ANNUAL REPORT 2010

KGHM POLSKA MIEDŹ S.A.

Civilitas aeris

Copper civilisation

Copper was the first metal encountered in human history, and the ability to manipulate and use it one of humanity's most momentous discoveries. Thanks to this, humans left the stone age to begin the growth of civilisation. Copper – friendly to people and nature, due to its exceptional properties: durability, resistance to corrosion, electrical conductivity, ease in manipulation and enticing sheen – has found broad use in many areas. The Era of Copper is not over: it lives on, accompanying the development of civilisation.

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Change 2009=100
Statement of comprehensive income																
Sales	m PLN	4 089	3 642	4 113	4 983	4 218	4 488	4 741	6 158	8 000	11 670	12 183	11 303	11 061	**15 945**	144.2
Profit on sales	m PLN	905	240	348	941	173	152	431	1 445	2 707	4 139	4 880	3 392	3 197	**6 657**	× 2.1
EBITDA*	m PLN	1 212	631	319	1 198	144	753	956	1 761	2 937	4 784	5 101	4 078	3 646	**6 254**	171.5
Profit before income tax	m PLN	914	310	–58	795	–147	310	569	1 446	2 635	4 380	4 656	3 554	3 067	**5 606**	182.8
Profit for the period	m PLN	502	179	–170	618	–190	255	412	1 397	2 289	3 605	3 799	2 920	2 540	**4 569**	179.9
Balance sheet																
Total assets	m PLN	4 937	4 975	4 884	5 757	7 557	8 155	8 695	8 948	10 977	12 251	12 424	13 901	13 953	**19 829**	142.1
Non-current assets	m PLN	3 558	3 698	3 579	4 177	4 735	6 440	6 621	6 552	7 079	7 017	7 431	8 704	9 509	**12 125**	127.5
Current assets	m PLN	1 364	1 242	1 250	1 381	2 657	1 715	2 074	2 397	3 899	5 234	4 992	5 174	4 444	**7 704**	173.4
Equity	m PLN	4 021	4 096	3 470	4 067	3 696	4 011	4 007	5 337	6 214	8 116	8 966	10 591	10 404	**14 456**	138.9
Liabilities and provisions	m PLN	846	775	1 187	1 380	3 634	4 144	4 689	3 612	4 763	4 136	3 458	3 309	3 549	**5 373**	151.4
Financial ratios																
Earnings per share (EPS)	PLN	2.51	0.89	–0.85	3.09	–0.95	1.27	2.06	6.99	11.45	18.02	18.99	14.60	12.70	**22.84**	179.8
Dividend per share (DPS) **	PLN	0.25	0.10	0.00	1.00	0.00	0.00	0.00	2.00	10.00	16.97	9.00	11.68	3.00	**14.90**	x 5.0
Price per share / Earnings per share (P/E)	x	5.4	14.0	–30.8	8.3	–13.7	10.6	12.7	4.5	5.5	4.9	5.6	1.9	8.3	**7.6**	91.6
Current liquidity	x	2.2	2.3	2.6	2.3	1.0	1.2	1.2	1.2	1.4	1.9	2.5	3.1	2.4	**2.6**	108.3
Quick liquidity	x	1.0	0.9	1.0	0.9	0.7	0.6	0.7	0.8	1.0	1.3	1.7	2.2	1.4	**1.9**	135.7
Return on assets (ROA)	%	10.2	3.6	–3.5	10.7	–2.5	3.1	4.7	15.6	20.9	29.4	30.6	21.0	18.2	**23.0**	126.4
Return on equity (ROE)	%	12.5	4.4	–4.9	15.2	–5.1	6.3	10.3	26.2	36.8	44.4	42.4	27.6	24.4	**31.6**	129.5
Debt ratio	%	14.2	13.5	14.3	15.9	38.2	34.2	38.8	24.0	28.2	33.8	27.8	23.8	25.4	**27.1**	106.7
Durability of financing structure	%	86.1	87.1	85.7	84.1	63.4	79.0	76.8	75.0	70.6	77.0	83.8	88.0	86.8	**84.9**	97.8
Production results																
Electrolytic copper production	000 t	440.6	446.8	470.5	486.0	498.5	508.7	529.6	550.1	560.3	556.6	533.0	526.8	502.5	**547.1**	108.9
Metallic silver production	t	1 029	1 098	1 093	1 119	1 163	1 192	1 358	1 344	1 244	1 242	1 215	1 193	1 203	**1 161**	96.5
Macroeconomic data																
Copper prices on LME	USD/t	2 276	1 653	1 574	1 814	1 578	1 558	1 780	2 868	3 684	6 731	7 126	6 952	5 164	**7 539**	146.0
Silver prices on LBM	USD/troz	4.88	5.54	5.23	4.95	4.37	4.60	4.88	6.66	7.31	11.55	13.38	14.99	14.67	**20.19**	137.6
Exchange rate	USD/PLN	3.28	3.49	3.96	4.35	4.10	4.08	3.89	3.65	3.23	3.10	2.77	2.41	3.12	**3.02**	96.8
Other																
Market value of Company shares at end of period	PLN/share	13.50	12.50	26.20	25.80	13.00	13.50	26.20	31.30	62.50	89.00	105.80	28.12	106.00	**173.00**	163.2
Capital expenditure	m PLN	649	487	379	584	433	360	424	616	651	709	828	1 140	1 070	**1 263**	118.0
Equity investments***	m PLN	493	200	229	468	271	105	146	707	613	24	155	793	170	**1 321**	× 7.8
Electrolytic copper production cost	PLN/t	5 527	5 556	5 836	6 156	6 328	6 305	6 237	6 660	7 723	10 497	11 160	11 736	11 170	**12 983**	116.2
Electrolytic copper production cost	USD/t	1 685	1 590	1 472	1 417	1 544	1 545	1 603	1 825	2 388	3 381	4 031	4 878	3 582	**4 302**	120.1
Employment																
Mining		14 437	12 389	12 061	11 814	11 734	11 632	11 431	11 533	11 551	11 682	11 998	12 468	12 397	**12 645**	102.0
Smelting		5 485	5 094	4 851	4 820	4 724	4 471	4 379	4 037	3 976	4 052	4 044	4 024	3 931	**3 869**	98.4
Other		785	1 931	1 929	1 928	2 056	2 177	2 184	2 197	2 150	2 192	2 217	2 143	2 085	**2 125**	101.9
Total		20 707	19 414	18 841	18 562	18 514	18 280	17 994	17 767	17 677	17 926	18 259	18 635	18 413	**18 639**	101.2

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

** dividend for financial year

*** acquisition of shares/new issued shares and investment certificates

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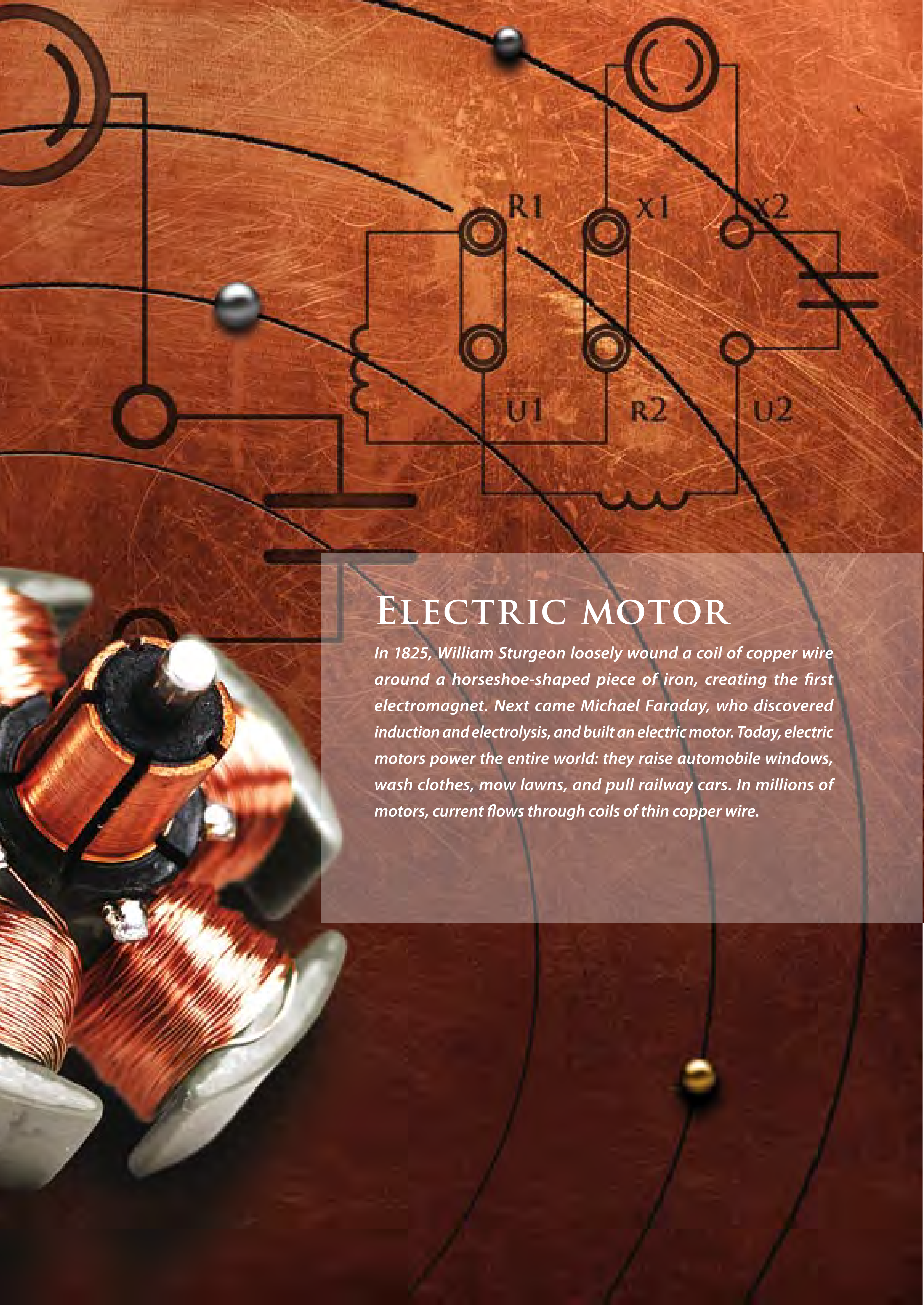


Electric motor

In 1825, William Sturgeon loosely wound a coil of copper wire around a horseshoe-shaped piece of iron, creating the first electromagnet. Next came Michael Faraday, who discovered induction and electrolysis, and built an electric motor. Today, electric motors power the entire world: they raise automobile windows, wash clothes, mow lawns, and pull railway cars. In millions of motors, current flows through coils of thin copper wire.

Company profile

KGHM Polska Miedź S.A. is a modern and innovative company, focused on stability, responsibility and the development of its employees and organisation. Thanks to these priorities, the company pursues its strategy in an environment of friendly cooperation amongst its employees, people working together to build the value and image of the Company.

Company profile

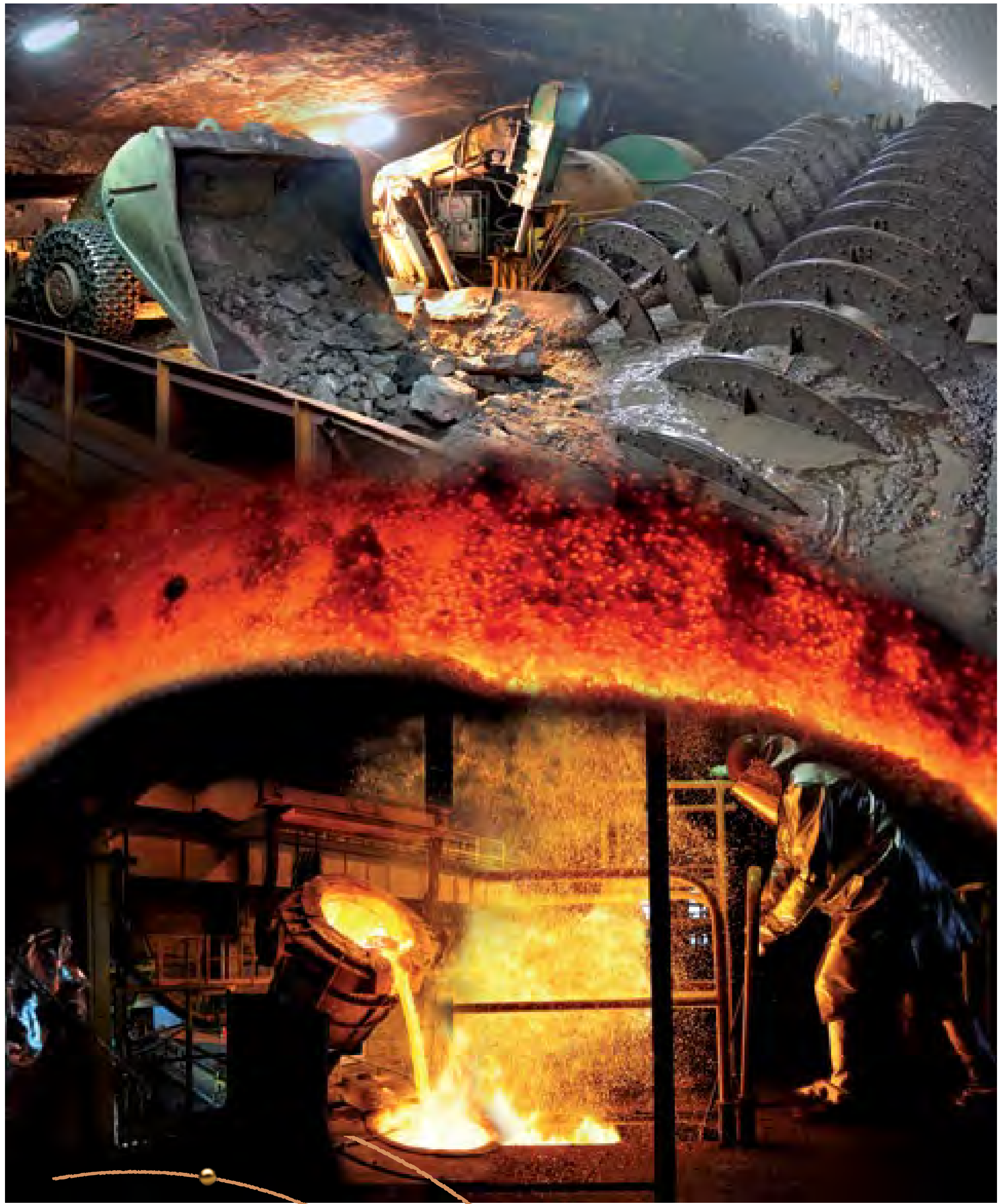
KGHM Polska Miedź S.A.

KGHM Polska Miedź S.A. is one of the leading global producers of electrolytic copper and metallic silver. The company has a fully-integrated production line, in which the end product of one stage of production is a semi-product used in the next stage.

The mining of copper ore is performed by three mines: Lubin, Rudna and Polkowice-Sieroszowice, ore processing by the Ore Enrichment Plants, and the production of electrolytic copper, silver and other products from the copper ore by the copper smelters/refineries in Głogów and Legnica, with wire rod production in the Cedynia Wire Rod Plant.

Apart from the divisions of the core business involved directly in production, the company structure also includes divisions supporting the core production business. The Tailings Division is responsible for dealing with the waste generated from ore extraction and enrichment, the Mine-Smelter Emergency Rescue Unit provides emergency assistance for all company operations, while the COPI Division ensures modern IT support throughout the company.

Structure/Divisions



Company profile

The KGHM Polska Miedź S.A. Group

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 exploration for and mining of deposits of copper and other metals, mine construction, the generation 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 tourism, transportation, telecommunications, medicine and capital investment.

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; 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.	CENTROZŁOM WROCŁAW S.A.	recovery of raw materials from segregated materials – purchase and sale of metal scrap; waste recycling (incl. vehicles withdrawn from use); sale of steel and aluminium and production of reinforcing building materials
4.	DIALOG S.A.	cable and wireless telecom services; re-emission of television channels and rental/leasing of audio-visual content
5.	PeBeKa S.A.	mine construction with infrastructure; construction of roadway/railway tunnels, underground metro routes; underground and specialist construction
6.	"Energetyka" Sp. z o.o.	generation, transmission and distribution of electrical and heating energy; water-sewage management
7.	POL-MIEDŹ TRANS Sp. z o.o.	railway cargo transport; passenger and cargo road transport; trade in fuels
8.	KGHM Metraco S.A.	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt; expediting services
9.	PHP "MERCUS" sp. z o.o.	trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables
10.	KGHM Kupferhandelsges.m.b.H.	copper trade
11.	KGHM Polish Copper Ltd. w likwidacji	copper trade
12.	KGHM (SHANGHAI) COPPER TRADING CO., LTD.	wholesale sales and intermediary for the following: copper/silicon merchandise, mine products (copper/silicon), copper/silicon materials; chemicals and related services, and commercial consulting services
13.	KGHM AJAX MINING INC.	exploration for and analysis of mineral resource deposits; mining and processing of metal ores or other mineral resources; sale of products obtained from mining and processing
14.	CBJ Sp. z o.o.	research and chemical-physical analysis; measurement of imissions and emissions; industrial research
15.	"MCZ" S.A.	hospital services; physician practice; activities related to protecting human health; occupational medicine
16.	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
17.	KGHM LETIA S.A.	operation of a technology park; promotion of scientific achievement; technology transfer; property sale and leasing/rental
18.	KGHM TFI S.A.	creation and management of investment funds; management of portfolios comprising one or more financial instruments
19.	Zagłębie Lubin S.A.	management of a football club; organisation of professional sporting events
20.	TUW-CUPRUM	mutual insurance services for its members
21.	ZANAM-LEGMET Sp. z o.o.	production of mining machinery and equipment, construction machinery; machinery repairs; steel constructions

Scope of activities of Group companies – continuation

Item.	Entity	Type of activity
22.	FADROMA S. R. SP. Z O.O. in liquidation	production of fittings for construction machinery; servicing of construction and mine loaders; steel constructions
23.	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
24.	WM "ŁABĘDY" S.A.	coal and fine coal trading, railway scrap, smelter goods and steel grinding mediums
25.	Walcownia Metali Nieżelaznych Sp. z o.o.	production of flat goods from copper and its alloys; rolling services
26.	WFP Hefra S.A.	production and sale of rust-proof, semi-silver-plated and silver-plated table settings
27.	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
28.	"PETROTEL" Sp. z o.o.	telecom operator
29.	AVISTA MEDIA Sp. z o.o.	telephone central activities
30.	PHU "Lubinpex" Sp. z o.o.	food industry; trade; vending and catering services
31.	"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
32.	PMT Linie Kolejowe Sp. z o.o.	management of railway lines; maintenance of railway infrastructure; repair services
33.	"BIOWIND" Sp. z o.o.	production of heat from its own sources; transmission
34.	WPEC w Legnicy S.A.	and distribution of heat; servicing
35.	KGHM HMS Bergbau AG	exploration and exploitation of deposits of copper and other minerals
36.	KGHM I FIZAN	capital investing
37.	KGHM II FIZAN	capital investing
38.	KGHM III FIZAN	capital investing
39.	Fundusz Hotele 01 Sp. z o.o.	diversified activities, including functioning as a holding company; management of companies
40.	Fundusz Hotele 01 Sp. z o.o. S.K.A.	acquiring shares of companies, in particular providing services related to the purchase and sale of property; the purchase, leasing and management of its own or leased property, i.e. hotels and similar quartering facilities, including overnight and tourism facilities, camping and tenting grounds, restaurants and other gastronomic facilities
41.	Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.	management of special purpose companies, whose activities involve holiday services, sanatoriums and spas and others related to improving fitness
42.	Fundusz Uzdrowiska 01 Sp. z o.o.	holding company functions; management of companies, whose activities involve the acquisition of shares, in particular of holiday, sanatorium and spa services companies and others related to improving fitness
43.	ZUK S. A.	spa healing and production and sale of natural mineral waters, healing and flavoured
44.	Uzdrowisko Połczyn S.A.	spa healing; gastronomic activities and collection of torf
45.	"Uzdrowisko Cieplice" Sp. z o.o.	services respecting prevention, healing, rehabilitation and health tourism, including based on thermal healing waters
46.	INTERFERIE S.A.	sale of tourism services, including tourism-recreation, sanatorium-healing and hotel
47.	Interferie Medical SPA Sp. z o.o.	services respecting hotels, recreation, rehabilitation, health tourism and wellness
48.	BIPROMET S.A.	design services, incl. feasibility studies and design, consulting, technical conceptual work; general realisation of investments; execution of complete installations and ecological facilities and environmental services
49.	Przedsiębiorstwo Budowlane Katowice S.A.	comprehensive construction work, incl. specialist
50.	Bipromet Ecosystem Sp. z o.o.	production, design, servicing and commercial; R&D and popularisation respecting heating, water-plumbing and other installations.

Calendar 2010

JANUARY

KGHM CATHODES ON THE CHINESE MARKET

During the visit of a KGHM Polska Miedź S.A. delegation to China, a strategic contract was signed on the sale of copper in 2010 with the company China Minmetals Nonferrous Metals Co. This company belongs to one of the largest Chinese corporations – the China Minmetals Corporation. The contract is for the supply of 40 thousand tonnes of copper cathode to the Chinese market.

FEBRUARY

KGHM POLSKA MIEDŹ S.A. IDEAL EMPLOYER

KGHM was honored in the second edition of the Uniwersum ranking "Ideal Employer", taking third place.

BULL AND BEAR FOR KGHM

The Bull and Bear, a prestigious award granted by the stock market newspaper "Parkiet", was received by the President of KGHM Polska Miedź S.A. Investors declared that in 2009 the shares of KGHM were the best investment in a WIG20 company.

MARCH

NEW CHAIRMAN OF THE SUPERVISORY BOARD OF KGHM POLSKA MIEDŹ S.A.

On 26 March 2010, the Supervisory Board selected from its members a new chairman. The member selected was Jacek Kuciński, who until then had served as deputy chairman and had fulfilled the duties of chairman after the resignation of Marek Trawiński. Marcin Dyl was selected as the new deputy chairman, and Marek Panfil as secretary.

53RD ANNIVERSARY OF THE DISCOVERY OF THE COPPER ORE DEPOSIT

As usual, in the month of March celebrations were held marking the anniversary of the discovery of the copper ore deposit. Ceremonies were held in Lubin at the statue of the discoverer, Jan Wyżykowski, and at the obelisk in Sieroszowice, where on 23 March 1957 the historic drillhole was made which for the first time reached the copper ore deposit.

APRIL

INAUGURATION OF KGHM TV

In April the internal informational television platform KGHM TV began broadcasting. The platform is aimed at employees throughout the Company. KGHM TV is a modern solution for the 21st century. Thanks to KGHM TV, employees in every division and in the Head Office are provided information simultaneously. To meet the needs of KGHM TV, 29 television screens were installed in the divisions. This modern form of broadcasting provides for the rapid discussion of topics and issues which the Company's employees deal with on a daily basis.

MAY

KGHM INVESTS IN CANADIAN ORE

In accordance with the primary goal of the Strategy of KGHM Polska Miedź S.A. for the years 2009–2018, which is the expansion of the resource base and mined production, KGHM, together with a Canadian partner, Abacus Mining & Exploration Corporation, created a joint venture company with the majority ownership of KGHM. The company was established to advance the Afton-Ajax copper and gold ore mining project in British Columbia in Canada.

MOTIVATIONAL REMUNERATION SYSTEM

In May, new bonus regulations were introduced along with a program for pay grade advancement developed directly in each of the Company's divisions. While nearly all of the Company's employees can count on a pay rise, it will come in various forms. For the first time in the Company's history, emphasis is being placed on those employees directly involved in production in the mines. Also for the first time, the new regulations were developed jointly by the trade unions and the management of the Divisions, and not, as previously, by the leadership of the trade unions and the Management Board of the Company.

DIVIDEND

During the Ordinary General Meeting of KGHM Polska Miedź S.A., the shareholders decided that the amount of PLN 600 milion, or PLN 3 per share, would be appropriated as a shareholder dividend.

SEPTEMBER

BILLIONTH TONNE OF ORE

20 000 000 wagons with a combined length of 214 000 km, which could circle the Earth more than five times – this is what a billion tonnes of copper ore would look like, produced by KGHM's Ore Enrichment Plants Division. The processing of the billionth tonne of ore is a unique event in the 40+ year history of mechanical ore processing in KGHM. The author of this success was not only the employees of the OEP Divison, but also of all of the mines of KGHM.

POLISH COPPER FOUNDATION AID FOR FLOOD VICTIMS

Under the auspices of the charitable activities of the Polish Copper Foundation, concerts were organised whose entire proceeds were donated to aid the victims of flooding from Bogatynia. The Foundation also established a special bank account, in which donations could be made for this admirable goal.

OCTOBER

KGHM LEADER OF PHILANTHROPY

KGHM Polska Miedź S.A. for many years has followed a policy of socially responsible business, which is realised through charitable activities and sponsoring. Thanks to this the Company has been recognised numerous times. Again in 2010, KGHM was one of the laureates of the competition "Leaders of Philanthropy 2010" in the category of companies which donated the most money for charitable purposes.

KGHM WINNER OF THE BEST ANNUAL REPORT 2009

For the third time in a row, the Annual Report of KGHM Polska Miedź S.A. took first place in the competition The Best Annual Report organised by the Institute of Accounting and Taxation. The competition organised in two categories: corporations and banks. The goal is to establish recognised standards for the preparation of annual reports under IFRS/IAS (International Financial Reporting Standards), as well as to promote those companies preparing the best consolidated annual reports in terms of their usefulness for shareholders and investors. KGHM has participated in this competition since its inception, i.e. for the last five years.

NOVEMBER

MANAGEMENT BOARD OF KGHM HAS A VICE PRESIDENT FOR PRODUCTION

On 19 November 2010, the Supervisory Board of KGHM Polska Miedź S.A., as the result of a competition, Wojciech Kędzia to the Management Board of KGHM Polska Miedź S.A., granting him the function of Vice President of the Management Board.

Letter of the Chairman of the Supervisory Board of KGHM Polska Miedź S.A.

Dear Shareholders,

I can declare without reservation that 2010 was an exceptional year for KGHM Polska Miedź S.A.

This is most clearly shown by the profit earned. Over PLN 4.5 billion – a record result for KGHM. Naturally, achieving such a result was promoted by the record metals prices, but it must be remembered that the USD exchange rate was also lower than planned. These two, highly-volatile external parameters, have the greatest impact on shaping the Company's results.

KGHM is taking advantage of the favourable market conditions to realise the Development Strategy of KGHM Polska Miedź S.A. in nearly all of its basic operational areas.

Amongst the most important are activities aimed at increasing the resource base and diversifying activities. In accordance with plan, KGHM is continuing its exploration of nearby resources. Promising work is being performed in the Grodziecka Basin region not far from the head office in Lubin, within the Old Copper Belt. The Company is also performing independent geological work in the Weisswasser region of nearby Saxony.

Of particular note is the finalisation of work on the Afton-Ajax project in Canada. These projects, initiated with the full determination of the Management Board of the Company, aimed at acquiring new ore deposits both domestically and abroad, are driven by realistic plans to increase production to over 700 thousand tonnes of copper by the year 2018.

KGHM is working consistently to achieve its planned exit from its telecom companies and to increase ints involvement in the power sector, both by purchasing shares of the company TAURON Polska Energia S.A. as well as through the ever-closer finalisation of plans to build power generation blocks. The target for KGHM is to achieve 30 percent of its revenues from the power sector.

In September 2010, we witnessed the processing of the one-billionth tonne of copper ore in our Ore Enrichment Plants. In addition, KGHM is looking forward to the modernisation and replacement of mine production technology. A project to modernise our smelter technology is also being realised. The most important investment in this regard is the construction of a flash furnace at the Głogów smelter, will replace the outdated and less productive furnace shaft technology.

The social commitment of KGHM deserves attention. Singular proof of the adherance by the Company to the principles of socially responsible business is the inclusion of KGHM – for the second time – to the small group of companies which form the RESPECT Index of the Warsaw Stock Exchange. Additional proof of the social sensitivity of the Company is its inclusion amongst those companies considered as Leaders of Philanthropy.

An exceptional achievement, also worthy of particular appreciation, is the third victory in a row for KGHM in the prestigious competition Best Annual Report, organised by the Institute of Accounting and Taxation. This success demonstrates the high standards maintained by KGHM in the area of financial accounting and reporting.

This is a further argument demonstrating that KGHM deserves the trust of investors and shareholders. I am convinced that in 2011, KGHM Polska Miedź S.A. will further strengthen its place amongst the best Polish companies, as well as its position as a leading global producer of copper and silver.

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 2010 on the work of the Supervisory Board, 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 2010 was as follows:

First name, surname	Function	Period when function served in 2010
Marek Trawiński	**Chairman**	01.01.2010 – 17.02.2010
Jacek Kuciński	Deputy Chairman	01.01.2010 – 26.03.2010
	Chairman	26.03.2010 – 31.12.2010
Marcin Dyl	Member	01.01.2010 – 26.03.2010
	Deputy Chairman	26.03.2010 – 31.12.2010
Marek Panfil	Secretary	01.01.2010 – 31.12.2010
Arkadiusz Kawecki	Member	01.01.2010 – 31.12.2010
Jan Rymarczyk	Member	17.05.2010 – 31.12.2010
Marzenna Weresa	Member	01.01.2010 – 31.12.2010
	Members of the Supervisory Board elected by employees of the Company	
Józef Czyczerski	Member	01.01.2010 – 31.12.2010
Leszek Hajdacki	Member	01.01.2010 – 31.12.2010
Ryszard Kurek	Member	01.01.2010 – 31.12.2010

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

The Supervisory Board of KGHM Polska Miedź SA is the permanent supervisory body of KGHM Polska Miedź SA 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 acts on the basis of prevailing law, the Statutes of the Company and the Regulations of the Supervisory Board of KGHM Polska Miedź SA with its registered head office in Lubin as well as Corporate Governance Principles.

The Supervisory Board continuously supervised the activities of the Company and realised its tasks based on the special privelages granted to the Supervisory Board of KGHM Polska Miedź SA 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 SA held 11 meetings, of which 7 meetings were held at the head office of the Company in Lubin, and 4 at the office of KGHM Polska Miedź SA 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 SA for individual months of 2010 and accumulated results from the beginning of 2010. 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 SA 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 SA 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.

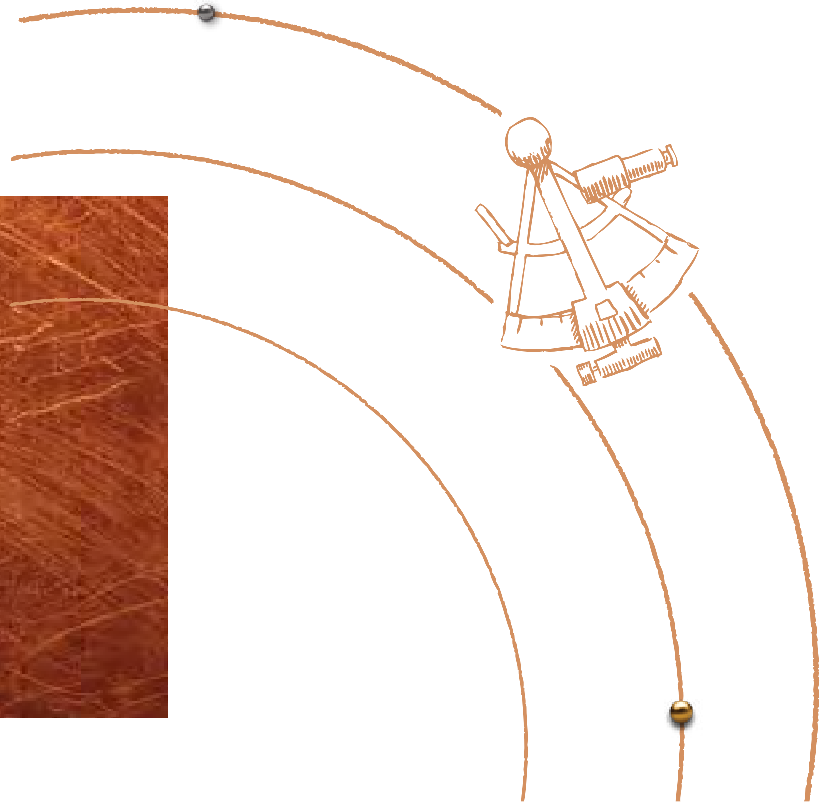
In 2010 the Supervisory Board adopted 70 resolutions, including one resolution in the form of written voting (between meetings).

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 2010. 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 15 June 2011, 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,

It is with great pleasure that I can share with you the following words.

The year 2010 brings us the occasion to celebrate the 50th anniversary of KGHM and simultaneously the achievement of the record profit by KGHM Polska Miedź S.A. of PLN 4.5 billion.

On the one hand, this result is thanks to the implementation of the Development Strategy of KGHM Polska Miedź S.A. for the years 2009–2018 adopted two years ago, and on the other to exceptionally favourable conditions on the financial markets. In 2010, the average annual copper price reached a historically high level – 7 539 USD per tonne. Even more important for us, in 2010 the copper price denominated in PLN was 44 percent higher than in 2009.

Our goal is to become one of the leading global copper producers and to reduce our costs of production. This is a realistic goal. On 12 October we signed an agreement with Abacus Mining & Exploration Corporation to found a joint venture called KGHM AJAX MINING Incorporated, to advance the Afton-Ajax copper-gold mining project located in Canada. We are expecting annual production of 50 thousand tonnes of copper and 3 tonnes of gold. I am convinced that this is not the final project that we will realise beyond the borders of Poland.

We are continuing work on exploring and gaining access to domestic resources. I am deeply convinced that the achievement by KGHM of production at the level of 700 thousand tonnes of copper annually by the year 2018 is completely possible. We are assuming that the average cost of this production will be substantially lower than at present.

We want to optimise the management of operations in the mines and smelters. We have begun to modernise our smelting operations and are building a new flash furnace at the Głogów smelter. This is a further revolution which will enable us to eliminate outdated shaft furnace technology.

In September, we marked an extraordinary achievement – the processing in our Ore Enrichment Plants of the one billionth tonne of copper ore.

We are aiming at the diversification of our activities. We are planning to increase the production of crude and refined lead as well as of copper from scrap. We also want to increase the production of salt which is adjacent to the copper ore. We are becoming increasingly involved in the power sector.

The year 2010 brought further evidence of appreciation for our activities.

Investors declared that in 2010 the purchase of our shares was the “best investment in a WIG20 index company”. As a result, for the second time, we were awarded the Bull and Bear statuette by the market newspaper Gazeta Giełdy “Parkiet”.

The Annual Report of KGHM Polska Miedź S.A. for 2009 was awarded first place in the competition Best Annual Report, organised by the Institute of Accounting and Taxation. We celebrated this success for the third time running. We also earned the most points both in the category companies as well as financial institutions.

Respect is associated with social commitment. Once again we were recognised as a Leader of Philanthropy. Through the Polish Copper Foundation we support the protection of health and the renovation of works of cultural significance, as well as providing assistance to people in difficult situations. We are proud of the fact that, for the second time, KGHM was one of a mere 16 companies listed on the Warsaw Stock Exchange included in the Respect Index.

We are proud of our 21st century football stadium. Construction was formally completed of the Dialog Arena, a stadium which meets all FIFA and UEFA standards. This was the largest investment by KGHM Polska Miedź S.A. in a non-core business activity.

The year 2010 saw growing involvement by the Company in international organisations – in particular in the International Copper Association and at the European Parliament. We are engaged in lobbying the European Union to adopt a level of carbon dioxide emission standards which – without harming the environment – will enable our smelters to retain their efficiency.

In the autumn we began business operations in Shanghai, where we founded the company KGHM (Shanghai) Copper Trading Co., Ltd.

We are forecasting a level of profit for 2011 nearly twice as high as in 2010. To a large extent this is due to the planned sale of our telecom assets as well as the favourable conditions on the metals market.

I wish to thank our investors and shareholders for placing their trust in our Company. I can proudly declare that KGHM Polska Miedź S.A. is in a very good condition today, and that tomorrow and beyond it will be even better.

Herbert Wirth

President of the Management Board

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 no. 12/1170/2007 of the Supervisory Board dated 4 July 2007 which came into force on 1 January 2008, and remained in force until 30 June 2010. Since 1 July 2010 a group of principles have been in force representing an annex to resolution no. 17/1249/2010 of the Supervisory Board dated 19 May 2010. The contents of this document are available on the official website of the Warsaw Stock Exchange under the section on corporate governance (www.corpgov.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 2010 the Company decided not to comply only with the recommended on-line transmission of General Meetings, but has registered these meetings and immediately made them available on the Company website in both Polish and English, accessible under the section Investor Zone/Transmissions. At present the Company is preparing to provide access to General Meeting on-line transmissions, as recommended by principle IV.10. from 1 January 2012.

In accordance with principle I.9, the Company offers equal participation to men and women to fulfil management and supervisory functions. At present however, there are no women on the Management Board of the Company. In competitions for the position of President of the Management Board in 2008 and for Vice President of the Management Board (Production), realised in November 2010, no applications were received from women.

General Meeting

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 Bylaws 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 statements of the Company Group, for the prior financial year;
- adopting resolutions on the distribution of profits or coverage of losses;
- acknowledging the fulfilment of duties performed by members of the bodies of the Company;
- changing the subject of the Company's activity;
- 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 foundation of the Company, or from management or supervisory activities;
- purchase of the Company's own shares, which are to be offered to employees or persons who were employed by the Company or by related companies for a period of at least three years;
- establishing principles of the remuneration of members of the Supervisory Board.

The schedule of work on organising the General Meetings of the Company is planned in such a way as to ensure that the obligations towards shareholders are properly met and to enable them to 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 constitutive 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 accordance with the Statutes of KGHM Polska Miedź S.A., the State Treasury may convene an Ordinary General Meeting if the Management Board does not do so in the statutory timeframe as well as an Extraordinary General Meeting if it considers its convening as warranted.

Due to changes to the act dated 15 September 2000 respecting the Commercial Partnerships and Companies Code, which came into force on 3 August 2009, in 2010 the Ordinary General Meeting adopted new Bylaws of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin.

From the new regulations of the Commercial Partnerships and Companies Code, 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 use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication were, however, not adopted. The changes to the regulations of the CPCC have fundamentally altered the process of organising General Meetings and granted new rights to shareholders.

Shareholders and their rights

Throughout 2010, 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.

At 1 January 2010 this shareholder held 83 589 900 shares of KGHM Polska Miedź S.A., representing 41.79% of the share capital and of the total 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 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. To 31 December 2010 this situation had not changed.

Shareholders of the Company exercise their rights in a manner and within the limits prescribed by prevailing law, the Statutes of the Company and the Bylaws of the General Meeting.

Shareholders are entitled to exercise their voting during General Meetings either personally or through a proxy. 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 control rights in respect of the Company.

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 at 1 January 2010 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.

