled at the moment of redemption of the proprietary emission rights purchased by the entity for the purpose of meeting its obligations. Proprietary emission rights are settled based on the principle "first in-first out" (FIFO).

2.2.29. Earnings per share

Earnings per share for each period are calculated by dividing the profit for the given period attributable to the shareholders of the Parent Entity by the average weighted number of shares in that period.

1 Redemption means the decision to redeem the proprietary emission rights issued by the President of the Energy Regulatory Office based on information on emissions provided by an installation's owner.

2.2.30. Statement of cash flows

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

2.2.31. Capital management

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

In accordance with market practice, the effective use of capital is monitored among others on the basis of the following ratios:
1. The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets; and
2. The ratio showing the relationship of borrowings and finance lease liabilities to EBITDA. EBITDA is operating profit plus depreciation/amortisation.

2.2.32. Customer Loyalty Programmes

Loyalty award credits which are granted to customers who participate in a Partnership Programme are accounted for as a separate component of the sales transaction in which they were granted. The fair value of the proceeds is allocated between the said loyalty award credits and the remaining elements of the sale. The amount allocated to the award credits is measured by reference to their fair value, and is accounted for as deferred income until the said credits are redeemed by the customer.

The fair value of a loyalty credit in respect of which income is deferred is determined based on the fair value of the award in terms of its redemption structure.

The value of a loyalty award credit is reviewed at the end of each calendar year.

Income is recognised at the moment an award credit is redeemed. The amount of income recognised in a given period is based on the number of credits awarded in relation to the total anticipated number of redeemed loyalty award credits, and reflects changes in the value of such award credits in subsequent years. The anticipated number of redeemed loyalty award credits is an estimate.

3. Important estimates

3.1. Classification and measurement of financial instruments

In accordance with the guidelines of IAS 39 relating to the classification of non-derivative financial instruments with fixed payments or determinable maturity, these assets are classified as held-to-maturity investments. In making this judgement, the intended use and possibility of holding such investments to maturity are evaluated. Should the Group fail to hold such instruments to maturity, apart from the situation described in IAS 39, it would have to reclassify all such assets recognised in this group as available-for-sale. In such a situation, the reclassified investments would be measured at fair value, and not at amortised cost.

At the end of each reporting period the Group analyses significance of the impact of bifurcated embedded derivative instruments on the financial statements. Following this analysis, the Group determined that bifurcation of these instruments at 31 December 2009 will not have a significant impact on the financial statements.

3.2. Estimation of provisions

1. At 31 December 2009 the following was recognised:
   - in the Parent Entity, a provision for future employee benefits due to post-mortem benefits in the amount of PLN 25 508 thousand;
   - in subsidiaries, a provision for future employee benefits due to miners day payments for retirees in the amount of PLN 18 986 thousand.

The effects of estimation of the provision were recognised in the financial result as they are immaterial.

Provisions for future employee benefits – retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments are estimated using actuarial methods. A change in the financial factors being the basis for estimation, i.e.
- an increase in the discount rate by 1% and an increase by 1% in the coal price and wages increase rate would cause an increase in the provision by PLN 8 871 thousand;
- a decrease in the discount rate by 1% and an increase by 1% in the coal price and wages increase rate would cause an increase in the provision by PLN 330 188 thousand;
- an increase in the discount rate by 1% and a decrease by 1% in the coal price and wages increase rate would cause a decrease in the provision by PLN 224 678 thousand;
- a decrease in the discount rate by 1% and a decrease by 1% in the coal price and wages increase rate would cause an increase in the provision by PLN 8 754 thousand.

2. Provision for decommissioning costs of mines and other facilities.

This provision represent the equivalent of the estimated future decommissioning costs of mines and other 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 real discount rate calculated based on the profitability of treasury bonds with maturities nearest to planned financial outflow (nominal discount rate) and the forecast rate of inflation.

Discount rates (nominal and inflation) are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year.

A 1% increase in the real discount rate used by the Management Board of the Parent Entity to estimate the amount of the provision for decommissioning costs of mines and other facilities would cause a decrease in the carrying amount of the provision for decommissioning costs of mines and other facilities by PLN 119 734 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 160 269 thousand.

3. Other non-current provisions – they are estimated using parameters applied to measurement of provisions for employee benefits described in note 24.

3.3. Deferred tax assets/liabilities

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

The probability of realising deferred tax assets is considered certain.

3.4. Presentation

The Group recognises income and costs related to financial investments under other operating activities in profit or loss on the grounds that these activities (in particular investments in the telecom sector) are connected with the operating activities of the Group. Detailed principles of recognition of income and costs have been described in Note 2 point 2.2.21 and 2.2.22.

3.5. Strategy of DIALOG S.A.

In the second half of 2009 the subsidiary DIALOG S.A. updated its strategy, based on which the projection of future financial results was reviewed. In consideration of the requirements of IAS 36, the Management Board performed an analysis of the projected financial results in terms of potential impairment of assets, and assessed that there were no indications of any need to perform a test for impairment and to estimate the recoverable value of assets of DIALOG S.A.

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

KGHM Polska Miedź S.A., as a Parent Entity of the Group, fully consolidated 30 subsidiaries in the current period.

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

Acquisition of shares of "BIOWIND" Sp. z o.o.

On 5 January 2009 an agreement for the acquisition of the shares of the company "BIOWIND" sp. z o.o. with its registered head office in Gdańsk was entered into between "Energetyka" sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A.) and two physical persons.

Based on this agreement, "Energetyka" sp. z o.o. acquired 1000 shares with a nominal value of PLN 50 each, having a total nominal value of PLN 50 thousand, representing 100% of the shares of "BIOWIND" Sp. z o.o. and granting 100% of the votes at the General Shareholders' Meeting of "BIOWIND" Sp. z o.o.

The purchase price for the shares amounts to PLN 450 thousand. The shares were paid for in cash. The share capital of "BIOWIND" Sp. z o.o. amounts to PLN 50 thousand and is divided into 1000 shares with a nominal value of PLN 50 per share.

The total cost of acquisition of these shares was PLN 455 thousand. The acquisition of these assets was financed using the internal funds of "Energetyka" sp. z o.o. The net asset value of the company "BIOWIND" Sp. z o.o. is PLN 50 thousand. Goodwill was set at PLN 405 thousand. No assets were identified which were not accounted for in the statement of financial position.

The purchase of shares of "BIOWIND" Sp. z o.o., holding a lease on property (around 300 hectares) in the Warmińsko-Mazurskie Voivodeship, enables the commencement of formal procedures aimed at realising an investment related to the construction of a wind farm.

From the date of purchase to the end of the reporting period, "BIOWIND" Sp. z o.o. had not earned revenues, and had incurred a loss of PLN 32 thousand.

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

Entity	Head office	Scope of activities	% of share capital held	% of voting rights held
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100
KGHM Ecoren S.A.	Lubin	production of other products from non-metallic mineral resources	100	100
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100
KGHM Kupferhandelsges m.b.H.	Vienna	copper trading	100	100
POL-MIEDŹ-TRANS Sp. z o.o.	Lubin	transportation services	100	100
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	65.67	65.67
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
DFM ZANAM – LEGMET Sp. z o.o.	Polkowice	repair and manufacture of machinery	100	100
INOVA Spółka z o.o.	Lubin	inspections and control of machinery, R&D work	100	100
Ecoren DKE spółka z o.o.	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	100	100
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics, finished and semi-finished products and services	97.52	97.52
Walcownia Metali Nieżelaznych spółka z o.o.	Gliwice	production of sheeting	84.37	84.37
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
WM "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	88.92	88.92
AVISTA MEDIA Sp. z o. o.	Wrocław	design, implementation and servicing of IPTV systems (interactive television)	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation	85.45	85.45
PMT Linie Kolejowe Sp. z o.o.	Polkowice	management over railway infrastructure	100	100
"PETROTEL" sp. z o.o.	Płock	telecommunication services in fixed-line telephony, internet services, technical services, equipment sales	99.99	99.99
"BIOWIND" sp. z o.o.	Lubin	generation, transfer and distribution of electricity	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
KGHM HMS Bergbau AG	Berlin	exploration and development of deposits of copper and other metals in Europe	74.9	74.9
FADROMA-SERWIS-REMONTY sp. z o.o.	Wrocław	production, servicing and maintenance with respect to construction and mining machinery	98.05	98.05
WPEC w Legnicy SA	Legnica	generation, transfer and distribution of heat	85	85

amounts in tables in thousand PLN, unless otherwise stated

Acquisition of shares of "PETROTEL" sp. z o.o.

On 12 January 2009 DIALOG S.A. (a subsidiary of KGHM Polska Miedź S.A.) acquired from minority shareholders 2 009 shares of "PETROTEL" sp. z o.o. with a nominal value of PLN 1 000 per share, as a result of which the share of DIALOG S.A. in the share capital of "PETROTEL" sp. z o.o. increased to 99.56%. On 20 March 2009 DIALOG S.A. purchased a further 35 shares, and its share in the share capital of "PETROTEL" sp. z o.o. currently amounts to 99.99%. The total cost of acquisition of 24.93% of the shares of "PETROTEL" sp. z o.o. amounts to PLN 10 895 thousand. The equivalent value of net assets is PLN 10 796 thousand.

In 2009 final settlement of the acquisition of "PETROTEL" sp. z o.o. was made, excluding from goodwill the intangible assets representing the PETROTEL brand and the subscriber base measured at fair value of PLN 11 400 thousand. Including the deferred tax on the measurement of net assets to fair value, goodwill set provisionally was decreased by PLN 9 232 thousand, and at 31 December 2009 amounts to PLN 1 865 thousand.

Acquisition of shares of Ecoren DKE sp. z o.o.

On 14 January 2009 an agreement for the acquisition of shares of Dolnośląska Korporacja Ekologiczna Sp. z o.o. (a direct subsidiary of KGHM Ecoren S.A.) was signed between KGHM Ecoren S.A. (a direct subsidiary of KGHM Polska Miedź S.A.) and SITA POLSKA SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ Based on this agreement, KGHM Ecoren S.A. acquired 380 shares of Dolnośląska Korporacja Ekologiczna Sp. z o.o. having a total nominal value of PLN 380 thousand, representing 49.67% of the share capital of Dolnośląska Korporacja Ekologiczna Sp. z o.o. and granting 49.67% of the votes at the General Shareholders' Meeting. Currently KGHM Ecoren S.A. owns 100% of the share capital of Dolnośląska Korporacja Ekologiczna Sp. z o.o. and 100% of the votes at the General Shareholders' Meeting.

The shares were acquired for PLN 2 806 thousand and paid for in cash on the date of signing the agreement. The acquisition of these assets was financed using the internal funds of KGHM Ecoren S.A. The total cost of acquiring these shares amounts to PLN 2 829 thousand. The net assets due the buyer, representing 49.67% of the share capital, amounts to PLN 1 314 thousand. The effect of transactions with minority shareholders was settled in the financial result.

Loss of control over the company KGHM Congo S.P.R.L.

On 25 March 2009 the Management Board of the company KGHM CONGO S.P.R.L. departed the territory of the Democratic Republic of Congo due to safety-related threats and the inability to carry out its business operations, abandoning the company's assets without any supervision.

Due to the loss of ability to direct the financial and operational policy of the company for the purpose of achieving benefits from its operations, the Management Board of the Parent Entity resolved to settle the losses recognised in the consolidated financial statements from the date of acquisition of KGHM CONGO S.P.R.L. to the date on which the Parent Entity ceased to control this entity as a profit/loss due to loss of control over a subsidiary.

As a result of settlement a gain was set due to loss of control in the amount of PLN 21 457 thousand. In addition, an allowance for impairment of receivables was recognised in the financial result in the amount of PLN 21 373 thousand due to unpaid liabilities of KGHM CONGO S.P.R.L. towards the Parent Entity.

On 28 December 2009 an application for the voluntary liquidation of KGHM CONGO S.P.R.L. was submitted to the Commercial Court in Lubumbashi, based on a Resolution of the Extraordinary General Shareholders' Meeting of KGHM CONGO S.P.R.L. dated 17 December 2009.

Founding of KGHM TFI S.A.

On 10 June 2009 KGHM Polska Miedź S.A. founded the company KGHM TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SPÓŁKA AKCYJNA (KGHM TFI S.A.), in which it acquired 100 % of the shares with a total nominal value of PLN 2 800 thousand, covered in cash. The issue price of the shares is equal to their nominal value. The company was registered in the Regional Court for Wrocław-Fabryczna in Wrocław, Section VI (Economic) of the National Court of Registration on 29 June 2009.

The subject of activities of KGHM TFI S.A. is the creation and management of investment funds and the management of financial instrument portfolios.

At 31 December 2009 KGHM TFI S.A. had no revenues from sales, incurred a loss of PLN 964 thousand, comprising mainly of administrative expenses.

On 2 February 2010, KGHM TFI S.A. issued 10 000 Investment Certificates, series A. Of this amount, 2 095 Certificates were acquired by KGHM Polska Miedź S.A at the price of PLN 10 thousand per Certificate. The total amount paid for the Investment Certificates increased by handling charges amounted to PLN 21 998 thousand.

Founding of KGHM HMS Bergbau AG

On 17 June 2009 an agreement was signed for the foundation of the company KGHM HMS Bergbau AG. Its founders are KGHM CUPRUM Sp. z o.o. – CBR (a 100 percent subsidiary of KGHM Polska Miedź S.A.), which acquired 74.9 percent of the share capital, and HMS Bergbau AG (the remaining 25.1 percent of the share capital). This entity was founded under German commercial law, and its registered head office is in Berlin.

KGHM HMS Bergbau AG was founded for the purpose of exploration and evaluation of deposits of copper and other metals in Europe. The first project to be pursued by the company will involve exploration within the territory of Saxony in Germany. The foundation of KGHM HMS Bergbau AG is related to realisation of the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018 which was approved in February 2009. With respect to that part of the Strategy involving development of the resource base, it assumes among others exploring for new deposits in the region.

The share capital of KGHM HMS Bergbau AG amounts to EUR 50 thousand, i.e. PLN 225 thousand. The cost of acquiring these shares was PLN 168 thousand. At the acquisition date minority interest amounted to PLN 57 thousand.

At 31 December 2009 KGHM HMS Bergbau AG had no revenues from sales, incurred a loss of PLN 77 thousand, comprising mainly administrative expenses.

Acquisition of FADROMA-SERWIS-REMONTY spółka z ograniczoną odpowiedzialnością

On 14 July 2009, the indirect subsidiary DFM ZANAM-LEGMET Sp. z o.o. acquired 600 shares of FADROMA S.R. SP. Z O.O. with its registered head office in Wrocław for the amount of PLN 825 thousand, representing 90.09% of the share capital of the acquired company.

On 16 October 2009, DFM ZANAM-LEGMET Sp. z o.o. acquired a further 53 shares of FADROMA S.R. SP. Z O.O. for the amount of PLN 73 thousand, representing 7.95% of the share capital.

The Group owns a total share of 98.05% in FADROMA S.R. SP. Z O.O.

The carrying amount of the net assets of FADROMA S.R. SP. Z O.O. at the date of acquisition totalled PLN 417 thousand. The total cost was PLN 898 thousand. Goodwill provisionally set amounts to PLN 481 thousand. At the date of acquisition minority interest amounted to PLN 11 thousand.

From the date of acquisition to 31 December 2009, FADROMA S.R. SP. Z O.O. generated revenues from sales in the amount of PLN 2 981 thousand and incurred a loss of PLN 92 thousand.

Acquisition of WPEC w Legnicy SA

On 29 December 2009, the subsidiary “Energetyka” sp. z o.o. acquired from the State Treasury 10 030 thousand ordinary registered shares of the company WPEC w Legnicy SA with a per-share face value of PLN 10 during the process of privatisation, representing 85% of the share capital of this company.

The cost of acquisition was PLN 202 621 thousand. The carrying amount of the net assets of WPEC w Legnicy SA amounted to PLN 117 367 thousand, of which the carrying amount of the net assets attributable to the Group amounted to PLN 99 762 thousand. Goodwill provisionally set amounts to PLN 102 859 thousand. At the date of acquisition minority interest amounted to PLN 17 605 thousand.

Acquired net assets at the date of acquisition	
Intangible assets	4 893
Property, plant and equipment	71 555
Deferred tax assets	2 653
Non-current trade and other receivables	3 482
Inventories	16 116
Current trade and other receivables	32 089
Cash and cash equivalents	21 233
Total assets	152 021
Non-current trade and other payables	2 074
Current trade and other payables	19 674
Current income tax liabilities	861
Employee benefits	4 555
Provisions for other liabilities and charges	7 490
Total liabilities	34 654
Net assets	117 367

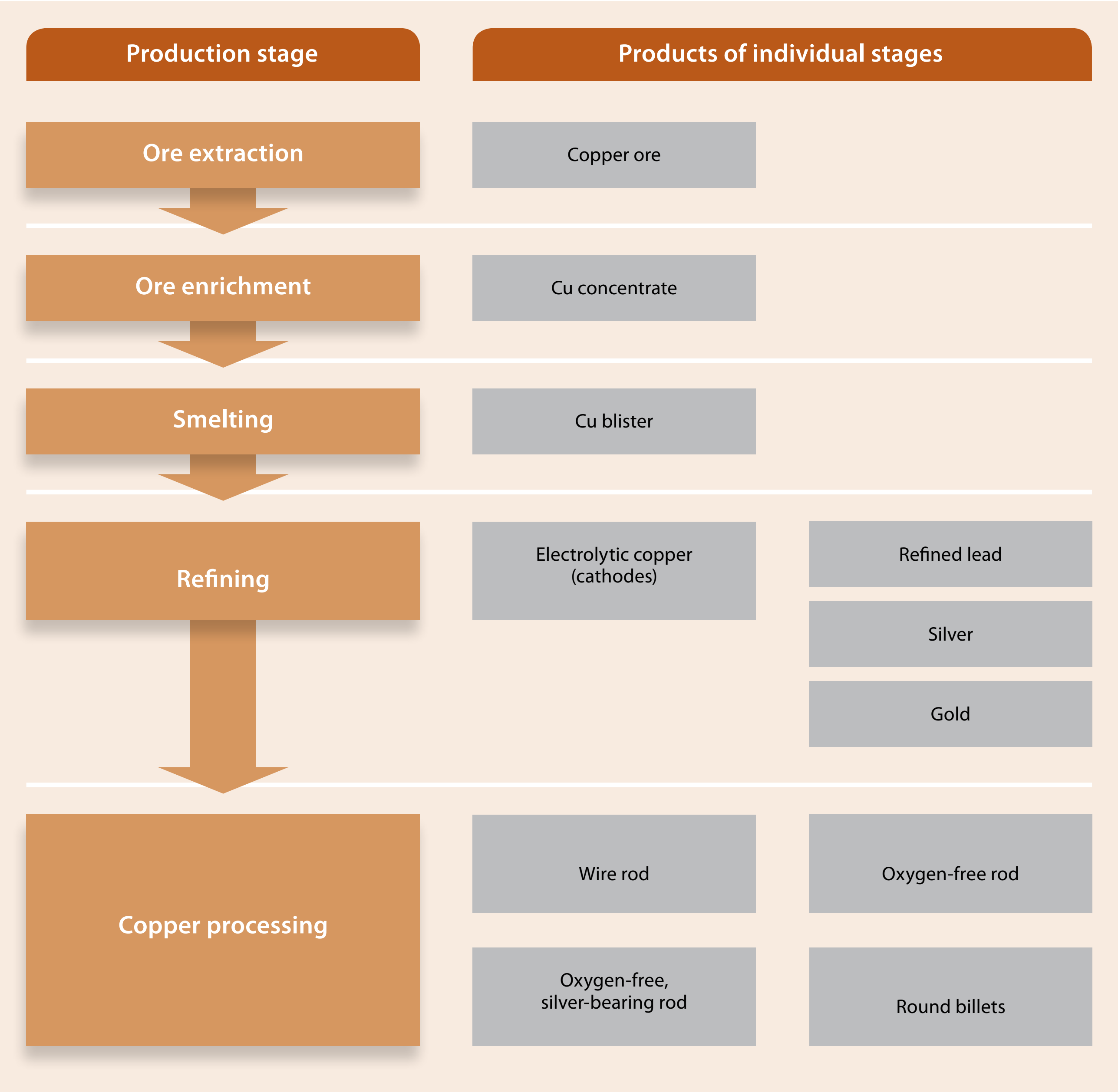
amounts in tables in thousand PLN, unless otherwise stated

5. Information on business segments

IFRS 8, Operating segments, was published by the International Accounting Standards Board on 30 November 2006, and replaced IAS 14, Segment Reporting and becomes effective for periods beginning on or after 1 January 2009.

As part of the process of implementation of this standard, an analysis was performed of the management model of the Group, the system of reporting within the Group and the economic characteristics of its entities. The results of this analysis identified one reporting segment which was identified as "Production of copper, precious metals and other smelter products" and the segment "All other segments", which combined the remaining operating segments, both those which do not meet the criteria for combination as well as those which did not meet the required quantitative thresholds.

The activities of the segment "Production of copper, precious metals and other smelter products" focuses on the production of copper and silver, the core business of KGHM Polska Miedź S.A. Copper is mainly recovered from copper ore. From this, after enrichment, concentrate is obtained, which is then processed by smelters into anode copper. The process of electrorefining produces refined copper of up to 99.99% purity. A by-product of the electrorefining process is anode slime, from which silver and gold are recovered. The factor responsible for the separation of this segment is its significant share in the results of the Group. In addition, it meets the required quantitative threshold for reportable segments. The results of this segment are separately monitored by the Management Board of the Parent Entity. The basic products of this segment are electrolytic copper cathode, round billets, wire rod and silver.



Source of income	Group Entity
Production of copper, precious metals and other smelter products	**KGHM Polska Miedź S.A.**
All other segments	
Non-ferrous metals processing	**WM "ŁABĘDY" S.A.** **Walcownia Metali Nieżelaznych spółka z o.o.**
Trading: copper and copper scrap, non-ferrous metals, coal, chemicals, fuels	**KGHM Kupferhandelsges m.b.H.** **KGHM Polish Copper Ltd. in liquidation** **KGHM Metraco S.A.**
Production: mining machinery, building machinery, road-building materials, rhenium compounds, electrical cables, table settings	**DFM ZANAM-LEGMET Sp. z o.o.** **PHP "MERCUS" sp. z o.o.** **KGHM Ecoren S.A.** **WFP Hefra SA** **FADROMA S.R. SP. Z O.O.**
Generation, transmission and distribution of electricity and heat, water-sewage management	**"Energetyka" sp. z o.o.** **"BIOWIND" sp. z o.o.** **WPEC w Legnicy SA**
Sales of services: telecommunication, construction (of which specialised building), transport (railway and road transport, cargo and passenger transport), R&D activities, tourism, multimedia, electrotechnical, attestation, medical, food industry and catering, machinery repairs, rental of property, treatment of waste	**KGHM CUPRUM sp. z o.o. – CBR** **CBJ sp. z o.o.** **"MIEDZIOWE CENTRUM ZDROWIA" S.A.** **POL-MIEDŹ TRANS Sp. z o.o.** **DIALOG S.A.** **INTERFERIE S.A.** **PeBeKa S.A.** **INOVA Spółka z o.o.** **Ecoren DKE spółka z o.o.** **PHU "Lubinpex" Sp. z o.o.** **AVISTA MEDIA Sp. z o.o.** **PMT Linie Kolejowe Sp. z o.o.** **"PETROTEL" sp. z o.o.** **KGHM HMS Bergbau AG**
Creation of investment funds and their management	**KGHM TFI S.A.**
Technology transfer, promotion of scientific achievements	**KGHM LETIA S.A.**
Management of a football club, organisation of professional sporting events	**Zagłębie Lubin S.A.**

Each of the remaining Group companies represents a separate operating segment. Due to their various economic characteristics they do not meet the criteria for combination according to IFRS 8 §12 and do not meet any of the quantitative thresholds. As a result they were combined and presented in the category "All other segments".

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

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

Segments financial results

	Copper and precious metals, other smelter products	All other segments	Adjustment*	Eliminations (according to IAS 27)	Consolidated amount
Financial period for the 12 months ended 31 December 2009					
Revenue of which:	11 060 540	4 644 518	6 532	(3 591 680)	12 119 910
– external sales	10 380 929	1 735 939	6 532	(3 490)	12 119 910
– inter-segment sales	679 611	2 908 579	–	(3 588 190)	–
Interest income	82 487	11 808	–	(1 371)	92 924
Interest costs	(5 654)	(15 966)	–	780	(20 840)
Depreciation/Amortisation	(547 653)	(203 546)	(960)	8 369	(743 790)
Revaluation of provisions for employee benefits	(142 535)	(835)	–	(18 715)	(162 085)
Impairment losses on property, plant and equipment and intangible assets	(1 194)	(53 048)	–	10 007	(44 235)
Gains on measurement and realisation of derivative instruments	261 582	8 475	–	–	270 057
Losses on measurement and realisation of derivative instruments	(800 219)	(2 218)	–	–	(802 437)
Share of profit of associates	–	–	–	270 072	270 072
Profit before income tax	3 066 569	(35 758)	3 671	(130 331)	2 904 151
Income tax expense	(526 384)	(22 202)	304	3 301	(544 981)
Share of profit (losses) of subordinated entities accounted for using the equity method	–	(17 542)	17 542	–	–
Profit for the period	2 540 185	(75 502)	21 517	(127 030)	2 359 170
At 31 December 2009					
Segment assets	13 953 030	3 582 630	(14 125)	(2 624 110)	14 897 425
Segment liabilities	3 549 073	1 141 693	7 558	(424 726)	4 273 598
Bank and other loans	3 005	374 585	–	(78 305)	299 285
Investments in associates	1 159 947	–	–	186 325	1 346 272
Financial period for the 12 months ended 31 December 2009					
Capital expenditure	1 069 812	298 231	–	(6 384)	1 361 659

* Adjustment – adjustment restating the amounts to the measurement principles of International Financial Reporting Standards.

amounts in tables in thousand PLN, unless otherwise stated

Since 2005 the KGHM Polska Miedź S.A. Group has prepared its financial statements in accordance with International Financial Reporting Standards approved by the European Union. Two Group companies, i.e. the Parent Entity and DIALOG S.A., keep their accounts in accordance with IFRS. The remaining companies of the Group consolidated in the segment "All other segments" keep their accounts in accordance with Polish Accounting Standards, restating data to the principles of International Financial Reporting Standards for the preparation of financial statements for the needs of their consolidation.