On 26 March 2010 Jacek Kuciński became Chairman of the Supervisory Board and Marcin Dyl became Deputy Chairman.

On 17 May 2010 the Ordinary General Meeting of KGHM Polska Miedź S.A. appointed Jan Rymarczyk to the Supervisory Board of the Company.

The composition of the 7th-term Supervisory Board at 31 December 2010 was as follows:

- Jacek Kuciński Chairman
- Marcin Dyl Deputy Chairman
- Marek Panfil Secretary
- Arkadiusz Kawecki
- Jan Rymarczyk
- Marzenna Weresa

as well as the following employee-elected members:

- Józef Czyczerski
- Leszek Hajdacki
- Ryszard Kurek.

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 audit plan and the internal audit regulations of the Company, and of changes of the director of internal audit;
- 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, 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 2010:

- 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 variable salary 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. throughout 2010:

- Leszek Hajdacki
- Arkadiusz Kawecki
- Jacek Kuciński.

After the end of the year the Audit 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.

At 1 January 2010 the Management Board consisted of (including segregation of duties):

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

On 14 October 2010, Ryszard Janeczek submitted his resignation from the position of Vice President of the Management Board of KGHM Polska Miedź S.A.

On 19 November 2010, the Supervisory Board appointed, as the result of a competitive recruitment process, Wojciech Kędzia to the Management Board, granting him the function of Vice President of the Management Board.

Until 31 December 2010, the Management Board consisted of (including segregation of duties):

- Herbert Wirth President of the Management Board
- I Vice President of the Management Board (Finance)
- Wojciech Kędzia Vice President of the Management Board (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

has an internal control and risk management system, for whose proper and effective functioning in the process of preparing the financial statements of KGHM Polska Miedź S.A. the Management Board of the Company is responsible. 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 and established 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 the Parent Entity and subsidiaries of the Group, based on fixed principles, and the generation on their basis of high-quality financial data for presentation in the financial statements, the following has been introduced for continuous use:

- an Accounting Policy for KGHM Polska Miedź S.A. and the Group, in accordance with International Financial Reporting Standards,

and in addition, for the Parent Entity:

- Principles for Financial Management and for an Economic System,
- Documentation for an IT system for the processing of accounting data,
- Sector Principles of Balance Sheet Depreciation of Property, Plant and Equipment and Amortisation of Intangible Assets, and
- Sector Chart of Accounts in accordance with IFRS

as well as a variety of internal procedures respecting systems for the control and evaluation of risk arising from the activities of the Parent Entity 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. KGHM Polska Miedź S.A. 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 verified and updated, and confirmed each time by the heads 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. These entitlements are subject to regular audits. 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.

The body which supervises the process of financial reporting in KGHM Polska Miedź S.A. and which cooperates with the independent auditor is the Audit Committee, which is appointed by the Supervisory Board of the 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 audit and risk management,
- monitors the independence of the certified auditor and of the entity entitled to audit financial statements, and
- recommends to the Supervisory Board an entity entitled to audit financial statements.

Monitoring of the process of financial reporting and assessment of the financial statements by the Supervisory Board is the final step of the review and control carried out by an independent body, ensuring the truth and accuracy of the data presented in the separate and consolidated financial statements of KGHM Polska Miedź S.A.

A significant element of risk management with respect to the process of preparing financial statements of KGHM is examining the functioning of control mechanisms and the existence of risk in the operations of KGHM Polska Miedź S.A., carried out by internal audit.

Internal audit operates based on the “Regulations for internal audit in KGHM Polska Miedź S.A.”, the “Code of ethics for internal auditors in KGHM Polska Miedź S.A.” and the “Audit Plan” adopted by the Management Board of the Company and approved by the Audit Committee of the Supervisory Board of KGHM Polska Miedź S.A. These documents were developed based on International Professional Standards in Internal Audit Practice published by the Institute of Internal Auditors.

In performing audit tasks in 2010, risk was identified and assessed, as well as the functioning of control mechanisms, among others in the following processes: planning and realising production, maintenance management, inventories and warehouse management, IT strategy, communications and investment. The evaluation of efficiency performed in this regard, among others in terms of the reliability and uniformity of financial data, supports the process of preparing financial statements required by law and of management reports. From 2011 internal audit (including effectiveness) will also include selected companies of the KGHM Polska Miedź S.A. Group.

The internal control system in KGHM Polska Miedź S.A. 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. Internal control operates in the Company 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. Apart from institutional control, 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 Company is exposed, the most important is market risk. The process of risk management is based on policy and organisational structure and on procedures adopted by the Management Board of the Company.

Due to the exposure of the Company to market risk (copper and silver prices and the USD/PLN exchange rate), derivatives are used to manage this risk. Organisation of the market risk management process in the Company, as regards entering and realising transactions on the derivatives market, separates the functions of units responsible for entering transactions 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 derivatives transactions unauthorised by the Management Board.

The effectiveness of the internal control and risk management procedures in the process of preparing financial statements of KGHM Polska Miedź S.A. may be seen in the high assessment of the quality of these statements, confirmed the top position of the Company as a participant in the competition The Best Annual Report.

The Company on the securities markets

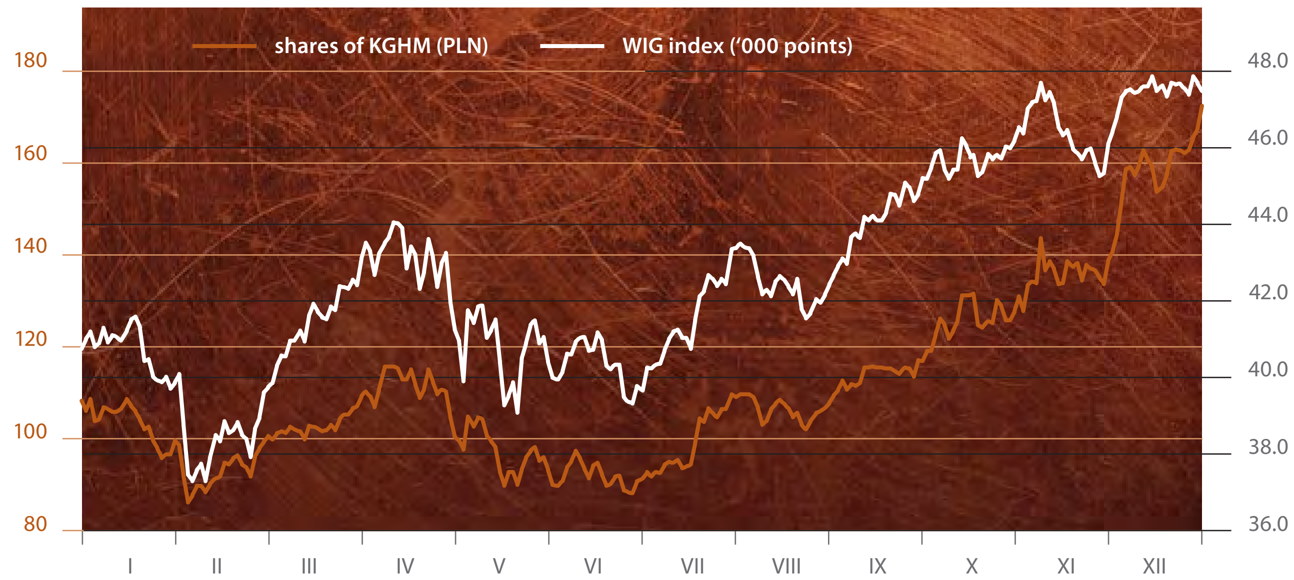
Company quotations in 2010

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, and since January 2011 as a component of the WIGdiv index.

The year 2010 was successful for the shares of KGHM Polska Miedź S.A. on the Warsaw Stock Exchange. Particularly outstanding was the second half of the year, when the Company's share price systematically rose, frequently achieving new record highs. Finally it had increased 63%, from PLN 106 on the last trading day of 2009 to PLN 173 on 31 December 2010, when it reached its record high for 2010. During this time the Warsaw Stock Exchange index WIG increased by 19%, while the WIG20 index of the twenty largest companies rose by 15%.

In 2010, KGHM Polska Miedź S.A. was the leading company in terms of turnover value on the Warsaw Stock Exchange. The average per-session trading volume of the Company's shares on the Warsaw Stock Exchange in 2010 amounted to 966 thousand.

Share price of KGHM Polska Miedź S.A. versus the WIG index in 2010



Key share data of the Company on the Warsaw Stock Exchange

	Unit	2008	2009	2010
Number of shares issued	million	200	200	**200**
Closing price from the last day of trading in the year	PLN	28.12	106.00	**173.00**
Market value of the Company at year's end	million PLN	5 624	21 200	**34 600**
Highest closing price in the year	PLN	112.00	110.70	**173.00**
Lowest closing price in the year	PLN	21.40	27.50	**86.50**
Average trading volume per session	'000	1 124	1 222	**966**

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 paid by the Company.

On 15 June 2011 the Ordinary General Meeting of KGHM Polska Miedź S.A. resolved on the payment of a shareholders dividend for the year 2010 in the amount of PLN 2 980 million, i.e. PLN 14.90 per share.

The dividends paid by the Company place it amongst those listed Polish companies with the highest dividend payout ratio. Since the first session of 2011, the Company has been a component of the WIGdiv index, comprising companies from the WIG20, mWIG40 and sWIG80 indices having the highest payout ratios and which make regular dividend payments to shareholders.

Capital market ratios

		2008	2009	2010
EPS (PLN)	Profit for the period / number of shares	14.60	12.70	**22.84**
P/CE	Price per share / financial surplus per share*	1.7	6.9	**25.9**
P/E	Price per share / earnings per share	1.9	8.3	**7.6**
MC/S	Market capitalisation**/ revenues from sales	0.5	1.9	**2.2**
P/BV	Price per share / book value per share***	0.5	2.0	**2.4**

* Financial surplus = profit for the period + depreciation/amortisation.

** Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares x PLN 106.00 in 2009; PLN 173.00 in 2010).

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

Dividend payout in the years 2008–2010

	Unit	2008	2009	2010
Dividend paid in the financial year from appropriation of profit for the prior year	million PLN/ PLN/share	1 800/9.00	2 336/11.68	**600/3.00**

Ownership structure

At 31 December 2010, the share capital of the Company, 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, 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.

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.

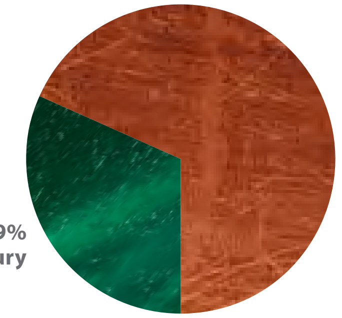
In 2010 there was no change either in registered share capital or in the number of issued shares.

There was a change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The State Treasury, which at the end of 2009 held 83 589 900 shares of KGHM Polska Miedź S.A., representing 41.79% of the share capital and of the total number of votes, sold on 8 January 2010, on a regulated market, 20 000 000 shares, directed to qualified investors.

At 31 December 2010, 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 63 589 900 shares, representing 31.79% 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 136 410 100 shares, representing 68.21% of the share capital and the same number of votes at the General Meeting.

Ownership structure



As at 31 December 2010

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.

At 31 December 2010, members of the Company's Supervisory Board and Management Board were not in the possession of shares of KGHM Polska Miedź S.A.

Investor Relations in KGHM Polska Miedź S.A.

The goal of Investor Relations in KGHM Polska Miedź S.A. is to create and maintain an effective line of communications between the Company and the investment community.

In 2010, the Company's Management Board and senior staff participated in two roadshows, and in eight investor/sector conferences organised by international investment banks and brokerages. These events included around 100 group and 1x1 meetings with investors, analysts and investment fund managers in Europe, the United States and Canada. Another regular form of communication were the presentations by the Management Board following publication of the Company's quarterly results. Also organised during the year were around 10 direct meetings with investors and analysts at the Head Office of the Company. The KGHM investor relations team maintains contacts with international investment funds, investment banks and individual investors, and works closely with market analysts from around the world.

Supplementing the efforts of the KGHM IR team are a variety of electronic communications tools. In 2010 the KGHM IR team employed the following forms of interactive communication: live quartely transmissions of Management Board presentations, videoconferences (around 20), teleconferences (around 30) and a dedicated channel on the Investor TV website with films presenting the Company's activities. The online IR activities of KGHM Polska Miedź S.A. are focused around its website, with a comprehensive IR section rich in materials geared to providing investors with the copious data necessary to enable them to make informed investment decisions. The IR team of KGHM is fully available to all investors, both institutional and individual, through direct telephone contact or e-mail. In order to provide the most up-to-date information on the Company, the KGHM website also offers a distribution list and newsletters, thanks to which around 430 subscribers currently receive information vital to investors.

The actions taken by KGHM in terms of investor relations are appreciated by the investment community, and have been rewarded by a number of capital market institutions. In the fifth edition of the the Golden Website competition organised by the Polish Association of Listed Companies, the corporate website

www.kghm.pl was distinguished in stage 2 of the competition. In addition, once again in 2010 KGHM Polska Miedź S.A., as a member of the RESPECT Index, reconfirmed its adherance to high standards of responsible management in accordance with best practice in corporate governance, investor relations and overall responsible business practices. KGHM Polska Miedź S.A. was honored by investors and followers of the website Inwestycje.pl with the title Listed Company of 2010 (criteria: corporate transparency, return on investment in terms of share price and potential for growth).

KGHM Polska Miedź S.A. continuously endeavors to improve its relations with investors, doing everything possible to meet the expectations of the capital markets.

Realisation of Strategy of KGHM Polska Miedź S.A. in the years 2009–2018

Primary goal and strategic objectives of the Company

The vision of strategic development of the Company developed for the years 2009–2018 derives from the approved mission, whose primary goal is to increase the Company's value by the optimum use of natural resources. This goal is to be achieved through the realisation of defined strategic initiatives divided into five main strategic pillars.

Realisation of Strategy in the years 2009–2010

Since the Strategy was first implemented, around 80% of planned strategic projects have been initiated, of which over half are at the realisation stage, a few have been concluded, or work is in progress on implementing developed solutions. Expenditures related to the realisation of projects in this period amounted to over PLN 3 billion, representing 11% of total expenditures on strategic projects planned for realisation. The largest expenditures are on the primary strategic pillar, and involved investments to improve productivity in terms of costs and production of the core business.

Pillar I – Improving productivity (strategic goal – reverse/halt the trend of rising unit production costs despite the fall in copper content in ore and ore extraction at ever-greater depths). Major strategic investment projects realised in this pillar:

- research on developing new copper ore extraction technology through the use of a mining complex (the project received financing from the Polish Agency for Enterprise Development representing over 32.9% of the budget);
- a program to intensify the replacement of the major underground vehicles;
- development and modernisation of copper ore floatation equipment in the Ore Enrichment Plants;
- the pyrometallurgy modernisation program at the Głogów Smelter (construction of a flash furnace at Głogów I);
- project "Effectiveness" comprising TOP (Total Operational Performance) programs to reduce costs, based on improving internal operational processes and process transformation programs based on Lean Management;
- centralisation of procurement within the KGHM Polska Miedz S.A. Group (a Central Procurement Office was created and a Procurement Support System was implemented in all divisions of KGHM Polska Miedź S.A.).

Pillar II – Developing the resource base (strategic goal – increase the production of copper to approx. 700 thousand tonnes annually).

Projects were prepared and put into realisation with respect to ensuring that the production of electrolytic copper from internal concentrates remains at a stable level in the long-term, including:

- further work on accessing and mining the "Głogów Głeboki Przemysłowy" deposit,
- exploration for copper ore in regions adjacent to the deposits of KGHM in south-west Poland ("Synklina grodziecka", "Gaworzyce-Radwanice") and in the territory of Lusatia (Germany, Saxony – "Weisswasser");
- a mining project involving the construction and start-up of copper and gold ore from the Afton-Ajax deposit in Canada with annual production of 50 thousand tonnes of copper and 100 thousand ounces of gold;
- a project to build a scrap smelting unit at the Legnica smelter.

Apart from work aimed at documenting copper ore deposits, KGHM is also performing geological work on the licensed area "Szklary", to the north of Ząbkowice Śląskie. This work is aimed at establishing the technical possibilities and economic profitability for mining nickel ore resources.

Pillar III – Diversifying sources of revenues and gaining independence from energy prices (strategic goal – to achieve, by 2018, around 30% of the revenues of KGHM Polska Miedź S.A. from sources other than the core business, to increase the internal power generation capabilities of KGHM Polska Miedź S.A. and to control around 3% of the energy market in Poland by 2020).

To diversify its activities, KGHM Polska Miedź S.A. commenced investments in the power sector. The generation of electricity is, from the point of view of the Company, one of the most attractive sectors, uncorrelated with conditions on the metals markets, and is a more stable source of revenues. Major investment projects realised in this pillar:

- the development and optimal utlisation of internal power generation capacity (construction of gas-steam blocks at the Głogów and Polkowice power plants, construction of biomass-fired boilers);
- development of a concept for the utilisation of brown coal located within the Copper Belt using underground gassification technology;
- equity entrance into the power sector:
  - an agreement was signed with Tauron Polska Energia S.A. and Południowy Koncern Energetyczny S.A. on selecting a gas-based variant fot the construction of a new 800-910 MWe power block on the grounds of the power plant PKE Elektrowni Blachownia, and the founding of the company "Elektrownia Blachownia Nowa" in Kędzierzyń,
  - over 6% of the shares of Tauron Polska Energia S.A. were purchased through privatisation of this company. The intention of KGHM is to achieve a target level of 10% ownership of the share capital of Tauron Polska Energia S.A.

Pillar IV – Regional support (strategic goal – remain active on behalf of the regional community, and create around 750 jobs).

The Company pursued its operations whilst caring for the natural environment. An active policy continued on behalf of the local community by ensuring access to high-quality health facilities for KGHM's employees and citizens of the region, promoting professional and amateur sport in the region, and by realising projects involving selected elements of the region's cultural infrastructure (renovation of objects of historical importance, cultural events).

Apart from the continuation of existing projects, projects were begun aimed at:

- creating an attractive area for business activities and investments based on new technology, and at creating new jobs in the vicinity of KGHM's operations (the KGHM Letia S.A. Technology Park);
- ensuring the ability to store tailings without interruption to the core business of KGHM (development of the Żelazny Most tailings pond).

Pillar V – Developing organisational know-how and capabilities (strategic goal – optimise Company structure and improve Group organisation).

KGHM realised the following projects involving defined initiatives in this pillar:

- in 2009, the investment entity KGHM Towarzystwo Funduszy Inwestycyjnych was created, and three closed-end non-public investment funds began operations which, with financing by KGHM, made their first investments in spas and health facilities, renewable energy and new technology.
- KGHM Polska Miedź S.A. continued its strategy towards the Group, aimed at realising equity investments related to support of the core business, and the growth and development of Group companies. Amongst the major development projects of Group companies are:
  - the start-up of a production line for the industrial recovery of rhenium, and of a production line for the processing of used electrical and electronic equipment (KGHM Ecoren S.A.),
  - the purchase of 85% of the shares of Centrozłom Wrocław S.A. (KGHM Ecoren S.A.),
  - the construction of a sulphuric acid storage and loading facility at a Polish port (KGHM Metraco S.A.),

Company profile

KGHM vision

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

1 Improving productivity

- Invest in new technology
- Modernise infrastructure
- Optimise production procedures and organisation

Reverse the trend of rising costs

2 Developing the resource base

- Develop the deep deposit mining system
- Explore for new local deposits
- Acquire assets in the mining sector
- Intensify the processing of scrap

Increase annual copper production to around 700 thousand tonnes

3 Diversifying sources of revenues

- Continued investment in the telecoms sector
- Enter the power sector

Generate ~30% of income from non-core business activities

4 Regional support

- Create jobs by utilising the infrastructure of KGHM Letia
- Support regional sport, health, arts, science and the environment

Create 750 new jobs, growth in social activities

5 Developing organisational know-how and capabilities

- Goal-oriented management
- Transparent information and data
- Employee development
- Group structural development

   - a system for the automatic preparation and measurement of samples from the Ore Enrichment Plants (CBJ sp. z o.o.),
   - divestment of the developer company CUPRUM III (KGHM CUPRUM sp. z o.o.);
- with respect to the telecom assets held by the Company, analytical work was performed on the sale of these assets, i.e. 100% of the shares of Telefonia DIALOG S.A. and 24.4% of the shares of Polkomtel S.A. The funds obtained will be used to support the core business in terms of geological-mining projects;
- a project was begun on developing and implementing a Project Management System based on the Microsoft Project Server 2010 platform, to support the realisation of strategic projects in KGHM Polska Miedź S.A.

The extensive progress made on implementing strategic initiatives and the results of the Company for 2010 provide fundamental justification of the approved Strategy. Its implementation thus far gives sufficient cause to predict the effective achievement of the intended goals, and the rapid development and growth of the Company on a global scale.

Results and forecasts

SEXTANT

A navigational instrument used in sailing and astronomy to determine geographical position, invented in 1731 by the English mathematician John Hadley. This small object, made of a copper alloy, turned out to be extraordinarily important, as it simplified navigation and the discovery of unknown lands. It became an important milestone in the development of human civilisation.

The year 2010 was exceptionally successful for KGHM Polska Miedź S.A. Above all, this is shown by the record, PLN 4.5 billion profit of the Company.

On the one hand, this result is due to the favourable situation on the financial markets, and on the other to the effective implementation of Strategy for the Development of KGHM in the years 2009–2018 approved two years ago.

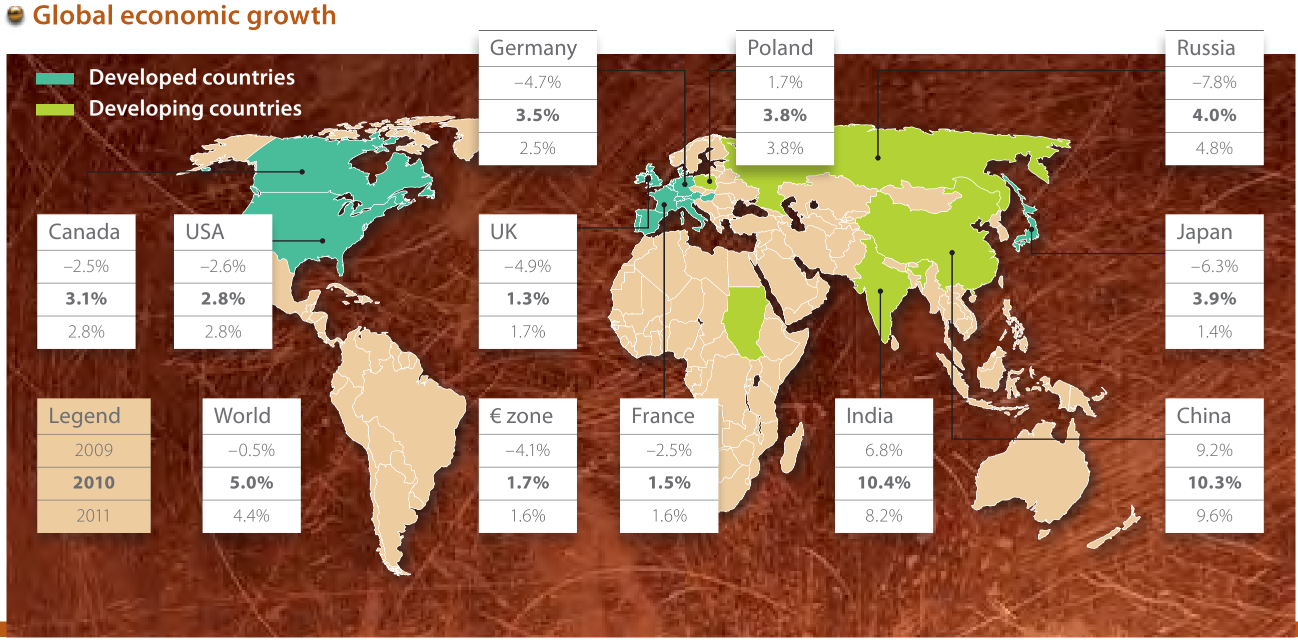
Market conditions and trends

Global economy

2010 saw a return of stability to the global economy. Following the recent financial crisis, many countries had substantial problems in finding their way back to economic growth. Nonetheless, after observing the rate of growth achieved by certain countries in 2010, it is clear that they were successful in their efforts. Only a few countries were unable to expand their economies. It is worth remembering however that the fall in GDP in some countries in 2009 was so great that, despite their result in 2010, a year of continued recovery from the effects of the crisis, many global economies remain at pre-crisis levels.

Estimates by the International Monetary Fund show that in 2010, the global economy grew by 5 percent. Economies affected by the crisis showed various levels of growth: developed economies displayed a growth in GDP of 3%, while developing economies grew more rapidly, at a rate of 7.1%. A further motor of global growth was China, which in 2010 returned to double-digit economic growth (10.2%). Likewise, other important emerging market countries, such as India and Brazil, played a substantial part in the global recovery, recording growth in GDP respectively of 9.7 and 7.5%. Of great significance for the global recovery in 2010 were the good conditions of the American and German economies. The United States, thanks to a large extent to numerous aid programs and monetary easing, recorded growth in 2010 of 2.8%. Germany grew even faster (3.6%) and represented enormous suport for the entire Euro zone. Strong internal demand in Germany countered the disastrous results of other European countries, mainly those in the perifery, who were facing enormous debt-related problems (Greece, Portugal and Ireland). According to the IMF, the next few years should bring stability to the global economy, and continued annual growth of nearly 4.5%.

Global economic growth



Source: KGHM based on World Economic Outlook Update Projections, MFW, April 2011

The struggle with the financial crisis of 2008 strongly overextended the public finances of developed economies. By maintaining low interest rates and introducing additional stimulus packages, it was possible to decrease and defer the negative effects for the real economies, although the fundamental problems remained unresolved: high unemployment and high public debt. Mitigation of the effects of the global financial crisis affected the level of lending, and represents a future threat. After Hungary, Ireland, Lithuania and Iceland, Greece was another European country to suffer the effects of overextended public finances, and was only able to avoid bankruptcy in 2010 thanks to the international financial aid it received. The problem of public debt is affecting an increasing number of countries facing the challenge of economic reform to avoid a debt spiral. This is a very serious threat as, according to research by the IMF, unless appropriate reforms are instituted by 2014, the developed economies will have to deal with public debt at an order on average of 100% of GDP. A different challenge is faced by those developing countries which were able to maintain economic growth in 2009. The enormous capital inflows to emerging markets means that some of these countries are experiencing the growing problem of overheating of their economies.

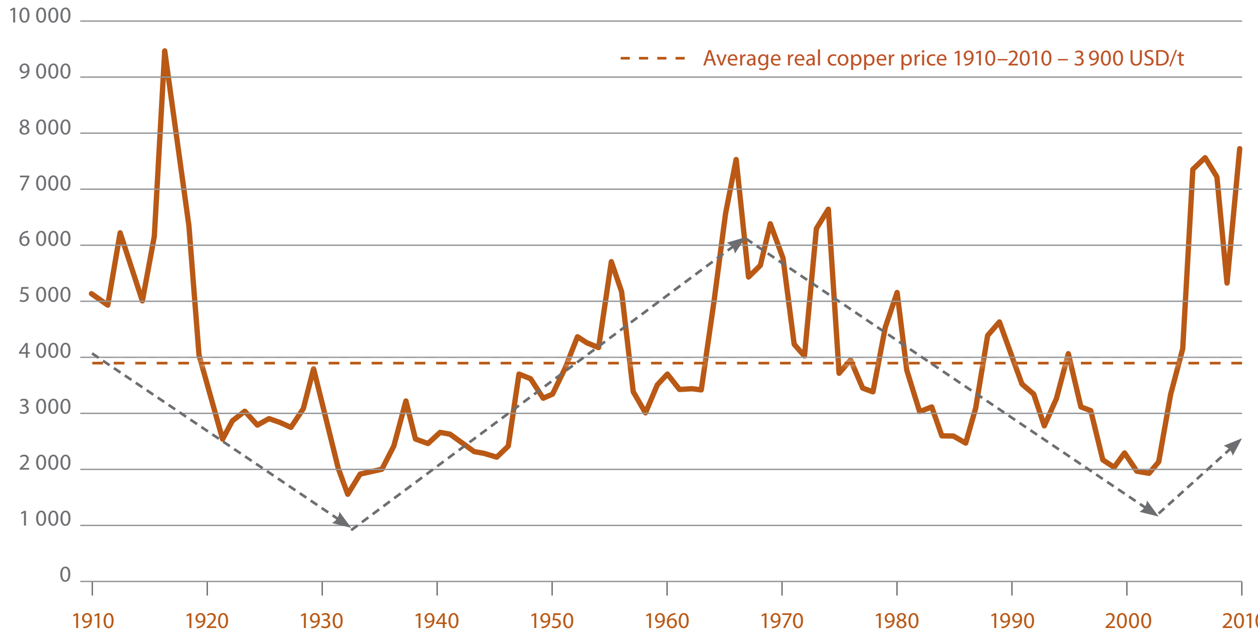
In 2010, raw materials prices continued to rise, as reflected by the Goldman Sachs Commodity Index, which grew during the year by 18%. The heavy demand for these materials was due to both the recovery in the industrial sector as well as to heightened interest by financial investors, fearing rising inflation. The rise in raw materials prices caused the indicators PPI and CPI to rapidly rise in countries such as China, Brazil and India. In 2010, China took actions to counteract this problem by raising the reserve requirement for banks and tightening lending policy. Other countries are also gradually tightening monetary policy, although they need to remember that it may impact their economic growth indicators.

Situation on the copper market

In the first half of 2010, the price of copper remained in a wide band between 6 000 and 8 000 USD/t. The second half of the year brought a clear rising trend, which enabled the copper price to reach a new all-time maximum and approach the barrier of 10 000 USD/t. Along with this new record, the average annual copper cash settlement on the London Metal Exchange in 2010 was the highest in history, reaching the level of 7 539 USD/t, representing a 46% increase versus 2009 (5 163 USD/t).

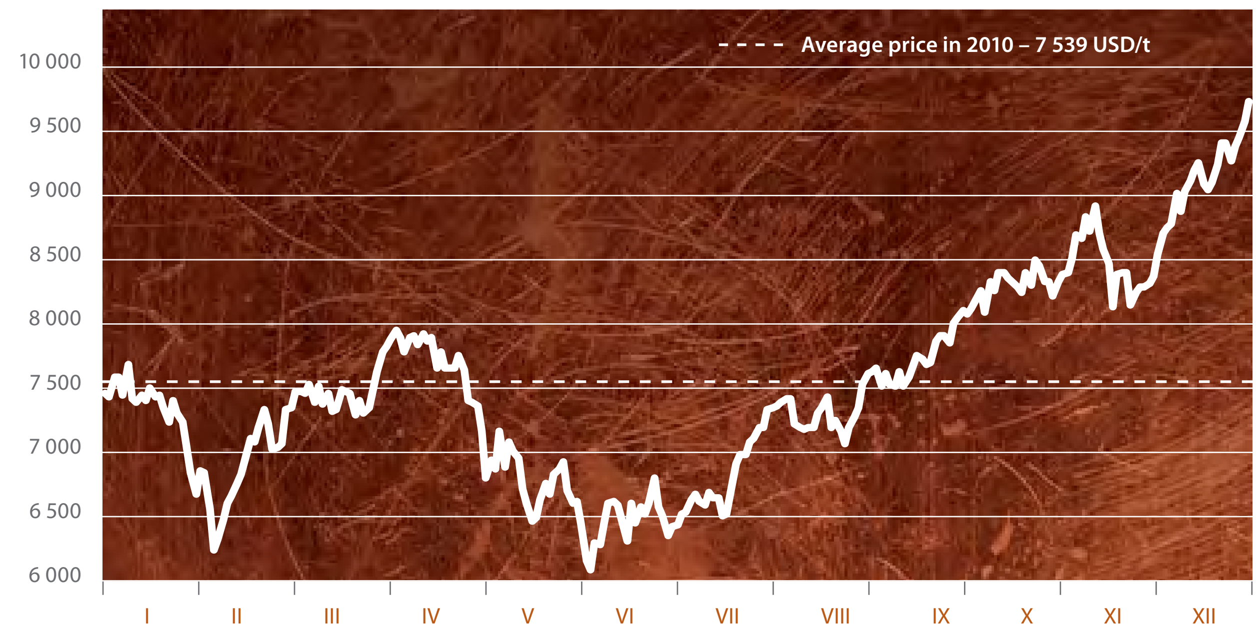
The first days of 2010 saw a continuation of the rising trend in place since the start of 2009. Some investors felt that this was a good time to realise their profits, and a dynamic correction ensued which brought the copper price down to 6 200 USD/t. Strikes in Chilean mines, along with an earthquake in Chile, resulted in copper's return to its previous level, and at the beginning of April it tested the psychological barrier of 8 000 USD/t. The barrier remained unbroken, however, due to escalation of

Real average annual copper price in the years 1910–2010 (USD/t)



Source: KGHM based on CRU International

Daily copper cash settlement on the LME (USD/t) in 2010



Source: KGHM

the debt crisis in Europe. Greece requested financial assistance from the EU and the IMF due to the threat of illiquidity. This led to lower trust in the European currency and its significant weakening versus the USD. In addition, this situation raised investor fears on the stability of European economies and perspectives for global growth. Also, the USD strengthened versus the Euro by June 2010 to the level of 1.19, whereas half a year earlier the EUR/USD rate was at 1.50. The copper price also reached its minimum cash settlement in June: 6 091 USD/t. However, from that moment optimism returned to the copper market. The creation of an aid package for Greece calmed the markets, and the weak Euro helped exports from Germany, which is the primary motor for economic growth in Europe. In addition, there was general consensus in the market that the large inventories amassed by Chinese copper consumers in 2009 were already depleted, and in the second half the Chinese would have to renew their buying of the metal regardless of price. Given falling warehouse inventories, this information was keenly noted by many investors who, discounting the approaching expected increased buying from China, prior to this wanted to purchase an appropriate amount of copper. In the second half of the year these expectations failed to materialise, and the market concluded that the long-awaited Chinese buying would only begin in the new year.

In the meantime, LME week, the meeting of market participants which takes place at the beginning of the fourth quarter each year, was dominated by information on the planned creation in the USA of two ETFs (Exchange Traded Funds) on the copper market. These funds invest money acquired from the sale of participation units directly in the metal held in warehouses. Given the relatively low level of copper inventories and the expected substantial buying by China, the creation of these two financial products, which could potentially amass their own inventories of the metal, could significantly restrict its availability to consumers on the physical market. The forecasted low availability of the metal led to increased pressure on the copper price. Investors began to increase their buying before a potential lack of metal appeared. Information on another stimulus package in the USA, known as QE2 (Quantitative Easing) strengthened investors in their conviction that the commodities markets are an appropriate place for freshly-printed money, as they are perceived as a hedge against inflation and a weakening USD. A new injection of monetary resources entered the markets, some of which was invested in commodities. Anticipating the new year and Chinese buying, on the last day of 2010 the price of copper reached the historic record of 9739.5 USD/t.

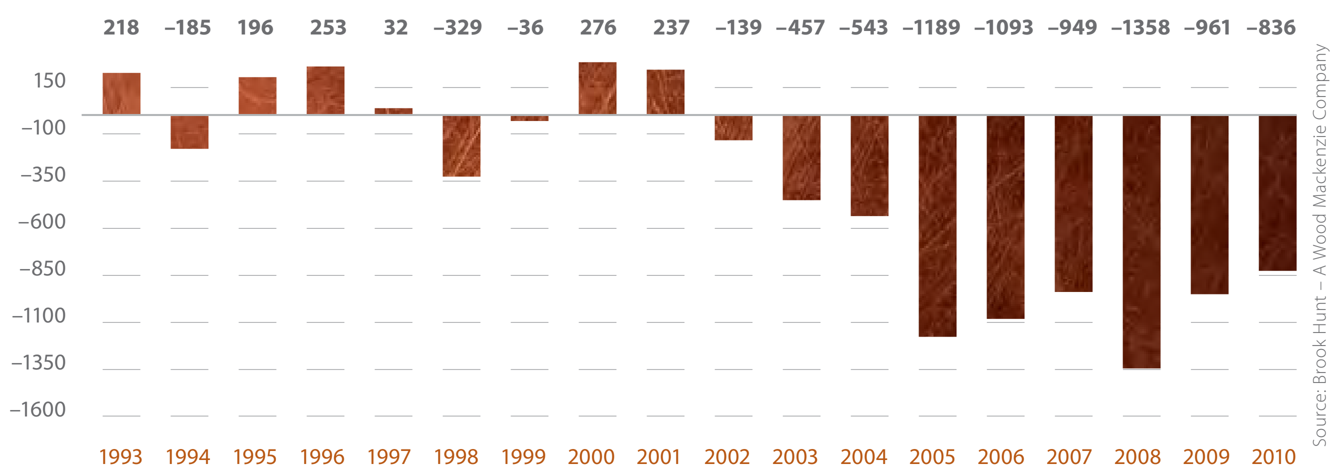
After the fall of the average annual copper price in 2009 versus 2008, in 2010 it returned to a rising trend. In real terms, i.e. including inflation, it surpassed the previous record from 1966. In the previous century there were only two years when the average annual real copper price was higher than in 2010. This was the period 1916–17, when, accounting for inflation, the price of copper exceeded 9 000 USD/t. The average real copper price, from 1908 to 2010, amounted to around 3 900 USD/t. The last long-term cycle of copper prise rises was after the second world war, and was associated with the reconstruction of a destroyed Europe, as well as with the development of Japan and Korea. The high copper prices of recent years are treated by some analysts as signaling the start of a new cycle of growth. The main reason given for this is the industrialisation of China and other developing countries of the so-called BRIC (Brazil, Russia, India).

Copper production

Based on data published by the International Copper Study Group, global mine production in 2010 amounted to 16 097 thousand tonnes. This is a mere 0.92% increase versus 2009 (15 950 thousand tonnes). There was a significant increase in extraction recorded in China, mainly through greater activity of small mines. There was also a large increase in production in Africa (10.4%), mainly in Zambia. For a subsequent year, Africa recorded double digit growth in mine production. Africa is rich in raw materials, and the number of projects being realised there is growing. The increase in copper production in these two areas was, however, to a large extent negated by restricted mining at the Grasberg mine in Indonesia, and by lower extraction in the USA. The increase in production would have been decidely higher if not for the exceptionally-high losses of the past several years, i.e. unforeseen difficulties resulting in lower-than-planned production. The most frequently occurring sources of problems in recent years have been employee strikes, technical problems and delays in realising new projects. Final data according to Brook Hunt for 2009 turned out to be substantially higher than the initial guidance by mining companies, and amounted to 960 thousand tonnes, while in 2010, in accordance with preliminary data, the amount was slightly lower at 836 thousand tonnes. Among the major problems in 2010 were the strike at the Sudbury mine in Canada (a loss of 75 thousand tonnes), problems with expansion of the Andina mine in Chile (60 thousand tonnes) and closure of the Frontier mine in the Democratic Republic of Congo (45 thousand tonnes).