Details of adjustments restating the amounts shown in the segment "All other segments" to the measurement principles of International Financial Reporting Standards at 31 December 2009

	Sales	Depreciation / Amortisation	Profit before taxation	Income tax	Segment assets	Segment liabilities
Netting off of Social Fund assets and liabilities	–	–	–	–	(7 357)	(7 357)
Offsetting of deferred tax assets/liabilities	–	–	–	–	(4 587)	(4 587)
Measurement of shares by equity method	–	–	838	–	(25 224)	–
Separate presentation of assets and liabilities for sales transaction from 2008	7 245	–	(111)	–	19 458	19 492
Receivables due to payments to capital	–	–	–	–	2 000	–
Capitalisation of major maintenance expenditures	–	(1 305)	(1 396)	265	–	–
Other	(713)	345	4 340	39	1 585	10
Total adjustment	6 532	(960)	3 671	304	(14 125)	7 558

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

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

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Poland	3 374 311	4 484 809
Germany	2 053 935	1 398 163
France	752 682	809 686
Great Britain	1 298 036	955 703
Czech Republic	563 983	870 895
Austria	190 944	225 360
Hungary	240 215	176 711
China	1 674 758	1 264 189
Other countries	1 971 046	2 469 369
Total	12 119 910	12 654 885

Main customers

During the period from 1 January 2009 to 31 December 2009, the revenues from no customer exceeded 10% of the revenues of the Group.

However, during the period from 1 January 2008 to 31 December 2008, in the segment "Production of copper, precious metals and other smelter products" the revenues from sales from one customer exceeded 10% of the revenues of the Group and amounted to PLN 1 699 268 thousand.

amounts in tables in thousand PLN, unless otherwise stated

6. Property, plant and equipment

	At	
	31 December 2009	31 December 2008
Land	22 447	19 465
Buildings and constructions	3 463 033	3 239 210
Technical equipment and machinery	2 929 881	2 504 965
Motor vehicles	174 752	139 915
Other fixed assets	61 766	60 924
Assets under construction	1 021 558	1 171 828
Total	7 673 437	7 136 307

Major investment projects recognised at 31 December 2009 under assets under construction	
Construction of the SW-4 shaft	301 116
Głogów Głęboki Przemysłowy deposit	145 461
Mining region infrastructural development	83 244
Modernisation of steam and water boilers	48 361
Primary equipment in mines	36 387
Modernisation of a tailings hydrotransport installation including the direct pumping of tailings	35 798
Investments in power and communications facilities	34 576
Pyrometallurgy modernisation	29 666
Modernisation of a stadium	24 187
Flotation – Ore Enrichment Plant	17 423
Installation for the production of rhenium in the form of eluates	17 594
Recycling of electronic waste	17 130
Total	790 943

amounts in tables in thousand PLN, unless otherwise stated

7. Intangible assets

	At	
	31 December 2009	31 December 2008
Development costs	3 673	3 892
Goodwill	106 168	11 075
Software	22 086	23 796
Acquired concessions, patents, licenses	27 413	30 730
Other intangible assets	64 279	52 907
Intangible assets not yet available for use	44 576	29 181
Total	268 195	151 581

8. Investment property

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Beginning of financial period	18 083	16 517
Changes during the financial period	(919)	1 566
– re-measurement to fair value	(919)	1 566
End of financial period	17 164	18 083

9. Investments in associates

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Beginning of financial period	1 498 116	690 096
Share of profits of associates	270 072	267 579
Changes in equity due to payment of dividend	(418 222)	(182 860)
Acquisition of shares in associates	–	726 391
Disposal of shares in associates	–	(3 090)
Adjustment to purchase cost for tax on civil-law transactions	(3 694)	–
End of financial period	1 346 272	1 498 116

In accordance with IAS 28, in 2009 during the 12 months from the transaction date (18 December 2008) final settlement was made in respect of the acquisition of 4.78% of the shares of Polkomtel S.A. Based on the financial projections of Polkomtel S.A. for the years 2009–2013 the fair value of net assets was estimated at the level of PLN 10 735 632 thousand. As a result of measurement, intangible assets were identified, representing the trademark valued at PLN 1 400 000 thousand and customer relationships at PLN 5 400 000 thousand, which caused an adjustment in goodwill set provisionally to the amount of PLN 212 921 thousand. From 1 January 2010 the value of the investment in this associate will be adjusted by amortisation of the customer relationships for a period of 14 years.

amounts in tables in thousand PLN, unless otherwise stated

The results of measurement are presented in the following table.

Calculation of goodwill	share 100%	share 4.78%
Purchase price of the shares of Polkomtel S.A.	15 187 374	726 391
Acquired net assets per carrying amount	3 935 632	188 236
Goodwill – provisional calculation	11 251 742	538 155
Adjustment to fair value		
Value of customer relationships	5 400 000	258 274
Value of trademark	1 400 000	66 960
Fair value of acquired net assets	10 735 632	513 470
Goodwill from final settlement	5 743 741	212 921

10. Available-for-sale financial assets

	At	
	31 December 2009	31 December 2008
Non-current available-for-sale financial assets	19 412	31 213
– shares in unlisted companies	11 475	11 417
– shares in listed companies	–	8 525
– share in the AIG investment fund	7 930	11 264
– other	7	7
Current available-for-sale financial assets	8 976	–
– shares in listed companies	8 976	–
Total available-for-sale financial assets:	28 388	31 213

amounts in tables in thousand PLN, unless otherwise stated

11. Held-to-maturity investments

	At	
	31 December 2009	31 December 2008
Non-current held-to-maturity investments	67 144	59 592
– monetary resources of Mine Closure Fund	67 097	59 545
– other securities	47	47
Current held-to-maturity investments	580	–
– monetary resources of Mine Closure Fund	580	–
Total held-to-maturity investments:	67 724	59 592

12. Derivative financial instruments

	At	
	31 December 2009	31 December 2008
Non-current assets, of which:	58 034	6 501
hedging instruments	57 636	6 501
trade instruments	398	–
Current assets, of which:	263 375	711 127
hedging instruments	244 869	711 096
trade instruments	18 506	31
Total assets	321 409	717 628
Non-current liabilities, of which:	61 354	–
hedging instruments	54 867	–
trade instruments	6 487	–
Current liabilities, of which:	273 717	4 930
hedging instruments	76 772	–
trade instruments	196 945	4 930
Total liabilities	335 071	4 930

amounts in tables in thousand PLN, unless otherwise stated

13. Trade and other receivables

	At	
	31 December 2009	31 December 2008
Non-current trade and other receivables		
Trade receivables	16 565	13 468
Amount retained (collateral) due to long-term construction contracts	1 587	2 063
Deposits	23	15 405
Loans granted	2 624	2 624
Other financial receivables	1 261	1 373
Impairment allowances	(15 226)	(15 453)
Total loans and financial receivables, net:	6 834	19 480
Other non-financial receivables	11	171
Prepayments	3 741	3 123
Total non-financial receivables, net	3 752	3 294
Non-current trade and other receivables, net:	10 586	22 774
Current trade and other receivables		
Trade receivables	1 266 369	766 919
Receivables due to unsettled derivative instruments	–	287 146
Loans granted	2 033	907
Deposits of over 3 up to 12 months	45	–
Other financial receivables	25 463	43 712
Impairment allowances	(82 225)	(49 486)
Total loans and financial receivables, net	1 211 685	1 049 198
Other non-financial receivables, including:	346 782	462 878
– taxes and other charge	298 818	422 318
Prepayments	18 381	13 944
Impairment allowances	(45 507)	(56 061)
Total non-financial receivables, net	319 656	420 761
Current trade and other receivables, net	1 531 341	1 469 959
Total non-current and current trade and other receivables, net	1 541 927	1 492 733

amounts in tables in thousand PLN, unless otherwise stated

14. Inventories

	At	
	31 December 2009	31 December 2008
Materials	298 288	201 579
Semi-finished products and work in progress	1 456 411	1 091 714
Finished products	270 479	269 796
Goods for resale	47 256	45 280
Total carrying amount of inventories	2 072 434	1 608 369

Write-down of inventories in the financial period

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Write-down of inventories recognised in cost of sales	(11 519)	(66 576)
Reversal of write-down recognised in cost of sales	1 886	1 518

15. Cash and cash equivalents

	At	
	31 December 2009	31 December 2008
Cash in hand	450	418
Cash at bank	41 582	202 613
Other cash	632	197
Other financial assets with a maturity of up to 3 months from the date of acquisition	1 154 413	1 862 535
Total cash and cash equivalents	1 197 077	2 065 763

Other financial assets with a maturity of up to 3 months from the date of acquisition include mainly deposits in the amount of PLN 1 153 051 thousand (as at 31 December 2008: PLN 1 858 673 thousand), and interest accrued on financial assets in the amount of PLN 1 362 thousand (as at 31 December 2008: PLN 3 862 thousand).

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

amounts in tables in thousand PLN, unless otherwise stated

16. Non-current assets held for sale

	At	
	31 December 2009	31 December 2008
Property, plant and equipment	6 007	29 320
Intangible assets	667	667
Non-current assets held for sale	**6 674**	29 987

17. Share capital

As at 31 December 2009, the Parent Entity's registered share capital, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares ("A" series), fully paid, with a nominal value of PLN 10 each. All shares are bearer shares. The Parent Entity did not issue preference shares. Each share gives the right to one vote at the General Meeting. The Parent Entity does not have treasury shares. Subsidiaries and associates do not have shares of KGHM Polska Miedź S.A.

In the years ended 31 December 2009 and 31 December 2008 there were no changes in the registered share capital or in the number of shares.

The shareholder structure at 31 December 2009

Shareholder	Number of shares/votes	Total nominal value of shares	Percentage held in share capital/total number of votes
State Treasury	83 589 900	835 899 000	41.79%
Other shareholders	116 410 100	1 164 101 000	58.21%
Total	200 000 000	2 000 000 000	100.00%

According to the best judgement of the Management Board of the Parent Entity, there were no changes in significant blocks of shares of KGHM Polska Miedź S.A. in the year ended 31 December 2009.

On 12 January 2010 the Parent Entity received an announcement from the Minister of the State Treasury on the sale by the State Treasury on 8 January 2010, on a regulated market, of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors.

The shareholder structure at the date of preparation of these statements

Shareholder	Number of shares/votes	Total nominal value of shares	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 thousand PLN, unless otherwise stated

18. Accumulated other comprehensive income

	Accumulated other comprehensive income due to:		Total accumulated other comprehensive income
	Available-for-sale financial assets	Cash flow hedging financial instruments	
At 1 January 2009	8 972	508 484	517 456
Fair value losses on available-for-sale financial assets	(2 884)	–	(2 884)
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets	(7 500)	–	(7 500)
Impact of effective cash flow hedging transactions	–	(39 337)	(39 337)
Amount transferred to profit or loss due to the settlement of hedging instruments	–	(433 187)	(433 187)
Deferred income tax	1 973	89 780	91 753
Other comprehensive income	(8 411)	(382 744)	(391 155)
At 31 December 2009	561	125 740	126 301

Accumulated other comprehensive income is not subject to distribution.

Moreover, in the equity item: "Retained earnings", based on the Commercial Partnerships and Companies Code, joint stock companies in the Group are required to create reserve capital against any eventual future or existing losses, to which no less than 8 percent of a given financial year's profit is to be transferred until the capital has been built up to no less than one-third of the share capital. The reserve capital created in this manner is not subject to distribution otherwise than in covering the loss reported in the financial statements.

At 31 December 2009, the amount of this statutory reserve capital in the Group is PLN 682 533 thousand, of which PLN 660 000 thousand is in respect of the Parent Entity.

18.1. Accumulated other comprehensive income components

	At			
	31 December 2009		31 December 2008	
	Gross value	Net value	Gross value	Net value
Accumulated other comprehensive income due to available-for-sale financial assets	694	561	11 077	8 972
Fair value gains	694	561	12 672	10 365
Fair value losses	–	–	(1 595)	(1 393)
Accumulated other comprehensive income due to cash flow hedging instruments	155 233	125 740	627 757	508 484
Gains on measurement	155 233	125 740	627 757	508 484
Total accumulated other comprehensive income	155 927	126 301	638 834	517 456

amounts in tables in thousand PLN, unless otherwise stated

19. Trade and other payables

	At	
	31 December 2009	31 December 2008
Non-current trade and other payables		
Trade payables	8 357	8 030
Payables due to purchase, construction of property, plant and equipment and intangible assets	1 866	10 912
Other financial liabilities	12 509	13 063
Total non-current financial liabilities (scope of IFRS 7)	22 732	32 005
Deferred income	13 250	12 284
Other non-financial liabilities	248	-
Total non-current non-financial liabilities	13 498	12 284
Total non-current trade and other payables	36 230	44 289
Current trade and other payables		
Trade payables	462 006	518 698
Payables due to purchase, construction of property, plant and equipment and intangible assets	157 722	247 887
Payables due to unsettled derivative financial instruments	30 611	35 395
Other financial liabilities	36 476	67 747
Total current financial liabilities (scope of IFRS 7)	686 815	869 727
Other financial liabilities (IAS 19 – Employee benefits)	150 181	156 960
Total current financial liabilities	836 996	1 026 687
Liabilities due to taxes and social security	258 135	264 678
Other non-financial liabilities	34 256	37 770
Special funds	85 324	74 034
Deferred income	21 134	24 426
Accruals	340 051	329 157
Total current non-financial liabilities	738 900	730 065
Total current trade and other payables	1 575 896	1 756 752
Total non-current and current trade and other payables	1 612 126	1 801 041

Trade payables are recognised in the statement of financial position at amortised cost, using the effective interest rate, with the proviso that current trade payables are not discounted. The carrying amount of current trade payables approximates their fair value.

Accruals consist mainly of one-off remuneration paid after the approval of the annual financial statements in the amount of PLN 272 976 thousand (PLN 250 629 thousand at 31 December 2008) and settlement of unused annual leave in the amount of PLN 22 262 thousand (PLN 23 211 thousand at 31 December 2008).

amounts in tables in thousand PLN, unless otherwise stated

20. Borrowings and finance lease liabilities

	At	
	31 December 2009	31 December 2008
Non-current borrowings and finance lease liabilities		
Bank loans	86 340	63 605
Loans	3 715	8 311
Finance lease liabilities	30 799	26 139
Total non-current borrowings and finance lease liabilities	120 854	98 055
Current borrowings and finance lease liabilities		
Bank loans	204 442	181 031
Loans	4 788	5 758
Finance lease liabilities	10 586	6 134
Total current borrowings and finance lease liabilities	219 816	192 923
Total borrowings and finance lease liabilities	340 670	290 978

21. Deferred tax

	At	
	31 December 2009	31 December 2008
Net deferred tax assets at the beginning of the financial period, of which:	120 810	290 702
Deferred tax assets at the beginning of the financial period	188 992	320 506
Deferred tax liabilities at the beginning of the financial period	68 182	29 804
Credited/(Charged) to profit or loss	92 555	(50 156)
Increase/(decrease) in equity	91 753	(120 693)
Deferred tax assets at the date of acquisition of shares in a subsidiary	492	957
Net deferred tax assets at the end of the financial period, of which:	305 610	120 810
Deferred tax assets at the end of the financial period	347 395	188 992
Deferred tax liabilities at the end of the financial period	41 785	68 182

amounts in tables in thousand PLN, unless otherwise stated

22. Employee benefits

A general description of the employee benefit plans is included in note 2, Main accounting policies, point 2.2.16.

Change in liabilities due to future employee benefits

	Total liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
Present value of obligations – at 1 January 2009	1 132 229	294 168	202 992	635 069	–
Interest costs	62 216	15 512	10 743	34 401	1 560
Current service cost	58 989	19 102	11 320	9 166	19 401
Benefits paid	(92 799)	(41 459)	(20 223)	(28 844)	(2 273)
Actuarial losses/(gains)	132 383	(2 965)	5 790	103 513	26 045
Gains due to limitation of the employee benefit plans	(640)	(402)	(238)	–	–
Past service costs	250	164	86	–	–
Liabilities due to business combination	5 015	4 071	944	–	–
Present value of obligations – at 31 December 2009	1 297 643	288 191	211 414	753 305	44 733
Past service cost unrecognised at the end of the reporting period	(7 589)	–	(7 589)	–	–
Carrying amount of liabilities – at 31 December 2009	1 290 054	288 191	203 825	753 305	44 733
of which:					
Carrying amount of non-current liabilities	1 183 350	246 051	177 692	718 676	40 931
Carrying amount of current liabilities	106 704	42 140	26 133	34 629	3 802

Total costs recognised in profit or loss due to future employee benefits

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Interest costs	62 216	54 919
Current service cost	58 989	41 330
Actuarial losses	132 383	115 787
Gains due to limitation of the employee benefit plans	(640)	(6 827)
Past service cost	1 936	1 686
Total costs recognised in profit or loss	254 884	206 895

The change in actuarial gains/losses is caused by a change in assumptions relating to the discount rate, increases in coal prices and increases in wages.

For purposes of re-measuring the provision at the end of the current period, the Group assumed parameters based on available forecasts of inflation, an analysis of increases in coal prices and in the lowest wage, and also based on the anticipated profitability of highly-liquid securities.

amounts in tables in thousand PLN, unless otherwise stated

Main actuarial assumptions:	2010	2011	2012	2013	2014 and beyond
– discount rate	5.60%	5.60%	5.60%	5.60%	5.60%
– rate of increase in coal prices	6%/15%*	3.00%	3.00%	3.00%	3.00%
– rate of increase in the lowest wage	0.00%	4.00%	4.00%	4.00%	4.00%
– expected inflation	2.50%	2.50%	2.50%	2.50%	2.50%
– future expected increase in wages	7.00%	4.00%	4.00%	4.00%	4.00%

* Divisions of KGHM Polska Miedź S.A. as separate employers assumed the rate of increase in coal prices at the level of 6% or 15%

23. Provisions for other liabilities and charges

	Total	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2009	663 203	603 339	6 208	24 989	28 667
Provisions recognised	17 246	3 986	–	3 791	9 469
Changes arising from changes in provisions after updating of estimates	(108 826)	(109 084)	–	–	258
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of the discount effect)	29 716	29 171	86	–	459
Utilisation of provisions	(10 986)	(2 789)	(7)	(2 243)	(5 947)
Release of provisions	(13 155)	(808)	(980)	(4 023)	(7 344)
Transfer to Mine Closure Fund	(17 508)	(17 508)	–	–	–
Other	15 098	5 077	–	1 610	8 411
Provisions at 31 December 2009	574 788	511 384	5 307	24 124	33 973
of which:					
Non-current provisions	527 421	501 861	–	8 239	17 321
Current provisions	47 367	9 523	5 307	15 885	16 652

amounts in tables in thousand PLN, unless otherwise stated

24. Sales

Net revenues from the sale of products, goods for resale and materials (by type of activity)	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
– copper, precious metals, smelter by-products	10 992 841	11 231 173
– energy	35 399	35 657
– services	728 554	1 006 651
– mining machinery, transport vehicles for mining and other	16 508	34 408
– goods for resale	219 013	239 493
– wastes and materials	11 260	9 785
– other goods	116 335	97 718
Total	12 119 910	12 654 885

Net revenues from the sale of products, goods for resale and materials (by destination)	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
domestic	3 374 311	4 484 811
– copper, precious metals, smelter by-products	2 302 770	3 129 743
– energy	35 399	35 657
– services	702 134	948 196
– mining machinery, transport vehicles for mining and other	13 537	31 162
– goods for resale	208 495	236 598
– wastes and materials	11 255	9 785
– other goods	100 721	93 670
export	8 745 599	8 170 074
– copper, precious metals, smelter by-products	8 690 071	8 101 430
– services	26 420	58 455
– mining machinery, transport vehicles for mining and other	2 971	3 246
– goods for resale and materials	10 518	2 895
– wastes and materials	5	–
– other goods	15 614	4 048
Total	12 119 910	12 654 885

Other data	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Average copper price on LME (USD/t)	5 164	6 952
Average exchange rate (USD/PLN) per NBP	3.12	2.41

amounts in tables in thousand PLN, unless otherwise stated

25. Costs by type

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Depreciation of property, plant and equipment and amortisation of intangible assets	743 790	681 367
Employee benefit costs	3 262 073	3 080 980
Materials and energy consumption	3 857 174	3 392 670
External services	1 216 401	1 802 192
Taxes and charges	342 012	335 860
Advertising costs and representation expenses	38 570	49 967
Property and personal insurance	20 062	14 734
Research and development costs not capitalised in intangible assets	5 570	4 883
Other costs, of which:	96 684	388 948
Impairment losses on property, plant and equipment, intangible assets	20 807	286 620
Impairment losses on goodwill	2 359	–
Write-down of inventories	11 519	66 576
Allowance for impairment of trade receivables	43 006	21 320
Reversal of impairment of property, plant and equipment, intangible assets	(43)	(14 501)
Reversal of write-down of inventories	(1 886)	(1 518)
Reversal of allowance for impairment of trade receivables	(11 101)	(12 703)
Losses from the disposal of financial instruments	998	1 608
Other operating costs	31 025	41 546
Total costs by type	9 582 336	9 751 601
Cost of goods for resale and materials sold (+), of which:	158 742	128 436
Allowance for impairment of receivables	2 029	1 438
Reversal of allowance for impairment of receivables	(884)	(505)
Change in inventories of finished goods and work in progress (+/–)	(368 246)	91 338
Cost of manufacturing products for internal use (-)	(435 996)	(478 127)
Total cost of sales, selling and administrative costs	8 936 836	9 493 248

26. Employee benefit costs

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Remuneration	2 332 345	2 255 442
Costs of social security	767 643	701 709
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits	162 085	123 829
Employee benefit costs	3 262 073	3 080 980

amounts in tables in thousand PLN, unless otherwise stated

27. Other operating income

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Income and gains from financial instruments classified under other operating activities, resulting from:	368 747	953 297
Measurement and realisation of derivative instruments	270 057	697 428
Interest	89 386	128 344
Foreign exchange gains	–	108 697
Gains from disposal	7 519	15 695
Reversal of impairment losses on available-for-sale financial assets	–	78
Reversal of allowance for impairment of loans and receivables	1 785	3 055
Increase in fair value of investment property	–	1 566
Gains from the disposal of a subsidiary and due to loss of control over a subsidiary	21 457	5 913
Gains from the disposal of perpetual usufruct of land	–	450
Gains from the disposal of intangible assets	1 556	2 027
Other interest	3 538	20 455
Dividends received	251	303
Reversal of impairment losses on assets under construction	39	166
Reversal of allowance for impairment of other non-financial receivables	1 810	5 434
Government grants and other donations received	825	2 520
Release of unused provisions due to:	47 768	27 733
Decommissioning of mines	32 969	4 311
Disputed issues, pending court proceedings	4 024	13 404
Other	10 775	10 018
Surpluses identified in property, plant and equipment	116	7 899
Penalties and compensation received	23 085	15 812
Foreign exchange losses – non-financial	2 568	(13 631)
Other operating income/gains	23 812	13 815
Total other operating income	495 572	1 043 759

amounts in tables in thousand PLN, unless otherwise stated

28. Other operating costs

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Costs and losses on financial instruments classified under other operating activities, resulting from:	888 576	903 878
Measurement and realisation of derivative instruments	802 437	891 352
Interest	1 728	657
Foreign exchange losses	75 464	–
Losses on measurement of non-current liabilities	249	2 555
Losses from disposal	2 227	2 608
Impairment losses on available-for-sale financial assets	–	45
Allowances for impairment of loans and receivables	6 471	6 661
Decrease in fair value of investment property	919	–
Allowances for impairment of other non-financial receivables	552	11 915
Losses on the sale of property, plant and equipment	23 914	21 626
Impairment losses on assets under construction	21 151	10 560
Impairment losses on intangible assets not yet available for use	–	29
Interest on overdue non-financial liabilities (including Budget)	4 504	1 801
Donations granted	7 193	11 546
Provisions for:	20 124	31 771
Decommissioning of mines	4 285	5 891
Disputed issues, pending court proceedings	3 791	12 338
Other	12 048	13 542
Penalties and compensation paid	3 412	4 484
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events	2 480	1 823
Contributions to a voluntary organisation	7 433	1 483
Other operating costs/losses	19 050	18 118
Total other operating costs	999 308	1 019 034

amounts in tables in thousand PLN, unless otherwise stated

29. Net finance costs

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Interest expense:	14 608	16 640
On bank and other loans	12 696	14 339
Due to finance leases	1 912	2 301
Net foreign exchange (gains)/losses on borrowings	(748)	2 004
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of the discount effect), due to:	29 764	38 091
Measurement of provisions for decommissioning of mines	29 171	37 289
Measurement of other provisions	593	802
Losses due to measurement of non-current liabilities	381	497
Other finance costs	1 254	262
Total net finance costs	45 259	57 494

amounts in tables in thousand PLN, unless otherwise stated

30. Financial instruments

30.1. Carrying amount – At 31 December 2009

Classes of financial instruments	Note	Categories of financial instruments								
		Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities		Hedging instruments	Total
							Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Shares		20 451								20 451
Shares in investment funds		7 930								7 930
Trade receivables (net)					1 199 512					1 199 512
Cash and cash equivalents and deposits			67 677		1 197 145					1 264 822
Other financial assets (net)		7	47		18 938					18 992
Derivatives – Currency				17 646		(165 571)			162 961	15 036
Derivatives – Commodity contracts – metals				1 258		(37 861)			7 905	(28 698)
Trade payables							(629 951)			(629 951)
Bank and other loans							(299 285)			(299 285)
Other financial liabilities							(79 596)	(41 385)		(120 981)
Total		28 388	67 724	18 904	2 415 595	(203 432)	(1 008 832)	(41 385)	170 866	1 447 828

amounts in tables in thousand PLN, unless otherwise stated

30.1. Carrying amount – At 31 December 2008

Classes of financial instruments	Note	Categories of financial instruments								
		Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities		Hedging instruments	Total
							Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Shares		19 942								19 942
Shares in investment funds		11 264								11 264
Trade receivables (net)					725 700					725 700
Cash and cash equivalents and deposits			59 545		2 081 168					2 140 713
Other financial assets (net)		7	47		327 552					327 606
Derivatives – Currency				31		(1 159)			62 326	61 198
Derivatives – Commodity contracts – metals						(3 771)			655 271	651 500
Trade payables							(785 527)			(785 527)
Bank and other loans							(258 705)			(258 705)
Other financial liabilities							(116 205)	(32 273)		(148 478)
Total		31 213	59 592	31	3 134 420	(4 930)	(1 160 437)	(32 273)	717 597	2 745 213

amounts in tables in thousand PLN, unless otherwise stated

30.2. Items of income, costs, profit and losses recognised in profit or loss for the period by category of financial instruments