Refined production in 2010 amounted to 19 075 thousand tonnes, or an annual increase of 4.36%. In nominal terms, the greatest increase, as in the prior year, was in China – by 523 thousand tonnes (12.9%). This country continues to develop its production capacity, based on greater copper extraction and greater availability of scrap. In Europe, refined production increased by 191 thousand tonnes, although this is not new production capacity but only a return to pre-crisis levels. Third largest in terms of production growth, as well as the largest in terms of percentage increase, was Africa, where production in 2010 was higher by 162 thousand tonnes (23.2%). The main increase was in the Democratic Republic of Congo (an increase of 54%) and in Zambia (an increase of 20%).

Mined production losses versus planned production in the years 1993–2010 ('000 tonnes)

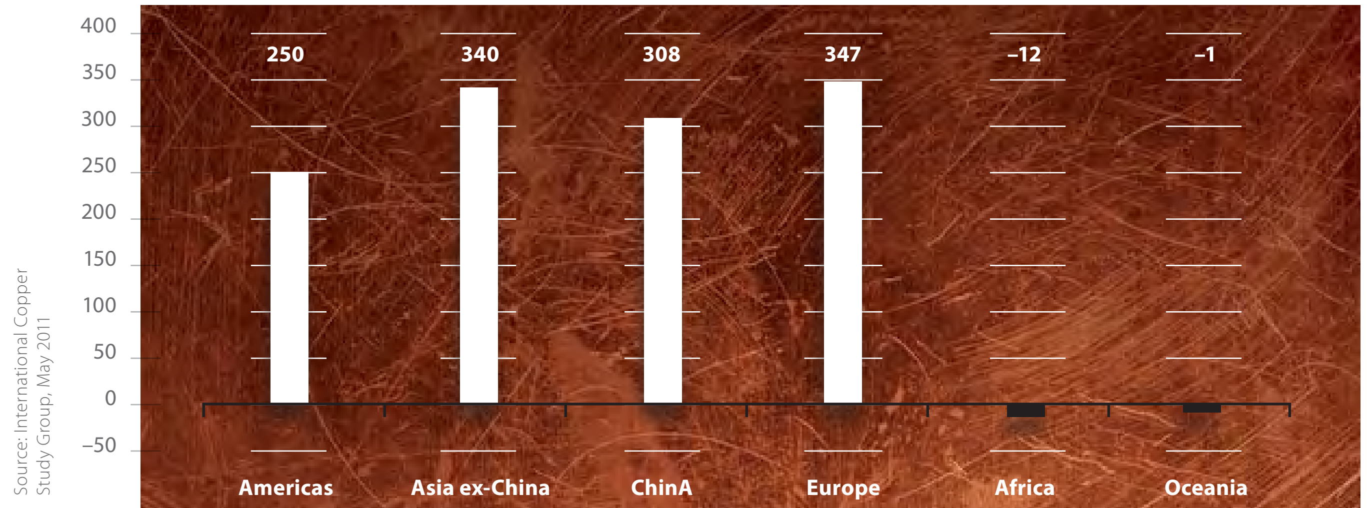


Copper consumption

According to the ICSG, refined copper consumption in 2010 increased versus the prior year by 7% to 19 324 thousand tonnes, giving a nominal increase of 1 271 thousand tonnes. This increase was seen in every industrialised region of the world. Only in Africa and Oceania did the level of consumption remain virtually unchanged versus the prior year. After an unprecendented increase in Chinese copper consumption in 2009 by 1.9 mln t (37%), in 2010 the rate of growth significantly slowed to just over 4% y/y. The greatest increase was recorded in Europe (by 347 thousand tonnes), but despite this, it remains far from the consumption levels seen prior to 2009. A similar level of increase (340 thousand tonnes) was recorded in Asia (ex-China). Consumption increased slightly less (252 thousand tonnes) in the USA.

The increase in copper consumption in 2010 substantially exceeded the increase in mined copper production, which resulted in a decrease in warehouse copper inventories. The high copper prices were a strong motivation to acquire secondary resources. The amount of scrap used in refined copper production in Western Europe, China and Japan was several tens of percent higher than in 2009.

Change in refined copper consumption in 2010 versus 2009 by global region ('000 tonnes)



Refined copper production in 2009 and 2010 by region ('000 tonnes)

Region	2009	2010	Change [%]
Africa	697	859	23.21%
Americas	5692	5584	–1.91%
China	4051	4574	12.90%
Asia ex-China	3906	3965	1.50%
Europe	3486	3677	5.48%
Oceania	446	417	–6.37%
Total world	18 278	19 075	4.36%

Source: International Copper Study Group – May 2011

Copper inventories

The beginning of 2010 saw a continuation of the trend of rising market inventories, begun in the second half of 2009. From a level of 376 thousand tonnes in June 2009, the amount of metal in market warehouses increased to 800 thousand tonnes in February 2010. This was the highest level since 2004. The main reason for the rise in inventories was the obvious fall in imports of copper by China. Chinese companies, due to high copper prices, preferred to draw down their existing inventories than pay expensive market prices. In subsequent months general market inventory levels decreased, and at the end of the year amounted to 568 thousand tonnes, or nearly 30% lower than February's peak. One of the causes was higher demand in western countries. LME inventories fell to a high degree, but during this same period inventories increased on the market in Shanghai. This means that in 2010 we were witness to a global transfer of metal between regions. At the end of the year the majority of inventories were held in LME warehouses – 66% of all inventories, 23% in Shanghai, and 10% on COMEX.

It is worth noting that some metal was also held in unofficial warehouses located in the duty-free zone of Chinese ports. According to various estimates, the amount of inventories held in this manner was from 300 to 800 thousand tonnes. These are unofficial warehouses which cannot be precisely monitored. The amount of inventories held in them may even exceed official market inventories, which substantially clouds the true picture of the copper market.

Investment funds

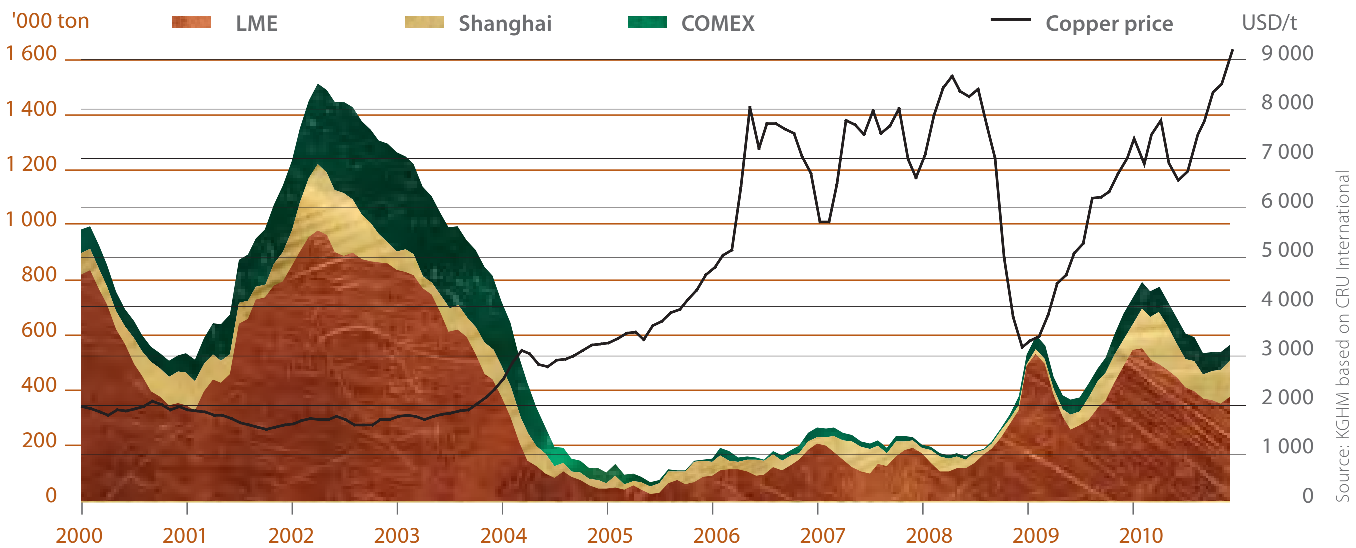
The influence of investment funds on the commodities market has risen steadily for several years. Commodities are considered as a good hedge against inflation, as well as against a falling USD. As a result, investment portfolio managers have grown increasingly keen to invest their money in metals and related raw materials.

From the beginning of the year a strong flow of funds was seen going into the copper market. This was a major cause for the rise in the price of copper, despite the increase in global warehouse inventories observed in the second half. The actions of investment funds should remain an important influence on the copper price in the foreseeable future. The collapse in the copper price in the fourth quarter of 2008 showed that investor sentiment is highly volatile, and could result in the rapid withdrawal of resources from these funds if the condition of the market deteriorates.

Silver market

The average annual silver price in 2010 on the London Bullion Market amounted to 20.19 USD/troz, being a 38% increase versus the prior year (14.67 USD/troz). For over half a year the price of silver remained around 18 USD/troz, then at the end of August began to dynamically rise, until in December it exceeded 30 USD/troz. The maximum price reached in 2010 was 30.92 USD/troz, while the minimum price of silver amounted to 14.63 USD/troz.

Copper market inventories in the years 2000–2010

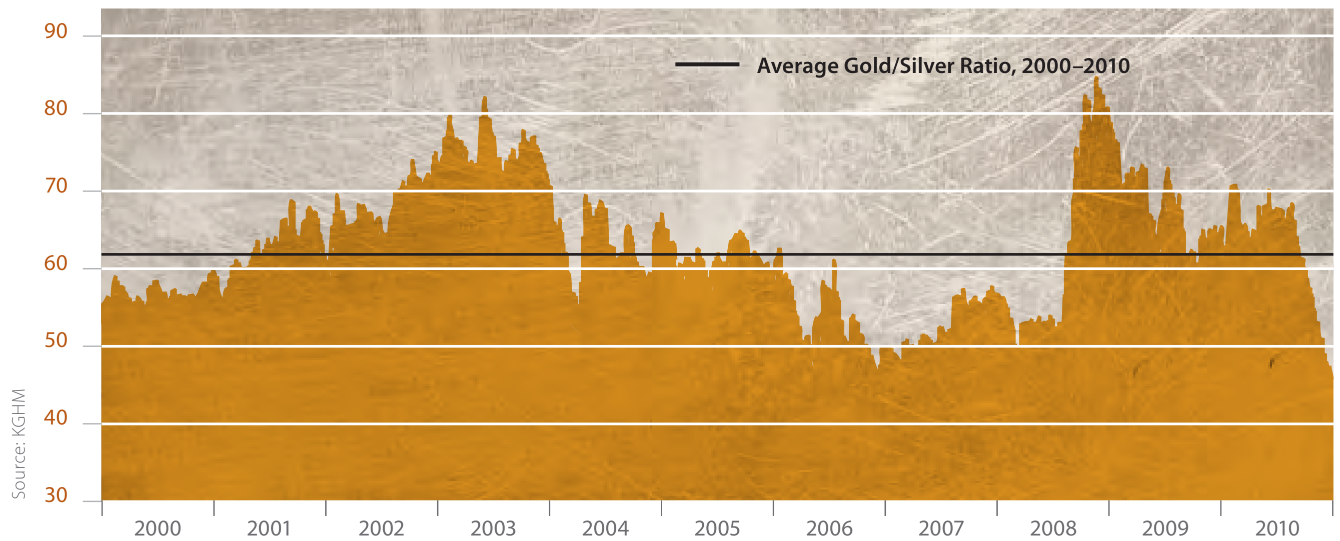


The increase in the silver price in the second half of the year was mainly due to the actions of financial investors. Investing in precious metals has become a very attractive alternative given the rising levels of debt in developed economies, alongside volatile exchange rates and growing fears around the world of higher inflation. In addition, there was an improvement in the condition of the industrial sector, which led to heightened demand for metals, including silver. Thanks to these two factors, as well as to a weaker USD, silver, which is classified as both a precious and an industrial metal, at the end of 2010 rose to 30.86 USD/troz, the most expensive in 30 years.

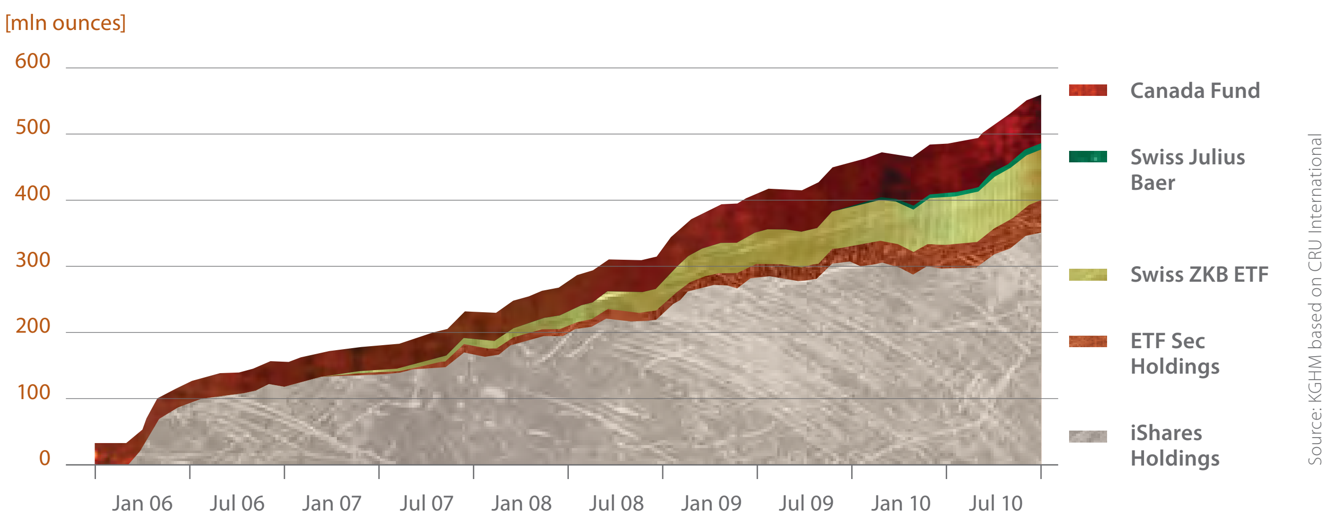
Over the last decade the Gold/Silver Ratio remained at just over 60. In the first half of 2010, the ratio was even higher – 65.5. However, starting in July, silver began to appreciate more rapidly than gold. Following a speculative wave of investment and the dynamic increase in the industrial use of silver, the price of the metal increased much more rapidly than gold. Finally, on 30 December 2010, the Gold/Silver ratio reached its yearly minimum – 45.78.

In April 2006, the silver market witnessed the start of of the first of the ETF-type of funds – iShares Silver Trust. This fund allows investors to take advantage of the rise in the silver price, without the need to physically own the metal. Thanks to this, the silver market has become open to a broader group of investors. The iShares fund, introduced by Barclays bank, has achieved great success, amassing over the first five months of its operations over 100 million ounces of silver; for comparison, global annual silver production in 2010 amounted to 735.9 million ounces. Already by the end of 2010, the assets of this fund amounted to over 350 million ounces. Following the success of the iShares fund, other financial institutions also introduced silver products to the market. At the end of December 2010, the five largest ETF funds held in their warehouses 560 million ounces of silver, of which 23% had been amassed during the year. Investments in ETF funds are of a long-term nature, as shown by the fact that despite the low price of silver at the turn of 2008/2009, the assets of these funds have systematically risen.

Gold/Silver Ratio in the years 2000–2010

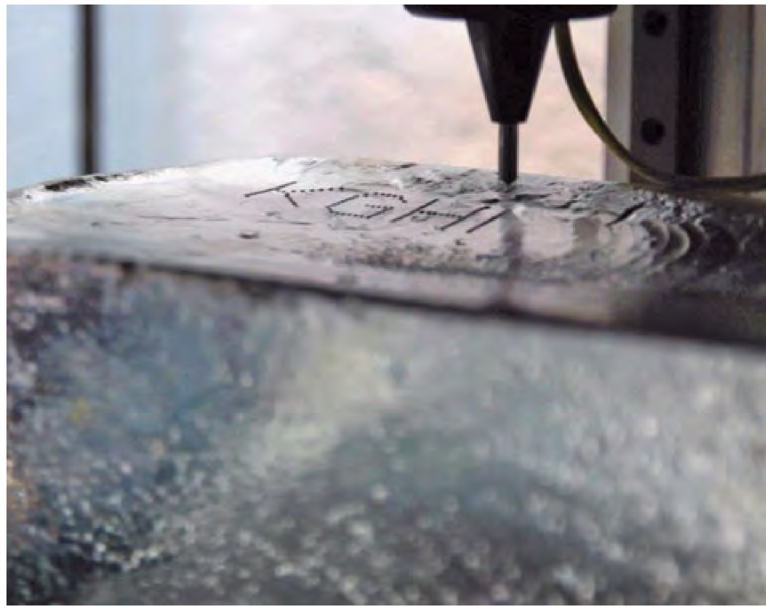


Assets of the largest ETF funds on the silver market

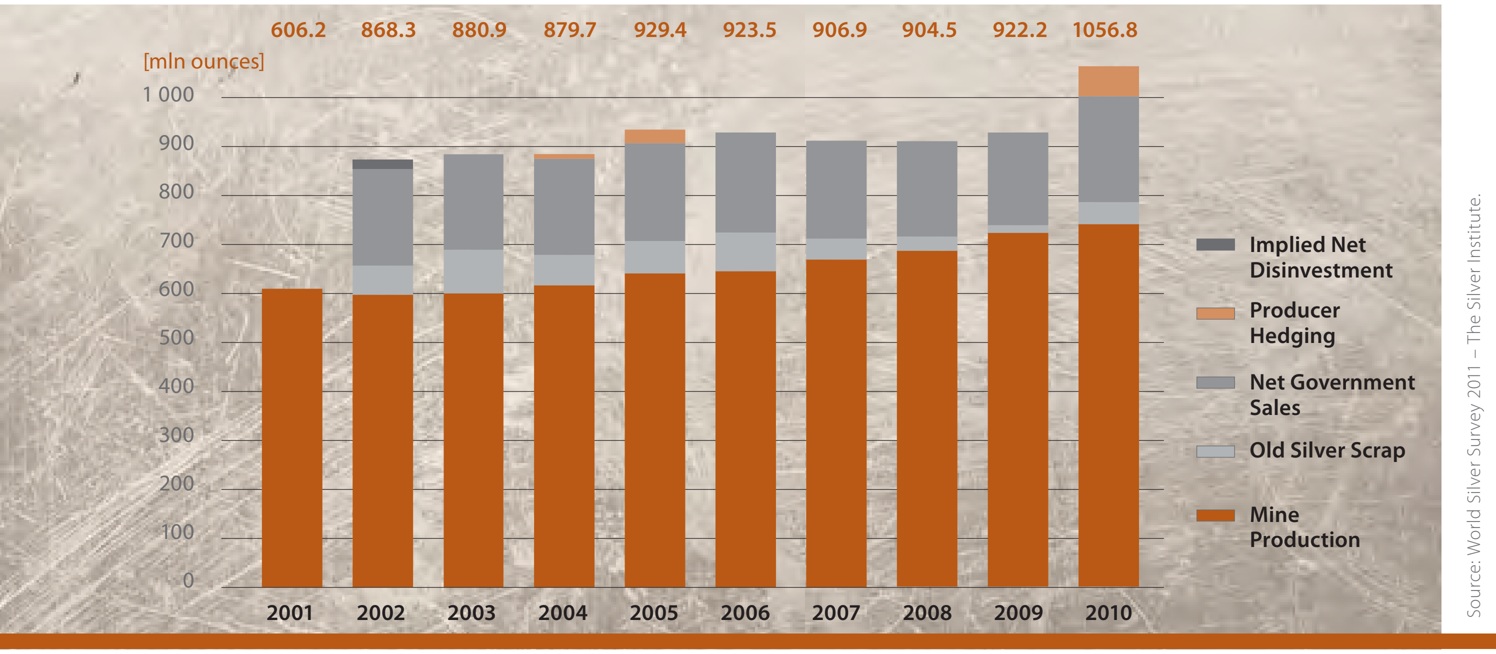


Consumption of silver

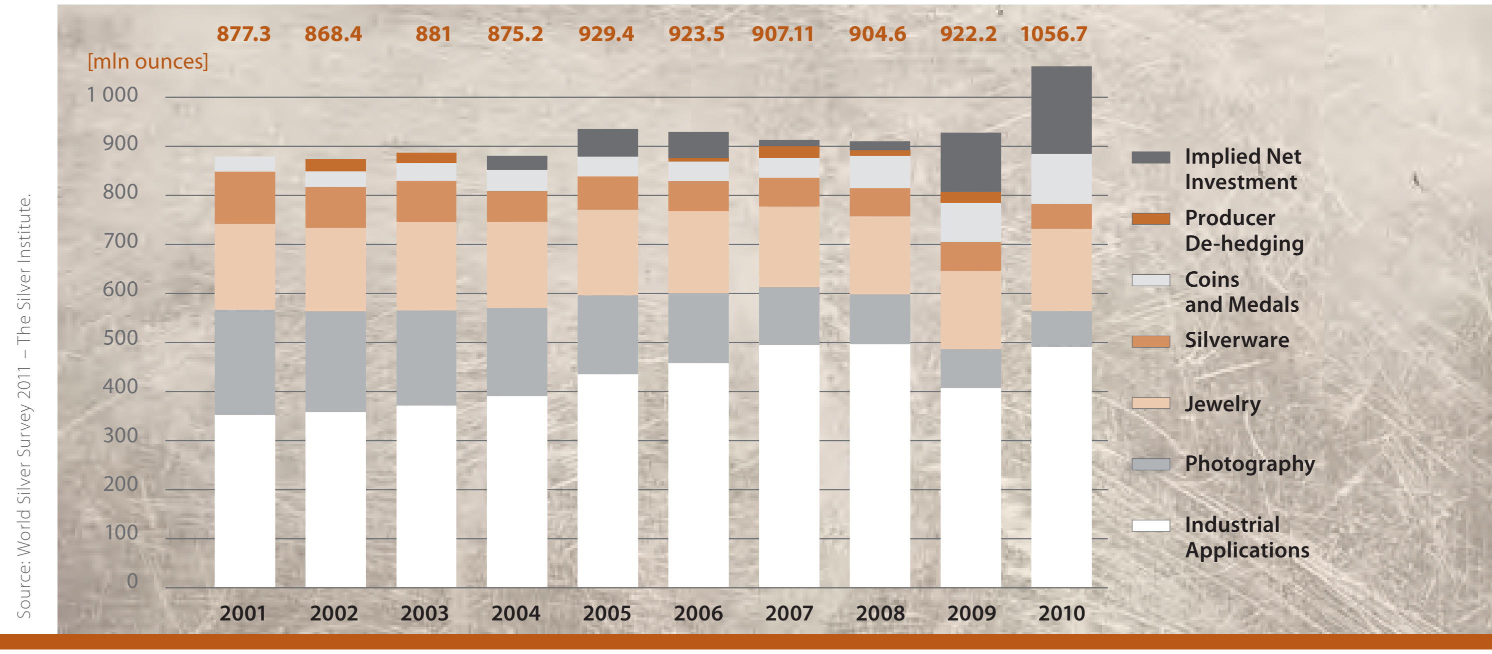
Together with the increase in silver supply, there was also a substantial increase in 2010 in demand for this metal. The improved condition of the global economy meant that in 2010, 878.8 million ounces of silver were consumed, giving an impressive annual increase of 12.8%. An increase in silver consumption was recorded in industry (20.7% y/y), in jewelery (5.1%) and in the production of silver coinage and medallions (28.3%). For a further year running, there was a fall in silver consumption by the photographic industry. Of note was the enormous interest in silver by financial investors. The easy monetary policy in the USA and the debt problems of Euro zone countries led to lower trust in major global currencies and heightened fears about rising inflation. A large portion of this type of investment went into ETF funds, where physical silver serves as a hedge of the invested capital. Implied net investment in silver increased in 2010 by 47.5% to 178 million ounces. In 2010, for the first time in four years, silver producers did not liquidate their hedged positions.



Silver supply in the years 2001–2010 [million ounces]



Silver demand in the years 2001–2010 [million ounces]



Silver supply

2010 saw an increase in the supply of silver by 134.6 million ounces, i.e. by 14.6% versus the prior year. This situation was due to several factors. There was an increase in mine production (by 2.5%), reaching the new historic record of 735.9 million ounces. During this period two mines began production in Mexico: Penasquito (zinc/silver) and Palmarejo (silver), which returned Mexico to the position of global leader in terms of silver production. This greater availability of silver on the market was also the result of increased sales of this metal by the central banks of various countries. The increase in silver sales by the government sector by nearly 200% (to 44.8 million ounces) was mainly due to actions by the Russian Central Bank. The increase in silver supply was also due to its high price. In 2010, for the first time in four years, producers of silver actively hedged the price of the metal using derivatives. Supply from this source in 2010 amounted to 61.1 million ounces. The high silver prices seen in 2010 also gave encouragement to increase recovery of the metal. The availability of silver scrap in 2010 increased on an annual basis by 14%, and reached a volume of 215 million ounces. A majority of this scrap came from the industrial sector.

Daily silver price in 2010 – fixing LBMA

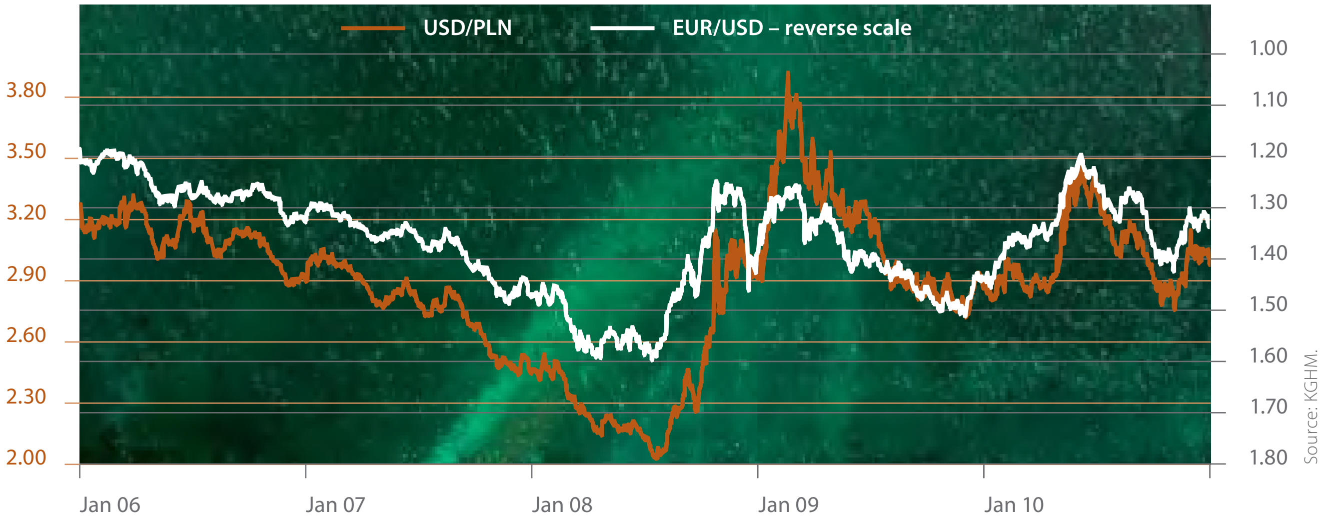
Currency market

The Polish economy began 2010 in good condition, which it maintained to year's end. In the first quarter of 2010, economic growth in Poland amounted to 3% y/y, which was improved upon in each succeeding quarter and resulted in a final Polish GDP in 2010 of 3.8%. This result placed Poland amongst the leading countries of the European Union, and confirmed that the positive performance of the country during the financial crisis was not a fluke. The main motors of growth in Poland were strong internal demand, restocking and halting of the drop in investment spending. Domestic private consumption increased by 3.2% y/y versus 2.1% a year earlier. A significant factor increasing private consumption was the substantial improvement in the labour market, being a continuation of the trend of rising employment after the drop in this indicator in 2009. In addition, the systematic rise in wages alongside low inflation for most of the year increased real income, and therefore positive sentiment amongst Poles. Taking into consideration the solid performance of the Polish economy, it should not be surprising that investors took a favourable stance towards the Polish currency, and saw a great chance for strengthening of the Polish currency versus the USD and EUR.

The economic condition of Poland was not however the main factor affecting the USD/PLN rate. Rather, to a large extent it was shaped by external factors, in particular in the USA and the Euro zone, and consequently was greatly affected by the EUR/USD exchange rate. When, in the first half of May, it turned out that Greece would be unable to service its public debt, there was a large increase in risk aversion on the financial markets. The most to suffer from this were the currencies of developing economies, which experienced substantial depreciation, mainly versus the USD. The increase in risk aversion on a global scale caused a rapid deterioration in sentiment towards emerging markets, including Central and Eastern Europe. The large liquidity of the Polish market made it easy for foreign investors to withdraw their money from Poland as well. Subsequent months brought information on further countries threatened by bankruptcy: Portugal and Ireland. Each new negative piece of information increased market volatility, and another wave of weakening of the Polish zloty. However, none of them had the strength of the June wave. Despite such high volatility, in annual terms, the Polish currency weakened only slightly versus the USD.

The range of zloty volatility versus the USD in 2010 was substantially lower than in 2009, from USD/PLN 2.7449–3.4916. During 2010 (per the NBP) the average annual USD/PLN rate amounted to 3.0179 and was a mere 3.2% lower than the average rate in the prior year (3.1181). The average EUR/USD rate in 2010 was 1.3257. In 2010, the minimum USD/PLN rate was recorded at the beginning of November at the level USD/PLN 2.7449. The maximum USD/PLN rate of 3.4916 was recorded at the beginning of June, when the lowest annual EUR/USD exchange rate of 1.1942 was also recorded by the ECB.

USD/PLN and EUR/USD rates in the years 2005–2010 [NBP and ECB fixing]



Source: KGHM.

Resource base[1]

The resource base for the core business of KGHM Polska Miedź S.A. is the largest deposit of copper ore in Europe, and one of the largest globally, 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 2010). 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 9th place globally in terms of its copper resources, and 3rd place in terms of its silver resources (per the 2010 U.S. Geological Survey).

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”.

1 Resource base – as at date of documentation for 2010 performed in accordance with the Decree of the Minister of the Environment dated 20 June 2005.

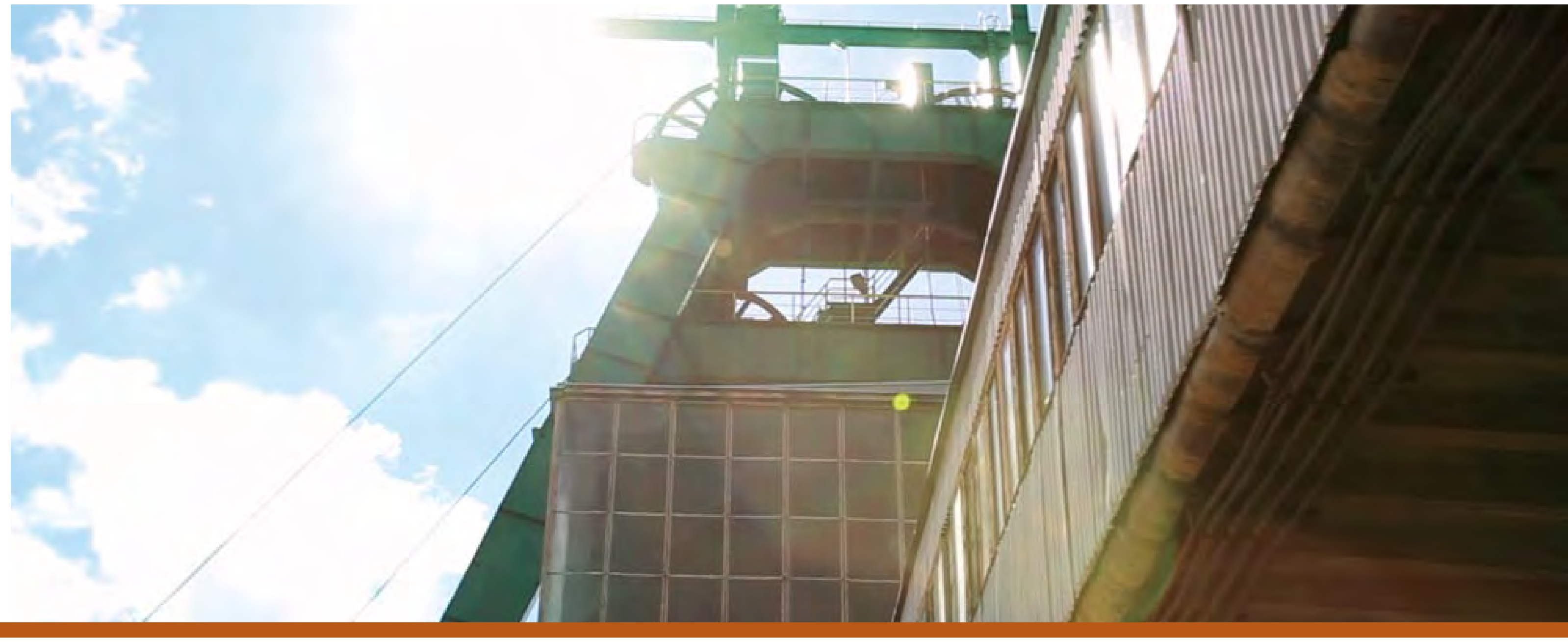


Table 1. Balance ore resources of copper and other metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S. A. (at 31 December 2010)

Ore in production	Ore resources [mln t]	Cu [%]	Ag [g/t]	Amount of Cu [mln t]	Amount of Ag [t]
“Lubin-Małomice”	348	1.25	56	4.36	19 446
“Polkowice”	93	2.33	46	2.17	4 256
“Sieroszowice”	264	2.87	64	7.59	17 037
“Radwanice Wschód”	6	2.01	28	0.13	182
“Rudna”	434	1.77	43	7.69	18 519
“Głogów Głęboki Przemysłowy”	292	2.40	79	7.00	22 952
KGHM Polska Miedź S.A.	1 437	2.01	57	28.94	82 392

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

KGHM intends to obtain new licences to replace those which expire in 2013 to continue operations until the complete 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 – are not treated as documented copper ore balance resources.

In 2010, KGHM received a license to explore and evaluate copper ore deposits in the Grodziecka trough.

Table 2. Industrial ore resources of copper and other metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S.A. (at 31 December 2010)

Ore in production	Ore resources [mln t]	Cu [%]	Ag [g/t]	Amount of Cu [mln t]	Amount of Ag [t]
“Lubin-Małomice”	278	1.25	56	3.47	15 432
“Polkowice”	49	2.46	46	1.22	2 263
“Sieroszowice”	252	2.89	65	7.29	16 289
“Radwanice-Wschód”	6	2.01	28	0.13	182
“Rudna”	307	1.82	45	5.60	13 792
“Głogów Głęboki Przemysłowy”	267	2.40	78	6.41	20 790
KGHM Polska Miedź S.A.	1 160	2.08	59	24.11	68 748

Table 3. Balance ore resources of copper and other metals (Cu, Ag) in reserve areas*

Ore not in production	Ore resources [mln t]	Cu [%]	Ag [g/t]	Amount of Cu [mln 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

* to a depth of 1250 m

Production results

The main objectives set forth by the Management Board with respect to production in 2010 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 areas in order to restrict the risk of rock collapse,
  - applying so-called partial backfill in thick ore seams,
  - increasing the scope of selective mining (leaving a larger amount of barren rock 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 individual ore enrichment plants to the amount and quality of ore supplied;
- improving enrichment parameters through the successive replacement 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;
- construction of a 4th Doerschel furnace at the Głogów smelter;
- modernisation of the electrolyte cleaning unit at the Legnica and Głogów I smelters;
- renovation of the sulphuric acid plant at the Głogów smelter.

Mine production

Ore extraction by dry weight in 2010 was lower by 426.7 thousand tonnes than in 2009, and amounted to 29.3 million tonnes. The lower level of extraction in 2010 was due to optimisation of work on days legally free from work.

The average copper content in extracted ore amounted to 1.64% and was lower than that achieved in 2009 by 1.68%. The decrease in copper content in ore was due to work in regions with lower copper ore mineralisation.

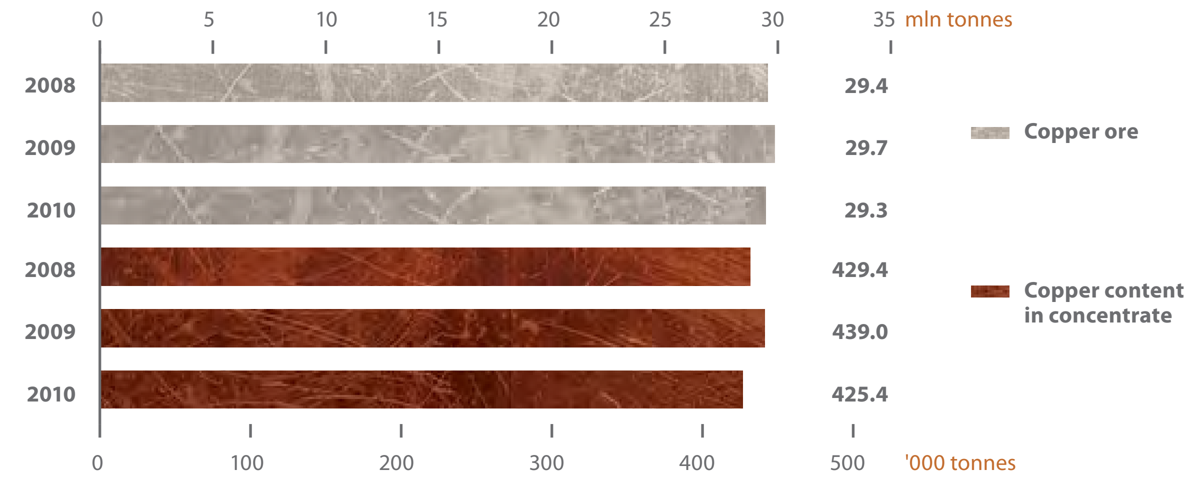
The decrease in ore extraction and in mineral content caused a decrease in the amount of copper in extracted ore by nearly 19 thousand tonnes, i.e. by 4%.

The decrease in copper content in extracted ore directly impacted the amount of copper in concentrate produced, which was lower than the amount produced in 2009 by 3%.

Smelter production

In comparison to the prior year the production of electrolytic copper increased in 2010 by nearly 45 thousand tonnes, i.e. by 9%. The increase in production was due to the large share of purchased copper-bearing materials in the form of scrap, copper blister and imported concentrate. The augmentation of company-produced concentrates with purchased

Production results in mining 2008–2010



copper-bearing materials enabled the effective utilisation of existing technological abilities.

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.

Also of impact on the amount of final production in 2010 was the more than month-long maintenance on the shaft furnace at the Głogów I smelter.

Main directions in production

The main production goals set out by the Management Board in 2011, 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 2011 will be:

- continued drift preparation work being realised in the direction of the "Głogów Głęboki Przemysłowy" deposit;
- the application of new drift preparation work technology using drift combines;
- restricting depletion and shifting extraction from areas of lower copper content to areas of higher content;
- continued exchange of floatation machinery in the Rudna and Polkowice enrichment plants;
- optimisation of the enrichment process in order to counter the effects of a decrease in ore quantity-quality parameters;
- construction of a concentrate warehouse at the Głogów II smelter;
- completion of a roofed copper scrap facility at the Legnica smelter;
- replacement of two quarters of the old electrolysis hall at the Legnica smelter.

Production results in smelting 2008–2010

	Unit	2008	2009	2010
Electrolytic copper	'000 t	526.8	502.5	547
Wire rod	'000 t	206.2	177.5	237.3
Oxygen-free copper rod (UPCAST)	'000 t	11.8	13.8	15.5
Round billets	'000 t	20.2	14.9	18.7
Metallic silver	t	1 193	1 203	1 161
Metallic gold	kg	902	814	776

Results and forecasts

Financial results

Statement of comprehensive income

Profit for 2010 amounted to PLN 4 569 million and was 80% higher in relation to the prior year, and arose from the principal operating activities of the Company.

In relation to 2009, profit on sales increased by PLN 3 460 million, impacted by the increase in revenues from sales by PLN 4 884 million, mainly due to:

- a higher average price of copper by 46% PLN 4 025 million,
- an increase by 35.5 thousand tonnes in the volume of sales of copper products PLN 584 million,
- a change in the PLN exchange rate from 3.12 to 3.02 USD/PLN PLN (351) million,
- and a lower positive adjustment of revenues due to the hedging of copper and silver prices PLN (291) million,

alongside an increase in operating costs by PLN 1 424 million.

The loss on other operating activities in the amount of PLN 1 019 million was mainly due to the following (PLN million):

- a loss on the measurement and realisation of derivatives (1 172),
- income from dividends 147,
- interest income on financial instruments 59,
- foreign exchange losses (30).

The net finance costs in the amount of PLN 33 million, were mainly impacted by the change in the level of provisions (unwinding of the discount effect) in the amount of PLN 32 million.

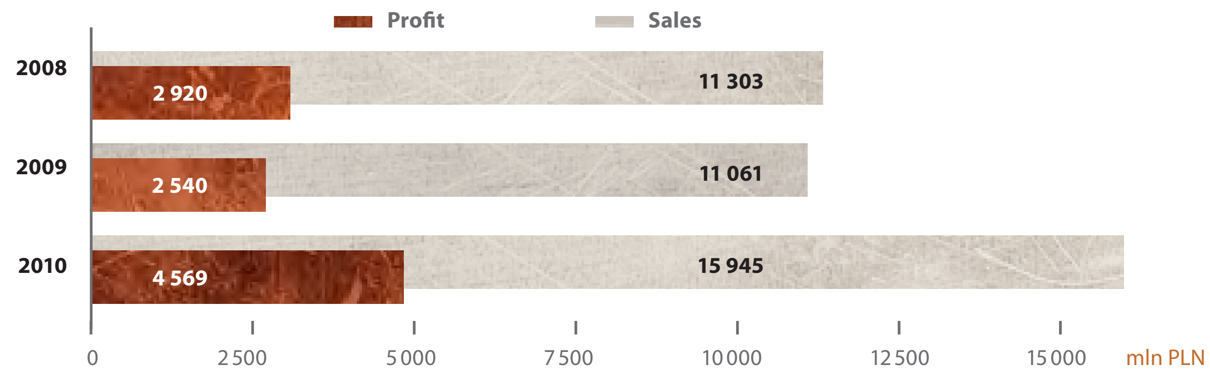
Assets

In 2010, total assets increased by PLN 5 876 million (42%) and at the end of December amounted to PLN 19 829 million. The most important changes in assets primarily involved cash and

Statement of comprehensive income – basic items (PLN mln)

	2009	2010
Sales	11 061	15 945
Operating costs	–7 864	–9 288
Profit on sales	3 197	6 657
Profit/(loss) on other operating activities	–99	–1 019
Operating profit (EBIT)	3 098	5 638
Finance costs	–32	–33
Profit before income tax	3 067	5 606
Profit for the period	2 540	4 569
EBITDA (EBIT + depreciation/amortisation)	3 646	6 254

Profit for the years 2008–2010 (PLN million)



cash equivalents, receivables, shares and investment certificates and available-for-sale financial assets.

Property, plant and equipment increased in 2010 by PLN 614 million (10%), mainly due to realisation of the investment program. Capital expenditures amounted to PLN 1 263 million, i.e. more than twice as much as depreciation on property, plant and equipment and amortisation on intangible assets. Expenditures by the Company on the replacement of assets amounted to PLN 520 million. The remaining amount of expenditures (PLN 743 million) was invested in the realisation of development projects, increasing the value of assets.

Due to the realisation of equity investments, the value of shares and investment certificates in subsidiaries increased to PLN 2 643 million, i.e. by 38%. Among the most important equity investments realised in 2010 were the following:

- Investment funds – in 2010, KGHM Polska Miedź S.A. acquired certificates in the closed-end non-public investment funds FIZAN I, II and III. The funds received from the issuance of certificates in the total amount of PLN 360 million were primarily used for the purchase of shares of State Treasury companies (spas) and for the purchase of shares of Interferie S.A. as the result of a public call for sale,
- KGHM Ecoren S.A. – an increase in the share capital of the company used for the purchase of shares of the privatised company Centrozłom Wrocław S.A. The value of this transaction amounted to PLN 115 million,
- KGHM AJAX MINING INC. – this company was formed with Abacus Mining & Exploration Corporation, to realise the Afton-Ajax mining project in Canada. The carrying amount of 51% of the shares acquired by KGHM Polska Miedź S.A. amounts to PLN 110 million.

Investments in associates comprise the shares of Polkomtel S.A. in the amount of PLN 1 160 million – unchanged in comparison to the amount at the end of 2009.

Available-for-sale financial assets in the total amount of PLN 1 155 million primarily comprise shares of exchange-listed companies and participation units in investment funds.

Current and non-current held-to-maturity investments were totally comprised of the cash resources of the Mine Closure Fund in the amount of PLN 88 million.

Current assets amounted to PLN 7 704 million and were nearly three-times higher than current liabilities.

The highest-value item in current assets was cash and cash equivalents in the amount of PLN 2 596 million. During 2010 there was a notable increase in monetary resources with the highest liquidity, mainly due to continuation in 2010 of the rising market in metals and lower expenditures due to shareholder dividends. Unallocated funds were mainly invested in short-term assets with a maturity up to three months and will be used to finance the investment program.

Receivables at the end of 2010 amounted to PLN 2 481 million (total current and non-current), including trade receivables of PLN 1 735 million (70%). The significant increase in trade receivables (by PLN 710 million) was due to the increase in metals prices, which increased revenues from sales. In addition, current receivables include bank deposits with a maturity of from three months to one year in the amount of PLN 351 million, of which there were none in 2009.

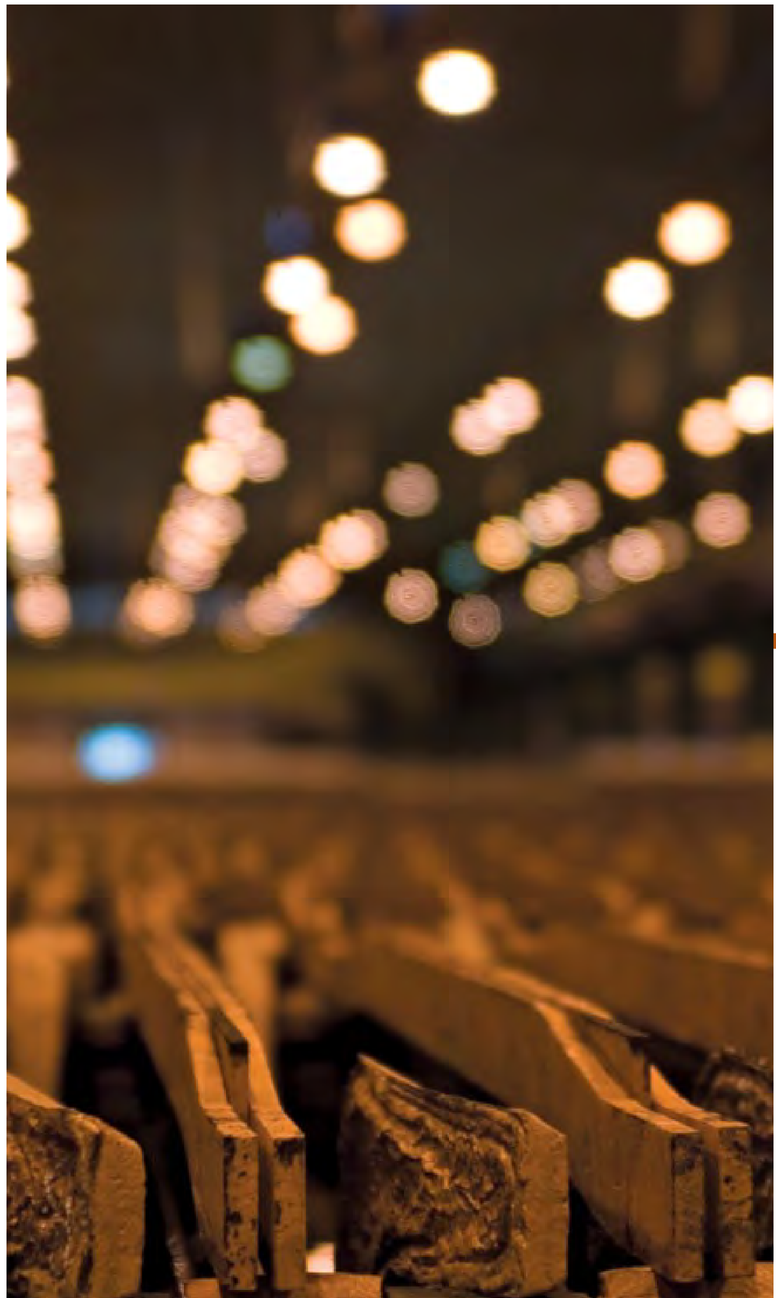
Inventories increased from PLN 1 890 million in 2009 to PLN 2 011 million in 2010, i.e. by 6%. The increase comprised half-finished products and work in progress and was mainly due to the higher valuation of copper-bearing batch materials and increase in the production of silver in progress.

Assets items related to derivatives amounted to PLN 698 million (total current and non-current), which means a more than doubled increase in comparison to the end of 2009.

Equity and liabilities

In 2010 the basic source for financing assets was equity, representing 73% of total assets and exceeding by 19% non-current assets.

Equity increased during the year by PLN 4 053 million (39%), primarily due to the profit for 2010 and to dividends which were paid in an amount lower than in 2009 (PLN 600 million in 2010; PLN 2 336 million in 2009).



Total non-current and current liabilities amounted to PLN 5 373 million, i.e. PLN 1 824 million higher than at the end of 2009. This increased their share in the assets financing structure, as shown by the relation of liabilities to equity – an increase from 34% to 37%.

The largest item was trade and other payables in the total amount of PLN 1 742 million, of which:

- trade payables excluding investment liabilities in the amount of PLN 551 million (an increase of 29% during the year),
- payables due to the purchase and construction of fixed assets and intangible assets in the amount of PLN 302 million (an increase of 67% during the year),
- other payables in the amount of PLN 889 million, including taxation and social security of PLN 200 055 thousand and accruals of PLN 325 million, mainly the annual bonus, payable after approval of the financial statements.

In 2010 the Company did not make use of bank loans. At the end of the year the sole liability of the Company was due to a finance lease in the amount of PLN 11 million, mainly with respect to geological information related to the preparation of a licensing application for mining the ore of the "Głogów Głęboki Przemysłowy" deposit. The license was granted in November 2004.

Contingent assets and liabilities

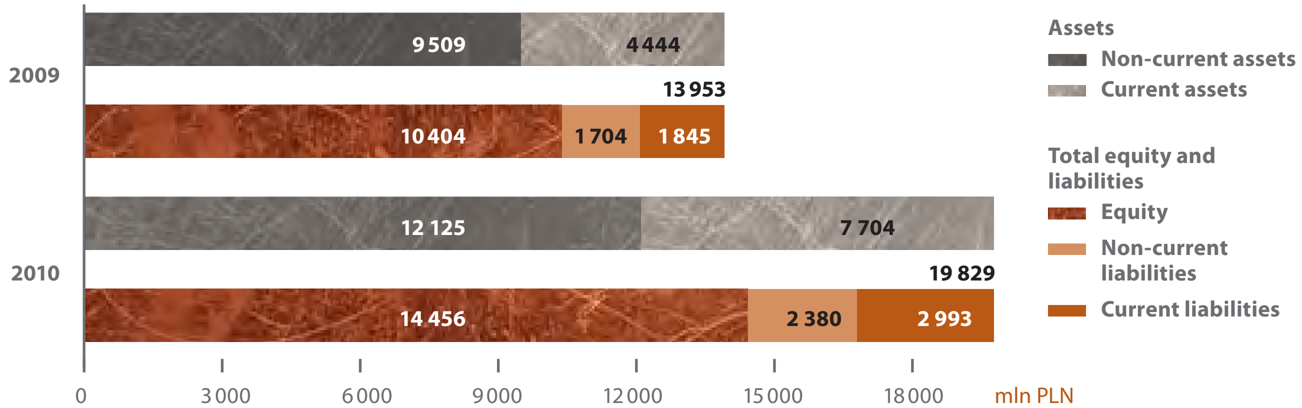
At 31 December 2010, contingent assets of the Company amounted to PLN 206 million and related to disputed State budget issues, guarantees received, promissory note receivables and projects and inventions.

Contingent liabilities at the end of 2010 amounted to PLN 127 million, including due to:

- liabilities due to implementation of projects and inventions PLN 104 million,
- disputed issues, pending court proceedings PLN 16 million,
- guarantees granted PLN 5 million,
- preventive safety measures in respect of mine-related damage PLN 2 million.

In addition, future payments due to perpetual usufruct of land amounted to PLN 409 million (this is not a due liability, but only represents the basis for making annual payments to the State Treasury).

Sources of financing assets 2009–2010



A significant item is liabilities due to employee benefits in the total amount of PLN 1 221 million, of which:

- the coal equivalent payment PLN 764 million,
- jubilee bonuses PLN 237 million,
- retirement and disability benefits PLN 194 million.

Liabilities due to derivatives amounted in total to PLN 1 193 million, and during the year more than tripled, mainly with respect to hedging instruments.

The prevailing part of provisions for other liabilities (PLN 536 million – total non-current and current) is a revalued provision for decommissioning costs of mines and other facilities (PLN 514 million).

Financial ratios

The table below presents the results describing the economic activities of KGHM in the years 2009–2010.

Basic ratios describing the economic activities of the Company

	2009	2010
Current liquidity	2.4	**2.6**
Quick liquidity	1.4	**1.9**
ROA – return on assets (%)	18.2	**23.0**
ROE – return on equity (%)	24.4	**31.6**
Debt ratio (%)	25.4	**27.1**
Durability of financing structure (%)	86.8	**84.9**

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

The increase in the financial result brought an improvement in the return on assets (ROA) and the return on equity (ROE) ratios.

The increase in the debt ratio is due to a greater increase in liabilities (by 51%) than in equity (by 39%). The decrease in the durability of financing structure ratio was mainly due to a greater increase in Company assets than in equity and non-current liabilities.

Capital market ratios

The Company's activities are characterised by the following ratios, significant from a shareholder's point of view:

Capital market ratios

		2009	2010
EPS (zł)	Profit for the period / number of shares	12.70	**22.84**
P/CE	Price per share / financial surplus per share*	6.9	**25.9**
P/E	Price per share / earnings per share	8.3	**7.6**
MC/S	Market capitalisation**/ revenues from sales	1.9	**2.2**
P/BV	Price per share / book value per share***	2.0	**2.4**

* Financial surplus = profit for the period + depreciation/amortisation.

** Market capitalisation represents total shares outstanding times share price from the last day of the year (200 million shares x PLN 106.00 in 2009; PLN 173.00 in 2010).

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

Operating costs

The Company's operating costs are decisively impacted by the costs of electrolytic copper production, whose share in the Company's costs is over 91%.

The pre-precious metals credit unit cost of copper production (unit cost prior to decrease by the value of silver and gold) in 2010 increased versus 2009 by 1 596 PLN/t, i.e. by 11%, mainly due to an increase in the value of purchased copper-bearing materials (+1 382 PLN/t) due to a higher volume of consumption by 16% (16 thousand tonnes of copper) and of purchase prices by 30%.

The total pre-precious metals credit cost of copper production from own concentrates increased by 508 PLN/t, i.e. by 4%, which was primarily due to the below-mentioned increase in expenses by nature, alongside the positive impact of a higher volume of copper production from own concentrate (+7% in relation to 2009).

The structure of expenses by nature is presented below:

Structure of expenses by nature (%)

	2008	2009	2010
Depreciation of property, plant and equipment and amortisation of intangible assets	6	7	**7**
Materials and energy	44	46	**51**
including purchased copper-bearing materials	21	23	**30**
External services	13	12	**11**
Employee benefits costs	31	31	**28**
Taxes and charges	4	3	**3**
Other	2	1	**0**

In 2010 total expenses by nature increased by PLN 1 205 million, i.e. by 15%, mainly due to:
- the higher value of purchased copper-bearing materials (PLN 961 million) due to an increase in purchase prices and in the volume of consumption by 18 thousand tonnes Cu (of which 16 thousand tonnes relates to cathode production),
- labour costs (PLN 72 million) – mainly due to a higher annual bonus (in 2009 17.5%; in 2010 24%) and a higher level of employment, alongside lower provisions for future employee benefits by PLN 113 million
- depreciation/amortisation (PLN 68 million) – due to an increase in realised investments in property, plant and equipment (+18%)
- materials and fuel (PLN 61 million) – mainly due to an increase in fuel prices.

Unit cost of electrolytic copper production

	Unit	2008	2009	2010
Pre-precious metals credit total cost	PLN/t	13 434	13 944	**15 540**
of copper production	USD/t	5 583	4 472	**5 149**
of which: from own concentrates	PLN/t	12 882	13 153	**13 661**
Total cost of	PLN/t	11 736	11 170	**12 983**
copper production	USD/t	4 878	3 582	**4 302**
of which: from own concentrates	PLN/t	10 797	9 750	**10 487**
Electrolytic copper production	'000 t	526.8	502.5	**547.1**
of which: from own concentrates	'000 t	421.7	398.6	**427.0**

Realisation of projected financial results

In a current report dated 1 February 2010, the Company published its Budget assumptions for 2010 as accepted by the Supervisory Board on the same day. The Budget assumed the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit of PLN 2 898 million.

Along 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 on 6 December 2010. Basic assumptions, projected results and their realisation are shown in the following table.

The higher-than-assumed profit is mainly the result of the higher-than-planned volume of copper and silver sales and more favourable metals prices.

The relatively low realisation of planned equity investments is due to the level of equity investment in Tauron Polska Energia S.A., which the Company ties to favourable market conditions for the purchase of shares.

Projected Company financial situation in 2011

On 31 January 2011 the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2011. The basis for preparation of the Budget were the preliminary results for 2010 and the assumptions contained in specific operating plans. The accepted Budget assumes the achievement in 2011 of revenues from sales in the amount of PLN 16 067 million and profit for the period of PLN 8 345 million.

Details of the basic assumptions of the Budget for 2011 are presented below:

Realisation of projected Company financial results for 2010

	Unit	Forecast (1.02.2010)	Forecast update (6.09.2010)	Forecast update (6.12.2010)	Execution 2010	Realisation of forecast (%)
Sales	million PLN	11 736	14 395	15 464	**15 945**	103.1
Profit for the period	million PLN	2 898	3 910	4 462	**4 569**	102.4
Average annual copper price	USD/t	6 700	6 700	7 475	**7 539**	100.9
Average annual silver price	USD/troz	17.00	18.00	19.95	**20.19**	101.2
Exchange rate	USD/PLN	2.70	3.10	3.015	**3.02**	100.2
Electrolytic copper production	'000 t	512.0	541.0	546.2	**547.1**	100.2
of which from purchased copper-bearing materials	'000 t	84.0	120.0	120.2	**120.0**	99.8
Silver production	t	1 100	1 158	1 136	**1 161**	102.2
Unit cost of electrolytic copper production	PLN/t	12 548	13 465	13 465	**12 983**	96.4
Capital expenditure	million PLN	1 633	1 535	1 535	**1 263**	82.3
Equity expenditures*	million PLN	1 738	2 206	2 206	**1 367**	62.0

* includes purchase of shares and investment certificates, increases of share capital and owner loans and payments to subsidiaries

The level of expenditures on equity investments was set with the assumption of earning income from the sale of the telecom assets. The most important item with respect to assumed equity investments is the acquisition of foreign, low-cost mine assets, representing an element in the realisation of the Company's strategic assumptions. The goal from realisation of these projects is the achievement in subsequent years of mine production in the KGHM Polska Miedź S.A. Group at the level of 700 thousand tonnes of copper in concentrate annually.

The capital expenditures plan assumes the continuation of tangible projects begun mainly with respect to: accessing the "Głogów Głęboki Przemysłowy" deposit, continued construction of the SW-4 shaft, the Pyrometallurgy Modernisation Program and the construction of gas-steam blocks.

The increase in the electrolytic copper production cost from own concentrate with respect to 2010 is mainly due to the increased scope of preparatory mine work, an increase in labour costs and the lower value of anode slimes (the lower amount of silver in slimes) alongside the higher utilisation of stored internal half-finished products.

It should be noted that, given the high level of hedging of future Company revenues, the continued high volatility in metals prices and in the exchange rate has a substantial impact on the change in the fair value measurement of derivatives at the end of the reporting period and on the level of profit for the period.

Realisation of this forecast will be monitored by the Company on an on-going basis. Should there occur significant deviation from the amounts forecasted, the Company will perform an adjustment to the forecast and immediately will publish it in the form of a current report.

Company Budget assumptions for 2011

	Unit	2010	Budget 2011
Sales	million PLN	15 945	16 067
Profit for the period	million PLN	4 569	8 345
Average annual copper price	USD/t	7 539	8 200
Average annual silver price	USD/troz	20.19	25.00
Exchange rate	USD/PLN	3.02	2.80
Electrolytic copper production	'000 t	547.1	543.0
of which from purchased copper-bearing materials	'000 t	120.0	111.0
Silver production	t	1 161	1 027
Unit cost of electrolytic copper production from own concentrate	PLN/t	10 486	12 634
Capital expenditure	million PLN	1 263	1 892
Equity expenditures*	million PLN	1 367	9 046

* Includes purchase of shares and investment certificates, increases of share capital and loans and payments to subsidiaries

Investments and Research and Development

Report on investment expenditures by KGHM Polska Miedź S.A. in 2010

Investment expenditures in the company in 2010 amounted to over PLN 1 260 million.

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

MAJOR PROJECTS AND FACILITIES REALISED IN 2010

- SW-4 shaft
  Continued construction of the SW-4 shaft of the Polkowice-Sieroszowice mine. A total depth of 811 meters have been excavated since work began. In addition, surface and underground infrastructure was built and work continued on developing drifts – a total of 1.594 meters have been built. Construction of the SW-4 shaft with associated infrastructure, along with necessary accessing work, will enable the Polkowice-Sieroszowice mine to avoid a drop in extraction after 2011 of around 2 million tonnes annually;

- "Głogów Głęboki Przemysłowy"
  In 2010 work continued on drifts to access the "Głogów Głęboki Przemysłowy" region. Along with progress on the drifts, work is underway on infrastructure, in terms of power supply, dewatering, ventilation and cooling and ore haulage. Work included the excavation of 5.651 meters of tunnels. In terms of preparatory work for the sinking of the GG-1 shaft, an agreement was signed for the construction of facilities necessary to begin the sinking of the shaft, together with permanent facilities and design work. A freezing plate was built along with 11 freeze holes;

- Investments related to developing mine infrastructure
  - power modernisation and replacement of the machine park in the mines – 200 machines were purchased in 2010 in the amount of PLN 190 million,
  - ventilation and cooling equipment – the main surface ventilation station of the SG-2 shaft was realised and the central cooling system was built;

- Floatation machinery replacement program
  Altogether, the project foresees the replacement of 95 floatation cells and the modernisation of 18 cells throughout the Ore Enrichment Plants. In 2010 the following tasks were realised:
  - in the "Polkowice" region, five cleaning floatation cells were renovated and returned to production, and one general floatation cell was renovated,
  - in the "Rudna" region, two initial floatation cells and four cleaning floatation cells were brought into production; renovation began on additional cleaning floatation cells,
  - in the "Lubin" region, two initial floatation cells were brought into production,
  - machines scheduled for renovation in 2011 were supplied,
  - tenders were held and contractors selected for the renovation of machines in 2011 and for several machines in 2012,
  - contractors were selected for all machines scheduled for renovation in the years 2011–2013;

- "Radwanice-Gaworzyce deposit"
  Work commenced on exploring the possibilities of excavating the "Radwanice-Gaworzyce" deposit. Geological analysis was performed to determine the size of the ore resources, and detailed data was obtained on the geological conditions of the ore;

- Pyrometallurgy Modernisation Program
  In May 2010 the Management Board of the company decided to pursue the Pyrometallurgy Modernisation Program in the years 2010–2014, with a total budget of PLN 1.7 billion. The priority goals of this program are:
  - to create a functionally-integrated, cost-effective and environmentally-friendly smelting structure in KGHM,

  - to prepare technology ensuring the continuation of existing internal and purchased concentrate processing capacity to ensure continued operations over the next several decades.

  The major modifications and improvements in terms of this project will be carried out at the Głogów smelter through the construction of a flash furnace unit at Głogów I, and modernisation of the production line of Głogów II. This will provide the Głogów smelter with sufficient production capacity to process all of the concentrate produced by KGHM, which implies elimination of the processing of concentrates and the production of electrolytic copper by the Legnica smelter, and the need to simultaneously alter its profile in terms of social concerns. Alteration of the profile of the Legnica Smelter is being realised by a separate project.

- Renovation of the 4th Doerschel furnace at the Głogów smelter
With respect to renovation of the 4th Doerschel furnace, an agreement was signed to receive EU financing for the project, and renovation of the 4th Doerschel furnace with associated installations and equipment was carried out.

- Construction of Gas-Steam Blocks in the Power Plants in Głogów and Polkowice
The construction of blocks with total power capacity of 90 MW ensures the generation of power and heat to meet the needs of KGHM, increases the energy security of the company and reduces CO_2 emissions from the existing power plant in Głogów. As part of the investment an agreement was signed for the supply of gas from PGNiG S.A. and connection to the distribution network of WSG Sp. z o.o., and an agreement was signed for the supply of gas and steam turbo units and recovery boilers.

Other investments:

- Facilities were realised related to improving and maintaining the safety of the Żelazny Most tailings pond and eliminating its impact on the environment;

- Work began on the project "Licensing 2013" – obtaining new mining licenses and agreements for seven basic mine regions of KGHM by 31 December 2013;

- An agreement was signed to receive EU financing for the project "Development of mining technology utilising the ACT/KGHM complex";

- A project was realised called "Redevelopment of the Sulphuric Acid Plant at the Głogów I smelter";
- Realisation was begun on the project "Development of power generation resources based on bituminous coal on the grounds of the current Blachownia Power Plant" – an agreement on cooperation was entered into between Tauron, KGHM and PKE for the construction of a new power block with an approximate capacity of 910 MW, based on bituminous coal (on the grounds of the Blachownia Power Plant).

Equity investments

At 31 December 2010 KGHM Polska Miedź S.A. directly owned shares of 23 subsidiaries, 1 associate, 2 other companies and investment certificates in 3 closed-end non-public investment funds. Eight of these entities 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., "Energetyka" sp. z o.o., DFM ZANAM-LEGMET Sp. z o.o., BIPROMET S.A. and KGHM I FIZAN.

The value of the equity investments of KGHM Polska Miedź S.A. in 2010 amounted to over PLN 1 320 million, including the acquisition of shares/newly issued shares in the amount of nearly PLN 961 million, and the acquisition of investment certificates in the amount of nearly PLN 360 million. These investments were financed by the internal funds of the Company.

ACQUISITION OF SHARES/NEWLY ISSUED SHARES

- Acquisition of newly issued shares in the increased share capital of Zagłębie Lubin S.A.
In 2010, KGHM Polska Miedź S.A. acquired new shares in the increased share capital of Zagłębie Lubin S.A. They were paid in cash at their nominal amount, in the total amount of PLN 48 million. The funds obtained from this new issuance of share capital were used to complete realisation of an investment – construction of a football stadium – and to regulate liabilities. The percentage ownership of KGHM Polska Miedź S.A. in the share capital of this company following the increase remained unchanged.

Investment expenditures by Division (mln PLN)

	2008	2009	2010
Mining	880	833.5	985
Smelting	243	219	231
Other activities	17	17	47
Total	1 140	1 070	1 263

Development-related investments (mln PLN)

	2008	2009	2010
Development:	492	513	743
in mining	422	430	630
in smelting	62	78	82
in other Divisions	7.5	5	31

- Acquisition of shares of Abacus Mining & Exploration Corporation
In May 2010, KGHM Polska Miedź S.A. acquired registered shares of a new issue of Abacus Mining & Exploration Corporation with its registered head office in Vancouver in Canada, representing 8.75% of the share capital of this entity. The total acquisition-related costs of these shares was PLN 14.6 million. This transaction was related to the intention of KGHM Polska Miedź S.A. and the shareholders of Abacus to realise a joint venture to advance the Afton-Ajax copper-gold mining project located in British Columbia in Canada.

- Acquisition of the shares of TAURON Polska Energia S.A.
In June 2010, KGHM Polska Miedź S.A. acquired through a public offer shares of TAURON Polska Energia S.A., representing 4.9% of the share capital of the company, for the total price of PLN 399.5 million. Shares were subsequently purchased on the secondary market. At the end of 2010, KGHM Polska Miedź S.A. maintained its equity involvement in TAURON Polska Energia S.A. at a level above 5%. Purchase of the shares of TAURON Polska Energia S.A. results from realisation of the Strategy of KGHM Polska Miedź S.A. for the years 2009–2018, which foresees the diversification of sources of income and entry to the power sector.

- Acquisition of shares of KGHM HMS Bergbau AG
In June 2010, KGHM Polska Miedź S.A. purchased from KGHM CUPRUM sp. z o.o. – CBR shares of KGHM HMS Bergbau AG with its registered head office in Berlin, granting the right to 74.9% of the votes at the General Meeting of this entity. Acquisition-related costs amounted to PLN 1.6 million. Spółka KGHM HMS Bergbau AG was founded by KGHM CUPRUM sp. z o.o. – CBR and the company HMS Bergbau AG to realise a project of exploration for and evaluation of deposits of copper ore and other metals in Europe.

- Acquisition of shares of BIPROMET S.A.
In July 2010, KGHM Polska Miedź S.A. acquired shares of BIPROMET S.A., granting the right to 66% of the votes at the General Meeting of this company. Acquisition-related costs amounted to PLN 31 million. The decision to acquire a controlling interest in BIPROMET S.A. was due to the identification of significant smelting-related synergies effects between KGHM Polska Miedź S.A. and this company.

Replacement-related investments (mln PLN)

	2008	2009	2010
Replacement	648	557	520
in mining, of which:	458	404	355
mining machinery	222	194	190
in smelting	181	141	149
in other Divisions	9	12	16

- Foundation of the company
  KGHM (SHANGHAI)COPPER TRADING CO., LTD
  in the People's Republic of China
  In September 2010, KGHM Polska Miedź S.A. founded, in the People's Republic of China, the company KGHM (SHANGHAI) COPPER TRADING CO., LTD., with share capital of USD 500 thousand. KGHM Polska Miedź S.A. is the sole shareholder of the company. Total acquisition-related cost of shares amounted to PLN 1.9 million. The creation of this company is aimed at gaining a competitive market position in the trading and distribution of goods such as copper, silicon, artificial materials and chemicals (excluding hazardous and poisonous materials).

- Acquisition of newly issued shares in the increased share capital of KGHM Ecoren S.A.
  In October 2010, KGHM Polska Miedź S.A. acquired newly-issued shares in the increased share capital of KGHM Ecoren S.A., paid in cash at their nominal amount, in the total amount of PLN 115 million. The funds from this increase in share capital were used to purchase shares of CENTROZŁOM WROCŁAW S.A. from the State Treasury. The share of KGHM Polska Miedź S.A. in the share capital of this company following the increase remained unchanged.

- Acquisition of shares of KGHM AJAX MINING INC.
  In October 2010, KGHM Polska Miedź S.A. acquired 51% of the shares of KGHM AJAX MINING INC., a company founded jointly with Abacus Mining & Exploration Corporation with its registered head office in Vancouver, through a cash contribution in the amount of USD 37 000 thousand. Total acquisition cost of shares: PLN 109.7 million. Abacus brought to the company all the rights it owns to the Afton-Ajax deposit in Canada. This transaction was the result of the signing in May 2010 by the Management Board of KGHM Polska Miedź S.A with Abacus of an Investment Agreement on the joint realisation of the Afton-Ajax copper-gold mining project.

- Acquisition of shares of ZANAM-LEGMET Sp. z o.o.
  In November 2010, KGHM Polska Miedź S.A. acquired from the subsidiary KGHM Ecoren S.A. shares of ZANAM-LEGMET Sp. z o.o. The total acquisition-related costs of the shares was PLN 48.6 million.

- Acquisition of shares of INOVA Spółka z o.o.
  In November 2010, KGHM Polska Miedź S.A. acquired from the subsidiary KGHM Ecoren S.A. shares of INOVA Spółka z o.o. The total acquisition-related costs of these shares amounted to to PLN 13 million. The purchase by KGHM Polska Miedź S.A. of the shares of ZANAM-LEGMET Sp. z o.o. and INOVA Spółka z o.o. was aimed at gaining direct supervision by KGHM Polska Miedź S.A. of companies which support the core business.

ACQUISITION OF INVESTMENT CERTIFICATES

- In 2010, KGHM Polska Miedź S.A. thrice acquired Investment Certificates of the fund KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The total acquisition cost of certificates was PLN 348 million. The funds acquired from issuance of the Fund's certificates were designated to be used to purchase 90% of the shares of each of the following companies: Zespół Uzdrowisk Kłodzkich S.A., Uzdrowisko Połczyn S.A. and "Uzdrowisko Cieplice" Sp. z o.o. and to acquire newly issued shares of Interferie Medical SPA Sp. z o.o.

- Acquisition of Investment Certificates of KGHM II FIZAN
  In June 2010, KGHM Polska Miedź S.A. acquired Investment Certificates of the fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The total acquisition-related costs of these certificates amounted to PLN 7 million. The Fund will deposit the cash acquired in investment accounts pursuant to the investment decision of the General Meeting of Investors.

- Acquisition of Investment Certificates of KGHM III FIZAN
  November 2010, KGHM Polska Miedź S.A. acquired Investment Certificates of the fund KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The Fund will deposit the cash acquired in investment accounts pursuant to the investment decision of the General Meeting of Investors. The Managing Body of the above-mentioned funds is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. At the end of 2010, KGHM Polska Miedź S.A. was the sole participant of these funds.

Results and forecasts

DISPOSAL OF SHARES

In 2010, KGHM Polska Miedź S.A. disposed of shares of two entities:

- Disposal of shares of PCPM sp. z o.o.
  In July 2010, KGHM Polska Miedź S.A. sold all of the shares it held in POLSKIE CENTRUM PROMOCJI MIEDZI sp. z o.o., to another shareholder – The European Copper Institute (Europejski Instytut Miedzi). The sale price amounted to PLN 122 thousand. The acquisition-related costs of these assets was PLN 270 thousand.

- Disposal of shares of INTERFERIE S.A.
  In December 2010, KGHM Polska Miedź S.A. sold all of the shares it held in INTERFERIE S.A. The shares were sold to Fundusz Hotele 01 Sp. z o.o. S.K.A. (a 100% subsidiary of the fund KGHM I FIZAN). The sale price amounted to over PLN 1.5 million. The acquisition-related costs of these assets was PLN 1.5 million.

PAYMENTS TO SUBSIDIARIES

In 2010, KGHM Polska Miedź S.A. granted payments to the reserve capital of two subsidiaries, in the total amount of PLN 6.8 million.

- KGHM CUPRUM sp. z o.o. – CBR
  In August and November 2010, this company was granted two payments to its reserve capital in the total amount of PLN 5.3 million, for the purchase of land related to realisation of a project involving construction of the conference-hotel centre CUPRUM III in Wrocław.

- CBJ Sp. z o.o.
  In July 2010, this company was granted a payment to its reserve capital in the amount of PLN 1.5 million, payable in 5 instalments during the period 2010–2012. The payment was aimed at the financing by the company of the purchase and implementation of an integrated IT system.

In June 2010, KGHM CUPRUM sp. z o.o. – CBR returned to KGHM Polska Miedź S.A. a payment in the amount of PLN 1.5 million, granted to the company in 2008 to finance the first stage of exploratory work in the Weisswasser region.

DIVIDENDS

In June 2010, KGHM Polska Miedź S.A. received dividends from Polkomtel S.A. in the amount of PLN 24 million, from the appropriation of profit for 2009.

Also in 2010, KGHM Polska Miedź S.A. received two interim payments from Polkomtel S.A. towards the dividend for 2010 in the total amount of PLN 122.5 million.