For the period from 1 January 2009 to 31 December 2009	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity invest-ments	Loans and receivables	Other financial liabilities		Hedging instruments	Total financial instruments
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Interest income/ (expense)		21	108	89 257	(14 424)	(1 912)		73 050
Exchange gains/(losses)			(9)	(9 292)	(65 593)	178		(74 716)
Losses on measurement of non-current financial liabilities					(630)			(630)
Impairment allowances				(51 506)				(51 506)
Reversal of impairment allowances				13 770				13 770
Adjustment to sales due to hedging transactions							433 187	433 187
Profit/(losses) from disposal of financial instruments		7 500		(3 206)				4 294
Gains on measurement and realisation of derivative instruments	270 057							270 057
Losses on measurement and realisation of derivative instruments	(802 437)							(802 437)
Total net gain/(loss)	(532 380)	7 521	99	39 023	(80 647)	(1 734)	433 187	(134 931)

amounts in tables in thousand PLN, unless otherwise stated

For the period from 1 January 2008 to 31 December 2008	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity invest-ments	Loans and receivables	Other financial liabilities		Hedging instruments	Total financial instruments
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39		
Interest income/ (expense)		891	200	127 253	(14 996)	(2 301)		111 047
Exchange gains/(losses)			6	137 107	(28 580)	(1 840)		106 693
Losses on measurement of non-current financial liabilities					(3 052)			(3 052)
Impairment allowances		(45)		(29 419)				(29 464)
Reversal of impairment allowances		78		16 263				16 341
Adjustment to sales due to hedging transactions							562 520	562 520
Profit/(losses) from disposal of financial instruments		3 217	294	7 968				11 479
Gains on measurement and realisation of derivative instruments	697 428							697 428
Losses on measurement and realisation of derivative instruments	(891 352)							(891 352)
Total net gain/(loss)	(193 924)	4 141	500	259 172	(46 628)	(4 141)	562 520	581 640

amounts in tables in thousand PLN, unless otherwise stated

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

30.3.1. Fair value hierarchy

Classes of financial instruments	At					
	31 December 2009			31 December 2008		
	level 1	level 2	level 3	level 1	level 2	level 3
Shares	8 976	–	–	8 525	–	–
Shares in investment funds	–	–	7 930	–	–	11 264
Other financial assets	–	–	–	–	287 146	–
Derivative financial instruments – currency, of which:	–	15 036	–	–	61 198	–
Assets	–	180 938	–	–	62 357	–
Liabilities	–	(165 902)	–	–	(1 159)	–
Derivative financial instruments – metals, of which:	–	(28 698)	–	–	651 500	–
Assets	–	140 471	–	–	655 271	–
Liabilities	–	(169 169)	–	–	(3 771)	–
Other financial liabilities	–	(30 611)	–	–	(35 395)	–

30.3.2. Financial instruments – measure of fair value at level 3 of the fair value hierarchy

Shares and participation units in Investment Funds	At	
	31 December 2009	31 December 2008
Beginning of the period	11 264	10 665
Gains recognised in other comprehensive income	2 205	3 716
Losses recognised in other comprehensive income	5 539	3 117
Total	7 930	11 264

There was no transfer by the Group to level 3 of instruments classified to levels 1 and 2, nor was there any transfer of instruments classified to level 3 out of this level in either the reporting period or the comparative periods.

amounts in tables in thousand PLN, unless otherwise stated

31. Financial risk management

Group companies are exposed to risk in each area of their activities. Understanding those risks and the principles of their management allows the Group to better meet its objectives.

Financial risk management includes the processes of risk identification, measurement and determination of appropriate methods to deal with those risks.

The Group is predominantly exposed to the following classes of financial risk:

- Market risk:
  - Risk of changes in commodity prices (Commodity Risk);
  - Risk of changes in foreign exchange rates (Currency Risk);
  - Risk of changes in interest rates (Interest Rate Risk);
- Liquidity risk;
- Credit risk.

31.1. Market risk

31.1.1. Principles of market risk management

The Group has an active approach to managing its market risk exposure.

The objectives of market risk management are:

- To limit fluctuations in profit before tax;
- To increase the probability of meeting budget assumptions;
- To maintain a healthy financial condition; and
- To support the process of undertaking strategic decisions relating to investing activity, with particular attention to sources of capital for this activity.

All the market risk management objectives should be considered as a whole, while their realisation is dependant primarily upon the internal situation and market conditions.

The Parent Entity applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. For example, hedging transactions on the commodity market are related to contracts entered into on the currency market, as hedging prices of metals directly impacts the probability of achieving planned revenues from sales, which in turn represent a hedged item for strategies on the currency market. As a result, the Parent Entity has significantly greater flexibility in building hedging strategies.

The Parent Entity applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented on derivative instruments market, embracing an increasing share of production and sales revenues as well as an extended time horizon. Consequently, the hedging is possible against unexpected plunges in both silver and copper prices as well as rapid appreciation of the PLN versus the USD. Thanks to this approach, it is also possible to avoid engaging significant volumes or notionals at a single price level.

The Parent Entity continuously monitors metal and currency markets, which are the basis for decisions on implementing hedging strategies. In addition, the Parent Entity applies cash flows hedge accounting to hedge the risk of changes of cash flows due to commodity and currency risk.

31.1.2. Techniques for market risk management

The primary technique for market risk management is the use of hedging strategies involving derivative instruments. Apart from this, natural hedging is also used. Hedging strategies as understood by hedge accounting (IAS 39) are used only in the Parent Entity.

All of the potential hedging strategies and the selection of those preferred reflect the following factors: current and forecasted market conditions, the internal situation of the Parent Entity, the suitability of instruments to be applied and the cost of hedging. In order to mitigate market risk, derivative instruments are primarily used. The Parent Entity transacts only those derivative instruments for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and also these 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 Parent Entity relies on information obtained from particular market leading banks, brokers and information services.

It is permitted to use the following types of instruments:

- Swaps;
- Forwards and futures;
- Options;
- 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).

31.1.3. Hedge effectiveness requirement

Hedging transactions can be entered into by Parent Entity only if there is an appropriate derivative instrument for the base instrument traded in a liquid market with a quoted reference price. Prior to entering a hedge transaction, the Parent Entity confirms and documents whether there exists, between the changes in the fair value of a hedge instrument and the changes in the fair value of the hedged position, a strong negative correlation. Hedge effectiveness is subject to constant evaluation and monitoring.

31.1.4. Measurement of market risk

The Parent Entity quantifies and describes 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 Parent Entity to market risk.

Since 2007 the Parent Entity has been using "Earnings at Risk" as one of the risk measures employed in market risk management. This measure indicates the lowest possible level of pre-tax profit for a selected level of confidence (for example, with 95% confidence the pre-tax profit for a given period will be not lower than…). The EaR methodology enables the calculation of pre-tax profit incorporating the impact of changes in market prices of copper, silver and foreign exchange rates in the context of budgeted results.

However, due to the fact that no single risk measure possesses the ability to completely reflect reality, mainly because of underlying assumptions concerning market factors, it is customary to employ quantitative models merely as a tool supporting the decision making process and a source of additional information. Such models are not the only basis for decision making in the market risk management process.

31.1.5. Restrictions on entering into hedging transactions

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 external copper-bearing materials, the Parent Entity has set limits with respect to commitment in derivative instruments:

- up to 70% of monthly copper volume sales;
- up to 80% of monthly silver volume sales;
- up to 70% of monthly foreign-currency revenues from the sale of products.

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

Additionally, as the Parent Entity has an integrated approach to market risk management, it has substantially greater flexibility in constructing its hedging strategy. In order to achieve the defined profile of exposure to market risk, it is possible to define/implement a "comprehensive" hedging strategy, i.e. one which incorporates both the metals and the currency markets.

The maximum time horizon within which the Parent Entity makes decisions concerning hedging of market risk is set up in accordance with technical and economic planning process, and amounts to 5 years. However, it must be emphasised that regardless of the tool used to measure market risks, the results of such measurement for long time horizons (especially above 2 years) may be subject to significant uncertainty, and therefore are treated as estimates.

The remaining companies of the Group have set the limit of engagement in derivative instruments up to 80% of the planned amounts exposed to market risk, or up to 100% of realised commercial transactions.

31.1.6. Market risk exposure

31.1.6.1. Commodity risk

The Parent Entity is exposed to the risk of changes in market prices of copper, silver and gold. The price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and from the London Bullion Market for silver and gold. The commercial policy of the Parent Entity is to set the price base for physical delivery contracts as the average price of the appropriate future month. As a result the Parent Entity is exposed to the risk of decline in metals prices from the moment of entering into a sale contract until the moment of setting the contractual average metal price.

In a situation where a non-standard formula is used to set the sales price, the Parent Entity may enter into transactions (so-called adjustment hedge transactions) which change the price base agreed with the customer to the average price of the appropriate month. These transactions lead to a harmonisation of the base price applied to physical sales of products, and therefore harmonisation of the exposure to the risk of fluctuations in metals prices.

Due to the fact that the Parent Entity utilises in the production process materials purchased from external sources containing various metals, part of the sales is hedged naturally. Therefore, the analysis of the Parent Entity's exposure to the market risk should be performed on a net basis, i.e. by deducting the volume of metals contained in materials purchased from external sources from the volume of sales.

Exposure of the Group to commodity risk is presented below:

	For the period			
	from 01.01.09 to 31.12.09		from 01.01.08 to 31.12.08	
	Sales	Purchases	Sales	Purchases
Copper ['000 tonnes]	514	122	539	107
Silver [tonnes]	1 198	72	1 176	6

Sensitivity of the Group's financial instruments to commodity risk at the end of the reporting period is presented in note 34.1.10. Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

31.1.6.2. Currency risk

The Parent Entity is exposed to the risk of changes in foreign exchange rates, as it is generally accepted on commodities markets that physical contracts are either concluded or denominated in USD. However the base (functional) currency for the Parent Entity is the PLN. As a result, the Parent Entity receives the equivalent in PLN or exchanges the USD it receives for PLN. Such exchanges lead to the risk associated with fluctuations in the USD/PLN exchange rate during the period from the moment of entering into the trade contract to the moment of determining the exchange rate. In a situation wherein foreign clients pay in local currency for the copper or precious metals which they have imported, the Group is also exposed to fluctuations in the exchange rates of other currencies, e.g.: EUR/PLN and GBP/PLN.

Moreover, the Group is exposed to the risk of changes in foreign exchange rates due to the fact of drawing loans and incurring other liabilities (for example from the import of goods and services) which are denominated in currencies other than the USD.

Sensitivity of the Group's financial instruments to the currency risk at the end of the reporting period is presented in note 34.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

31.1.6.3. Interest rate risk

The Group is exposed to interest rate risk due to:
- changes in the fair value of bank and other loans drawn, bonds purchased and bank deposits for which interest is calculated at fixed rates;
- changes in cash flow related to bank and other loans drawn, bonds purchased and bank deposits for which interest is calculated at variable rates.

As at 31 December 2009 the Group had liabilities amounting to PLN 299 285 thousand due to bank and other loans (as at 31 December 2008: PLN 258 705 thousand) based on variable and fixed interest rates.

At the end of the reporting period the Group had no instruments hedging against interest rate risk.

31.1.7. Hedging exposure to market risk in the Parent Entity

In 2009 copper price hedging strategies represented approx. 34% (in 2008 35%) of the sales of this metal realised by the Parent Entity. With respect to silver sales this figure amounted to approx. 25% (in 2008 32 %). In the case of the currency market, hedged revenues from sales represented approx. 34% (in 2008 11%) of total revenues from sales realised by the Parent Entity.

In 2009 the Parent Entity implemented copper price hedging strategies with a total volume of 264 thousand tonnes and a time horizon falling in the second half of 2009, 2010 and the first half of 2011. The Parent Entity made use of options (Asian options), including puts, corridor strategies, seagulls and producer puts. In addition the Parent Entity performed a restructurisation, implemented in the analysed period, of seagull options for 2010 with a total volume of 58.5 thousand tonnes through the buyback of sold puts. In the period the Parent Entity did not implement adjustment hedge transactions. In the case of the silver market, during the analysed period strategies were implemented to hedge the price of this metal with a total volume of 7.2 million troz and a time horizon falling in 2010. The Parent Entity made use of put options (Asian options). In 2009, adjustment hedge transactions were not implemented on the silver market either.

In the case of the forward currency market, in 2009 the Parent Entity implemented strategies hedging the USD/PLN rate for an amount of USD 1 410 million and a time horizon falling in the second half of 2009 and in the entire year 2010. The Parent Entity made use of options (European options), including puts, corridors and producer puts. In addition the Parent Entity performed a restructurisation, implemented in prior periods as well as in the analysed period, of options strategies for 2009 and 2010 with the total nominal amount of USD 630 million through the sale of purchased puts and the sale of corridor options. These operations were recognised in accumulated other comprehensive income in the amount of PLN 147 912 thousand, which will be an adjustment in plus of revenues from sales in 2010. During the analysed period there were no adjustment hedge transactions implemented on the currency market.

The Parent Entity remains hedged for a portion of copper sales planned in the first half of 2010 (78 thousand tonnes), in the second half of 2010 (58.5 thousand tonnes) and in the first half of 2011 (19.5 thousand tonnes) for a portion of silver sales planned in 2010 (7.2 million troz). With respect to revenues from sales (currency market) the Parent Entity holds a hedging position in 2010 (USD 600 million).

Following is a condensed table of hedging positions, by type of hedged asset and instruments used at 31 December 2009. The hedged nominal/volume in the months included in the presented periods is equally balanced.