Research and Development

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

Amongst the important R&D work performed in KGHM Polska Miedź S.A. in 2010 was the following:

- the signing of an agreement with the Polish Agency for Enterprise Development on financing from the funds of the European Regional Development Fund for an R&D project titled "Development of mining technology through the use of an ACT combine by KGHM";

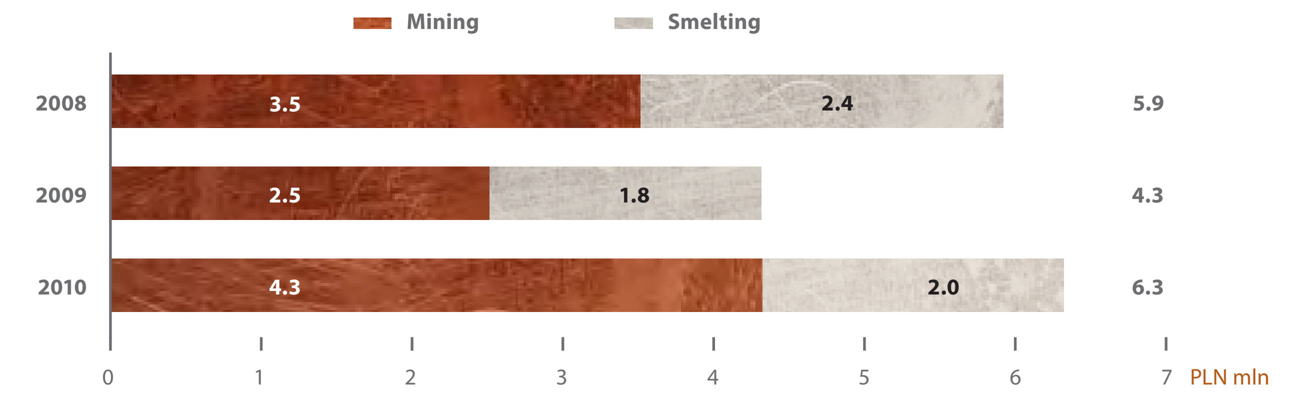
- participation by the Company in an R&D project called "Technology for hydrometallurgical treatment of half-finished products and copper concentrates by the Lubin Ore Enrichment Plant", which is being realised by the Chemical Department of the Wrocław University of Technology. In this project, KGHM Polska Miedź S.A. is acting as an industrial partner and an end-user of the solutions developed. In addition, in cooperation with the Wrocław University of Technology, an application was prepared for the Ministry of Education and Higher Learning to realise a project called "Adaptation and implementation of Lean methodology in copper mines";

- The Company has also joined academic-industrial consortiums with respect to a strategic research program called "Improving safety for mine workers" initiated by the National Centre for Research and Development. Applications have been prepared for R&D projects called "Development of a new table of natural threats in underground mines with academic review" and "Development of principles for the employment of workers in environmentally hazardous conditions in underground mines";

- The Company also participated in domestic and international sector projects in terms of R&D:

  - participation in academic-industrial projects by the Centre in domestically-applied geological research called "Geocentrum Polska EFRB (EXPLOSIVE-FREE ROCK BREAKAGE INITIATIVE), involving the search for alternative methods for explosion-free breakage of hard rock,
  - participation in the initiative MIFU (MINE OF THE FUTURE), i.e. designing model future mines,
  - KGHM Polska Miedź S.A. is also engaged in applied research and development work with respect to the Seventh Framework Program of the EU.

R&D expenditures (PLN mln)



Important projects realised in mining:

- work on developing technology for the mechanical mining of rock in the mines of KGHM Polska Miedź S.A.;
- attempts to utilise combines for drift work;
- improving safety during mining operations under conditions of seismic and roof-collapse threats;
- research into the possibility of controlling the calorific value of concentrates sent to the smelters;
- preliminary analysis and research with respect to the implementation of technology enabling the achievement of energy savings in the production line of the Company;
- research with respect to the safe operation and expansion of the capacity of the Żelazny Most mine waste treatment tailings pond.

Important projects realised in smelting:

- work on a spatial program concept for the Pyrometallurgy Modernisation Program, including construction of an installation for the pyrometallurgical elimination of carbon from concentrate;
- research into optimising the flash furnace process by applying a single concentrate burner in the flash furnace at the Głogów smelter;
- research into the composition of purchased copper-bearing materials in terms of ensuring the current high level of quality of electrolytic copper;
- minimising the impact of the Company's smelters on the environment.

Major directions of research with respect to technological innovation in subsequent years:

- research into developing mining and drift development technology in the mines of KGHM Polska Miedź S.A. utilising mining combines;
- development of modified and/or new technology for mining deep deposits;
- research into improving mine work safety under conditions of seismic and roof-collapse 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 and aimed at reducing the costs of this procedure;
- research into optimising flash furnace technology.

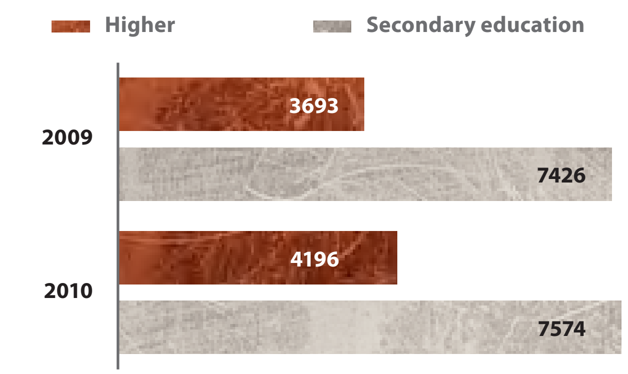
Employment in KGHM Polska Miedź S.A.

Employment in KGHM Polska Miedź S.A. at the end of 2010 was 18 639 persons, which was 1.2% higher than at the end of the prior year. Average annual employment in KGHM Polska Miedź S.A. amounted to 18 465 and was higher than the level of employment in 2009 by 95 persons.

Educational structure

In 2010, there was a change in KGHM Polska Miedź S.A. in the employee educational structure.

Educational structure



Human Resource Management System

2010 saw a continuation of actions under the Human Resource Management System. Over 4400 white-collar employees underwent assessment, as a result of which candidates were identified for reserve management staff and for work on projects. A further step was the assessment of 120 persons under the Development Centre method, and planning for individual career paths. Actions were also begun with respect to the assessment of employee satisfaction, which is planned to include all of the Company's employees.

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 Funduszu Inwestycyjnego Otwartego Akcji KRAKOWIAK.
2. PZU Funduszu Inwestycyjnego Otwartego Papierów Dłużnych POLONEZ.
3. PZU Funduszu 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 amounts to 5% of employee wages. At 31 December 2010, 85% of employees belonged to the program.

Medical packet

Since September 2009 the employees of KGHM Polska Miedź S.A. have had the option of an additional medical packet in Miedziowy Centrum Zdrowia S.A. The monthly cost of this packet is PLN 35 per employee, and is covered by the employer. During the year the employee can take advantage of two visits to each of the selected medical specialists as well as unlimited access to laboratory tests. At 31 December 2010, 45% of employees were covered by this medical packet.

Purpose and use of the Social Fund in KGHM Polska Miedź S.A. in 2010

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 from the CLA) amounts to PLN 5 236. 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 2010 amounted to PLN 99.7 million.

18.4 thousand employees and over 17.3 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 2010 was approx. PLN 2 152 per employee;
- Holidays for children and youth
  KGHM organises and subsidises various forms of recreation for children and youth. In 2010 nearly 6 500 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;
- 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 12 500 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 2010 this financing amounted to PLN 1 955.98;
- 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 2010 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 2010 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,
  - cultural and educational activities,
  - sporting-recreational activities.

End-of-period employment (# of persons)

	2008	2009	2010
Mines	12 468	12 397	**12 645**
Smelters	4 024	3 931	**3 869**
Other Divisions	2 143	2 085	**2 125**
KGHM Polska Miedź S.A.	18 635	18 413	**18 639**

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 2010 this equivalent amounted to PLN 1 762 per entitlee.

Employment in the KGHM Polska Miedź S.A. 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. Among the remaining Group companies the highest average number of employees in 2010 was recorded in the following entities (no. of positions):

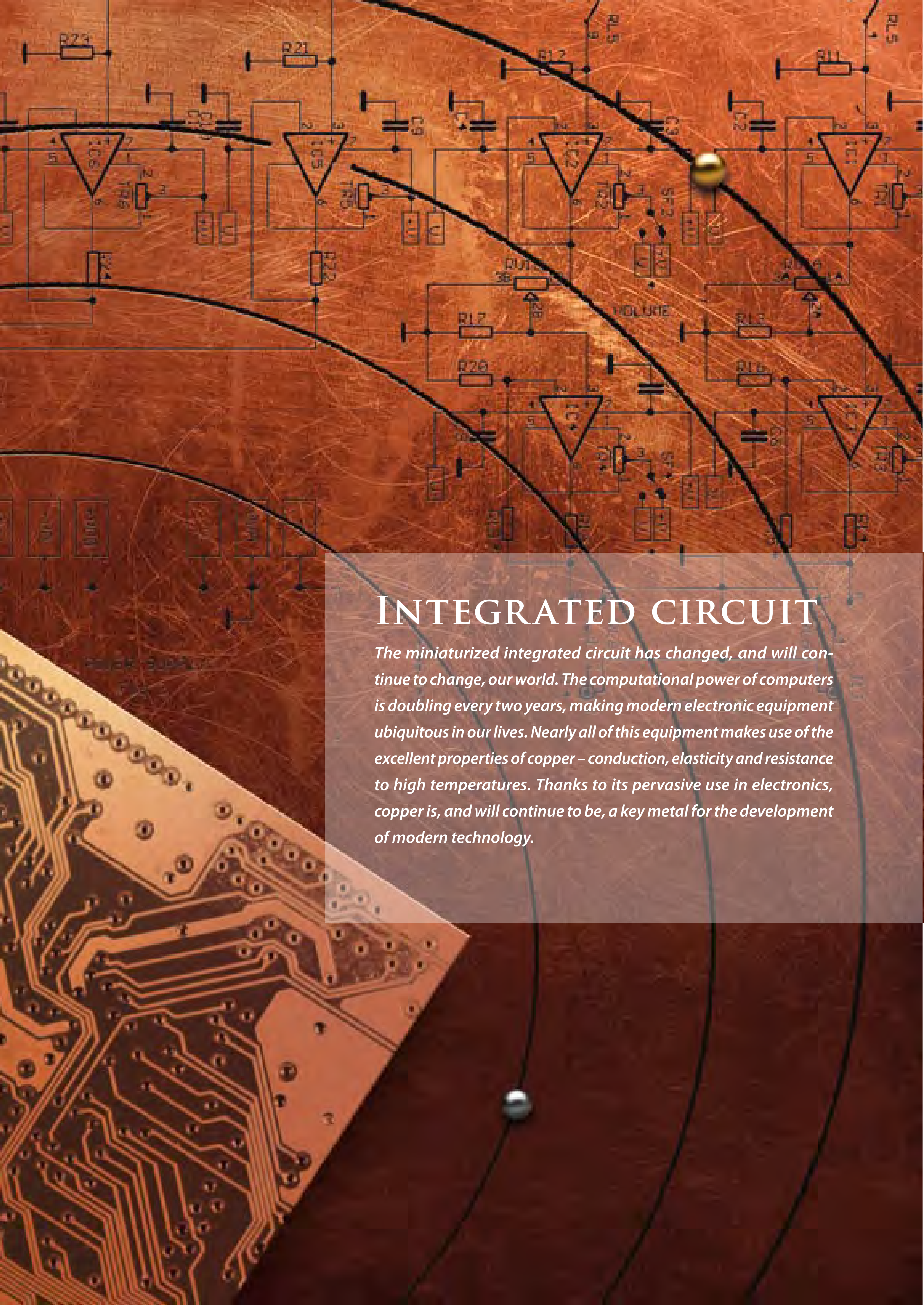
- PeBeKa S.A. 1 595;
- ZANAM-LEGMET Sp. z o.o. 1 261;
- POL-MIEDŹ TRANS Sp. z o.o. 1 252;
- DIALOG S.A. 921.

In 2010 average employment in the Group increased in comparison to 2009 by 2 044 positions. This was mainly due to the expansion of the Group by new subsidiaries, which increased average employment by 1 881 positions. Amongst the new entities the highest employment is in ZUK S.A. (671 positions) and in CENTROZŁOM WROCŁAW S.A. (445 positions).

Amongst the most important changes in employment in existing Group entities are the increase in average employment in ZANAM-LEGMET Sp. z o.o. by 98 positions (8.4%), due to the opening by the company of new areas of activity and to an increase in average employment in the mines of KGHM Polska Miedź S.A. by 95 positions (0.5%), caused by the development of infrastructure and by the replacement of its repair services. The largest decrease in average employment amongst Group companies was recorded by POL-MIEDŹ TRANS Sp. z o.o., i.e. by 117 positions, due to realisation of the Voluntary Departure Program.

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

Description	2008	2009	2010
White collar employees	8 747	8 957	**10 051**
Blue collar employees	19 731	19 927	**20 877**
Total	28 478	28 884	**30 928**



Integrated circuit

The miniaturized integrated circuit has changed, and will continue to change, our world. The computational power of computers is doubling every two years, making modern electronic equipment ubiquitous in our lives. Nearly all of this equipment makes use of the excellent properties of copper – conduction, elasticity and resistance to high temperatures. Thanks to its pervasive use in electronics, copper is, and will continue to be, a key metal for the development of modern technology.

KGHM Polska Miedź S.A. – new challenges

Each year, KGHM undertakes new challenges. Their purpose is to provide a stable future for the Company and its employees. Thanks to new business, technology and environmental projects, KGHM's image is that of an innovative company, concerned not only for its own position on global margets, but also for the environments, both natural and human, in which it operates.

KGHM AJAX MINING INC.

The mining expansion strategy of KGHM Polska Miedź S.A. with respect to acquiring new resource assets is one of the key directions of growth of the Company. It is aimed at increasing the Company's competitiveness amongst producers on the global copper market.

In accordance with the Strategy of KGHM Polska Miedź S.A. for the years 2009–2018, the Company will engage in the exploration for and acquisition of new copper ore deposits beyond the area of the Company's existing operations. The acquisition of such assets will allow the Company to diversify its core business in terms of geography, and over the long term will enable it to increase the production of copper and other metals at lower unit costs.

As a result, in 2010 KGHM Polska Miedź S.A. signed an Investment Agreement with Abacus Mining & Exploration Corporation ("Abacus") with its registered head office in Vancouver to found a joint venture company called KGHM AJAX MINING INC. The new company will advance the Afton-Ajax copper-gold mining project. The deposit is located in western Canada,

in the south-western part of the province of British Columbia, around 5 km south-west of the town of Kamloops.

Work is currently in progress on preparing a Bankable Feasibility Study for this project, following the completion of which a final decision will be made as to the the investment stage of the project. The planned mine will be an open pit, with a predicted mine life of 23 years. Thanks to ownership of this Canadian ore, an economically and politically stable country, KGHM Polska Miedź S.A. intends to increase its production of copper in concentrate by a further 50 thousand tonnes annually. The planned commercial product will be copper and ore concentrate containing 28.3% copper and 16g/tonne of gold.

"Głogów Głęboki Przemysłowy"

A natural direction for the development of mining in KGHM Polska Miedź S.A. is into the area of copper ore, at a depth of below 1200 m, called "Głogów Głęboki Przemysłowy" (GGP).

At the end of the 1990s, geological reconnaissance work was performed by KGHM within a copper-bearing Zechstein series to determine its mineral value in the so-called "Deep Ore" area. This was based on drilling conducted in prior years and described in geological documentation: "Bytom Odrzański", "Głogów" and "Retków". The positive results of this work enabled the development of information on this area, as described in "Documentation of the »Głogów Głęboki« category C_1 geologic copper-silver ore deposit." The ore in this area represents an extension of mining activities, following exhaustion of the existing mining areas. The ore inclines to a depth of 1400 m, and has geological-mining properties similar to those encountered in the existing Rudna and Polkowice-Sieroszowice mines.

Extraction of the ore from the GGP area will be done using the existing infrastructure of the Rudna and Polkowice-Sieroszowice mines, in particular with respect to vertical and horizontal transport, ventilation and surface facilities. The extracted ore will be processed by the ore enrichment plants of the Rudna and Polkowice-Sieroszowice mines, while the concentrate will be sent to the Głogów smelter.

These assumptions about the project, as well as realisation of the GGP mine, are justified, due to:

- the need to continue full utilisation of the production capacity of KGHM, and the related projected decrease in ore output after 2015;
- the steady exhaustion of copper ore situated in the southern parts of the Rudna and Polkowice-Sieroszowice mines.

Within the boundaries of the GGP area a ventilation-air inlet shaft is planned to be built, whose basic function will be to inject fresh air into the mine at the rate of over 4 million m³/h. The inflow of air will be performed by an underground ventilation station, drawing air from the shaft and pumping it into the mine. The shaft will have a projected diameter of 7.5 m, and a depth of around 1340 m. Completion of the shaft's sinking is planned at the end of 2018.

Optimum utilisation of the GGP area should be based on a comprehensive model of ventilation and transport encompassing the entire ore deposit. Likewise, the rational and comprehensive utilisation of the ore resources requires coodination in terms of organisation and technology.

Significance of the GGP area for KGHM Polska Miedź S.A.

The long-term ore utilisation forecast ensures continued production by the Rudna and Lubin mines until the year 2035. The Polkowice-Sieroszowice mine will be active until 2042.

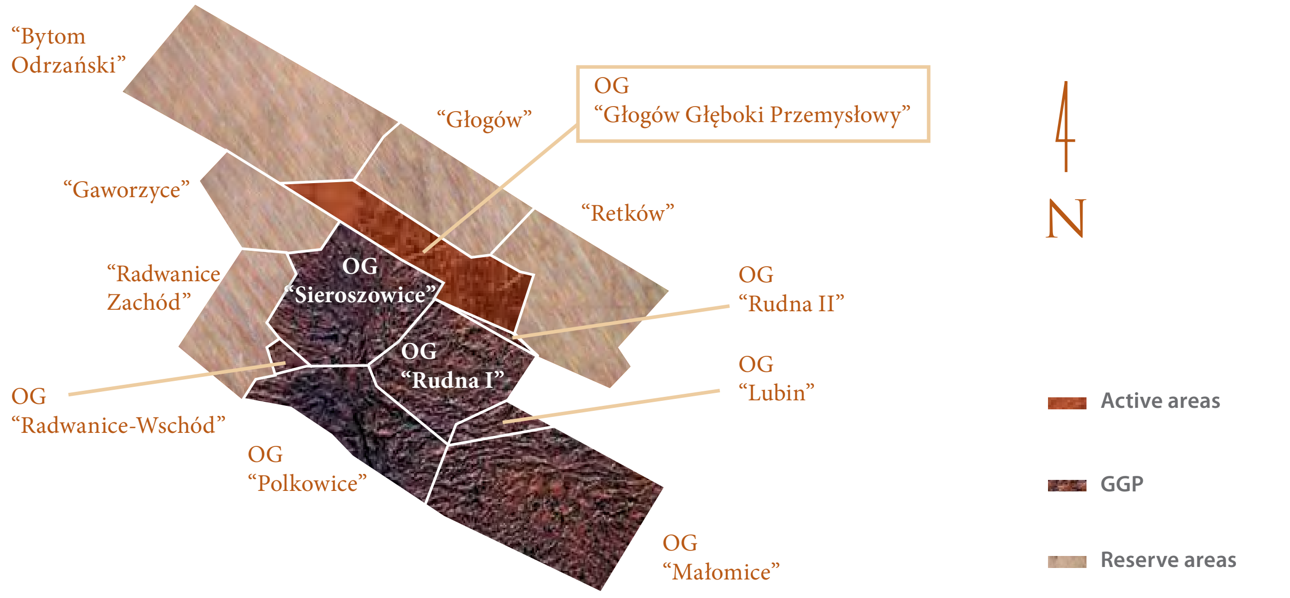
Silver production will be maintained at the level of 1073.5–1496.4 t/year in ore until 2035. From 2036 silver production will be maintained at the level of 648.7–448.0 t/year.

Production forecast (mines):

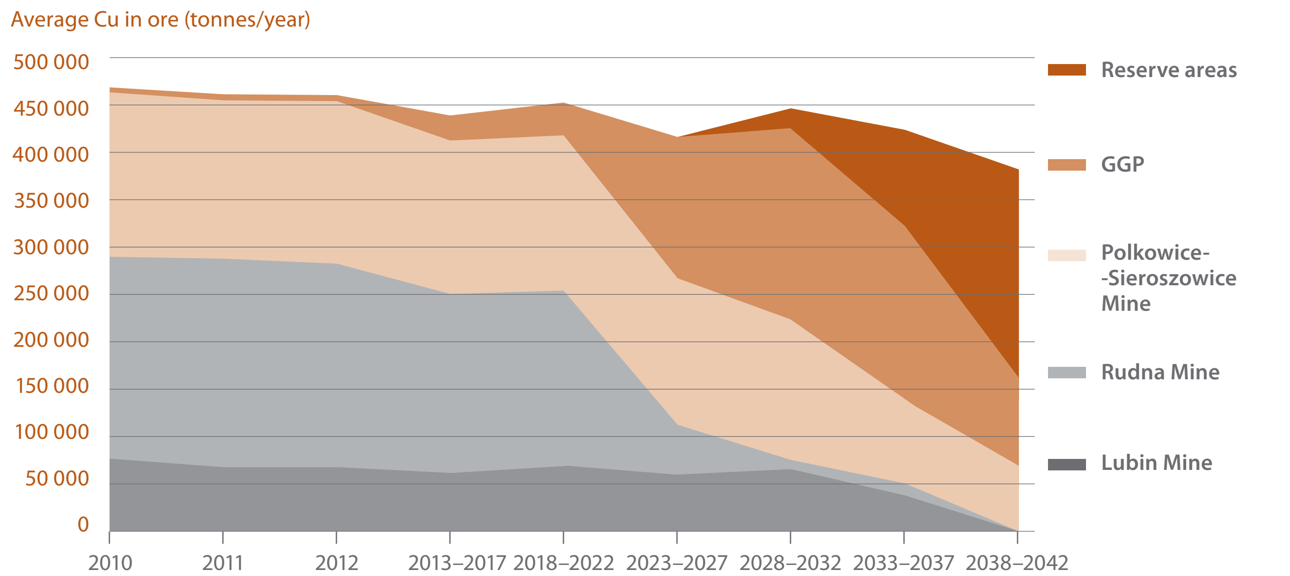
to 2022	– 8.5 mln t/year in ore (d.w.),
	– 451.4 thousand t Cu/year in ore,
from 2023 to 2035	– 24.5 million t/year in ore (d.w.),
	– 416.0 thousand t Cu/year in ore,
from 2036 to 2042	– 9.7 mln t/year in ore (d.w.),
	– 176.9 thousand t Cu/year in ore.

Extraction of copper ore from the GGP area is a strategic goal for KGHM. The project will enable the continued development of KGHM, and by utilising the Company's existing production potential it will substantially reduce the cost of preparing the project and extracting the ore. Extraction of the GGP area will prolong optimal utlisation of the primary production line, from the mines through the enrichment plants (optimum capacity of 30 million tonnes per year) to the smelters (optimum capacity of around 2 million tonnes per year of concentrate). Further development of the Company in the region will limit possible unemployment and will ensure the economic development located in the vicinity of the new mining area.

Active and reserve mining areas

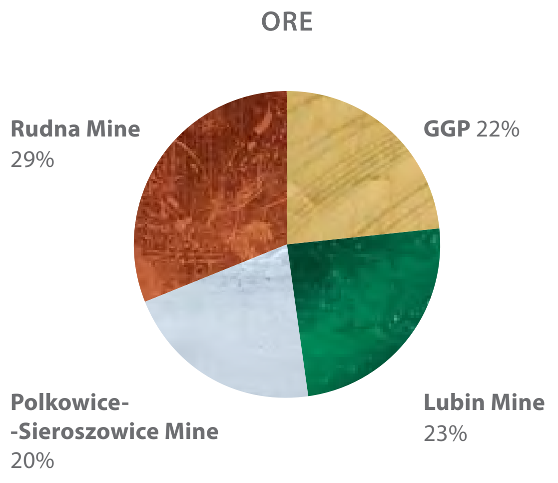


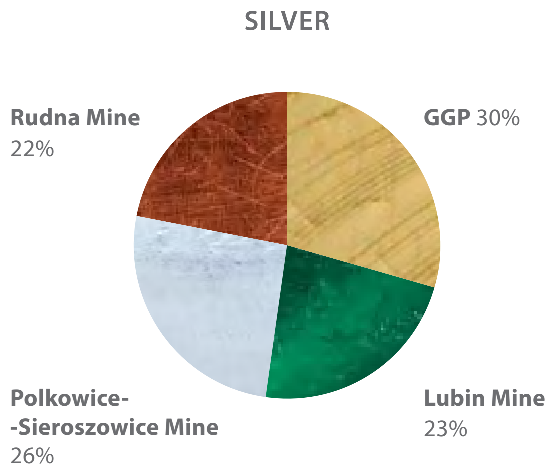
Projected Cu production by KGHM Polska Miedź S.A. per 2008 Technical-Economic Plan

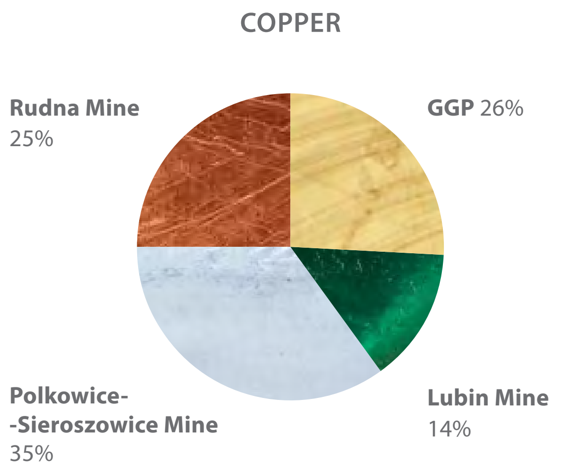


KGHM Polska Miedź S.A. – new challenges

Significance of the GGP area for KGHM Polska Miedź S.A.







Smelter modernisation – flash furnace at the Głogów smelter

The process of economic globalisation has led to a substantial increase in demand for copper, which in turn has provided justification for modernisation of the smelters and the concentration of copper production, as well as the construction of modern smelting facilities in rapidly developing Asian countries. Moreover, competition has increased amongst copper producers, posing a challenge to the smelting capabilities of KGHM Polska Miedź S.A. Smelting at the world-class level means the best technology, friendly to man and nature alike, guaranteeing low production costs and based on the Company's own ore resources.

Smelting in KGHM is based on two technologies for smelting copper concentrate: shaft furnace technology (smelters: Głogów I and Legnica) and flash furnace technology for direct conversion to copper blister (Głogów II). Because the existing smelters have high operating costs, they place KGHM amongst the least-competitive smelters in the world.

To improve the competitive position of the Company in terms of smelting, it has become necessary to modernise the old and high-cost copper production line and update existing production capacity.

Since 2004, KGHM has been studying the issue of the future of copper smelting in the next 20 years. A variety of factors have necessitated these studies, of which the following were the most important:

- The growing difference between the operating costs of shaft furnace versus flash furnace technology;
- The higher costs of maintenance for shaft furnace technology versus flash furnace technology, which to a large extent is due to the greater number of operational units and equipment used in shaft furnace technology;
- The high replacement costs for shaft furnace technology, likewise related to the greater number of operational units and equipment used;
- The larger amount of dust and gas emissions generated using shaft furnace technology versus flash furnace technology;
- The high risk of further increases of smelting costs in shaft furnaces due to further increases in the price of coke and black liquor.

As a result of analyses conducted on the possibilities of modernisation of the firing section of the smelters, together with analysis of their economic efficiency, a concept has been prepared based on replacing shaft furnace technology with flash furnace technology at the Głogów I Smelter called the Pyrometallurgy Modernisation Program (PMP). This program confirms that further operation of the Głogów 1 and Legnica smelters using shaft furnace technology would require expenditures comparable to the flash furnace technology proposed by the PMP. The project has been included in the Strategy of KGHM Polska Miedź S.A. for the years 2009–2018 on the list of efficiency improvement initiatives.

The main modifications and improvements within this Project will be carried out by building and putting into operation a flash furnace technology unit at Głogów I and by modernising the production line of Głogów II. This will enable the achievement of sufficient production capacity to process all of the concentrate produced by KGHM, which simultaneously implies the need to alter the profile of the Legnica smelter.

The projected cost of building the new production line at Głogów I will amount to around PLN 1.7 billion.

Implementation of the PMP project will bring long-term benefits to KGHM from the moment of achievement of the planned concentrate processing capacity using the new technology, i.e.:

- Improved safety by restricting the number of particularly hazardous work stations as are required in shaft furnace technology;
- Elimination of the need for black liquor, a product arisng from a monopolistic market;
- The possibility of smelting imported concentrates;
- Increased production capacity in terms of:
  - rhenium recovery,
  - silver,
  - lead;
- Reduced unit production costs; and
- Avoidance of the risk of incurring in future further expenditures on required additional modernisation of shaft furnace technology in order for it to meet ever-stricter environmental standards.

Brass instruments

A long road separates the brass horn made from a copper alloy from its prototype, an animal's horn, blown in times past by hunters. Animal horns, next to drums, are the oldest of musical instruments. As time passed the horn was provided with a metal mouthpiece, and eventually the entire instrument was made of metal. In the nineteenth century, brass instruments were equipped with valves, creating new possibilities by multiplying the number of available sounds. What would a symphonic orchestra be without brass instruments, and the world of art without the music of Miles Davis?

Corporate social responsibility

Socially responsible business is realised in KGHM Polska Miedź S.A. through its sponsoring and charitable activities. These activities reflect the interests of the social environment in which the Company operates. The Company's business activities remain in conformance with social goals and values.

Sponsoring

Sponsoring in KGHM Polska Miedź S.A. involves the use of financial resources to realise projects aimed, on the one hand, at promoting the Company, and on the other hand – at supporting important initiatives, thanks to which the Copper Belt and the region of Lower Silesia show their presence on the map of Poland and Europe.

KGHM does not conduct sponsoring in a marketing sense. This is mainly due to the nature of the Company's business. The end products of KGHM are not of interest to the ordinary retail customer. Therefore, the Company must build its image in a different manner, by generating social involvement in terms of corporate social responsibility (CSR).

As part of the Company's promotional policy, sponsoring is above all a form of communication with its environment. Thanks to the sponsoring of numerous valuable enterprises in the fields of culture, science and sport, KGHM maintains an active dialogue with the environment in which it operates, simultaneously responding to the needs and expectations of the local community.

As part of its sponsoring activities, KGHM supports the organisation of conferences, symposiums and other events related to academia, which provides for closer cooperation between industry and the scientific community. Also sponsored are enterprises thematically related to the solution of problems encountered by KGHM and the region. In 2010, KGHM was involved among others in the Lower Silesia Festival of Science, Oncological Workshops, the Polish Mining Congress 2010 and the International Symposium on salt "Quo Vadis Sal".

The actions taken by KGHM in terms of sponsoring are aimed at building the image of the Company, but they also have a social mission. KGHM created the Copper Belt, and today the economic activities of the Company are of decisive importance for the existance of a substantial portion of its citizens. As a result, the Company feels responsible for the further development of the region. The Company is involved in numerous actions of a social nature, among which an important place is held by sport. The Company pursues this goal by sponsoring clubs and sporting events, mainly in the Copper Belt and Lower Silesia.

KGHM is a professional patron of sport. The Company treats sport as an important aspect of life, and therefore supports various sporting events of the highest class, including youth sport. The Company appreciates the significance of sport in shaping the recreational aspect of adult life as well as its educational role for youth.

The main areas of sponsoring in KGHM with respect to sport are the football club Zagłębie Lubin S.A., the International Piast Running Competition in Szklarska Poręba-Jakuszyce, and the Piast Path Cycling Competition.

In the sponsoring strategy of KGHM, a particularly important role is played by the football club KGHM Zagłębie Lubin. The club holds an important place on the sporting map of the Copper Belt, as the greatest football successes in the region's history are connected with it. Zagłębie's matches draw thousands of fans to its modern stadium, Dialog Arena, including many of KGHM's employees. As the Company's miners and smelters and their families attend these matches, the sponsoring of Zagłębie plays a crucial role in strengthening the internal relations between employee, employer and the region.

An important social-entertainment aspect of the club is the role it plays in its work with youth, which Zagłębie Lubin carries out at a high level in terms both of organisation as well as training. The young footballers for years have triumphed in the majority of their regional tournaments and leagues, and also achieve significant results in national playoffs. This was no different in 2010. The senior juniors and young juniors teams played to the very end of the Polish Championship. The KGHM senior juniors won their final game, defending their position as Polish champions won the previous year, while their younger colleagues took fourth place.

It is worth adding that the club also cooperates with schools, providing high-quality football training classes and organising tournaments at its own facilities.

The total amount dedicated to sponsoring by KGHM in 2010 was PLN 18 million.

fundacja POLSKA MIEDŹ

Polish Copper Foundation

The charitable activities of KGHM are realized by the Polish Copper Foundation, established in 2003, which under Polish law is an organisation of public utility.

Since 2008 the work of the Charitable Committee, which previously worked under the auspices of the Management Board of KGHM, was added to that of the Polish Copper Foundation.

Altogether, in the years 2003–2010, the Polish Copper Foundation and the Charitable Committee donated on behalf of social purposes, to both institutions and individuals, over PLN 70 million.

The improved system for granting money for social purposes, and the professional manner for granting subsidies and their settlement, which conform to the act on foundations and the act on public utility and volunteerism, enable the effective realisation of the policy of corporate social responsibility in KGHM Polska Miedź S.A.

Subsidies for individuals

Protecting health	83%
Social welfare	17%

Subsidies to institutions

PROTECTING HEALTH	32%
PROTECTING THE NATIONAL HERITAGE	27%
SCIENCE, EDUCATION AND CHILD REARING	12%
SPORT AND PHYSICAL FITNESS	11%
CULTURE AND ART	7%
ECOLOGY AND PUBLIC SAFETY	3%
REGIONALIZM	4%
OTHER SOCIAL ACTIVITIES	4%

Profile of the charitable activities of the Polish Copper Foundation in 2010

AID FOR INDIVIDUALS

1490 monetary subsidies were granted in the total amount of PLN 3.5 million. Among others, the subsidies were used to cover medical and rehabilitation costs, to fight tumors; for children suffering from brain paralysis, mental disease, Down syndrome and to cover costs related to hearing aids, insulin pumps, limb protheses, wheelchairs, fuel, winter clothing, medicine, dietary supplements related to tumors, as well as for eliminating architectural barriers to the handicapped.

AID FOR INSTITUTIONS

317 monetary subsidies were granted to institutions in the total amount of around PLN 10 million to be used among others to protect and promote health; actions on behalf of the handicapped; for science, education, academic institutions, child rearing; tourism and recreation for children and youth, culture, the arts, preserving the national heritage and traditions, promoting physical fitness and sport, ecology and the protection of wildlife and protection of the environmental heritage, public order and safety and counteracting social pathologies, as well as on charitable activities on behalf of victims of natural and other disasters.

Coinage

A foundation of civilisation is the exchange of goods and money. While money today is usually exchanged in electronic form, we still use physical coinage, the descendent of coinage based on precious metals. Coins were first used in the 7th century B.C., near modern Turkey, the use of which was spread by the Phoenicians and Greeks. Since then, coinage has been used everywhere: small and large, round, square or multi-sided, and even with holes in the middle. Made from silver, gold, platinum, it reflects the value of the metal. That made from copper and its alloys serves as billon. Whence the word billon? Billon, from the French bille, is an alloy of copper and silver, from which coins were minted in ancient Greece and Rome.

KGHM Polska Miedź S.A. Group

The companies of the KGHM Polska Miedź S.A. Group operate in diverse business sectors. They offer products and services related to the core business of KGHM, as well as services unrelated to the core business of KGHM Polska Miedź S.A., such as tourism, transportation, telecommunications and medical services. Over 12 thousand people employed in subsidiaries of the Group form the integrated KGHM team, who together forge the strength and value of the KGHM brand.

Group structure

KGHM Polska Miedź S.A.

- **KGHM Ecoren S.A.** 100%
  - Ecoren DKE sp. z o.o. 100%
  - CENTROZŁOM WROCŁAW S.A. 85%
  - WFP Hefra S.A. 98.50%
  - **WM "ŁABĘDY" S.A.** 84.92%
    - Walcownia Metali Nieżelaznych Sp. z o.o. 94.89%
- **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%
- CBJ sp. z o.o. 100%
- PeBeKa S.A. 100%
  - TUW-CUPRUM 1.60%
- **POL-MIEDŹ TRANS Sp. z o.o.** 100%
  - PMT Linie Kolejowe Sp. z o.o. 99%
- **"Energetyka" sp. z o.o.** 100%
  - "BIOWIND" sp. z o.o. 100%
  - WPEC w Legnicy S.A. 85%
- KGHM CUPRUM sp. z o.o. – CBR 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. in liquidation 98.05%
  - TUW-CUPRUM 0.25%
- KGHM TFI S.A. 100%
- **KGHM I FIZAN** 100%
  - Fundusz Hotele 01 Sp. z o.o. 100%
  - **Fundusz Hotele 01 Sp. z o.o. S.K.A.** 100%
    - INTERFERIE S.A. 66.82%
      - Interferie Medical SPA Sp. z o.o. 32.63%
      - TUW-CUPRUM 0.49%
  - Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. 100%
  - Fundusz Uzdrowiska 01 Sp. z o.o. 100%
  - ZUK S.A. 90.09%
  - Uzdrowisko Połczyn S.A. 89.91%
  - "Uzdrowisko Cieplice" sp. z o.o. 89.71%
  - Interferie Medical SPA Sp. z o.o. 67.37%
- KGHM II FIZAN 100%
- KGHM III FIZAN 100%
- Zagłębie Lubin S.A. 100%
- KGHM (SHANGHAI) COPPER TRADING CO., LTD. 100%
- TUW-CUPRUM 93.80%
- KGHM LETIA S.A. 85.45%
- KGHM HMS Bergbau AG 74.90%
- **BIPROMET S.A.** 66%
  - Przedsiębiorstwo Budowlane Katowice S.A. 88%
  - Bipromet Ecosystem Sp. z o.o. 51%
  - WM "ŁABĘDY" S.A. 0.05%
- KGHM AJAX MINING INC. 51%
- Polkomtel S.A. 24.39%

As at 31 December 2010 r.

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

In 2010 the following changes occurred in the structure of the KGHM Polska Miedź S.A. Group

Foundation of the company Interferie Medical SPA Sp. z o.o.

On 1 February 2010, INTERFERIE S.A. founded a company called Interferie Medical SPA Sp. z o.o. with its registered head office in Lubin, acquiring 100% of the shares, paid in cash, in the totla amount of PLN 50 thousand.

In September 2010, INTERFERIE S.A. acquired shares in the increased share capital of Interferie Medical SPA Sp. z o.o. covered by the payment of PLN 100 thousand in cash and a non-cash contribution in the form of land and the ownership of buildings situated in Świnoujście in the amount of PLN 20 million.

At the end of 2010, the KGHM Polska Miedź S.A. Group held 89% of the share capital of Interferie Medical SPA Sp. z o.o.

Interferie Medical SPA Sp. z o.o. provides services with respect to the hotel industry, recreation, rehabilitation, health tourism and wellness. The company is responsible for the construction of a recreation-rehabilitation in Świnoujście.

Acquisition of Investment Certificates of KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN)

In February 2010, KGHM Polska Miedź S.A. acquired investment certificates, series A, of the KGHM I FIZAN fund with its registered head office in Wrocław, for the total price of PLN 21 million. Twice more, during 2010, KGHM Polska Miedź S.A. acquired investment certificates of the fund KGHM I FIZAN: in September and December, certificates of series B and series C, with a total issue price of PLN 322 million. Altogether, 36 160 investment certificates were acquired, with a total issue price of PLN 343 million.

The funds acquired from the issuence of these certificates was designated for the purchase of the companies Zespół Uzdrowisk Kłodzkich S.A., Uzdrowisko Połczyn S.A. and "Uzdrowisko Cieplice" Sp. z o.o., as well as for the acquisition of shares in the increased share capital of Interferie Medical SPA Sp. z o.o., and shares in the increased share capital of Fundusz Hotele 01 Sp. z o.o. S.K.A. (to be used for purchasing shares of INTERFERIE S.A.).

KGHM I FIZAN is involved in the investment of monetary resources in securities, money market instruments and other property rights.