Hedging position – copper market

Period	Instrument		Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
I half of 2010	Purchased put option		39 000	4 700	–695	4 005
	Corridor	Sold call option	19 500	8 000	–327	5 473 participation restricted to 8 000
		Purchased put option		5 800		
	Purchased put option		19 500	7 000	–692	6 308
	Total		**78 000**			
II half of 2010	Corridor	Sold call option	39 000	8 000	–400	5 100 participation restricted to 8 000
		Purchased put option		5 500		
	Producer puts[1]		19 500	6 500	8.94%[2]	–
	Total		**58 500**			
Total 2010			**136 500**			
I half of 2011	Corridor	Sold call option	19 500	8 800	–470	6 230 participation restricted to 8 800
		Purchased put option		6 700		
	Total		**19 500**			
Total 2011			**19 500**			

1 Due to current hedge accounting laws, transactions embedded within a producer put – a purchased put option – are shown in the table containing a detailed list of derivative instrument positions – "Hedging instruments", while sold call options are shown in the table "Trade instruments".

2 Payable at the moment of settlement.

Hedging position – silver market

Period	Instrument	Volume [million troz]	Execution price [USD/troz]	Average weighted premium [USD/troz]	Effective hedge price [USD/troz]
I half of 2010	Purchased put option	1.80	14.00	–2.00	12.00
	Purchased put option	1.80	18.00	–2.00	16.00
	Total	**3.60**			
II half of 2010	Purchased put option	1.80	14.00	–2.00	12.00
	Purchased put option	1.80	18.00	–2.00	16.00
	Total	**3.60**			
Total 2010		**7.20**			

amounts in tables in thousand PLN, unless otherwise stated

Hedging position – currency market

Period	Instrument	Nominal [million USD]	Execution price [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]
I half of 2010	Producer puts[1]	60	3.0000	8.37%[2]	–
	Purchased put option	60	2.6000	−0.0692	2.5308
	Purchased put option	180	2.5500	−0.0681	2.4819
	Total	**300**			
II half of 2010	Producer puts[1]	60	3.0000	8.37%	–
	Purchased put option	60	2.6000	−0.0692	2.5308
	Purchased put option	180	2.5500	−0.0681	2.4819
	Total	**300**			
Total 2010		**600**			

1 Due to current hedge accounting laws, transactions embedded within a producer put – a purchased put option – are shown in the table containing a detailed list of derivative instrument positions – "Hedging instruments", while sold call options are shown in the table "Trade instruments".

2 Payable at the moment of settlement.

31.1.8. Impact of derivatives on the statement of financial position of the Group

As at 31 December 2009, the fair value of open positions in derivative instruments amounted to PLN (13 662) thousand, of which PLN 321 409 thousand relate to financial assets and PLN 335 071 thousand relate to financial liabilities.

Derivative instruments whose date of settlement was 5 January 2010 were measured at fair value in the amount of PLN (30 611) thousand and accounted for in trade and other payables as payables due to unsettled derivative instruments (Note 20).

Other information concerning derivatives is presented in Note 12. Derivative financial instruments and in Note 33. Financial instruments

31.1.9. Impact of derivatives on the Group's profit or loss and equity

In 2009, the result on derivative instruments amounted to PLN (99 193) thousand. The effective portion of the change in the fair value of hedging instruments that was transferred from accumulated other comprehensive income to profit or loss in the reporting period, as an adjustment from reclassification, increased revenues from sales by PLN 433 187 thousand. The loss on the measurement of derivative instruments amounted to PLN 344 894 thousand, while the loss on the realisation of derivative instruments amounted to PLN 187 486 thousand. Adjustment to other operating costs arising from the measurement of derivative instruments results mainly from changes of the time value of options, which will be settled in the future periods. In accordance with the applied hedge accounting principles, the change in the time value of options is not recognised in other comprehensive income.

The impact of derivative instruments on profit or loss of the current and comparable periods is presented below:

The impact of derivative instruments on profit or loss

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Impact on sales	433 187	562 520
Impact on other operating costs	(532 380)	(194 924)
Losses from realisation of derivative instruments	(187 486)	(81 191)
Losses from measurement of derivative instruments	(344 894)	(113 733)
Total impact of derivative instruments on profit or loss	(99 193)	367 596

amounts in tables in thousand PLN, unless otherwise stated

The value of the adjustment to the other operating cost of the Parent Entity for 2009 due to the ineffective portion of cash flow hedges amounted to PLN (626 345) thousand (in 2008: PLN 205 487 thousand), of which PLN (431 299) thousand is a loss on measurement of hedging instruments (in 2008: PLN 107 924 thousand) and PLN (195 046) thousand is a loss on the realisation of the ineffective portion of hedging instruments (in 2008: PLN 97 563 thousand).

The Parent Entity accounts for cash flow hedging instruments according to the principles presented in note 2.2.4.7. of "Main accounting policies". Those principles require recognition in other comprehensive income of the effective portion of the change in the fair value of hedging transactions during the period in which these transactions are designated as a hedge of future cash flows. The amounts accumulated in equity are subsequently transferred to profit or loss in the period in which the hedged transaction is settled.

The effectiveness of hedging instruments used by the Parent Entity during the reporting period is evaluated and measured by comparing the changes in the forward prices of hedged items with the changes in the prices of forward contracts or – in the case of options – the changes in the intrinsic value of options.

The tables below present the balances and movements in accumulated other comprehensive income resulting from the transfer of the effective portion of the gain or loss from changes in the fair value of derivative instruments designated as hedging instruments in cash flow hedges:

Amounts recognised in equity

	At	
	31 December 2009	31 December 2008
Accumulated other comprehensive income – commodity price risk hedging transactions (copper and silver) – derivatives	(3 937)	627 757
Accumulated other comprehensive income – currency risk hedging transactions – derivatives	159 170	–
Total accumulated other comprehensive income – financial instruments hedging future cash flows (excluding the deferred tax effects)	155 233	627 757

Gains or (losses) on derivative instruments hedging future cash flows recognised in other comprehensive income

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Accumulated gain or (loss) achieved on financial instruments hedging future cash flows at the beginning of the reporting period	627 757	9 895
Amount recognised in the reporting period due to hedging transactions	(39 337)	1 197 853
Amount transferred from other comprehensive income to revenues from sales	(433 187)	(579 991)
Accumulated other comprehensive income achieved on instruments hedging future cash flows at the end of the reporting period (excluding the deferred tax effects)	155 233	627 757

amounts in tables in thousand PLN, unless otherwise stated

31.1.10. Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk

The Group identifies the following major market risks to which it is exposed:
- Commodity Risk;
- Currency Risk;
- Interest Rate Risk.

The Group is mainly exposed to the risk of changes in copper and silver prices and changes in the USD/PLN and EUR/PLN currency exchange rates.

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 and EUR/PLN exchange rates. Quantiles from the model at the levels of 5% and 95% have been used as potential changes in a half-year time horizon. Commodity models have been calibrated to historical prices adjusted for the effects of the PPI inflation index in the USA, while currency models have been calibrated to the current structure of forward interest rates.

Potential changes in prices and currency rates have been presented in terms of percentages of the prices and currency rates used in the fair value measurement of financial instruments at the end of the reporting period. Following is a sensitivity analysis for each significant type of market risk to which the Group is exposed at the end of the reporting period, showing what the impact would be on the profit for the period and equity of potential changes in specific risk factors divided by classes of financial assets and financial liabilities.

Scope of historical data (daily data):
- for copper: 01 January 1978 to 31 December 2009 – settlement prices
- for silver: 01 January 1978 to 31 December 2009 – fixing prices
- for USD/PLN and EUR/PLN exchange rates: 01 January 2000 to 31 December 2009 – fixing NBP.

The parameters of the Schwartz model were calibrated by the method of highest reliability to real historical prices (adjusted by the PPI inflation index in the USA for Cu and Ag). The trend in the Black-Scholes model (currencies) was calibrated to the current structure of forward interest rates, while variability is the exponentially weighted historical variability.

Potential price changes at the end of the reporting period 31 December 2009

	Copper	Silver	USD/PLN	EUR/PLN
SPOT/FIX	7 342	16.99	2.8503	4.1082
DOWN 95%	4 765	10.93	2.2400	3.5069
	–35%	–36%	–21%	–15%
UP 95%	10 061	24.43	3.5782	4.8508
	37%	44%	26%	18%

Potential price changes at the end of the reporting period 31 December 2008

	Copper	Silver	USD/PLN	EUR/PLN
SPOT/FIX	2 902	10.79	2.9618	4.1724
DOWN 95%	1 685	6.00	2.1056	3.3476
	–42%	–44%	–29%	–20%
UP 95%	5 298	19.54	3.9630	5.0875
	83%	81%	34%	22%

amounts in tables in thousand PLN, unless otherwise stated

In analysing the sensitivity of the item "Derivatives – Currency" and "Derivatives – Commodity contracts- Metals" it should be noted that the Parent Entity holds a position in derivative instruments hedging future cash flows from the sale of copper and silver. It should also be noted that the Parent Entity is exposed to risk in respect of the planned volume of copper and silver sales from its own production, adjusted by its position in hedging instruments.

Currency structure of financial instruments exposed to market risk at 31 December 2009

Financial assets and liabilities	Value at risk Currency structure		
	['000 PLN]	['000 USD]	['000 EUR]
Shares and participation units in investment funds	7 930	2 782	–
Trade receivables (net)	826 252	123 662	115 325
Cash and cash equivalents and deposits	159 008	37 535	12 663
Other financial assets (net)	8 524	1 242	1 213
Derivatives – Currency	15 036	lack of data	lack of data
Derivatives – Commodity contracts – Metals	(28 698)	(10 069)	–
Trade payables	(43 708)	(7 892)	(5 164)
Bank and other loans	(6 728)	–	(1 638)
Other financial liabilities	(56 842)	(14 879)	(3 513)

Currency structure of financial instruments exposed to market risk at 31 December 2008

Financial assets and liabilities	Value at risk Currency structure		
	['000 PLN]	['000 USD]	['000 EUR]
Shares and participation units in investment funds	11 264	3 803	–
Trade receivables (net)	296 667	82 780	12 340
Cash and cash equivalents and deposits	542 002	159 108	16 958
Other financial assets (net)	308 495	103 666	349
Derivatives – Currency	61 198	lack of data	lack of data
Derivatives – Commodity contracts – Metals	651 500	219 968	–
Trade payables	(97 295)	(14 040)	(13 352)
Bank and other loans	(8 553)	–	(2 050)
Other financial liabilities	(43 098)	(2 818)	(8 329)

Sensitivity analysis as at 31 December 2009

Financial assets and liabilities	Value at risk [in '000 PLN]	Carrying amount [in '000 PLN]	Currency risk							
			USD/PLN				EUR/PLN			
			3.58		2.24		4.85		3.51	
			+26%		–21%		+18%		–15%	
			P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
Shares and participation units in investment funds	7 930	7 930	1 640		(1 375)					
Trade receivables (net)	826 252	1 199 513	72 911		(61 132)		69 369		(56 169)	
Cash and cash equivalents and deposits	159 008	1 264 822	22 131		(18 555)		7 617		(6 168)	
Other financial assets (net)	8 524	18 992	732		(614)		730		(591)	
Derivatives – Currency	15 036	15 036	(31 354)	(9 119)	(2 606)	164 897	(1 879)		1 513	
Derivatives – Commodity contracts – Metals	(28 698)	(28 698)	(7 959)	2 022	6 673	(1 696)				
Trade payables	(43 708)	(629 951)	(4 653)		3 901		(3 106)		2 515	
Bank and other loans	(6 728)	(299 285)					(985)		798	
Other financial liabilities	(56 842)	(120 981)	(8 772)		7 355		(2 113)		1 711	
Impact on profit or loss			44 676		(66 353)		69 633		(56 391)	
Impact on equity				(7 097)		163 201				

Financial assets and liabilities	Value at risk [in '000 PLN]	Carrying amount [in '000 PLN]	Commodity risk							
			Copper prices [USD/t]				Silver prices [USD/troz]			
			10 061		4 765		24.43		10.93	
			+37%		–35%		+44%		–36%	
			P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
Other financial liabilities	(28 698)	(28 698)	(54 596)	(348 905)	96 549	366 613	(10 366)	(7 918)	(10 660)	75 732
Impact on profit or loss			(54 596)		96 549		(10 366)		(10 660)	
Impact on equity				(348 905)		366 613		(7 918)		75 732

amounts in tables in thousand PLN, unless otherwise stated

Sensitivity analysis as at 31 December 2008

Financial assets and liabilities	Value at risk [in '000 PLN]	Carrying amount [in '000 PLN]	Currency risk							
			USD/PLN				EUR/PLN			
			3.96		2.11		5.09		3.35	
			+34%		–29%		+22%		–20%	
			P&L	Equity	P&L	Equity	P&L	Equity	P&L	Equity
Shares and participation units in investment funds	11 264	11 264	3 084		(2 637)					
Trade receivables (net)	296 667	725 700	67 132		(57 410)		9 147		(8 244)	
Cash and cash equivalents and deposits	542 002	2 140 713	129 032		(110 345)		12 570		(11 330)	
Other financial assets (net)	308 495	327 606	84 070		(71 895)		259		(233)	
Derivatives – Currency	61 198	61 198	(48 662)	–	23 847	216 981	(1 706)		1 254	
Derivatives – Commodity contracts – Metals	651 500	651 500	6 297	171 887	(5 385)	(146 993)				
Trade payables	(97 295)	(785 527)	(11 387)		9 737		(9 897)		8 920	
Bank and other loans	(8 553)	(258 705)					(1 520)		1 370	
Other financial liabilities	(43 098)	(148 478)	(2 285)		1 954		(6 174)		5 565	
Impact on profit or loss			227 281		(212 134)		2 679		(2 698)	
Impact on equity				171 887		69 988				

Financial assets and liabilities	Value at risk [in '000 PLN]	Carrying amount [in '000 PLN]	Commodity risk							
			Copper prices [USD/t]				Silver prices [USD/troz]			
			5 298		1 685		19.54		6.00	
			+83%		–42%		+81%		–44%	
			P&L	Equity	P&L	Equity	P&L	Equity	RZiS	Equity
Other financial liabilities	651 500	651 500	56 489	(380 994)	(3 346)	195 213	(17 984)	(27 547)	(23 836)	110 461
Impact on profit or loss			56 489		(3 346)		(17 984)		(23 836)	
Impact on equity				(380 994)		195 213		(27 547)		110 461

31.2. Liquidity risk and capital management

The Group is exposed to liquidity risk, understood as the inability to meet obligations associated with financial liabilities.