Founding of Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.)

In March 2010, KGHM I FIZAN founded a company called Fundusz Uzdrowiska Sp. z o.o. with its registered head office in Warsaw, acquiring 100% of the shares, and in May 2010, KGHM I FIZAN acquired shares in the increased share capital of Fundusz Uzdrowiska Sp. z o.o., covered by cash in the amount of PLN 200 thousand.

In May 2010, the name was changed to Fundusz Hotele 01 Sp. z o.o. Fundusz Hotele 01 Sp. z o.o. has a varied scope of activities, including acting as a holding company and the management of companies.

Founding of Fundusz Uzdrowiska Sp. z o.o. S.K.A. (currently Fundusz Hotele 01 Sp. z o.o. S.K.A.)

In May 2010, KGHM I FIZAN and Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.) as a complementary company, founded a company called Fundusz Uzdrowiska Sp. z o.o. S.K.A. with its registered head office in Warsaw. KGHM I FIZAN acquired 100% of the shares of this company, covered by cash in the amount of PLN 50 thousand. In June 2010, the name was changed to Fundusz Hotele 01 Sp. z o.o. S.K.A. In December 2010, KGHM I FIZAN acquired shares in the increased share capital of Fundusz Hotele 01 Sp. z o.o. S.K.A., covered by cash in the amount of PLN 50,3 million. Fundusz Hotele 01 Sp. z o.o. S.K.A. has a varied scope of activities.

Founding of Fundusz Uzdrowiska 01 Sp. z o.o.

In May 2010, KGHM I FIZAN founded a company called Fundusz Uzdrowiska 01 Sp. z o.o. with its registered head office in Warsaw, acquiring 100% of the shares, covered by cash in the amount of PLN 15 thousand. Fundusz Uzdrowiska 01 Sp. z o.o. operates as a holding company, involved in the management of companies whose subject of activities is the acquisition of shares, in particular in companies providing holiday, sanatorium and spa services, as well as other servives related to improving physical fitness.

Founding of Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.

In May 2010, KGHM I FIZAN and Fundusz Hotele 01 Sp. z o.o., as a complementary company, founded a company called Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. with its registered head office in Warsaw. KGHM I FIZAN acquired 100% of the shares of this company, covered by cash in the amount of PLN 50 thousand. The price of acquiring the shares was PLN 50 thousand. Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. is involved in the management of special purpose companies, specialising in providing holiday, sanatorium and spa services, as well as other servives related to improving physical fitness.

Acquisition of Investment Certificates of KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN)

In June 2010, KGHM Polska Miedź S.A. acquired 700 Investment Certificates, series A, of the fund KGHM II FIZAN with

KGHM Polska Miedź S.A. Group

its registered head office in Wrocław with a total issue price of PLN 7 million. Acquisition of these certificates was aimed at enabling the registration of this Fund in the registry of investment funds. The Fund will deposit the cash acquired in investment accounts pursuant to the investment decision of the General Meeting of Investors.

Putting FADROMA S.R. Sp. z o.o. into liquidation

In July 2010, the Extraordinary General Shareholders Meeting of FADROMA S.R. Sp. z o.o. resolved to put the company into liquidation. ZANAM-LEGMET Sp. z o.o., as the owner of 98.05% of shares of FADROMA S.R. sp. z o.o., decided to strengthen its service potential through taking over the employees of FADROMA S.R. Sp. z o.o. Actions connected with taking over the employees of the company and its liquidation are an element of the restructurisation and reordering of the Group.

Acquisition of BIPROMET S.A.

In July 2010, a transaction involving the acquisition of shares (acquisition of rights attached to shares) of shares of BIPROMET S.A. KGHM Polska Miedź S.A. acquired shares granting the right to 66% of the votes at the General Meeting of BIPROMET S.A. The cost of acquiring these shares was PLN 31 million.

By acquiring the shares of BIPROMET S.A., the KGHM Polska Miedź S.A. Group obtained indirect control over the subsidiaries of BIPROMET S.A.:

- Przedsiębiorstwo Budowlane Katowice S.A., in which BIPROMET S.A. owns 88% of the share capital. The share of the KGHM Polska Miedź S.A. Group was set at 58%.
- Bipromet Ecosystem Sp. z o.o., in which BIPROMET S.A. owns 51% of the share capital. The indirect share of the Group is 33.7%.

Registration of KGHM (SHANGHAI) COPPER TRADING CO., LTD.

In September 2010, the company KGHM (SHANGHAI) COPPER TRADING CO., LTD. was registered in the People's Republic of China. Under the laws of the country in which the head office of the company was registered, the company was granted permission to engage in business activities. The sole owner of the company is KGHM Polska Miedź S.A.

Acquisition of shares of CENTROZŁOM WROCŁAW S.A.

In November 2010, there occurred the transferral from the State Treasury to KGHM Ecoren S.A. of ownership rights to shares of CENTROZŁOM WROCŁAW S.A., granting the right to 85% of the votes at the General Meeting of the company. The acquisition price of these shares was PLN 176.4 million.

The investment in CENTROZŁOM WROCŁAW S.A. is an element of the strategy realised by KGHM Ecoren S.A. related to its activities in the waste management sector.

Acquisition of shares of KGHM AJAX MINING INC.

In October 2010, KGHM Polska Miedź S.A. acquired a 51% interest in the company KGHM AJAX MINING INC. formed together with Abacus Mining & Exploration Corp. with its registered head office in Vancouver, through a cash contribution in the amount of PLN 105.5 million. Abacus brought to the company all the rights it owns to the Afton-Ajax deposit.

This transaction was the result of the signing in May 2010 by the Management Board of KGHM Polska Miedź S.A. with Abacus of an Investment Agreement on the joint realisation of the Afton-Ajax copper-gold mining project located in British Columbia in Canada. Abacus is involved in the exploration of mineral ore resources and mining ventures.

Acquisition of Investment Certificates of KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM III FIZAN)

In December 2010, KGHM Polska Miedź S.A. acquired 500 Investment Certificates of the KGHM III FIZAN Fund, with a total issue price of PLN 5 million.

Acquisition of these certificates was aimed at enabling the registration of this Fund in the registry of investment funds. The KGHM III FIZAN fund is dedicated to investing in the area of new technology.

Acquisition of shares of Zespół Uzdrowisk Kłodzkich Spółka Akcyjna (ZUK S.A.)

In October 2010, KGHM I FIZAN acquired from the State Treasury shares of ZUK S.A. in Polanica Zdrój, granting the right to 90% of the votes at the General Meeting. The total acquisition-related cost was PLN 138.2 million.

Acquisition of shares of Uzdrowisko Połczyn S.A.

In November 2010, KGHM I FIZAN acquired from the State Treasury shares of Uzdrowisko Połczyn S.A., granting the right to 90% of the votes at the General Meeting. The total acquisition-related cost was PLN 26.4 million.

Acquisition of shares of "Uzdrowisko Cieplice" Sp. z o.o.

In December 2010, KGHM I FIZAN acquired from the State Treasury shares of Uzdrowisko Cieplice Sp. z o.o., granting the right to 90% of the votes at the General Meeting. The total acquisition-related cost was PLN 29.3 million.

In 2010, 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 2010 the Group was composed of forty-nine subsidiaries, including three closed-end non-public investment funds. Ten of these 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., "Energetyka" sp. z o.o., DFM ZANAM-LEGMET Sp. z o.o., WM "ŁABĘDY" S.A., BIPROMET S.A., KGHM I FIZAN and Fundusz Hotele 01 Sp. z o.o. S.K.A.

Review of financial results

The sales revenues of the Group in 2010 were higher compared to those in 2009 by PLN 5 173 million (43%). A significant cause was the increase of revenues in the Parent Entity, due to an increase in copper prices (an increase in the average copper price by 46%), and an increase in the volume of sales of copper products (an increase by 35.5 thousand tonnes).

The sales revenues of KGHM Polska Miedź S.A. accounted for around 86% of the revenues of the entire Group.

The sales revenues of KGHM Polska Miedź S.A. accounted for around 86% of the revenues of the entire Group 1 690 million (21%). This was mainly due to an increase in costs of materials in the Parent Entity, due to the higher value of purchased copper-bearing batch materials (higher purchase price and volume consumed).

The increase in revenues impacted the increase in profit on sales. Profit on Group sales amounted to PLN 6 690 million (an increase by 110%).

Statement of comprehensive income (PLN million)

	2009 restated	2010
Sales	12 120	17 293
Cost of sales	(7 923)	(9 613)
Gross profit	4 197	7 680
Operating profit	2 679	5 545
Profit before income tax	2 874	5 778
Profit for the period	2 329	4 715

A loss was recorded on other operating activities in the amount of PLN 1 144 million, mainly impacted by the loss on the measurement and realisation of derivatives in the amount of PLN 1 162 million.

Adjustment of the result due to accounting using the equity method of shares of the associate Polkomtel S.A., caused an increase in profit before income tax by PLN 280.5 million.

The profit of the Group for 2010 increased versus the prior year by PLN 2 386 million (103%).

Structure of the financial result of the KGHM Polska Miedź S.A. Group (PLN million)

Details	Profit/loss for 2010
KGHM Polska Miedź S.A.	**4 569**
Subsidiaries	112.5
including the most important:	
DIALOG S.A.	76
KGHM Metraco S.A.	8.5
PeBeKa S.A.	7.8
WPEC w Legnicy S.A.	7.5
INTERFERIE S.A.	6.8
"PETROTEL" Sp. z o.o.	5.5
KGHM AJAX MINING INC.	5
Fundusz Hotele 01 Sp. z o.o. S.K.A.	4.5
PHP "MERCUS" sp. z o.o.	4.5
CENTROZŁOM WROCŁAW S.A. (from 1.12.2010 to 31.12.2010)	(3)
POL-MIEDŹ TRANS Sp. z o.o.	(3.6)
ZUK S.A. (from 1.11.2010 to 31.12.2010)	(4)
KGHM Ecoren S.A.	(17)
Total profits of Group entities	**4 682**
Consolidation adjustments	28
Profit of the Group attributable to shareholders of the Parent Entity	**4 709**
Profit attributable to non-controlling interest	**6**
Total profit for the period	**4 715**

Group entities

The largest impact on the results of the Group is from the Parent Entity, 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 accounting for this company shares using the equity method.

DIALOG S.A.

DIALOG S.A. is the parent entity of the DIALOG S.A. Group, which at 31 December 2010 was composed of the following subsidiaries:

- "PETROTEL" sp. z o.o. – a company providing telecom services in the region of Płock and vicinity,
- AVISTA MEDIA Sp. z o.o. – the primary activity of the company is providing call centre services and direct marketing.

In 2010 the sales of the DIALOG S.A. Group were higher than those in the comparable prior period by PLN 8 million. This increase in sales was due primarily to the sector of services based on external infrastructure (mainly WLR services) and to the sector of IPTV digital television. There was also a higher, versus the comparable prior period, result on sales (an increase by nearly PLN 6 million) and operating profit (an increase by PLN 14 million).

In the first quarter of 2010 the DIALOG S.A. Group introduced the mobile phone service Diallo, realised based on the virtual operator (MVNO) model. In September 2010, a further product was added to the group of mobile phone services – mobile Internet access. At the end of the year the total number of all active SIM cards and data transmission modems amounted to 26.4 thousand.

DIALOG S.A. is using financing from EU funds to implement an innovative project based on a passive optical network (PON) – so-called "fiber to the premises", whose planned coverage target by 2012 is around 80 thousand homes, among others in Wrocław, Legnica, Zielona Góra and Łódź. This is the largest project of its type in Poland and one of the largest in Europe.

In October 2010, the company received additional financing from EU funds for realisation of the project "Development of a regional wide-band network in the voivodeship of Łódź".

Financial data of the DIALOG S.A. Group (PLN million)

	2009*	2010**
Sales	521	529
Operating profit	36	50
EBITDA	136.5	137
Profit for the period	11.6	80

* The data for 2009 differ from the data presented in the report for 2009 as they are data from audited financial statements (reflecting settlement of the purchase of shares of "PETROTEL" sp. z o.o.)

** Data for 2010 prior to auditing

Financial data of DIALOG S.A. (PLN million)

	2009*	2010
Sales	494	499.5
Operating profit	30	45
EBITDA	120	123
Profit for the period	7	76

* The data for 2009 differ from the data presented in the report for 2009 as they are data from audited financial statements

Profit for the period was substantially higher than that achieved in 2009, by PLN 68,5 million. Apart from better operating results, this is also the effect of a substantial difference in the level of the income tax due (the main deferred tax due to remeasurement of the deferred tax asset).

At the end of 2010, the DIALOG S.A. Group had 723.9 thousand ringing lines, while the number of data transmission services amounted to 156.1 thousand.

In 2010 the company recorded an increase in the number of active IPTV services (digital television offered within the DIALOG media package with fixed-line telephony and Internet access) by 14.4 thousand versus the end of 2009.

Other major Group companies

Polkomtel S.A.

Revenues from sales for 2010 were slightly lower than in the comparable prior period. However, both the result on sales (an increase by PLN 94 million) and the profit for the period (an increase by PLN 168 million) were higher.

In June 2010, KGHM Polska Miedź S.A. received dividends from Polkomtel S.A. in the amount of PLN 24 million, from the appropriation of profit for 2009.

In September 2010, the Supervisory Board of Polkomtel S.A. passed a resolution agreeing to the payment of an interim dividend for 2010. The amount of the interim dividend was PLN 317.5 million, of which KGHM Polska Miedź S.A. received the amount, proportional to its share, of PLN 77.5 million. The interim dividend was paid in November 2010.

In November 2010, the Supervisory Board of Polkomtel S.A. passed a resolution expressing its consent to the payment of a second interim dividend for 2010. This interim dividend amounted to PLN 185 million, of which KGHM Polska Miedź S.A. received, proportionally to its share, the amount of PLN 45 million. This interim dividend was paid in December 2010.

Financial data of Polkomtel S.A. (PLN million)

	2009*	2010**
Sales	7 773	7 672
Operating profit	1 378	1 535
EBITDA	2 686	2 889
Profit for the period	982	1 150

* The data for 2009 differ from the data presented in the report for 2009 as they are data from audited financial statements

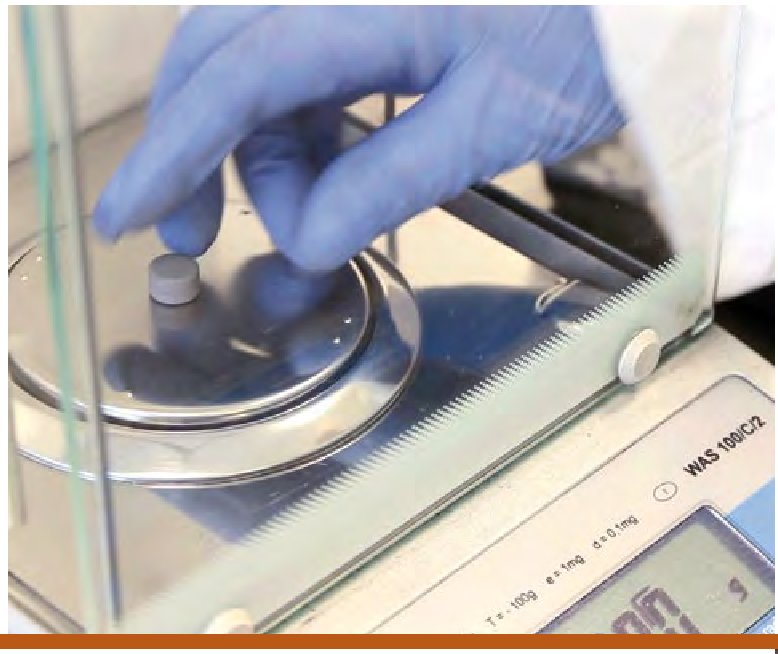
** Data prior to auditing

KGHM Ecoren S.A.

Percentage of company owned by the KGHM Group: 100%

Subject of activities
This company is involved in the production of metals and their compounds as well as the management of industrial waste.

Basic operational areas
- the production of ammonium perrhenate;
- the production of road-building material;
- the processing of furnace waste from the smelters;
- the processing of used electrical and electronic equipment.



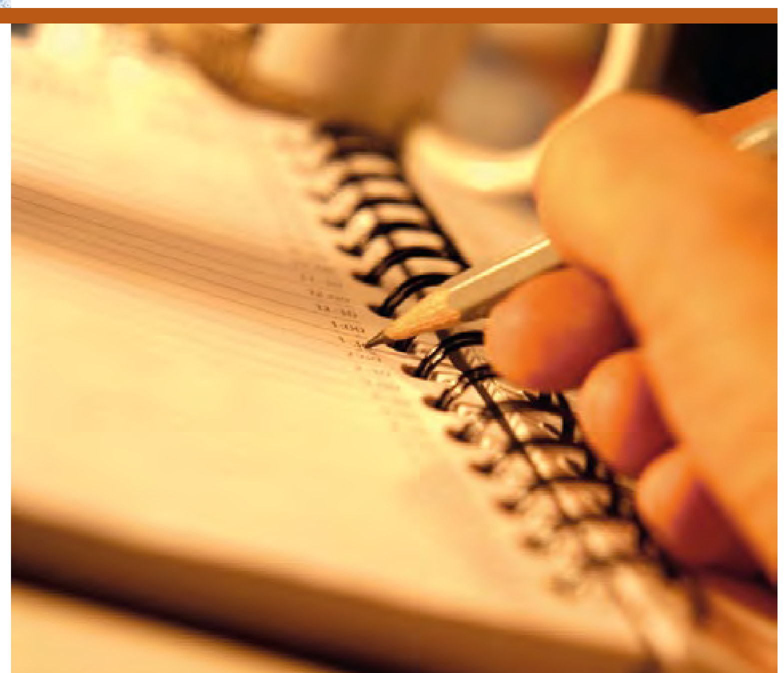
Major strengths
- third-largest global producer of ammonium perrhenate and the only European producer of rhenium and ammonium perrhenate from its own resources;
- participation in the prestigious trade organisation Minor Metals Trade Association (MMTA) and the Consortium of Precious Metals and Rhenium;
- realisation of 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 using waste from KGHM Polska Miedź S.A.;
- increasing the production of metallic rhenium by using additional waste flows;
- increasing the production and sale of road-building material;
- processing used electrical and electronic equipment.

Significant events in 2010
- ompletion of investment projects and commencement of:
  - rhenium eluates production,
  - metallic rhenium production,
  - processing of used electrical and electronic equipment;
- signing of an agreement with the Polish Agency for Enterprise Development for financing of the project "Development and implementation of innovative and pro-ecological technology for processing cast materials"; value of agreement PLN 20.4 million;
- purchase of 85% of the shares of CENTROZŁOM WROCŁAW S.A.;
- gaining 41st place in the regional listing of medium-sized companies and 656th place in the national ranking "Forbes Diamonds";
- honored with the title Locomotive of the Polish Economy;
- honored in the competition National Leaders of Innovation and Develpment 2010, organised by the Foundation for Innovation and Develpment in Warsaw (regional edition – Lower Silesia) in the category "Innovative Company".

KGHM Ecoren S.A. (PLN million)

	2009	2010
Sales	103	97
Equity	229	310
Capital expenditures	48	200.5



BIPROMET S.A.

Percentage of company owned by the KGHM Group: 66%

Subject of activities, main focus of operations
- design services, including for heavy industry (the basis of company design services);
- general realisation of investments, including:
  - investment preparation: conceptual design with feasibility analysis, business plans, economic analysis, restructurisation studies, product-servce offering analysis, preparation of execution timetables,
  - investment realisation: general contracting and turnkey investment realisation, acting as an auxilliary investor, owner and investor supervision, supply supplementation, assembly work, staff training, production and preliminary utilisation,
- other activities – poligraphic and measurement services;
- rental and leasing of office space.

BIPROMET S.A. (PLN million)

	2009	2010
Sales	36	18.6
Equity	44	44.5
Capital expenditures	5.5	398

Major strengths
- extensive experience in realising design projects, based on a highly-qualified engineering staff and on over 60 years of archival documentation;
- realisation of design services at every stage, from technical-economic analysis to project execution and owner supervision in the following areas:
  - heavy industry – non-ferrous metals smelting, recovery and processing of non-ferrous metals scrap,
  - industrial and general construction,
  - environmental protection – air, water and sewage, waste.

Main directions of growth
- strengthening its competitive position on the environmental protection market, in the metals sector, the power sector and on the construction and installation services markets;
- maintaining its leading role in Poland in design and contracting services in the metals sector (in particular non-ferrous metals).

KGHM CUPRUM sp. z o.o. – CBR

Udział Grupy KGHM w kapitale zakładowym Spółki: 100%

Subject of activities, main focus of operations

- research and development work in the following sectors: geology, hydrogeology and geophysics, mining, rock mass mechanics, geodesics, ventilation, automatisation, electrification and mechanisation of mines, ore enrichment, tailings storage and environmental protection;
- conduct of all stages of R&D projects, from research to project implementation, evaluation of its environmental impact, feasibility analysis, and supervision of realisation;
- leasing of office space and conference rooms.
- cooperation with a range of Polish and foreign centers of learning;
- certification: for integrated management systems (per PN-EN ISO 9001:2009 and EN ISO 14001:2009) and for the research laboratory management system (per PN-EN ISO/IEC 17025:2005).

Main directions of growth

- supporting KGHM Polska Miedź S.A. in the realisation of its strategy – acting as the chief research institution, generating development and innovative solutions in terms of the core business and expanding the resource base, as well as in new functional areas (including the power sector);

KGHM CUPRUM sp. z o.o. – CBR (PLN million)

	2009	2010
Sales	30.5	32
Equity	25.5	30
Capital expenditures	2	5.6

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;
- recognised as a category 2 scientific entity (the company took first place in its group). Accreditation of the company's laboratories was viewed very favorably, as well as the practical economic implementation of its work, its announced patents and its participation in framework programs;
- performance of R&D work in most of the core business investment projects undertaken by KGHM Polska Miedź S.A.;
- realisation of projects (including ensuring the safety of medieval mine works and the reconstruction of historic mine shafts) at the Wieliczka Salt Mine as part of the cultural heritage protection program;
- increased innovation and steady growth in the quality of the R&D work offered through mastery of organisational solutions and management systems, and though consistent actions to achieve an appropriate organisational culture.

Significant events in 2010

- receipt of the positive decision of the Ministry of Science and Higher Education regarding financing of the research project: "Development of a complex method for evaluating the technical state of mine rooms in historical salt mines" and of the development project: "Adaptation and implementation of Lean methodology in copper mines". These projects were positively evaluated by the National Centre for Research and Development.

PeBeKa S.A.

Percentage of company owned by the KGHM Group: 100%

Subject of activities, main focus of operations

- underground construction, including drifts and associated assembly, construction and drilling work, construction of shafts and drifts with complete equipping;
- construction and engineering services, comprising general, hydrotechnical, civil and specialty construction, including the construction of mine surface facilities, industrial plants, underground metro tunnels and stations, the construction and repair of pipes and other hydrotechnical works.

Main directions of growth

- realisation of a development program and mastery of underground construction methods, whose chief elements are:
  - a research project on the possibilities of the industrial-scale application of a mine roadheader complex,
  - work related to the development and implementation of light transporters in drift work as an alternative for wheeled vehicles and immobile heavy haulage equipment,
  - actions aimed at improving the productivity of staff and equipment, including through improvement of labor organisation and employee motivation methods, equipment utilisation principles and the implementation of new technical solutions.

Significant events in 2010

- celebration of the 50th anniversary of the company's founding;
- receipt of the title "Pearl of the Polish Economy" granted by the Institute of Economics of the Polish Academy of Sciences;
- receipt of a certificate of conformity of the Management System with the standards ISO 9001:2008, ISO 14001:2004 and PN-N-18001:2004. Scope of certification: mine, underground, industrial and general construction, production ansd assembly of metallic and reinforced concrete constructions, specialised engineering work.

PeBeKa S.A. (PLN million)

	2009	2010
Sales	323	485
Equity	81	88.5
Capital expenditures	22.6	30

Major strengths

Know-how in realisation of the following work:

- underground and surface facilities and infrastructure for mines;
- underground metro tunnels and stations – the company was the general contractor for three metro stations in Warsaw and over 7.3 km of tunnels;
- infrastructural construction facilities, including multimodal communication loops in Warsaw, a road tunnel in Bielsko-Biała, a section of tram tunnel and an underground station for the Rapid Tramway project in Kraków, tunnels in Turkey, Israel, Algieria and Hong-Kong, and other projects;
- industrial facilities;
- sporting facilities – construction of a new 16 000-seat stadium for the Zagłębia Lubin football club.

DFM ZANAM-LEGMET Sp. z o.o.

Percentage of company owned by the KGHM Group: 100%

Subject of activities, main focus of operations

- production of machines and equipment for the mining sector, production of equipment applied in cargo shipping systems, production line equipment, quarrying, open-pit mines;
- production of steel and iron castings;
- transport repair and maintenance services.

Major strengths

- one of the largest producers in Poland of mining machinery and equipment;
- realisation of work involving mine machinery production, servicing and rapid repair, production of lifting equipment and mine shaft lifting elements for KGHM Polska Miedź S.A.;
- the current range of products and services includes mining machinery, conveyor belts, steel constructions, servicing, production line repair and maintenance, crushers, casters, boilers, floatation machinery and shaft outfitting.

Main directions of growth

- expansion and diversification of its activities on the KGHM market by assuming control over the production line and maintenance of facilities, equipment and installations of KGHM Polska Miedź S.A.;
- strengthening the role and position of the company on the KGHM market in terms of the range of machinery offered, through the implementation of new models of mine machinery;
- development of its activities in Europe and Central Asia on non-ferrous metals and raw minerals markets.

Significant events in 2010

- substantially developed new activities: production line repair and maintenance;
- development of a program for the development of new models of mine machinery.

DFM ZANAM-LEGMET Sp. z o.o. (PLN million)

	2009	2010
Sales	275	287.5
Equity	40	41
Capital expenditures	6.5	4

POL-MIEDŹ TRANS Sp. z o.o.

Percentage of company owned by the KGHM Group: 100%

Subject of activities, main focus of operations

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

Main directions of growth

- increasing its share of the domestic market in mass railway transport and becoming the leader in private railway transport in Lower Silesia;
- maintaining its position as a reliable supplier of logistical services and oil-based products.

Significant events in 2010

- certified as a European railway carrier;
- renewal of the ISO 9001:2008 Quality Management System certificate covering roadway passenger and material transport, railway cargo transport, trade in oil-based products, vehicle repair services;
- implementation of a wysap Integrated Management Support System;
- partial replacement of roadway stock – tractor trailers and buses.

POL-MIEDŹ TRANS Sp. z o.o. (PLN million)

	2009	2010
Sales	421	443
Equity	162	160.5
Capital expenditures	37	27.5

Major strengths

- the company is the main carrier for KGHM Polska Miedź S.A. with respect to passenger and cargo transport, and directly supplies fuel to the divisions of KGHM Polska Miedź S.A.;
- a railway company using its own wagons and locomotives, on both its own railway lines and on those of the state railway PKP;
- operates on the expediter market.

ENERGETYKA

"Energetyka" sp. z o.o.

Percentage of company owned by the KGHM Group: 100%

Subject of activities, main focus of operations

- the generation, transmission and distribution of heat and electricity;
- the generation and distribution of potable and industrial water;
- the collection and treatment of sewage and industrial waste;
- the utilisation of rain-industrial water and water from treated waste;
- services related to these activities.

Main directions of growth

- increasing the generation of heat and electricity;
- increasing its share in supplying the energy needs of KGHM Polska Miedź S.A.;
- enhancing quality standards in servicing customers for heat;
- increasing its share in the local heat supply market;
- utilisation of renewable energy sources;
- increasing the raising of plants used in power generation;
- reducing the environmental impact of the company;
- creating a positive company image – Energetyka as an environmentally-friendly company.

"Energetyka" sp. z o.o. (PLN million)

	2009	2010
Sales	234.5	271.6
Equity	438	440
Capital expenditures	234	17

Major strengths

- comprehensive power supply and waste flows management for KGHM Polska Miedź S.A.;
- guaranteeing the heating needs of KGHM Polska Miedź S.A. and neighboring towns – using its own power plants;
- production and distribution of potable water for neighboring communities;
- utilisation of throat gas in the company's boilers, generated from the copper smelting process;
- securing a supply of compressed air to ensure uninterrupted production at the Głogów smelter.

Significant events in 2010

- vertical integration of "Energetyka" sp. z o.o. and its subsidiary WPEC w Legnicy S.A., based on utilisation of the synergy of both companies in consolidation of the local heating market;
- leasing of agricultural land located in the former protective zone of the Głogów smelter, to be used to raise plants used in power generation;
- continuation of work on constructing and putting into operation wind power units in the protective zone of the Głogów smelter.

KGHM METRACO

KGHM Metraco S.A.

Percentage of company owned by the KGHM Group: 100%

Activities and offer

Wholesale trade:

- scrap and raw material semi-products (main business);
- chemical products;
- refined lead;
- roadway and industrial salt;
- nickel sulphate, copper sulphate, technical seleniem, copper rod.

Major strengths

- the largest customer for copper scrap in Poland, with over 75% of the market;
- a leading distributor in Poland of road salt;
- the largest sulphuric acid distributor in Poland;
- the largest importer of black liquor in Europe;
- the largest supplier in Poland of primary refined lead.

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 and expediting activities beyond the KGHM Polska Miedź S.A. Group.

Significant events in 2010

- selection of a general contractor and commencement of work on construction of a sulphuric acid storage and loading warehouse in Szczecin;
- gaining 176th place in the 12th edition of the List of 500 Largest Polish Enterprises published by the newspaper Rzeczpospolita;
- positive conclusion of a recertifying audit confirming application of the standard PN-EN ISO 9001:2009;
- certification and inclusion on the "WHITE LIST" program list and in the program "FAIR PLAY ENTERPRISE 2010";
- a silver medal in the category QI SERVICES – Highest Quality Services.

KGHM Metraco S.A. (PLN million)

	2009	2010
Sales	1 640	2 783
Equity	59.5	68
Capital expenditures	6	3

PRZEDSIĘBIORSTWO HANDLOWO-PRODUKCYJNE

mercus sp. z o.o.

Grupa Kapitałowa KGHM Polska Miedź S.A.

PHP "MERCUS" sp. z o.o.

Percentage of company owned by the KGHM Group: 100%

Subject of activities, main focus of operations

- trade in domestic and foreign goods – wholesale, material-technical supply of the production units of KGHM Polska Miedź S.A. as well as other economic entities;
- trade in consumables (wholesale and retail) through its own sales network;
- import and exsport of production-related goods and services;
- production of bundled electrical cables for domestic and foreign customers and of hydraulic cables for mining and construction machinery and equipment.

Major strengths

- dynamic economic development by the company, based on diversification of its activities in selected sectors;
- an important logistical operator and supplier of materials and spare parts for the core business of KGHM Polska Miedź S.A.;
- its own wholesale and retail commercial network (including Interior Decoration Galleries and Department Stores) as well as its own foreign commercial office.

Main directions of growth

- development of external markets, creating the possibility of increased sales and increased company value through growth:
  - production-related activities alongside customer diversification,
  - commercial-service activities,
  - market activities through companies in the KGHM Group.

Significant events in 2010

- implementation of a procurement platform for the KGHM Polska Miedź S.A. Group;
- construction begun on an Interior Decoration Gallery in Legnica.

PHP "MERCUS" sp. z o.o. (PLN million)

	2009	2010
Sales	640	616
Equity	65	71
Capital expenditures	4.5	7

CUPRUM Towarzystwo Ubezpieczeń Wzajemnych

Towarzystwo Ubezpieczeń Wzajemnych "CUPRUM"

Percentage of company owned by the KGHM Group: 96,88%

Subject of activities, main focus of operations

- mutual insurance property and asset services;
- coverage of the following: casualty insurance, health insurance, property insurance in domestic and foreign transport, natural disaster insurance, insurance covering other physical damages and general civil responsibility insurance.

Main directions of growth

- ensuring the members of TUW-CUPRUM risk protection insurance under conditions and with long-term pricing more favorable than those applied by competing insurance companies;
- creation of new mutual member societies;
- product expansion of company activities by new insurance groups, enabling achievement of the effects of scale and fuller coverage of risks announced by those insured.

Significant events in 2010

- awarded in the Polish program sponsored by the Institute of Philosophy and Sociology of the Polish Academy of Sciences called Socially Responsible Leader "Good Company 2010". The purpose of the program is to identify those companies representing leaders in the field of CSR which, in their strategy, voluntarily reflect social interests, as well as relations with various groups: customers, employees, the local community;
- a silver medal in the competition Quality International in the category of QI services – sevices of the highest quality. The competition was organised under the sponsorship of the Ministry for Regional Development, the Polish Club Forum ISO 9000 and the Polish Agency for Enterprise Development.

Towarzystwo Ubezpieczeń Wzajemnych "CUPRUM" (PLN million)

	2009	2010
Sales	22.6	25.6
Equity	31	28

"MIEDZIOWE CENTRUM ZDROWIA" S.A.

Percentage of company owned by the KGHM Group: 100%

Subject of activities, main focus of operations

- hospital services, general and specialty medical practice;
- realisation of health services in terms of hospital stays, medical testing and consulting, occupational medicine, x-ray and laboratory diagnosis, rehabilitation, psychological testing and therapy, innoculations and other preventive activities, nursing, general diagnosis and preventive medicine;
- basic organisational units: the hospital MCZ S.A. in Lubin, the clinic Przychodnia Miedziowego Centrum Medycyny i Lecznictwa Specjalistycznego in Lubin, clinics in Lubin, Legnica and Głogów, the rehabilitation center Miedziowe Centrum Rehabilitacji Leczniczej, the psychological health center Miedziowe Centrum Badań Psychologicznych.

Major strengths

- medical services in terms of general health insurance, including hospital stays, basic health care, specialised ambulatory services, rehabilitation and x-ray diagnosis;
- occupational medicine; in 2010, around 25 thousand employees and 174 workplaces underwent preventive testing, mainly in the divisions of KGHM Polska Miedź S.A. and companies of the KGHM Polska Miedź S.A. Group;
- additional medical care packets, in particular for the employees of KGHM Polska Miedź S.A. (over 9 300 persons from 22 workplaces were covered by these contracts);
- psychological first aid for persons involved in accidents at work under an agreement between the company and KGHM Polska Miedź S.A.

Main directions of growth

- construction of a new clinic in Legnica and and the purchase of new medical equipment;
- efforts to increase the uper limits for the admittance of patients under agreements with the Lower Silesia branch of the National Health Service;
- adapting the company's specialty services to meet the needs of insurance companies offering private health insurance.

"MIEDZIOWE CENTRUM ZDROWIA" S.A. (PLN million)

	2009	2010
Sales	89.5	96
Equity	48	49
Capital expenditures	4	6.7

Significant events in 2010

- opening of the Magnetic Resonance Unit of the X-Ray Diagnosis Section of the MCZ S.A. hospital in Lubin;
- receipt of a quality management certificate by the health care unit – pursuant to the standard ISO 9001:2008;
- gaining of 2nd place in the national competition Medical Pearls – in the category of specialty clinics, the title of Polish laureate in the ranking "Safe Hospital", the title of Polish laureate in the ranking "Gazelles of Business".

Zagłębie Lubin S.A.

Percentage of company owned by the KGHM Group: 100%

Subject of activities, main focus of operations

- organisation of professional sporting events;
- management of a football club;
- promotion of sport and actions to promote its development;
- services with respect to recreation, active recreation and biological refreshment;
- youth training.

Major strengths

- possession of one of the most modern football stadiums in Poland;
- Polish champion in the 2009/2010 season, won by the Extraclass Youth League;
- third place in the prestigious, international Weifang Cup tournament in China won by the Zagłębia Lubin Youth League (a team comprised of footballers of the Extraclass Youth League and the junior seniors team). Following the autumn round of the 2010/2011 season, the Extraclass Youth League holds second place in the table;
- victory in the playoffs of the Lower Silesia Junior Seniors League in the 2009/2010 season by the junior seniors team. The young players of Zagłębia Lubin confirmed their class standings, both in the Polish Junior Seniors championship, beating Lech Poznań. For the second time running, the team won the Polish Championship;
- victory in the playoffs of the Lower Silesia Young Juniors League in the 2009/2010 season by the young juniors team.

Main directions of growth

- development and implementation of a strategy aimed at ensuring the company a spot in the top five best organised companies in Poland in terms of marketing;
- continuation of projects: Young Talents Academy, television club, website, merchandising, commercilisation of the Dialog Arena stadium, Zagłębie Business and Copper Rebate.

Zagłębie Lubin S.A. (PLN million)

	2009	2010
Sales	22	34
Equity	28	76
Capital expenditures	38.5	16.5

Significant events in 2010

- completion of investment and opening of the new stadium – Dialog Arena.

KGHM Polska Miedź S.A. Group

KGHM LETIA S.A.

Percentage of company owned by the KGHM Group: 85,45%

Subject of activities, main focus of operations
- promotion of scientific achievements and technology transfers;
- technology park;
- property sales and leases.

Major strengths
- preparation of infrastructure (office space and investment land) for potential lessees/investors interested in locating in the park and cooperating with the KGHM Group:

  - LBC – Letia Business Centre – will be a modern office building with total office space of around 8 thousand m^2 equipped with additional infrastructure in the form of conference rooms, an exhibition center, meeting and negotiation rooms, as well as dining facilities and guest rooms,
  - preparation of investment property – actions aimed at developing an area utilisation plan for the land;
- business-related activities: creating a knowledge-based economy by utilising the scientific and industrial potential of the region and creating effective relations between science and business, including:
  - realisation and acquisition of new EU projects
  - supporting the development of businesses utilising modern technology, especially small and medium enterprises.

Significant events in 2010
- signing of an agreement to finance construction of the Letia Business Centre under Point 1.4 of the Regional Operational Program for Lower Silesia; amount of financing: PLN 11.7 million;
- realisation of the project "Step to success – increasing the didactic potential of schools"; as part of the project the company organised 30 temporary jobs for graduates of the Witelon University of Applied Sciences (PWSZ) in Legnica;
- realisation of a project of the Wrocław University of Technology and the University of Wrocław, "Polymorphic scanner for submicronic analysis of documents in criminal cases"; the company was required to prepare a strategy to develop and commercialise the project;
- signing of an agreement with PWSZ in Głogów, aimed at cooperating aimed at creating awareness and the essence of design – industrial modeling – as a strategic business element;
- recommendation for financing submitted in 2010 together with DDAR and DOZAMEL S.A. for the project „WINCI – Italian inspiration in initiating business synergies and scientific research in Lower Silesia" financed under the program PO KL point 8.2.1.;
- a certifying audit under the standards PN-EN ISO 9001:2009 and PN-EN ISO 14001:2005 with respect to the realisation of consulting services, training, IT and pro-innovative services – technology transfer.

KGHM LETIA S.A. (PLN million)

	2009	2010
Sales	3	**1**
Equity	27	**27**
Capital expenditures	1.5	**4.5**

KGHM TFI S.A.

Percentage of company owned by the KGHM Group: 100%

Subject of activities, main focus of operations
- the creation and management of investment funds, including acting as intermediary in the disposal and buyback of participation units;
- management of financial instruments portfolios;
- investment consulting.

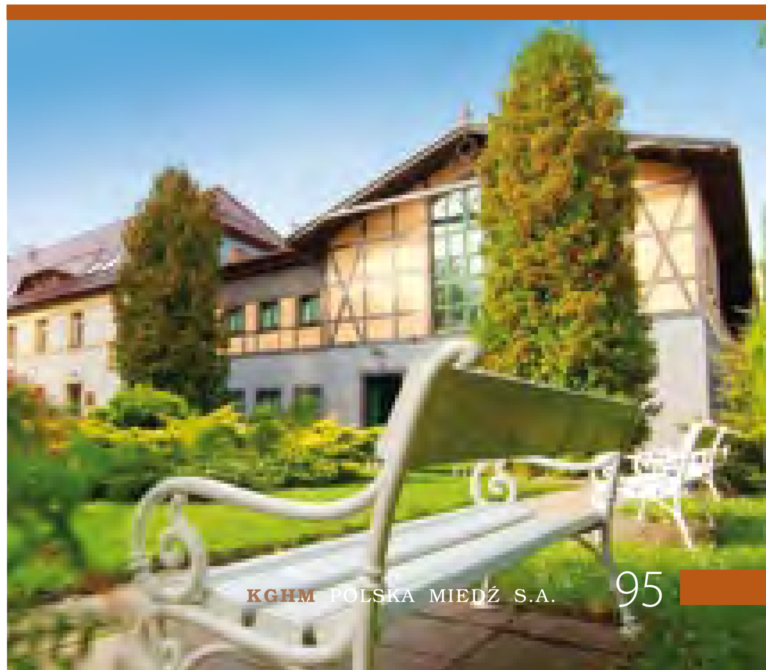
Major strengths
- participates in the realisation of the long-term strategy of KGHM Polska Miedź S.A., which assumes gradual engagement in businesses unrelated to the core business;
- commencement of activities:
  - KKGHM I FIZAN – health-related investments,,
  - KGHM II FIZAN – investments focused on renewable energy projects,
  - KGHM III FIZAN – investments in the modern technology sector.

Main directions of growth
- realisation of the long-term company strategy assuming among others the development of a Polish Spa Group, which will enable the KGHM I FIZAN fund to gain a substantial share of the health spa market, and after approx. 7 years to list the acquired companies on the Warsaw Stock Market. The intention of the Management Board of KGHM TFI S.A. is also to increase the value of the assets it already owns, as well as to acquire new assets, for example through the purchase of additional spas which are currently undergoing privatisation;
- investments by the KGHM II FIZAN fund in biogas and in a biomass power plant;
- cooperation by the KGHM III FIZAN fund with the National Capital Fund;
- the creation of three new investment funds focused on the property, conventional energy and infrastructure markets;
- active search for domestic and foreign investors, to obtain co-financing for projects which will be initiated under both the new funds as well as under the KGHM II FIZAN fund.

Significant events in 2010
- KGHM I FIZAN:
  - acquisition, through a public tender organised by the Ministry of the State Treasury, of a majority share in the companies Zespół Uzdrowisk Kłodzkich S.A. (90% of the share capital), Uzdrowisko Połczyn S.A. (90% of the share capital), and Uzdrowisko Cieplice Sp. z o.o. (90% of the share capital),
  - signing of an investment agreement – acquisition of 67% of the share capital of Interferie Medical SPA, which in 2011 will open one of the most modern Wellness & SPA-type recreation facilities on the Polish coast,
  - acquisition of 67% of the shares of INTERFERIE S.A. as the result of a call-up announced by the company;
- KGHM II FIZAN:
  - analysis of the renewable energy market to identify the best partner to cooperate with in selected investment projects,
  - signing of a letter of intent regarding cooperation with a supplier of biogas technology, and analysis of the possibilities of building an agricultural biogas plant in selected localities.
- KGHM III FIZAN:
  - finalisation of discussions with the National Capital Fund, to whom an application was sent under the Tender of Offers process with the intention of obtaining financing for a dokapitalizowania for the joint venture fund.

KGHM TFI S.A. (PLN million)

	2009	2010
Sales	0	**8.7**
Equity	1.7	**4.5**



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 2010 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 2010, 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 Memory Stick and on the website www.kghm.pl).

Independent auditors' opinion

to the General Meeting of Shareholders and Supervisory Board of KGHM Polska Miedź S.A.

We have audited the accompanying financial statements of KGHM Polska Miedź Spółka Akcyjna (hereinafter called "the Company") with its registered office in Lubin, 48 Marii Skłodowskiej-Curie Street, which comprise:

a) the statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 19.829.296 thousand;
b) the statement of comprehensive income for the period from 1 January to 31 December 2010, showing a total comprehensive income of PLN 4.652.520 thousand;
c) the statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 4.052.520 thousand;
d) the statement of cash flows for the period from 1 January to 31 December 2010, showing a net increase in cash and cash equivalents of PLN 1.615.351 thousand;
e) additional information on adopted accounting policies and other explanatory notes.

The Company's Management Board is responsible for preparing the financial statements and a Directors' Report in accordance with the applicable regulations. The Management Board and members of the Supervisory Board are required to ensure that the financial statements and the Director's Report meets the requirements set out in the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2009, No. 152, item 1223 with further amendments, hereinafter referred to as "the Act").

Our responsibility was to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the following:

a) the provisions of Chapter 7 of the Act;
b) national standards on auditing issued by the National Chamber of Registered Auditors.

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

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

a) have been prepared in accordance with the applicable accounting principles (policies) on the basis of properly maintained accounting records;
b) comply in form and content with the applicable laws and the Company's Memorandum of Association;
c) give a fair and clear view of the Company's financial position as at 31 December 2010 and profit for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

The information in the Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o. Registered Audit Company No. 144:
Marcin Sawicki
Key Registered Auditor
No. 11393

Wrocław, 28 March 2011

Statement of financial position

Assets

	At	
	31 December 2010	31 December 2009
Non-current assets		
Property, plant and equipment	6 551 111	5 937 513
Intangible assets	86 718	76 147
Shares and investment certificates in subsidiaries	2 643 046	1 915 224
Investments in associates	1 159 947	1 159 947
Deferred tax assets	359 833	167 062
Available-for-sale financial assets	749 824	17 700
Held-to-maturity investments	84 115	67 097
Derivatives	403 839	58 034
Trade and other receivables	86 608	110 173
Total non-current assets	12 125 041	9 508 897
Current assets		
Inventories	2 011 393	1 890 286
Trade and other receivables	2 393 986	1 314 598
Available-for-sale financial assets	405 193	-
Held-to-maturity investments	4 129	580
Derivatives	294 021	263 247
Cash and cash equivalents	2 595 529	975 198
Non-current assets held for sale	4	224
Total current assets	7 704 255	4 444 133
Total assets	19 829 296	13 953 030

amounts in tables in thousand PLN, unless otherwise stated

Equity and liabilities

	At	
	31 December 2010	31 December 2009
Equity		
Share capital	2 000 000	2 000 000
Accumulated other comprehensive income	211 159	127 228
Retained earnings	12 245 318	8 276 729
Total equity	14 456 477	10 403 957
Liabilities		
Non-current liabilities		
Trade and other payables	14 249	17 472
Borrowings and finance lease liabilities	8 490	11 576
Derivatives	711 580	61 354
Liabilities due to employee benefits	1 128 246	1 098 399
Provisions for other liabilities and charges	517 749	515 619
Total non-current liabilities	2 380 314	1 704 420
Current liabilities		
Trade and other payables	1 727 939	1 376 049
Borrowings and finance lease liabilities	2 965	6 109
Current corporate tax liabilities	668 924	78 183
Derivatives	481 852	273 503
Liabilities due to employee benefits	93 041	93 122
Provisions for other liabilities and charges	17 784	17 687
Total current liabilities	2 992 505	1 844 653
Total liabilities	5 372 819	3 549 073
Total equity and liabilities	19 829 296	13 953 030

amounts in tables in thousand PLN, unless otherwise stated

Statement of comprehensive income

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
Sales	15 945 032	11 060 540
Cost of sales	(8 617 125)	(7 127 255)
Gross profit	7 327 907	3 933 285
Selling costs	(103 171)	(107 303)
Administrative expenses	(567 390)	(629 077)
Other operating income	711 202	870 598
Other operating costs	(1 730 400)	(969 411)
Operating profit	5 638 148	3 098 092
Finance costs	(32 581)	(31 523)
Profit before income tax	5 605 567	3 066 569
Income tax expense	(1 036 978)	(526 384)
Profit for the period	4 568 589	2 540 185
Other comprehensive income due to:		
Available-for-sale financial assets	148 019	(10 834)
Cash flow hedging instruments	(44 401)	(472 524)
Income tax related to items presented in other comprehensive income	(19 687)	91 838
Other comprehensive net income for the financial period	83 931	(391 520)
Total comprehensive income	4 652 520	2 148 665
Earnings per share for the annual period (in PLN per share)		
– basic	22.84	12.70
– diluted	22.84	12.70

amounts in tables in thousand PLN, unless otherwise stated

Statement of changes in equity

		Accumulated other comprehensive income due to:			
	Share capital	Available-for-sale financial assets	Cash flow hedging instruments	Retained earnings	Total equity
At 1 January 2010	2 000 000	1 489	125 739	8 276 729	10 403 957
Dividends for 2009 resolved and paid	-	-	-	(600 000)	(600 000)
Total comprehensive income	-	119 896	(35 965)	4 568 589	4 652 520
At 31 December 2010	2 000 000	121 385	89 774	12 245 318	14 456 477
At 1 January 2009	2 000 000	10 265	508 483	8 072 544	10 591 292
Dividends for 2008 resolved and paid	-	-	-	(2 336 000)	(2 336 000)
Total comprehensive income	-	(8 776)	(382 744)	2 540 185	2 148 665
At 31 December 2009	2 000 000	1 489	125 739	8 276 729	10 403 957

amounts in tables in thousand PLN, unless otherwise stated

Statement of cash flows

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009
Cash flow from operating activities		
Profit for the period	4 568 589	2 540 185
Adjustments to profit for the period	1 436 897	567 006
Income tax paid	(658 695)	(619 806)
Net cash generated from operating activities	5 346 791	2 487 385
Cash flow from investing activities		
Purchase of shares and investment certificates in subsidiaries	(731 224)	(177 106)
Proceeds from sale of shares and investment certificates in subsidiaries	1 534	
Purchase of property, plant and equipment and intangible assets	(1 156 709)	(1 161 762)
Proceeds from sale of property, plant and equipment and intangible assets	4 717	14 195
Purchase of available-for-sale financial assets	(1 296 141)	-
Proceeds from sale of available-for-sale financial assets	310 994	20 000
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund	(20 567)	(8 132)
Establishment of deposits	(350 000)	(400 500)
Termination of deposits	-	400 500
Loans granted	(40 000)	(69 432)
Repayments of loans granted	71 162	1 044
Interest received	4 932	6 319
Dividends received	146 658	454 628
Advances granted for the purchase of property, plant and equipment and intangible assets	(65 329)	(14 229)
Other investment expenses	(5 273)	(12 228)
Net cash used in investing activities	(3 125 246)	(946 703)
Cash flow from financing activities		
Repayments of loans	(3 000)	(4 000)
Payments of liabilities due to finance leases	(3 118)	(3 310)
Interest paid	(76)	(252)
Dividends paid	(600 000)	(2 336 000)
Net cash used in financing activities	(606 194)	(2 343 562)
Total net cash flow	1 615 351	(802 880)
Exchange gains/(losses) on cash and cash equivalents	4 980	(15 502)
Movements in cash and cash equivalents	1 620 331	(818 382)
Cash and cash equivalents at beginning of the period	975 198	1 793 580
Cash and cash equivalents at end of the period	2 595 529	975 198
including restricted cash and cash equivalents	1 751	6 722

amounts in tables in thousand PLN, unless otherwise stated

Annual 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 2010 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 2010, 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 Memory Stick and on the website www.kghm.pl).

Independent Registered Auditor's Opinion

to the General Shareholders' Meeting and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

We have audited the accompanying consolidated financial statements of the KGHM Polska Miedź Spółka Akcyjna Group (hereinafter called "the Group"), of which KGHM Polska Miedź Spółka Akcyjna is the parent company (hereinafter called "the Parent Company"), with its registered office in Lubin, 48 Marii Skłodowskiej-Curie Street, which comprise:

a) the consolidated statement of financial position as at 31 December 2010, showing total assets and total liabilities & equity of PLN 21.177.323 thousand;
b) the consolidated statement of comprehensive income for the period from 1 January to 31 December 2010, showing a total comprehensive income of PLN 4.798.383 thousand;
c) the consolidated statement of changes in equity for the period from 1 January to 31 December 2010, showing an increase in equity of PLN 4.316.440 thousand;
d) the consolidated statement of cash flows for the period from 1 January to 31 December 2010, showing a net increase in cash and cash equivalents of PLN 1.883.655 thousand;
e) additional information on adopted accounting policies and other explanatory notes.

The Management Board of the Parent Company is responsible for preparing the consolidated financial statements and a Directors' Report for the Group in accordance with the applicable regulations. The Management Board and members of the Supervisory Board of the Parent Company are required to ensure that the consolidated financial statements and the Director's Report for the Group meet the requirements set out in the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2009, No. 152, item 1223 with further amendments, hereinafter referred to as "the Act").

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. We conducted our audit in accordance with the following:

a) the provisions of Chapter 7 of the Act;
b) national standards on auditing issued by the National Chamber of Registered Auditors.

Our audit was planned and performed to obtain reasonable assurance that the consolidated financial statements were free of material misstatements and omissions. The audit included examining, on a test basis, accounting documents and entries supporting the amounts and disclosures in the consolidated financial statements. The audit also included an assessment of the accounting policies applied by the Group and significant estimates made in the preparation of the consolidated financial statements as well as an evaluation of the overall presentation thereof. We believe that our audit provided a reasonable basis for our opinion.

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

a) have been prepared in accordance with the applicable accounting principles (policies)on the basis of properly maintained consolidation documentation;
b) comply in form and contents with the relevant laws applicable to the Group;
c) give a fair and clear view of the Group's financial position as at 31 December 2010 and profit for the year then ended, in accordance with the International Financial Reporting Standards as adopted by the European Union.

The information in the Directors' Report for the year ended 31 December 2010 has been prepared in accordance with the provisions of the Decree of the Minister of Finance dated 19 February 2009 concerning the publication of current and periodic information by issuers of securities and the conditions of acceptance as equal information required by the law of other state, which is not a member state ("the Decree" – Journal of Laws No. 33, item 259) and is consistent with the information presented in the audited financial statements.

Conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:
Marcin Sawicki
Registered Auditor of the Group, Key Registered Auditor No. 11393

Wrocław, 28 March 2011

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Annual consolidated financial statements

Consolidated statement of financial position

Assets

	Note	At 31 December 2010	At 31 December 2009 restated	At 1 January 2009
Non-current assets				
Property, plant and equipment	6	8 553 634	7 747 112	7 136 307
Intangible assets	7	523 874	218 124	151 581
Investment property	8	59 760	17 164	18 083
Investments in associates	9	1 431 099	1 315 663	1 498 116
Deferred tax assets	23	592 947	347 395	188 992
Available-for-sale financial assets	10	751 605	19 412	31 213
Held-to-maturity investments	11	84 157	67 144	59 592
Derivatives	12	403 839	58 034	6 501
Trade and other receivables	13	13 508	10 586	22 774
Total non-current assets		12 414 423	9 800 634	9 113 159
Current assets				
Inventories	14	2 222 321	2 072 434	1 608 369
Trade and other receivables	13	2 730 658	1 531 341	1 469 959
Current corporate tax receivables		4 511	9 329	1 741
Available-for-sale financial assets	10	415 662	8 976	-
Held-to-maturity investments	11	4 129	580	-
Derivatives	12	297 584	263 375	711 127
Cash and cash equivalents	15	3 086 957	1 197 077	2 065 763
Non-current assets held for sale	16	1 078	6 674	29 987
Total current assets		8 762 900	5 089 786	5 886 946
Total assets		21 177 323	14 890 420	15 000 105

The accounting policies and other explanatory information presented on pages 115 to 193 represent an integral part of these financial statements

Equity and liabilities

	Note	At 31 December 2010	At 31 December 2009 restated	At 1 January 2009
Equity attributable to shareholders of the Parent Entity				
Share capital	17	2 000 000	2 000 000	2 000 000
Accumulated other comprehensive income	18	209 821	126 301	517 456
Retained earnings	19	12 440 852	8 371 956	8 407 049
Equity attributable to shareholders of the Parent Entity		14 650 673	10 498 257	10 924 505
Non-controlling interest	20	241 106	77 082	58 360
Total equity		14 891 779	10 575 339	10 982 865
Liabilities				
Non-current liabilities				
Trade and other payables	21	121 560	63 316	44 289
Borrowings and finance lease liabilities	22	173 652	120 854	98 055
Derivatives	12	711 580	61 354	-
Deferred tax liabilities	23	133 392	56 182	68 182
Liabilities due to employee benefits	24	1 221 794	1 183 350	1 039 423
Provisions for other liabilities and charges	25	520 727	527 421	599 315
Total non-current liabilities		2 882 705	2 012 477	1 849 264
Current liabilities				
Trade and other payables	21	1 994 579	1 575 896	1 756 752
Borrowings and finance lease liabilities	22	96 162	219 816	192 923
Current corporate tax liabilities		672 152	79 104	65 952
Derivatives	12	482 118	273 717	4 930
Liabilities due to employee benefits	24	110 912	106 704	83 531
Provisions for other liabilities and charges	25	46 916	47 367	63 888
Total current liabilities		3 402 839	2 302 604	2 167 976
Total liabilities		6 285 544	4 315 081	4 017 240
Total equity and liabilities		21 177 323	14 890 420	15 000 105

The accounting policies and other explanatory information presented on pages 115 to 193 represent an integral part of these financial statements

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amounts in tables in thousand PLN, unless otherwise stated KGHM POLSKA MIEDŹ S.A. 111

Consolidated statement of comprehensive income

	Note	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009 restated
Sales	26	17 292 590	12 119 910
Cost of sales	27	(9 612 905)	(7 923 233)
Gross profit		7 679 685	4 196 677
Selling costs	27	(251 255)	(230 159)
Administrative expenses	27	(738 722)	(783 444)
Other operating income	29	653 917	495 572
Other operating costs	30	(1 798 287)	(999 308)
Operating profit		5 545 338	2 679 338
Finance costs	31	(48 330)	(45 259)
Share of profits of associates accounted for using the equity method		280 542	239 463
Profit before income tax		5 777 550	2 873 542
Income tax expense	34	(1 062 687)	(544 981)
Profit for the period		4 714 863	2 328 561
Other comprehensive income due to:			
Available-for-sale financial assets		147 512	(10 384)
Cash flow hedging instruments		(44 401)	(472 524)
Income tax related to items presented in other comprehensive income		(19 591)	91 753
Other comprehensive net income for the financial period		83 520	(391 155)
Total comprehensive income		4 798 383	1 937 406
Profit for the period attributable to:			
shareholders of the Parent Entity		4 708 946	2 327 993
non-controlling interest		5 917	568
Total comprehensive income attributable to:			
shareholders of the Parent Entity		4 792 466	1 936 838
non-controlling interest		5 917	568
Earnings per share attributable to the shareholders of the Parent Entity during the period (in PLN per share)	35		
– basic		23.54	11.64
– diluted		23.54	11.64

The accounting policies and other explanatory information presented on pages 115 to 193 represent an integral part of these financial statements

Consolidated statement of changes in equity

	Note	Equity attributable to shareholders of the Parent Entity					Equity attributable to non-controlling interest	Total equity
		Share capital	Accumulated other comprehensive income due to:		Retained earnings	Total		
			Available-for-sale financial assets	Cash flow hedging instruments				
At 1 January 2010 – restated		2 000 000	561	125 740	8 371 956	10 498 257	77 082	10 575 339
Dividends for 2009 paid		-	-	-	(600 000)	(600 000)	-	(600 000)
Total comprehensive income	18	-	119 485	(35 965)	4 708 946	4 792 466	5 917	4 798 383
Valuation of the put option for employee shares**		-	-	-	(40 296)	(40 296)	-	(40 296)
Other changes in equity attributable to non-controlling interest	20	-	-	-	246	246	158 107	158 353
At 31 December 2010		2 000 000	120 046	89 775	12 440 852	14 650 673	241 106	14 891 779
At 1 January 2009		2 000 000	8 972	508 484	8 407 049	10 924 505	58 360	10 982 865
Dividends for 2008 paid		-	-	-	(2 336 000)	(2 336 000)	-	(2 336 000)
Total comprehensive income – **restated***	18	-	(8 411)	(382 744)	2 327 993	1 936 838	568	1 937 406
Valuation of the put option for employee shares – **restated***		-	-	-	(27 086)	(27 086)	-	(27 086)
Other changes in equity attributable to non-controlling interest – **restated***	20	-	-	-	-	-	18 154	18 154
At 31 December 2009 – restated		2 000 000	561	125 740	8 371 956	10 498 257	77 082	10 575 339

* explanation in note 2.1.
** details in note 21.

The accounting policies and other explanatory information presented on pages 115 to 193 represent an integral part of these financial statements

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Consolidated statement of cash flows

	Note	For the period	
		from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Cash flow from operating activities			
Profit for the period		4 714 863	2 328 561
Adjustments to profit for the period	37	1 614 132	1 025 395
Income tax paid		(667 720)	(633 207)
Net cash generated from operating activities		5 661 275	2 720 749
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents	4	(380 413)	(217 590)
Purchase of property, plant and equipment and intangible assets		(1 401 111)	(1 465 749)
Proceeds from sale of property, plant and equipment and intangible assets	37	7 217	23 386
Proceeds from sale of investment property		461	-
Purchase of available-for-sale financial assets		(1 298 141)	(58)
Proceeds from sale of available-for-sale financial assets		310 994	20 000
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(20 567)	(8 132)
Establishment of deposits		(350 000)	(400 523)
Termination of deposits		-	400 500
Proceeds from repayments of loans granted		-	1 048
Interest received		63	5 692
Dividends received		146 728	418 474
Advances granted for purchase of property, plant and equipment and intangible assets		(80 432)	(22 030)
Other investment expenses		(4 922)	(10 765)
Net cash used in investing activities		(3 070 123)	(1 255 747)
Cash flow from financing activities			
Proceeds from non-controlling interest transactions		-	57
Purchase of the company's own shares for redemption		(2)	(9)
Proceeds from loans and borrowings		121 195	98 136
Repayments of loans and borrowings		(202 349)	(56 941)
Payments of liabilities due to finance leases		(12 208)	(8 333)
Interest paid		(14 166)	(14 756)
Dividends paid to shareholders of the Parent Entity		(600 000)	(2 336 000)
Other financial proceeds		33	96
Net cash used in financing activities		(707 497)	(2 317 750)
Total net cash flow		1 883 655	(852 748)
Exchange gains/(losses) on cash and cash equivalents		6 225	(15 938)
Movements in cash and cash equivalents		1 889 880	(868 686)
Cash and cash equivalents at beginning of the period	15	1 197 077	2 065 763
Cash and cash equivalents at end of the period	15	3 086 957	1 197 077
including restricted cash and cash equivalents		5 097	15 833

The accounting policies and other explanatory information presented on pages 115 to 193 represent an integral part of these financial statements

Accounting policies and other explanatory information

1. General information

Company name, registered office, business activities

KGHM Polska Miedź S.A. (the "Parent Entity") with its registered office in Lubin at 48 M.Skłodowskiej-Curie Street is a stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, 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), the Ore Enrichment Plant (OEP), the Tailings Plant, the Mine-Smelter Emergency Rescue Unit and the Data Center. The composition of the Group was presented in Note 4.

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

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

The principal activities of the 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 payments or contracts,
- 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, and
- telecommunication and IT activities.

Activities involving the exploitation of copper ore, salt deposits and common minerals are carried out 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, most of which expire on 31 December 2013. KGHM Polska Miedź S.A. is at the stage of acquiring licenses for subsequent years. In the opinion of the Management Board, the licensing process, which occurs periodically, is of an administrative nature, while the probability of not receiving a license is, in the opinion of the Management Board of the Parent Entity, minimal.

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 has an unlimited period of operation.

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

Composition of the Management Board of the Parent Entity

In 2010 the VIIth-term Management Board of KGHM Polska Miedź S.A. began its work in the following composition:
- Herbert Wirth – President of the Management Board
- Maciej Tybura – I Vice President of the Management Board (Finance)
- Ryszard Janeczek – Vice President of the Management Board (Production)

On 14 October 2010, Ryszard Janeczek submitted his resignation from the position of Vice President of the Management Board of KGHM Polska Miedź S.A.

On 19 October 2010, the President of the Management Board of KGHM Polska Miedź S.A. announced the recruitment process for the position of Vice President of the Management Board.

On 19 November 2010, the recruitment process was concluded and the Supervisory Board of the Parent Entity appointed Wojciech Kędzia to the Management Board – granting him the function of Vice President of the Management Board.

amounts in tables in thousand PLN, unless otherwise stated

As at the date of authorisation of these financial statements for issue, the Management Board of KGHM Polska Miedź S.A. consists of:

- Herbert Wirth President of the Management Board,
- Maciej Tybura I Vice President of the Management Board (Finance),
- Wojciech Kędzia Vice President of the Management Board (Production).

Authorisation of the financial statements

These financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 28 March 2011.

Going concern assumption

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

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 financial statements of KGHM Polska Miedź S.A. for the period ended 31 December 2010. 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 of the Parent Entity and the consolidated annual report of the Group for 2010.

Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

2. Main accounting policies

2.1. Basis of preparing financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union, using the same principles for the current and comparable periods, restating the comparable period to conform to the changes in accounting and presentation principles to those applied in the statements in the current period. Changes were with respect to:

- final measurement of the acquisition of shares of WPEC w Legnicy S.A. at 31 December 2009 in accordance with IFRS 3. As a result of this measurement, the provisional amounts recognised at the acquisition date were adjusted. Details on the retrospective measurement of the purchase price are presented in note 4,
- revaluation of the shares of Polkomtel S.A. using the equity method due to an adjustment of the financial statements of Polkomtel S.A. for the year 2009 following an audit of its accounts,
- correction of an error due to the recognition and measurement of liabilities due to the submission of an irrevocable offer by "Energetyka" sp. z o.o., as part of a sales agreement by the State Treasury of shares of WPEC w Legnicy S.A., to purchase the shares of this company which were not acquired by entitled employees, as well as the repurchase of shares already transferred for free to employees in accordance with IAS. Details on the measurement of liabilities due to the put option on employee shares are presented in note 21.

Impact of these changes on the statement of financial position at 31 December 2009:

	Retrospective measurement of purchase of shares of WPEC w Legnicy S.A.	Revaluation of the shares of Polkomtel S.A. using the equity method	Recognition and measurement of written put option liabilities on employee shares of WPEC w Legnicy S.A.
ASSETS			
Non-current assets			
Property, plant and equipment	73 647	-	-
Intangible assets	(50 043)	-	-
including goodwill	(52 172)	-	-
Investments in associates		(30 609)	-
	23 604	(30 609)	-
Total assets	23 604	(30 609)	-
Equity and liabilities			
Equity			
Retained earnings – equity attributable to shareholders of the Parent Entity	-	(30 609)	(27 086)
including profit for the period	-	(30 609)	-
Equity attributable to non-controlling interest	9 207	-	-
	9 207	(30 609)	(27 086)
Non-current liabilities			
Trade and other payables	-	-	27 086
Deferred tax liabilities	14 397	-	-
	14 397	-	27 086
Total equity and liabilities	23 604	(30 609)	-

These changes did not affect the statement of financial position at 1 January 2009.

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

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

Since 1 January 2010 the following standards and interpretations are in force applied by the Group

- **IFRIC 15 Agreements for the Construction of Real Estate**
- **IFRIC 17 Distributions of Non-cash Assets to Owners**
- **IFRIC 18 Transfers of Assets from Customers**
- **Eligible Hedged Items. An amendment to IAS 39 Financial Instruments: Recognition and Measurement**
- **Amendments to IFRS 2 Share-based Payment**
- **IFRS 3 Business Combinations**
- **IAS 27 Consolidated and Separate Financial Statements**
- **Amended IFRS 1 First-time Adoption of IFRS (standard given a new structure)**
- **Amended IFRS 1 First-time Adoption of IFRS (amendment concerns entities active in the oil and natural gas sectors)**
- **Improvements to International Financial Reporting Standards 2009**

All of the above changes to the standards and interpretations have been approved for use by the European Union up to the date of publication of these financial statements. In the Group's opinion, their application would not have an impact on the consolidated financial statements or the impact would be insignificant.

amounts in tables in thousand PLN, unless otherwise stated

From the point of view of the Group, the most important changes are those introduced to IAS 27 and IFRS 3. The amended IAS 27 requires, among others, the recognition of changes in the ownership interest of the Group which do not cause a loss of control over a subsidiary, as equity transactions. As a result, such a change in ownership interest does not affect goodwill and does not lead to recognition of profit or loss. Prior to this amendment, the Group applied a principle of treating transactions with minority interest as transactions with third parties unrelated to the Group. The sale of shares to minority interest resulted in recognition of profits/losses of the Group in profit or loss, while the purchase of shares from minority interest caused a recognition of goodwill. The amended IFRS 3 introduces among others a change in the manner of measuring the amount of consideration for an acquisition which, following amendment, also comprises all assets and liabilities arising from the determination of contingent considerations, although it is not increased (as was previously) by costs directly related to the acquisition of an investment. Such costs are settled as costs of the period in which they are incurred. The Group applied amended IFRS 3 and IAS 27 on a prospective basis from 1 January 2010.

Up to the date of publication of these financial statements, further standards and interpretations have been published by the International Accounting Standards Board which up to this date have not come into force, while some of them have been adopted for use by the European Union.

Standards and interpretations which are not in force but have been adopted by the European Union:

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 to the existing shareholders of the issuer proportionally in exchange for a fixed amount of cash, they should be classified as equity instruments including when their exercise price is in a currency other than that 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 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. The purpose of this update is to exempt first-time adopters of IFRS from disclosure required by IFRS 7 Financial Instruments: Disclosures, introduced by the IASB in March 2009, with respect to changes in measurement to fair value and liquidity risk. Thanks to this amendment, first-time adopters of IFRS were given the same date of adoption of these changes as entities which have already adopted IFRS.

The amendments become effective for annual periods beginning on or after 1 July 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 modifies the 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, the scope of disclosures of transactions between companies related to the State Treasury will be restricted, as transactions entered into by the Group with other entities related to the State Treasury are in the nature of standard transactions, related to providing and realising typical services and transactions resulting from the activities performed by such entities. These transactions have been and are carried out as arm's length transactions, offered equally to other entities engaged in business transactions. The nature and scope of transactions carried out by the Group with entities related to the State Treasury, disclosed in accordance with the standard in force at the date of preparation of these financial statements, are presented in Note 41. The Group, pursuant to the amended version of IAS 24, intends to publish information on transactions and contracts, considered significant due to the nature or size of the transaction and contract, entered into with companies related to the State Treasury, if such transactions occur.

The amending of IAS 24 necessitated the introduction of changes to IFRS 8 Operating segments, with respect to the determination by a reporting entity as to whether and when a group of entities under common control should be considered as a single customer for reporting purposes under IFRS 8.

The amendment to this standard becomes effective for annual periods beginning on or after 1 January 2011.

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. According to the amendment 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.

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 by debtors. 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.

Changes in International Financial Reporting Standards 2010

On 6 May 2010, as part of the annual review of standards, the International Accounting Standards Board issued its Improvements to IFRSs 2010. This document is a compendium of amendments which are necessary but not as urgent or significant as to require separate projects. The changes involve six standards and one interpretation, of which changes to the following standards have potential impact on the financial statements of the Group:

- IFRS 3 with respect to the measurement of non-controlling interest,
- IFRS 7 with respect to the broadening of explanatory disclosures on the nature and scope of risk involving financial instruments,
- IAS 1 with respect to the manner of presenting information on other comprehensive income in the statement of changes in equity,
- IAS 34 with respect to information published in the interim financial statements,
- IFRIC 13 with respect to fair value measurement of loyalty award credits.

While each change introduced has an individual effective date, all will be effective for the Group for annual periods beginning on or after 1 January 2011.

None of these changes will have a significant effect on the financial statements of the Group.

Standards and interpretations which are not in force and not adopted for use by the European Union:

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 refer to financial statements of the Group.

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 withdrawal of IAS 39 *Financial Instruments: Recognition and Measurement* and replacement by a new one, IFRS 9. This standard essentially simplifies the principles for classifying financial assets, introducing only two categories: assets measured at fair value, and assets measured 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, their reclassification 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.

Potential changes in value which could impact the financial statements of the Group could arise due to changes in the measurement of equity instruments, which due to the lack of an active market the Group measures at cost less any impairment. It is however expected that they will not have a significant impact on the financial statements of the Group.

Amendments to IFRS 7 – ***enhancing disclosures about transfers of financial assets***

On 7 October 2010, the International Accounting Standards Board issued Amendments to IFRS 7 – *Enhancing disclosures about transfers of financial assets*. The amendments issued enhance existing disclosure requirements. The purpose of the amendments is to increase the transparency of information on risks involving transactions in which financial assets were transferred.

Not every transferral of financial assets by an entity to a third party results in its simultaneous, total or partial derecognition from the financial statements. This occurs when an entity transferring assets does not simultaneously transfer contractual rights to receive cash flows associated with these assets, retaining substantially all of the risks and rewards of their ownership, or continues to be involved in derecognised financial assets at the reporting date. The amendments to IFRS 7 require the presentation in a separate note to the financial statements for each class of financial assets transferred, which were not entirely derecognised, information on the nature and carrying amount of assets transferred and the risks and rewards associated with them.

For assets transferred, in which an entity continues to be involved, the amended IFRS 7 requires the disclosure of information enabling the evaluation of the nature of the involvement and of the risks associated with the continuing involvement of the entity with the derecognised financial assets, by each class of continued involvement, including the carrying amount and fair value of financial assets and liabilities representing the continued involvement of the entity in the derecognised financial assets.

Until now, the only type of financial assets transferred by the Group whose transferral did not qualify for derecognition from the financial statements involved the disposal of Group debtors with respect to recourse factoring. Should there occur such transactions or others which will involve the aforesaid amendments to IFRS 7, the Group will provide disclosures in the financial statements pursuant to the new requirements.

These changes will be effective for annual periods beginning on or after 1 July 2011.

IFRS 9 *Financial Instruments*

On 28 October 2010, the International Accounting Standards Board reissued IFRS 9 *Financial Instruments*. This standard is the result of the further work of the Board aimed at replacing IAS 39 *Financial Instruments: Recognition and Measurement*. In this publication the Board added to IFRS 9 requirements involving the classification and measurement of financial liabilities. Most of these requirements were transferred directly to IFRS 9 from 39 IAS.

In accordance with IFRS 9, liabilities being a derivative related with and settled by the delivery of an equity investment which is not quoted on an active market should be measured at fair value, just as for investments in unquoted equity investments and derivative financial assets related to these investments.

Furthermore, this standard introduces the requirement to recognise, in other comprehensive income, changes in the fair value of financial liabilities measured at fair value through profit or loss, resulting from changes in credit risk associated with the said liabilities. The remaining amount of the change in the fair value of a liability should be presented in profit or loss, unless recognition of the effects of changes in the credit risk of the liability would create or enlarge an accounting mismatch, in which case the entity should recognise the full amount of the change in fair value in profit or loss.

This standard will be 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. It is estimated that this change will not have a significant impact on the financial statements of the Group.

Amendments to IFRS 1 *First-time Adoption of IFRS*

On 20 December 2010, the International Accounting Standards Board issued an amendment called *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters of IFRS*, as an amendment to IFRS 1 *First-time Adoption of IFRS*. The purpose of this update is to establish additional convenience for first-time adopters of IFRS.

Changes to this standard are effective for annual periods beginning on or after 1 July 2011 and will not have an effect on the financial statements of the Group.

Amendments to IAS 12 *Income Taxes*

On 20 December 2010, the International Accounting Standards Board issued an amendment to IAS 12 called *Deferred Tax: Recovery of Underlying Assets*. The purpose of this update is to provide practical guidance in the estimation of the amount of deferred income tax in a situation where investment property is measured through the use of the fair value model from IAS 40 *Investment Property*. In accordance with IAS 12, the measurement of deferred income tax assets and liabilities, i.e. the determination of an income tax rate and the taxable base, depends on the manner in which an entity intends to recover (realise) the value of the assets. In certain tax jurisdictions a different income tax rate is applied to the disposal of property than is applied to income received from the use of such property. Sometimes therefore, entities cannot be certain as to the manner in which the value of a given asset will be eventually recovered (realised) in the future. In such a situation the aforementioned amendment to IAS 12 recommends that the entity should assume that it will recover (realise) the value of the asset through its sale. This same principle for the determination of the amount of deferred income tax should be applied by entities owning non-depreciable and revalued assets covered by IAS 16.

Changes to this standard are effective for annual periods beginning on or after 1 January 2012 and will not have an effect on the financial statements of the Group, due to the unified tax rate applied in Poland to revenues obtained by corporations.

In these financial statements Standards and interpretations were not used prior to their coming into force and adoption by the European Union.

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 2.2.23.

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

Mine decommissioning costs recognised in the initial cost of an item of property, plant and equipment are depreciated in the same manner as the item of property, plant and equipment to which they relate, beginning from the moment an asset is brought into use, throughout the period set out in the asset group decommissioning plan within the schedule of mines 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-related 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 aggregate of **the consid**eration transferred, the amount of any non-controlling interest in the acquiree, and the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill *from transactions carried out prior to 1 January 2010 represents the excess of the cost of acquisition over the fair value of the share of Group entities in the identifiable net assets of the acquired subsidiary at the acquisition date, or of the acquired associate at the acquisition date of the investment.*

Goodwill on acquisition of a subsidiary is included 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 is recognised in the statement of financial position in the amount initially recognised 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.

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 yet 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 2.2.23 of these policies.

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

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.

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 power 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.

As goodwill is recognised the excess of the payment made by an acquirer, the amount of all non-controlling shares in an acquiree, and fair value of an ownership interest of the acquiree at the acquisition date, belonging to the acquirer prior to obtaining control, over the net amount set at the acquisition date of the value of identifiable acquired assets and liabilities of the acquired subsidiary. The excess of the Group share in the fair value of net assets over the purchase price, which is the gain from bargain purchase, is recognised directly in profit or loss.

Goodwill from transactions carried out prior to 1 January 2010 represents the excess of the cost of acquisition over the fair value of the share of Group entities in the identifiable net assets of the acquired subsidiary at the acquisition date, or of the acquired associate at the acquisition date of the investment.