The Parent Entity manages its financial liquidity in accordance with the Management Board-approved policy "Financial Liquidity Management Policy". This document describes in a comprehensive manner the process of managing financial liquidity in the Parent Entity, based on best practice for such procedures and instruments

In 2009, as well as in the comparable period, due to positive operating cash flow and the significant amount of cash and cash equivalents balances, the Group companies barely used external sources of financing.

The procedures for investing free cash resources are contingent on the maturity of liabilities in terms of limiting the maximum liquidity risk.

Should market conditions deteriorate and the necessity arises for additional financing of activities or the refinancing of its debt from external sources (borrowings or buyer's credit), the probability would exist of an increased liquidity risk.

Contractual maturities for financial liabilities as at 31 December 2009

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	614 992	4 737	9 335	1 003	4	630 071	629 951
Loans, including bank loans	31 278	179 898	63 277	22 580	27 930	324 963	299 285
Derivatives – Currency contracts	40 559	108 673	–	–	–	149 232	165 902
Derivatives – Commodity contracts – Metals	–	31 514	6 360	–	–	37 874	169 169
Other financial liabilities	66 235	12 527	25 873	15 493	6 498	126 626	120 981
Total financial liabilities by maturity	753 064	337 349	104 845	39 076	34 432	1 268 766	

Contractual maturities for financial liabilities as at 31 December 2008

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	763 482	3 106	17 650	1 014	518	785 770	785 527
Loans, including bank loans	62 561	131 796	35 705	23 254	22 993	276 309	258 705
Derivatives – Currency contracts	529	630	–	–	–	1 159	1 159
Derivatives – Commodity contracts – Metals	–	3 771	–	–	–	3 771	3 771
Other financial liabilities	87 273	23 033	18 155	14 685	10 915	154 061	148 478
Total financial liabilities by maturity	913 845	162 336	71 510	38 953	34 426	1 221 070	

amounts in tables in thousand PLN, unless otherwise stated

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

As at 31 December 2009 the Group had overdraft facilities in the amount of PLN 135 100 thousand (as at 31 December 2008 : PLN 103 100 thousand).

As at 31 December 2009 unused overdraft facilities amounted to PLN 88 345 thousand (as at 31 December 2008 : PLN 74 520 thousand).

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

In accordance with market practice, the Group monitors its capital, among others based on the equity ratio and the ratio of Debt/EBITDA. The equity ratio is calculated as the relation of net assets (equity less intangible assets) to total assets.

The ratio of Debt/EBITDA is calculated as the relation of borrowings and finance lease liabilities to EBITDA (operating profit plus depreciation/amortisation).

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

The above ratios at 31 December 2009 and 31 December 2008 are presented below

	At	
	31 December 2009	31 December 2008
Equity	10 623 827	10 982 865
Less: intangible assets	268 195	151 581
Net assets	10 355 632	10 831 284
Total assets	14 897 425	15 000 105
Equity ratio	0.70	0.72
Operating profit	2 679 338	3 186 362
Plus: depreciation/amortisation	743 790	681 367
EBITDA	3 423 128	3 867 729
Borrowings and finance lease liabilities	340 670	290 978
Ratio of Debt/EBITDA	0.100	0.075

Due to the low level of debt of the Group as at 31 December 2009, the ratio of Debt/EBITDA was at a safe level and amounted to 0.1.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.70 at 31 December 2009.

In 2009 and in 2008 there were no external capital requirements imposed on the Parent Entity.

31.3. Credit risk

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

- The creditworthiness of the customers with whom physical sale transactions are undertaken;
- The creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging transactions are undertaken;
- The creditworthiness of the entities in which investments are made, or whose securities are purchased.

Financial instruments for which credit risk exposure with different characteristics from those mentioned above arises, are as follows:

- Cash and cash equivalents and deposits;
- Derivative instruments;
- Trade receivables;
- Loans granted;
- Debt securities and participation units in investment funds;
- Guaranties granted.

amounts in tables in thousand PLN, unless otherwise stated

31.3.1. Credit risk related to cash and cash equivalents and bank deposits

All entities with which deposit transactions are entered into 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 for the most part with medium-high[1] credit ratings, appropriate level of equity and strong, stable market position. The maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounts to 22% as at 31 December 2009.

Given the above as well as the short-term nature of those investments, the credit risk associated with cash and cash equivalents and deposits is estimated as low.

31.3.2. Credit risk related to derivative instruments

All entities with which derivative transactions are entered into by the Group operate in the financial sector. These are financial institutions (mainly banks), with the highest[2] (39.1%), medium-high[1] (52.2%) or medium[3] (8.7%) credit ratings. Based on fair value the maximum exposure of the Group to a single entity in respect of derivative instruments amounts to 6.1 %.

Fair value of derivative instruments entered into by the Group at 31 December 2009 amounted to[4]:

PLN 13 662 thousand (negative balance on the measurement of derivative instruments), of which:

PLN 335 071 thousand financial liabilities (note 12, 20);

PLN 321 409 thousand financial assets (notes 12, 13).

All entities with whom derivative transactions were entered into in 2008 by the Group operated in the financial sector. These are financial institutions (mainly banks), with the highest[2] (27.7%), medium-high[1] (55.6%) or medium[3] (16.7%) credit ratings. The maximum share of a single entity with respect to derivative transactions entered into by the Group amounted to 17.9%.

The fair value of derivative transactions entered into by the Group at 31 December 2008 amounted to[5]:

PLN 964 449 thousand (positive balance on the measurement of derivative instruments), of which:

PLN 40 325 thousand financial liabilities (Notes 12, 20);

PLN 1 004 774 thousand financial assets (Notes 12, 13).

Due to diversification of risk in terms both of the nature of individual entities as well as to their geographical location as well as to cooperation with highly-rated financial institutions, and also taking into consideration the fair value of liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.

The Parent Entity has entered into framework agreements on the net settlement of hedging transactions in order to reduce cash flows and the credit risk to the level of positive fair value of hedging transactions with the given counterparty.

31.3.3. Credit risk related to trade and other financial receivables

Companies of the Group have been cooperating for many years with a number of geographically diversified clients. The vast majority of sales are with to EU countries, including Poland.

Geographical concentration of credit risk of the Group for trade receivables arising from sales of copper and silver

As at	31 December 2009			31 December 2008		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Trade receivables from sales of copper and silver	33.41%	56.76%	9.83%	55.11%	32.84%	12.05%

1 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 Moodys.
2 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 Moodys.
3 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 Moodys.
4 The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2010, which were recognised in the Group's statement of financial position under other financial receivables.
5 The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2009, which were recognised in the Group's statement of financial position for the period from 1 January 2008 to 31 December 2008 under other financial receivables and other financial liabilities.

amounts in tables in thousand PLN, unless otherwise stated

The Parent Entity makes the majority of its sales transactions based on prepayments. The Parent Entity monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom buyer's credit has been granted. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always 100% secured. The Parent Entity has secured the majority of its receivables by promissory notes[1], frozen funds on bank accounts, registered pledge[2], bank guarantees, mortgages, letters of credit and documentary collection. In addition, the majority of contracts where customers are provided with buyer's credit contain an ownership rights reservation clause confirmed by a date certain[3]. To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral. Taking into account the collateral held and the credit limits received from the insurance company, at 31 December 2009 the Parent Entity has secured 55 % of its trade receivables.

The total value of the Group's trade receivables as at 31 December 2009, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 1 199 512 thousand (at 31 December 2008: PLN 725 700 thousand).

The concentration of credit risk in the Parent Entity results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 31 December 2009 the balance of receivables of the Group from 7 of the Parent Entity's largest clients, calculated as a percentage of trade receivables at the end of the reporting period, represents 66% of the balance of trade receivables (at 31 December 2008: 55%). Despite the concentration of this type of risk the Parent Entity believes that, given the available historical data as well as long-lasting history of cooperation, as well as to the hedging used, the level of credit risk is low.

Due to lack of data, the risk related to derivative transactions entered into by customers is not reflected in the measurement of credit risk.

The following Group companies have significant trade receivables: DIALOG S.A. PLN 77 715 thousand, KGHM Metraco S.A. PLN 36 931 thousand, WPEC w Legnicy SA PLN 31 808 thousand, KGHM Ecoren S.A. PLN 25 878 thousand, Walcownia Metali Nieżelaznych spółka z o. o. PLN 12 401 thousand, POL-MIEDŹ TRANS Sp. z o.o. PLN 10 384 thousand, PHP "Mercus" sp. z o.o. PLN 8 961 thousand.

These Group companies operate in various economic sectors, such as transport, construction, trade, industrial production and telecom services, and consequently there is no concentration of credit risk in any sector. The companies of the Group, with the exception of the Parent Entity, do not enter into framework agreements of a net settlement in order to reduce exposure to credit risk, although in situations where the given entity recognises both receivables and liabilities with the same client, in practice net settlement is applied, as long as both parties accept such settlement. Due to the extensive volatility in the level of net settlement on particular days ending reporting periods, it is difficult in practice to determine a representative amount of such compensation.

The KGHM Polska Miedź S.A. Group believes that the maximum amount of exposure of the Group to credit risk at the end of the reporting period approximates the amount of the balance of trade receivables, without taking into account the fair value of any collateral. Nevertheless, the real risk that there will be no cash inflow to the Group due to trade receivables is low.

31.3.4. Credit risk related to loans granted

At 31 December 2009 the carrying amount of loans granted was PLN 0 (at 31 December 2008 PLN 100 thousand). The balance is composed of loans granted to the following entities:

- KGHM CONGO S.P.R.L. in the gross amount of PLN 2 643 thousand. Due to the arising of a high level of credit risk, at 31 March 2009 an impairment loss was recognised for the entire amount of the loan in the amount of PLN 2 643 thousand. Due to actions taken towards recovery of the impaired receivables, an agreement was signed surrendering the receivables of KGHM CONGO S.P.R.L. to the Parent Entity. By the end of December 2009 partial repayment of the receivables subject to this agreement was made in the amount of PLN 1 413 thousand;
- VIVID S.A. in the gross amount of PLN 3 124 thousand. In July 2008, due to the probability that the loan would not be repaid, an allowance for impairment was recognised in the amount of PLN 2 780 thousand. In September 2008 the bankruptcy of the company was announced, and a further allowance for impairment was recognised bringing the amount of the loan to 0 in the amount of PLN 344 thousand;
- MILLENNIUM COMMUNICATIONS S.A. in the gross amount of PLN 307 thousand. Due to the announcement of bankruptcy by the company in 2007, an allowance for impairment was recognised in the amount of PLN 307 thousand. In March 2009 the debtor repaid PLN 4 thousand of the receivables.

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

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

3 A trade contract clause officially certified by a notary means that the ownership of goods is transferred to the buyer only upon payment, regardless of their physical delivery.

31.3.5. Credit risk related to investments in debt securities and participation units in investment funds

The Parent Entity is exposed to this type of credit risk due to changes in the fair value of the share in the AIG investment fund. At 31 December 2009 the carrying amount of these shares was PLN 7 930 thousand (at 31 December 2008: PLN 11 264 thousand). The valuation of these fund shares is based on the financial statements of the fund as a multiple of the value of the fund and the share of the Parent Entity in the fund at the level of 5.8803%. During 2009 the Parent Entity did not invest unallocated financial resources either in debt securities, funds or participation units in investment funds.

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

	Value	Up to 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	Over 1 year
At 31 December 2009						
Trade receivables	75 046	56 450	3 952	2 200	10 648	1 796
Other financial receivables	394	215	107	9	6	57
At 31 December 2008						
Trade receivables	97 849	90 212	5 847	368	326	1 096
Other financial receivables	847	526	283	34	1	3

31.3.6. Other information related to credit risk

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.

The Group analyses receivables primarily on an individual basis in terms of the indication and recognition of any impairment allowance. Significant indicators are described in note 2.2.5.5.

Changes in allowances for impairment of financial assets by asset classes are presented in the table below:

a) trade receivables (category: loans and financial receivables)

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Impairment allowance at the beginning of the period	54 687	55 184
Increase due to obtaining control of a subsidiary	2 168	1 498
Impairment allowance recognised in profit or loss	45 035	22 992
Impairment allowance reversed through profit or loss	(11 985)	(16 124)
Impairment allowance on foreign exchange differences	(1 047)	2 381
Impairment allowance utilised during the period	(5 107)	(10 730)
Impairment allowance reversed on costs of legal proceedings	(118)	(494)
Decrease due to loss of control of a subsidiary	(211)	(20)
Impairment allowance at the end of the period	83 422	54 687

amounts in tables in thousand PLN, unless otherwise stated

b) other financial assets (category: loans and financial receivables)

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Impairment allowance at the beginning of the period	**10 252**	4 439
Impairment allowance recognised in profit or loss	6 471	6 427
Impairment allowance reversed through profit or loss	(1 785)	(139)
Impairment allowance on foreign exchange differences	(49)	–
Impairment allowance utilised during the period	(863)	(563)
Impairment allowance on costs of legal proceedings	3	88
Impairment allowance at the end of the period	**14 029**	10 252

c) debt securities (category: available-for-sale financial assets)

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Impairment allowance at the beginning of the period	**248**	549
Impairment allowance recognised in profit or loss	–	45
Impairment allowance reversed through profit or loss	–	(78)
Impairment allowance utilised during the period	(248)	(268)
Impairment allowance at the end of the period	**–**	248

32. Income tax

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Current income tax	624 738	594 766
Deferred income tax	(92 555)	50 156
Adjustments to income tax from prior periods	12 798	(14 341)
Total	**544 981**	630 581

The tax on the Group's profit before tax differs in the following manner from the theoretical amount that would arise if the theoretical tax rate was applied, as a sum of profits before tax, multiplied by the income tax rate of the home country of each company and then divided by profit before tax.

amounts in tables in thousand PLN, unless otherwise stated

Income tax	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Profit before tax	2 904 151	3 396 447
Tax calculated using the average weighted rates applicable to incomes in individual countries is 19.02% (2008: 19.04%)	552 499	646 540
Non-taxable income	(88 090)	(119 410)
Expenses not deductible for tax purposes	56 056	84 885
Utilisation of previously-unrecognised tax losses	(3 844)	(2 236)
Tax losses on which deferred tax assets were not recognised	13 884	33 171
Deductible temporary differences on which deferred tax assets were not recognised	1 678	1 972
Adjustments to income tax from prior periods	12 798	(14 341)
Income tax expense the average income tax rate applied was 18.76% (2008: 18.57%)	544 981	630 581

33. Earnings per share

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Profit attributable to shareholders of the Parent Entity	2 358 602	2 766 179
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	11.79	13.83

There are no dilutive potential ordinary shares.

34. Dividend paid and proposed for payment

In accordance with Resolution No. 5/2009 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 16 June 2009 regarding the appropriation of Parent Entity profit for financial year 2008 and setting of the right to dividend date and dividend payment date, the amount of PLN 2 336 000 thousand, representing PLN 11.68 per share, was allocated as a shareholders dividend from profit for financial year 2008.

The right to dividend date was set at 16 July 2009, and dividend payment dates: at 6 August 2009 in the amount of PLN

1 432 000 thousand, i.e. PLN 7.16 per share, and at 6 November 2009 in the amount of PLN 904 000 thousand, i.e. PLN 4.52 per share.

All shares of the Parent Entity are ordinary shares.

amounts in tables in thousand PLN, unless otherwise stated

35. Notes to the statement of cash flows

Adjustments to profit for the period

	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Income tax from the income statement	544 981	630 581
Depreciation/amortisation	743 790	681 367
Impairment loss on goodwill	2 359	–
Losses on sales of property, plant and equipment and intangible assets	22 358	19 599
Gains on sale of available-for-sale financial assets and held-to-maturity investments	(7 500)	(3 510)
Gains from loss of control over a subsidiary and gains on sales of shares in subsidiaries and of investments in associates	(21 457)	(5 913)
Losses/(Gains) on sales and change in fair value of investment property	919	(1 566)
Impairment losses on property, plant and equipment, intangible assets, assets under construction, available-for-sale financial assets and loans	43 151	285 633
Share of profits of associates accounted for using the equity method	(270 072)	(267 579)
Interest and share in profits (dividends)	9 655	15 672
Foreign exchange losses/(gains)	19 001	(16 585)
Change in provisions	155 905	84 399
Change in derivative instruments	687 023	582 751
Realisation of derivative instruments recognised in equity	(433 187)	(579 992)
The balance of assets items and equity and liabilities items at the day of obtaining and at the day of loss of control	61 869	(3 657)
Other adjustments	(564)	3 860
Changes in working capital:	(563 445)	(378 988)
Inventories	(463 438)	136 028
Trade and other receivables	(36 292)	(531 608)
Trade and other payables	(63 715)	16 592
Adjustments to profit for the period	994 786	1 046 072

amounts in tables in thousand PLN, unless otherwise stated

Proceeds from sales of property, plant and equipment and intangible assets	For the period	
	from 01.01.09 to 31.12.09	from 01.01.08 to 31.12.08
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	48 783	38 443
Losses on sales of property, plant and equipment and intangible assets	(22 358)	(19 599)
(Positive)/negative change in receivables due to sales	(2 245)	369
Capitalised gains from the liquidation of property, plant and equipment and intangible assets	(794)	(1 633)
Proceeds from sales of property, plant and equipment and intangible assets	23 386	17 580

36. Contingent items and other items not recognised in the statement of financial position

The value of contingent assets was determined based on estimates.

	At	
	31 December 2009	31 December 2008
Contingent receivables	131 064	54 408
– contested State Budget issues	45 572	32 875
– guarantees received	62 569	21 533
– promissory note receivables	22 923	–
Other receivables not recognised in the statement of financial position	31 235	25 195
– inventions, implementation of projects	31 235	25 195
Contingent liabilities	95 689	68 068
– guarantees	15 050	15 390
– promissory note liabilities	62 514	18 094
– disputed issues, pending court proceedings	15 611	14 185
– contingent penalties	23	1 627
– preventive measures in respect of mine–related damages	2 491	8 000
– agreement on the acceptance of the offer and conditional transfer of shares in “PETROTEL” sp. z o.o.	–	10 772
Other liabilities not recognised in the statement of financial position	730 866	670 657
– liabilities due to implementation of projects, inventions and other unrealised contracts	105 792	86 583
– operating leases	74 362	59 846
– future payments due to perpetual usufruct of land	550 712	524 228

amounts in tables in thousand PLN, unless otherwise stated

Potential liabilities due to offsetting of general service costs

Since 8 May 2006 Telekomunikacja Polska S.A. has been designated by the President of the Electronic Communications Office (UKE) to provide universal service throughout the country (49 numeral zones). The range of the universal services provided comprises:

1) connecting individual network outlets at the main location of the subscriber, excluding integrated services digital networks (ISDN);
2) maintaining the subscriber connection with the network outlet, as described in point 1), in readiness to provide telecommunications services;
3) domestic and international telephone calls, including mobile networks connections, additionally assuring fax and data transmissions and connections to the Internet;
4) providing information on telephone numbers and providing subscriber lists;
5) providing assistance to the handicapped;
6) providing telephone services through the use of public equipment.

In accordance with art. 95 of the Telecommunications Act, designated companies are entitled to reimbursement of the costs of providing universal service should they be unprofitable. The President of the UKE will set the amount of this reimbursement at the level of the net cost of providing services included in universal service, and including only those costs which a given company would not incur if it had not been required to provide universal service. The net amount of this cost is calculated in the manner set out in the decree of the Minister of Transportation and Construction dated 15 December 2005 regarding the manner of calculating the net cost of services included in universal telecommunication service (Journal of Laws from 2005, No. 255, item 2141).

Telecommunication companies whose revenues from telecommunications activities exceed PLN 4 million in the calendar year for which reimbursement is due are required to participate in covering the reimbursement of costs for providing universal service. The amount of reimbursement which a given company is required to cover can not exceed 1% of its revenues. The share of individual companies in covering this reimbursement is determined by the President of the UKE, once the amount of the reimbursement due to a designated company is determined.

As at the date of preparation of these consolidated financial statements, neither the final amount of the above-mentioned reimbursement nor the share in it of individual telecommunications companies has been determined by the UKE.

37. Subsequent events

Changes in the Statutes of the Parent Entity

On 7 January 2010 the Parent Entity received the ruling of the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court of Registration dated 31 December 2009 on the registration of the changes in the Statutes of KGHM Polska Miedź S.A., approved by the Extraordinary General Meeting on 9 December 2009.

Change in the amount of shares held by the State Treasury

On 12 January 2010 the Parent Entity received an announcement from the Minister of the State Treasury, stating that on 8 January 2010 the State Treasury sold on a regulated market of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors.

Following this sale, the State Treasury owns 63 589 900 shares of KGHM Polska Miedź S.A., giving the same number of votes and representing 31.79% of the share capital of the Parent Entity and of the total number of votes.

Significant contract with MKM Mansfelder Kupfer und Messing GmbH

On 14 January 2010 a contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2010. The estimated value of this contract is USD 522 872 608, i.e. PLN 1 460 383 thousand.

Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A.

On 20 January 2010 a contract was entered into between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. for the sale in 2010 of copper wire rod and oxygen-free copper rod. The estimated value of this contract is from USD 478 758 499, i.e. PLN 1 354 695 thousand to USD 579 026 934, i.e. PLN 1 638 414 thousand.

Budget of the Parent Entity for 2010

The Supervisory Board at its meeting on 1 February 2010 approved the Budget of KGHM Polska Miedź S.A. for 2010. The basis for preparation of the Budget were the anticipated results for 2009 and the assumptions contained in specific operating plans.

The accepted Budget assumes the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit for the period of PLN 2 898 million.

Foundation and registration of INTERFERIE Medical SPA Sp. z o.o.

On 1 February 2010 the founding act was signed for the newly-founded company INTERFERIE Medical SPA Sp. z o.o. with its registered head office in Lubin, whose founder was the company INTERFERIE S.A – an indirect subsidiary of KGHM Polska Miedź S.A. The share capital of INTERFERIE Medical SPA Sp. z o.o. is PLN 50 thousand, and is divided into 50 shares with a per-share nominal value of PLN 1 000 each. INTERFERIE S.A. acquired 100 % of the shares, covered by cash. The indirect share of KGHM Polska Miedź S.A. in the capital of INTERFERIE Medical SPA Sp. z o.o. is PLN 65.67 %.

The purpose for founding this company is to operate in the areas of hospitality, recreation, rehabilitation, health tourism and wellness. INTERFERIE Medical SPA Sp. z o.o. was registered on 18 February 2010 in the Regional Court for Wrocław Fabryczna in Wrocław, Economic Section IX of the National Court Register.

Contract between Capital Partners S.A. and KGHM Polska Miedź S.A.

On 3 March 2010 a contract was signed between Capital Partners S.A. and KGHM Polska Miedź S.A., in which Capital Partners S.A. committed itself to offer for tender no less than 879 501 shares of the company BIPROMET S.A. in response to an announced tender offer to subscribe to the sale or exchange of shares.

This commitment by Capital Partners S.A. to sell shares under a tender is binding, contingent upon meeting among others the following conditions: the subject of the tender will be the amount of shares granting the right to 66% of the votes at the General Meeting, with the per-share price in the tender to be no lower than PLN 7.50, with the tender to be announced no later than 19 March 2010.

Capital Partners S.A. owns 2 043 944 shares of BIPROMET S.A., representing 32.97% of the shares and the votes at the General Meeting.

Tender offer to subscribe for the sales of shares of BIPROMET S.A.

On 19 March 2010, KGHM Polska Miedź S.A. announced a tender offer for the sale of 4 091 868 shares of the company BIPROMET S.A., representing 66% of the share capital and of the votes at the General Meeting of the company, at PLN 7.50 per share. Subscriptions for these shares will take place during the period of 4 May to 2 June 2010. The tender offer was announced under the legal condition of the obtaining by KGHM Polska Miedź S.A. of the agreement of the President of the Office of Competition and Consumer Protection for the concentration of enterprises, based on obtaining control over the company.

Understanding on the construction of "Elektrownia Blachownia" power plant

On 23 March 2010, KGHM Polska Miedź S.A. signed an understanding on the Principles of cooperation with the company Tauron Polska Energia S.A. on the founding of the company "Elektrownia Blachownia Nowa". Prior to founding the target company the signing of a Shareholders Agreement is planned. The new company will build a 910 MW, coal-fired power plant on the grounds of PKE Elektrownia Blachownia in Kędzierzyn-Koźle. This understanding was signed by KGHM Polska Miedź S.A., and by Tauron Polska Energia S.A. and its subsidiary – Południowy Koncern Energetyczny S.A. This is the result of a Letter of Understanding signed by KGHM Polska Miedź S.A. and Tauron Polska Energia S.A. in April 2009. Based on this, the partners will prepare the necessary documentation to establish the target company. The development and signing of the articles of incorporation of the company and shareholders agreement, as well as the performance of necessary procedures with external institutions should be carried out this year.

Failure to sign the Shareholders Agreement by 30 July 2010 would result in termination of the Principles of cooperation, without financial consequences for the Parties.

Signatures of persons representing the parent entity

Date	First, last name	Position	Signature
26 March 2010	Herbert Wirth	President of the Management Board	
26 March 2010	Maciej Tybura	First Vice President of the Management Board	
26 March 2010	Ryszard Janeczek	Vice President of the Management Board	

Signature of person responsible for company accounting

Date	First, last name	Position	Signature
26 March 2010	Ludmiła Mordylak	Chief Accountant of KGHM Executive Director of Accounting Services Center	

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