The payment for acquisition is measured at fair value, being the total fair value of the transferred assets, outstanding liabilities and issued equities at the acquisition date. The payment for acquisition also includes all assets and liabilities resulting from decisions in respect of contingent payments, if such decisions are made. Costs associated with acquisition are settled as a cost of the period in which they are incurred, while costs of issuing debt securities and equities are recognised in accordance with IAS 32 and IAS 39.

For transactions of acquisition, carried out prior to 1 January 2010, the cost of acquisition was set at the amount of fair value of the given assets, issued equity instruments and of liabilities incurred or assumed at the date of exchange, plus the direct costs of acquisition.

Identifiable assets acquired and liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling 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.

Non-controlling 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.

Changes in the share of ownership of the Group which do not result in a loss of control over a subsidiary are recognised as an equity transaction. The carrying amount the shares granting control and not granting control are adjusted, reflecting the change in the share of ownership in a given subsidiary. The difference between the amount to be paid due to the increase or decrease of shares and the carrying amount of the respective shares not granting control is recognised directly in the equity of the entity obtaining control.

Until 31 December 2009, the accounting policy applied by the Group treated transactions with minority (non-controlling) interest as transactions with third parties unrelated to the Group. The sale of shares to non-controlling interest resulted in recognition of profits or losses of the Group in profit or loss. The purchase of shares from non-controlling interest caused a recognition of goodwill, being the excess of the cost of acquisition over the respective share in the net assets transferred according to their carrying amount; otherwise, the difference was recognised in profit or loss.

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 net value of Group investments in the associate which is recognised in the statement of financial position also includes, as set on the date control was obtained, goodwill and identified items not recognised in the statement of financial position of the acquiree measured at fair value.

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 accumulated other comprehensive income is recognised in the respective item of the accumulated other comprehensive income. 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: derivative hedging instruments, instruments initially designated as hedging instruments excluded from hedge accounting 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 has been adopted to the above specified categories of financial assets and liabilities:

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

This category includes financial assets and financial liabilities held for trading and financial assets and liabilities designated at fair value through profit or loss at their initial recognition.

A financial asset is classified to this category if it is acquired principally for the purpose of selling in the near term or if it is designated by the 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 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 derivatives, unless they have been designated as hedging instruments.

Assets and liabilities in this category are classified as current if the carrying amount is realised within a period of up to 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.

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 in the statement of financial position.

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 other categories.

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

Other financial liabilities

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

Hedging instruments (HI)

Derivatives 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 instruments designated to this category and qualifying for hedge accounting, even if the Group excludes the time value of a derivative from effectiveness measurement.

Instruments initially designated as hedging instruments excluded from hedge accounting

Derivatives initially designated as qualifying for hedge accounting, and then excluded from hedge accounting, are presented as Instruments initially designated as hedging instruments excluded from hedge accounting.

Instruments initially designated as hedging instruments excluded from hedge accounting are measured at fair value through profit or loss.

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 the 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

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

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

The disposal of investments of the same type but with a different cost is accounted for using the FIFO method, i.e. the disposal of these assets is measured successively at the prices of those elements which the entity acquired earlier.

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 two amounts:
  - the amount determined in accordance with point 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 financial liabilities, the sales 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, 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 the case of purchase or sale of commodity forwards, fair value was estimated based on forwards prices for the maturity dates of specific transactions. In 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, and in the case of volatility of prices and forward prices, 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 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 of open-end cash investment funds is determined based on the valuations quoted by those funds. The fair value of share in close-end investment funds qualified as available-for-sale financial assets is measured based on the data 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 occurrence of significant unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the prolonged significant decrease of the fair value of an equity instrument below its 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 to profit or loss as a reclassification adjustment. Impairment losses on equity instruments recognised in profit or loss are reversed through other comprehensive income. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

If evidence of potential impairment of loans and receivables or of held-to-maturity investments measured at amortised cost exists, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate (i.e. the effective interest rate calculated at the initial recognition for fixed interest rate assets, and the effective interest rate computed at the last revaluation for floating interest rate assets). Any impairment loss is recognised in profit or loss. The carrying amount of such financial assets includes the impairment loss (due to credit losses) recorded in a separate account.

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 separation 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 separately from the host sale/purchase contract. From the moment of separation, the embedded derivative is measured at fair value at the end of each reporting period. From the date of separation, the embedded derivative 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 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 changes in 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 derivatives, or financial liabilities which are not derivatives, 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 shares in net assets of 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 which is attributable to a particular type of risk associated with an asset or liability recognised in the statement of financial position, or a highly probable forecast transaction, and
- will affect profit or loss.

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

The Group hedges forecasted cash flows. 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 ongoing basis, of whether the hedging instruments are and will be highly effective in offsetting changes in the cash flows of the hedged items.

Discontinuation of hedge accounting

The Group ceases to account for derivatives as hedging instruments when they expire, 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 net gain or loss recognised in other comprehensive income is immediately transferred to profit or loss as a reclassification adjustment.

2.2.6. Inventories

Inventories consist of the following items:
- materials,
- half-finished products and work in progress,
- finished goods, and
- merchandise.

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

Inventories are measured in accordance with the following principles:
- materials and merchandise – at average cost as set for inventory disposal,
- finished goods, half-finished 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 the 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.

The category trade and other receivables includes:
- trade receivables – these are receivables which arise from the principal operating activities of the Group,
- other receivables, including:
  - loans granted,
  - other financial receivables, i.e. receivables meeting the definitions of financial assets,
  - other non-financial receivables, including among others advances for deliveries, fixed assets, fixed assets under construction, intangible assets and for shares in subsidiaries, co-subsidiaries and associates, receivables from employees, if they are settled other than by cash payment, and also Budget receivables, and
  - prepayments.

2.2.8. Cash and cash equivalents

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

2.2.9. 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 their carrying amount and their 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 non-financial 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 external indications of possible impairment for the Group's companies listed on active markets are the continuation over the long term of a situation in which the carrying amount of the Group's companies net assets exceeds their market value. Additionally, amongst the most significant indications are unfavourable technical, market and economic changes to the environment in which the Group's companies operates, including on the destination markets for products of the Group's companies, 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 Group's companies assets. 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 gains/losses from re-measurement, set at the fair value of the cash flow hedging instruments in the portion reflecting an effective hedge,
   - accumulated gains/losses from the fair value measurement of financial assets classified as available-for-sale, and
   - the impact of income tax related to accumulated gains/losses presented in accumulated 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.

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 not been 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 taxes and local fees, and
- 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 fixed 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, fixed assets under construction and intangible assets acquired for free as grants, is accounted for in accordance with this Policy, note 2, point 2.2.25.

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,
- future costs of decommissioning of technological facilities (in the copper smelters) and other facilities in cases where the law provides for the obligation to dismantle and remove such assets after the conclusion of mining activities and to restore the sites to their original condition,
- 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 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 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.*

Revaluations of the provision reflect:
- decreases due to its utilisation,
- increases due to the approach of time (unwinding of the discount) – recognised in financial costs,
- increases/decreases due to changes in the discount rate – recognised in the initial value of property, plant and equipment*,
- increases/decreases due to changes in assumptions, including changes in construction-assembly prices – recognised in the initial value of property, plant and equipment*,
- increases due to the acquisition of new assets under the future decommissioning program,
- decreases due to early, unplanned liquidation of assets under the future decommissioning program.

The discount rate calculation methodology used to measure provisions is described in Note 3.4.

In accordance with IAS 1 Presentation of Financial Statements provisions in the statement of financial position are presented as either current or non-current.

2.2.16. Employee benefits

The Group pays 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 are 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.

Parent Entity participates in a contribution plan on behalf of employees within the confines of an Employee Retirement Plan. With respect to this Plan, 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.

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

2.2.17. Income taxes

Income taxes recognised in profit or loss comprise: current tax and deferred tax.

Current income tax is calculated in accordance with current tax laws.

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

A deferred tax liability is recognised for 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 if it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilised.

Deferred tax assets and deferred tax liabilities are 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 profit or loss for a given period, unless the deferred tax:
- arises from transactions or events which are directly recognised in other comprehensive income – in which case the deferred tax is also recognised in the other comprehensive income, or
- arises from a business combination – in which case the deferred tax affects goodwill or gains on a bargain purchase.

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

2.2.18. Contingent liabilities

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.

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

2.2.19. Statement of comprehensive income

The Group recognises profit and loss for the period recognised outside profit or loss if individual profit or loss for the period allow or require it, involving the fair value measurement of financial assets classified as available for sale, and of profit and loss from fair value remeasurement of the effective portion of future cash flow hedging instruments, reflecting taxation.

Profit or loss (comprising the previously-applied concepts of "income statement" and "statement of profit and loss") for the given period is the total amount resulting from the deduction of costs from income, excluding items of other comprehensive income. The cost of sales format is applied as the basic costs accounting method.

2.2.20. 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 derivatives, 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 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 are revenues arising from ordinary operating activities of the Group, i.e. revenues from sales of products, services, merchandise and materials, reflecting any rebates granted and any other decreases in selling prices.

In addition, revenue for the given reporting period which affects the profit or loss 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 derivatives and the ineffective portion of gains from the realisation and fair value measurement of derivative hedging instruments,
  - foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities,
  - reversal of impairment losses on held-to–maturity investments, available-for-sale financial assets, and 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 activities (loans, credits, bonds, finance leases etc.),
  - gains on realisation and fair value measurement of derivative hedging instruments used to hedge liabilities financing the Group's activities.

Moment of recognition of revenues

Revenues from the sale of products, merchandise and materials are recognised when:
- the Group has transferred to the buyer the significant risks and rewards of ownership of the merchandise, finished goods and materials,
- the Group has ceased to have a continued involvement in the management of merchandise, finished goods and materials sold to the extent usually associated with inventory management function, 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 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.

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

Interest income is recognised on an accrual basis, using the effective interest method.

Income from dividends is recognised when the shareholder's right is set.

2.2.21. 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 by any change in the fair value of embedded derivatives, which are separated from the host purchase contract in accordance with point 2.2.5.6.

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

The total cost of products, merchandise and materials sold comprises:
- the manufacturing cost of products sold,
- the cost of merchandise and materials sold,
- selling costs, and
- administrative expenses.

In addition, costs for the given reporting period which affect profit or loss for the period include **other operating costs**, indirectly connected with operating activities, including in particular:
- costs and losses on financial investments,
- losses from the measurement and realisation of traded derivatives and the ineffective portion of losses arising from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities,
- impairment losses on held-to–maturity investments, available-for-sale financial assets, loans and other investments,
- provisions recognised for disputed 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

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 unwinding of the discount from non-current 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 maturity date of a liability (the so-called unwinding of the discount effect).

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

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Group's entities operate, i.e. in the functional currency. The financial statements are presented in the Polish zloty (PLN), which is the functional currency of Group entities 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. average exchange rate set for a given currency by the NBP) prevailing on the transaction date, and
- non-monetary items measured at fair value in a foreign currency are translated using the exchange rate (i.e. average exchange rate set for a given currency by the NBP) at the date when the fair value was determined.

Foreign exchange gains or losses arising on the settlement of a foreign currency transaction, or on the measurement 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 fair value measurement provided they do not represent the change in the fair value of the effective cash flow hedge. In such a case they are recognised in other comprehensive income, in accordance with hedge accounting principles.

Foreign exchange gains or losses arising on non-monetary items, such as equity instruments, are recognised as an element of changes in fair value, if such instruments are measured at fair value through profit or loss, or in other comprehensive income at fair value, if such equity instruments are classified as available-for-sale financial assets.

2.2.23. Borrowing costs

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 a Group would have drawn in its functional currency and the financing cost incurred in the foreign currency.

Other borrowing costs are accounted for as costs in profit or loss in the period in which they are incurred.

2.2.24. 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, a lease contract is classified as an operating lease. Group liabilities due to operating leases not recognised in the statement of financial position, in particular with regard to payments to the State Treasury and to territorial self-government entities due to perpetual usufruct of land, as well as liabilities due to other operating leases agreements, are presented in note 43.

2.2.25. Government grants

Non-monetary grants are accounted for at their fair value.

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 accounted for at their fair value.

The principles of utilisation of CO_2 are presented in note 2, point 2.2.27.

2.2.26.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 Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- 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".

2.2.27. Greenhouse gas emission allowances

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 allowances are granted in accordance with the National Plan for Allocating Proprietary Allowances for the emission of carbon dioxide, which is developed for each subsequent settlement period.

At inception:
- emission allowances received from the government are measured at fair value and recognised in intangible assets, against deferred income as a non-cash government subsidy,
- purchased allowances are measured at cost and recognised in intangible assets.

At the end of the reporting period:
- emission allowances are measured at initial cost at the moment of recognition, less any impairment.

Based on decisions issued by the President of the Energy Regulatory Office, emission rights are redeemed simultaneously with the settlement of subsidies.

In a situation where actual emissions exceed the amount of allowances granted and still held, under the principle of net obligations, the Group recognises a provision in the amount of fair value of the emission allowances, plus any eventual costs or penalties due to a deficit of the emission allowances necessary to resolve this deficit. A provision is recognised in the cost of sales. This provision is settled at the moment of redemption of the emission allowances 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).

In the financial statements the Group applies the net value method of presenting emission allowances and related non-cash governmental subsidies. Detailed data on emission allowances granted to the Group are presented in note 7.

2.2.28. Earnings per share

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

2.2.29. Statement of cash flows

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

2.2.30. 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:
- The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets, and
- The ratio showing the relationship of borrowings and finance lease liabilities to EBITDA. EBITDA is operating profit plus depreciation/amortisation.

2.2.31. 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 loyalty 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 award 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.

2.2.32. Exploration for and evaluation of mineral resources

Only those expenditures which meet the general criteria for capitalisation as described below are classified as assets due to the exploration for and evaluation of mineral resources:
- it is probable that the entity will achieve future economic benefits related to a given asset, and
- this item has a purchase price or manufacturing cost which can be measured reliably.

Not recognised in assets due to the exploration for and evaluation of mineral resources are expenditures incurred:

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

Property, plant and equipment (as fixed assets under construction) and intangible assets (as intangible assets not yet available for use) are recognised as assets used in the exploration for and evaluation of mineral resources from the moment the right is acquired to carry out exploratory activities. Expenditures for development work related to mineral resources are not recognised as assets used in the exploration for and evaluation of mineral resources.

Assets due to the exploration for and evaluation of mineral resources are measured at the moment of initial recognition at cost. At the end of the reporting period these assets, recognised as intangible assets not yet available for use, are tested for impairment, and if it is determined that impairment has occurred, an impairment loss is recognised. Assets recognised as fixed assets under construction are tested for impairment when facts and circumstances suggest that impairment has occurred.

For the purposes of testing for impairment, individual assets used in the exploration for and evaluation of mineral resources are tested separately, and if this is not possible, they are assigned to the cash-generating unit which is the entity performing the exploration for and evaluation of mineral resources.

Assets due to the exploration for and evaluation of mineral resources are recognised and presented as a separate group of fixed assets under construction and intangible assets not yet available for use, respectively.

2.2.33. Property rights resulting from certificates of origin for energy from renewable resources and cogeneration

Based on the Energy Act and on executive decrees of the Minister of the Economy, power generation companies involved in the trade in and sale of electricity to end users are required to purchase and present for redemption property rights resulting from certificates of origin or the making of substitute fees.

This obligation is considered as met if, for a given financial year, the share of total volume of electricity resulting from said certificates of origin in the total annual sale of electricity to end users conforms to the limits set forth in decrees of the Minister of the Economy.

Property rights in energy companies not generating coloured energy

In order to adhere to the requirement to present property rights for redemption or to pay substitute fees, at the end of reporting periods the Group recognises a provision for costs of acquiring property rights. Group companies involved in the distribution of energy create provisions which is recognised as cost of merchandise sold. Group companies involved in the generation of energy create provisions against the cost of energy sold. The amount of the provision is the lesser of two amounts: the actual market value of certificates of origin or the amount of the substitute fee matching the amount of energy sold to an end user. Settlement of the provision is made at the date of redemption of these rights by the President of the Energy Regulatory Office or at the date of payment of substitute fees.

The acquired property rights in the statement of financial position are recognised as merchandise.

Property rights at the date of acquisition are measured at cost, equivalent to:
- the value of a given certificate of origin based on current market price, or
- the amount of the negotiated contractual price if such rights are purchased in off-session market transactions.

At the end of the reporting period property rights are measured at cost less any impairment, though in no case higher than their net sale price.

Penalties for failure to purchase the obligatory amount of property rights resulting from certificates of origin for energy from renewable resources or cogeneration, or to make substitute fees, is recognised in other operating costs.

Property rights of power company generating energy from cogeneration

Property rights obtained free of charge from the government to coloured energy are treated as non-cash government grants, they are measured at initial recognition at fair value and recognised in the statement of financial position as merchandise, against revenues from the sale of energy.

At the end of the reporting period, the recognised property rights are measured at cost less any impairment loss, though in no case higher than the net sale price.

The allocation of property rights due to their sale is taken to profit or loss and recognised as a decrease in revenues from energy sold. Revenues from the sale of property rights to energy is recognised in profit or loss as revenues from the sale of energy.

A deficit in property rights is supplemented by their purchase or through a substitute fees. In the case of a deficit of property rights at the end of the reporting period, the entity recognises the provision at the amount of the fair value of the rights in deficit.

3. Important estimates and assumption

In preparing the financial statements, the Management Board of the Parent Entity makes use of estimates based on assumptions and opinions which affect the applied accounting principles and presented valuation of assets, liabilities, income and costs. The assumptions and estimates on which they are based result from historical experience and the analysis of various factors which are considered as prudent, while their results represent the basis for professional judgement as to the value of the item which they concern. In certain vital questions the Management Board relies on the opinions of independent experts.

Estimates and assumptions of importance for the financial statements of the Group are presented below.

3.1. Useful life of property, plant and equipment

The Management Boards of the Group companies annually reviews the residual value, depreciation methods and useful lives of property, plant and equipment subject to depreciation. At 31 December 2010 it's assumed that the useful lives of assets applied by the Group companies for purposes of depreciation reflect the expected period of future economic benefits from these assets.

3.2. Financial instruments

In accordance with the guidelines of IAS 39 relating to the classification of non-derivatives 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 Group companies fail to hold such instruments to maturity, apart from the situation described in IAS 39, they 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.

Embedded derivatives

At the end of each reporting period the Parent Entity analyses significance of the impact of separated embedded derivatives on the financial statements. Following this analysis, KGHM Polska Miedź S.A. determined that separation of these instruments at 31 December 2010 would not have a significant impact on the consolidated financial statements.

KGHM AJAX MINING INC. options

Based on an agreement, KGHM Polska Miedź S.A. acquired 51% of the shares of KGHM AJAX MINING INC., a company founded with Abacus Mining & Exploration Corp. (Abacus), through a cash contribution in the amount of USD 37 million. Abacus brought to the Company 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.

In accordance with the above Agreement, KGHM Polska Miedź S.A. holds a call option on a further 29% in KGHM AJAX MINING INC., for an amount calculated as a multiple of USD 0.025 per pound of copper in 29% of the probable and proven industrial ore resources, though not higher than USD 35 million. Execution of this option will be possible following publication of the Bankable Feasibility Study, which will include the balance of industrial ore resources.

The Agreement also includes a commitment by KGHM Polska Miedź S.A. to arrange financing for the project CAPEX, in the amount of USD 535 million (the equivalent of PLN 1 585.8 million, per the average National Bank of Poland rate for USD/PLN from 31 December 2010). The commitment will arise at the moment of execution by KGHM of the call option on a further 29% in KGHM AJAX MINING INC.

If this option is not executed by KGHM Polska Miedź S.A., Abacus will have an exclusive call option for a period of 90 days on all of the shares belonging to KGHM Polska Miedź S.A. for an amount representing the equivalent of their fair market value, though not higher than USD 37 million. If Abacus decides not to acquire the shares from KGHM Polska Miedź S.A. within this timeframe, KGHM Polska Miedź S.A. shall transfer, within 60 days, 2% of its shares in KGHM AJAX MINING INC. to Abacus, increasing the share of this company to 51% for the amount of USD 1 451 thousand.

Under IAS 39, the Parent Entity is required to measure the options included in this agreement as derivatives. However, at the moment of publication of these financial statements, the Parent Entity was not able to make a reliable estimation of the fair value of these options. Determination of the value of the Ajax copper deposit, being the basis for determining the fair value of these options, will only be possible following the preparation of the Bankable Feasibility Study. Work on this document is expected to be completed by the end of 2011. Moreover, the base instrument of these options is not a traded market instrument. Pursuant to IAS 39.46(c) and IAS 39.47(a), the Parent Entity has departed determination of the fair value of these options until a precise determination can be made of the value of the Ajax deposit, i.e. until the completion of the Bankable Feasibility Study.

In the case of measurement of these options, the Parent Entity would separate the measured value of premiums on the options from the cost of acquiring 51% of the shares of KGHM AJAX MINING INC. In the opinion of the Parent Entity this amount is immaterial, and therefore it was not presented separately in the financial statements.

3.3. Investments in telecom assets being considered for sale

a) Polkomtel S.A.

In the consolidated financial statements the investment in the associate Polkomtel S.A. is accounted for using the equity method, under which its carrying amount at 31 December 2010 amounted to PLN 1 431 099 thousand (Note 9).

In 2010, the Polish shareholders of Polkomtel S.A. followed a general model of cooperation with respect to the possibility of a potential sale of shares held in this Company. Advisors were selected for this process.

Once the foreign shareholders had joined this cooperation, preparatory work was begun on offering for sale in a private placement 100% of the shares of Polkomtel S.A. However, to the end of 2010 this work had not advanced beyond the preparatory stage.

In January 2011, the shareholders of Polkomtel S.A. decided to send out invitations to submit preliminary offers, and to subsequently provide those interested with an informational memorandum. In the next stage, selected bidders will be allowed to perform due diligence on the Company. Based on the results of this due diligence, the bidders will submit binding offers.

By the date of publication of this report, KGHM Polska Miedź S.A. had not made a corporate decision as to the sale of the shares of Polkomtel S.A. Agreements which have been reached between the shareholders of this Company, in terms of the mutual offer of shares, are not binding on any of the parties. While KGHM Polska Miedź S.A., together with the other shareholders of the Company, has been since January 2011 a participant in the process of offering of 100% of the shares, each of the shareholders continues to act on their own behalf and wishes to achieve their own objectives in terms of this transaction. Any decisions taken by KGHM Polska Miedź S.A. on the sale of these shares will only be made following a review of the binding offers, and after determination that the price offered for the shares is acceptable, i.e. one which guarantees that value will be preserved for the shareholders of KGHM Polska Miedź S.A.

In view of the above, in the opinion of the Management Board, criteria have not been met which would require the reclassification of the investment in Polkomtel S.A. to assets held for sale under IFRS 5.

As at the end of the reporting period, there were no indications of impairment of the value of the investment in Polkomtel S.A.

With respect to the investment in Polkomtel S.A., due to the difference between the carrying amount of the investment and its taxable value, there exist taxable temporary differences (at 31 December 2010 in the amount of PLN 271 153 thousand), in respect of which deferred tax liabilities were not recognised in prior periods in accordance with IAS 12.39, as it was not probable that these differences would be reversed in the foreseeable future.

Due to the above preliminary actions taken, with respect to the investment in Polkomtel S.A. and the opinion of the Management Board of the Parent Entity that it is probable that these temporary differences will be reversed in the foreseeable future, even though according to IFRS 5 the criteria respecting the classification of assets as held for sale at the end of the reporting period have not been met, deferred tax liabilities were recognised in the consolidated financial statements at 31 December 2010 in the amount of PLN 51 519 thousand.

b) Telefonia Dialog S.A.

With respect to the shares of DIALOG S.A., a consolidated subsidiary, at the end of the reporting period KGHM Polska Miedź S.A. had not decided to begin the process of selling the shares of this Company, nor had any corporate decision been taken in terms of disposal of the shares held.

In January 2011, the process of preparing a Vendor Due Diligence report was begun. Conclusion of this process is planned at the end of March 2011. Following this, invitations will be sent to interested entities to submit offers. For the Management Board of KGHM Polska Miedź S.A., the criteria enabling a decision to be taken as to an eventual sale, and the recommendation of such a course to the other bodies of the Parent Entity, will be the quality of the offers received (above all the price offered in the context of the current and anticipated market conditions).

In view of the above, in the opinion of the Management Board of KGHM Polska Miedź S.A., criteria have not been met which would require the reclassification of the assets and liabilities of DIALOG S.A. to assets (disposal group) held for sale as well as liabilities related with a disposal group in accordance with IFRS 5.

With respect to the investment in DIALOG S.A., due to the difference between the carrying amount of the investment and its taxable value, there exist deductable temporary differences (at 31 December 2010 in the amount of PLN 1 076 325 thousand). Due to these differences, deferred tax assets were not recognised in prior periods, as it was not probable that these differences would be reversed in the foreseeable future.

Despite the preliminary actions taken with respect to the investment in DIALOG S.A., in the opinion of the Management Board of the Parent Entity at the end of the reporting period the sale of the assets of DIALOG S.A is not probable in the foreseeable future, nor is recognition of a deferred tax asset justified in accordance with IAS 12.44.

3.4. Provisions

1. 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% would cause a decrease in the provision by PLN 122 363 thousand,
   - a decrease in the discount rate by 1% would cause an increase in the provision by PLN 151 754 thousand,
   - an increase by 1% in the coal price and salary increase rate would cause an increase in the provision by PLN 160 802 thousand,
   - a decrease by 1% in the coal price and salary increase rate would cause a decrease in the provision by PLN 132 156 thousand.
2. Provision for decommissioning costs of mines and other facilities.

This provision represents 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), and
b) the real discount rate calculated based on the profitability of treasury bonds with the 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 (assumed in the reporting period at the level of 5.5%) used 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 by PLN 121 965 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 162 068 thousand.

3. Other non-current provisions – they are estimated using parameters applied to measurement of provisions for employee benefits (Note 25).

Sensitivity o provisions has been settled based on Parent Entity amounts.

3.5. 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 the deferred tax asset from future tax income is based on the Group companies Budget. The projected financial results indicate that the Group companies will achieve taxable income, based on which the probability of settling an asset is determined as high and is recognised in its full amount.

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

KGHM Polska Miedź S.A., as a Parent Entity of the Group, consolidated in the consolidated financial statements 47 subsidiaries in the current period.

Entity	Head office	Scope of activities	% of share capital held	% of voting power
AVISTA MEDIA Sp. z o.o.	Wrocław	design, implementation and servicing of IPTV systems (interactive television)	100	100
"BIOWIND" Sp. z o.o.	Lubin	generation, transfer and distribution of electricity	100	100
BIPROMET S.A.	Katowice	construction, urban planning, and technology design; erection of complete facilities or parts thereof; civil and water engineering; property leasing	66	66
Bipromet Ecosystem Sp. z o.o.	Katowice	execution of central heating and ventilation installations	33.66	33.66
CBJ Sp. z o.o.	Lubin	technical research and analyses	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	purchase/sale of scrap: steel, coloured metals and steel alloys, sale of smelter products and construction reinforcing materials, waste recycling	85	85
DFM ZANAM – LEGMET Sp. z o.o.	Polkowice	repair and manufacture of machinery	100	100
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100
Ecoren DKE Sp. z o.o.	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	100	100
"Energetyka" Sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100
FADROMA S.R. Sp. z o.o. in liquidation	Wrocław	servicing and maintenance with respect to construction and mining machinery	98.05	98.05
Fundusz Hotele 01 Sp. z o.o.	Warsaw	financial activities, trade in real estate, management consulting	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Warsaw	financial activities, retail and wholesale of different merchandise and products	100	100
Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.	Warsaw	financial activities, retail and wholesale of different merchandise and products	100	100
Fundusz Uzdrowiska 01 Sp. z o.o.	Warsaw	financial holding activities, financial services, turnover and servicing of property market	100	100
INOVA Spółka z o.o.	Lubin	inspections and control of machinery, R&D work	100	100
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	66.82	66.82
Interferie Medical SPA Sp. z o.o.	Lubin	tourism, recreation, rehabilitation, health and wellness	89.17	89.17
KGHM AJAX MINING INC.	Vancouver	mining of copper and gold ore	51	51
KGHM CUPRUM Sp. z o.o. – CBR	Wrocław	R&D activities	100	100
KGHM Ecoren S.A.	Lubin	production of goods from non-metallic mineral resources	100	100
KGHM HMS Bergbau AG	Berlin	exploration for and evaluation of deposits of copper and other metals in Europe	74.9	74.9
KGHM I FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM II FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM III FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM Kupferhandelsges. m.b.H.	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation	85.45	85.45
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100

Entity	Head office	Scope of activities	% of share capital held	% of voting power
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	Shanghai	wholesale activities, import/export of copper/ silicon products and chemicals, mechanical and electrical equipment, office materials, commercial consulting services	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
Przedsiębiorstwo Budowlane Katowice S.A.	Katowice	construction of complete facilities or parts thereof, general and specialty construction	58.08	58.08
"PETROTEL" Sp. z o.o.	Płock	telecommunication services in fixed-line telephony, internet services, technical services, equipment sales	99.99	99.99
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
PMT Linie Kolejowe Sp. z o.o.	Polkowice	management over railway infrastructure	100	100
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transportation services	100	100
"Uzdrowisko Cieplice" Sp. z o.o.	Jelenia Góra	spa services	89.71	89.71
Uzdrowisko Połczyn S.A.	Połczyn Zdrój	spa services	89.91	89.91
Walcownia Metali Nieżelaznych spółka z o.o.	Gliwice	production of sheeting	84.41	84.41
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics	98.5	98.5
WM "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	88.96	88.96
WPEC w Legnicy S.A.	Legnica	generation, transfer and distribution of heat	85	85
Zagłębie Lubin S.A.	Lubin	management of football section, organisation of professional sporting events	100	100
ZUK S.A.	Polanica Zdrój	spa services, production and sale of mineral waters	90.09	90.09

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

Foundation of the company Interferie Medical SPA Sp. z o.o.

On 1 February 2010 the founder's act was signed for a new company called Interferie Medical SPA Sp. z o.o. with its registered head office in Lubin, founded by INTERFERIE S.A. – an indirect subsidiary of KGHM Polska Miedź S.A. The share capital of Interferie Medical SPA Sp. z o.o. amounted to PLN 50 thousand and was divided into 50 shares with a face value of PLN 1 000. INTERFERIE S.A. acquired 100% of the shares, paid in cash. The share of the KGHM Polska Miedź S.A. Group in the share capital of Interferie Medical SPA Sp. z o.o. was 65.67%.

Interferie Medical SPA Sp. z o.o. was registered on 18 February 2010 at the Regional Court for Wrocław Fabryczna in Wrocław, Section IX Economic of the National Court Register.

On 1 September 2010, the share capital of the company was increased by PLN 19 908 thousand through the creation of 19 908 shares with a nominal value of PLN 1 000 per share. The newly-created shares were acquired by INTERFERIE S.A. and covered by non-cash contribution in the amount of PLN 19 808 thousand, representing the right to perpetual usufruct of land and the ownership of buildings situated in Świnoujście, and a cash contribution in the amount of PLN 100 thousand.

On 11 October 2010 an increase in share capital was registered for Interferie Medical SPA Sp. z o.o. through the issuance of 41 309 shares at PLN 1000 each.

The shares in the increased share capital of Interferie Medical SPA Sp. z o.o. representing 67.37% of the share capital of this Company were acquired by KGHM I FIZAN and were paid in cash at their nominal amount of PLN 41 309 thousand. The share capital of Interferie Medical SPA Sp. z o.o. following this increase amounts to PLN 61 317 thousand. The owner of 32.63% of the shares of this Company remains INTERFERIE S.A. The share of the Group after the increase is 66.82%.

The reason for founding this Company is to engage in the hotel, recreation, rehabilitation, health tourism and wellness sectors.

During the financial period, Interferie Medical SPA Sp. z o.o. did not earn revenues from sales. The profit for 2010 of PLN 2 270 thousand represents the difference between gains from the measurement of derivatives and interest income in the amount of PLN 3 464 thousand, and incurred administrative expenses of PLN 586 thousand and income tax of PLN 608 thousand.

Acquisition of Investment Certificates of KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN)

On 2 February 2010, KGHM Polska Miedź S.A acquired 2 095 investment certificates, series A, of the KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN) at a price of PLN 10 thousand per certificate, paid in cash in the amount of PLN 20 095 thousand. The Managing Body of the KGHM I FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The share of KGHM Polska Miedź S.A. Group in the share capital of KGHM I FIZAN is 100%. The subject of activities of KGHM I FIZAN is the investment of monetary resources in – as defined by the Act on Investment Funds and in the Statutes – securities, money market instruments and other property rights. In 2010, KGHM I FIZAN acquired three spas, described in points below. The decision to acquire these spas was due to the identification of significant synergies, and is in accordance with the activities of KGHM I FIZAN.

KGHM I FIZAN was entered into the register of the Regional Court in Warsaw, Section VII Civil Registration on 9 February 2010.

During the reporting period, KGHM I FIZAN earned revenues in the amount of PLN 243 thousand and incurred a loss for the period of PLN 1 287 thousand.

Founding of Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.)

On 12 March 2010 the founder's act was signed for the company Fundusz Uzdrowiska Sp. z o.o. Its founder is KGHM I FIZAN (100% owned by KGHM Polska Miedź S.A.), which acquired 100% of the shares.

The share capital of Fundusz Uzdrowiska Sp. z o.o. amounted to PLN 15 thousand, and was divided into 150 equal and indivisible shares of PLN 100 per share. The acquisition-related costs of the shares was PLN 15 thousand. The subject of activities of Fundusz Uzdrowiska Sp. z o.o. is financial activities, real estate business, activities related to servicing of the real estate market and management-related advice.

By a notary act dated 20 May 2010, the name was changed from Fundusz Uzdrowiska Sp. z o.o. to **Fundusz Hotele 01 Sp. z o.o.**, and the share capital was increased in cash by PLN 201 thousand to the amount of PLN 216 thousand. The share of the Group in the share capital of the Company remained unchanged.

During the reporting period, the Company earned profit for the period of PLN 31 thousand.

Founding of Fundusz Uzdrowiska Sp. z o.o. S.K.A. (currently Fundusz Hotele 01 Sp. z o.o. S.K.A.)

On 17 May 2010, the founding Act was signed of the company Fundusz Uzdrowiska Sp. z o.o. S.K.A. Its founder is KGHM I FIZAN (an entity 100 percent owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares, and Fundusz Uzdrowiska Sp. z o.o. as a complementary company.

The share capital of Fundusz Uzdrowiska Sp. z o.o. S.K.A. was PLN 50 thousand, divided into 500 shares with a nominal value of PLN 100 per share paid in cash. The price of acquiring the shares was PLN 50 thousand. Fundusz Uzdrowiska Sp. z o.o. S.K.A. has a diverse scope of activities. By a notary act dated 22 June 2010 the name was changed to **Fundusz Hotele 01 Sp. z o.o. S.K.A.** On 21 December 2010, KGHM I FIZAN increased the share capital of the Company by PLN 50 300 thousand. The share of the Group in the share capital of the Company remained unchanged.

During the financial period the Company earned other operating income, and profit for the period of PLN 4 584 thousand.

Founding of Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.

On 17 May 2010, the founding Act was signed of the company Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. Its founder is KGHM I FIZAN (an entity 100% owned by KGHM Polska Miedź S.A.), which acquired 100% of the shares, and Fundusz Hotele 01 Sp. z o.o. as a complementary company.

The share capital of Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. paid in cash was PLN 50 thousand, divided into 500 shares with a nominal value of PLN 100 per share. The price of acquiring the shares was PLN 50 thousand. During the reporting period, the Company incurred a loss for the period of PLN 17 thousand, and did not earned revenues from sales.

Founding of Fundusz Uzdrowiska 01 Sp. z o.o.

On 19 May 2010, the founding Act was signed of the company Fundusz Uzdrowiska 01 Sp. z o.o. Its founder is KGHM I FIZAN (an entity 100% owned by KGHM Polska Miedź S.A.), which acquired 100% of the shares.

The share capital of Fundusz Uzdrowiska 01 Sp. z o.o. was PLN 15 thousand, divided into 150 equal and indivisible shares of PLN 100 per share. The price of acquiring the shares was PLN 15 thousand. The subject of activities of Fundusz Uzdrowiska 01 Sp. z o.o. is financial activities, trade in real estate, activities related to servicing the real estate market, management consulting. During the reporting period, the Company incurred a loss for the period of PLN 16 thousand, and did not earned revenues from sales.

Sale of shares of HMS Bergbau AG between Group companies

On 16 June 2010, KGHM Polska Miedź S.A. purchased from the subsidiary KGHM CUPRUM sp. z o.o. – CBR 37 449 shares of KGHM HMS Bergbau AG with its registered head office in Berlin, with a total nominal value of EUR 37 449, i.e. PLN 169 thousand, representing 74.9% of the share capital. The cost of acquiring these shares amounted to PLN 1 612 thousand. As a result of this transaction, KGHM CUPRUM Sp. z o.o. – CBR no longer owns shares in KGHM HMS Bergbau AG.

KGHM HMS Bergbau AG was founded by KGHM CUPRUM Sp. z o.o. – CBR and the company HMS Bergbau AG in June 2009, to realise a project of exploration for and evaluation of deposits of copper ore and other metals in Europe. This purchase by KGHM Polska Miedź S.A. of the shares of KGHM HMS Bergbau AG is in accordance with the project assumptions.

Acquisition of Investment Certificates of KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN)

On 23 June 2010, KGHM Polska Miedź S.A acquired 700 Investment Certificates, series A, of the fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN) at the price of PLN 10 thousand per certificate, paid in cash in the amount of PLN 7 000 thousand. The Managing Body of KGHM II FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The share of the KGHM Polska Miedź S.A. Group in the capital of KGHM II FIZAN is 100%. The subject of activities of KGHM II FIZAN is the investment of monetary resources in – as defined by the Act on Investment Funds and in the Statutes – securities, money market instruments and other property rights.

During the reporting period, KGHM II FIZAN earned other operating income in the amount of PLN 136 thousand and incurred a loss for the period of PLN 178 thousand.

Putting of FADROMA S.R. Sp. z o.o. into liquidation

On 5 July 2010 the Extraordinary General Shareholders Meeting of FADROMA S.R. Sp. z o.o. resolved to put the Company into liquidation and to choose a liquidator – Krzysztof Brzostek. An application for the liquidation of the Company was submitted to the court on 6 July 2010. DFM ZANAM-LEGMET Sp. z o.o. as the owner of 98.05% of shares of FADROMA S.R. Sp. z o.o. decided to strengthen its service potential through taking over the employees of FADROMA S.R. Sp. z o.o. Actions connected with taking over the employees and the liquidation of the Company represent an element of restructuring and bringing order to the Group.

Acquisition of the BIPROMET S.A. Group

On 12 July 2010, a transaction involving the acquisition of shares of BIPROMET S.A. through a call for the sale of shares was settled (rights attached to shares were acquired).

KGHM Polska Miedź S.A. acquired 4 091 868 shares of the Company, at PLN 7.50 per share, granting the right to 66% of the votes at the general meeting of BIPROMET S.A.

The price of acquiring these shares, paid in cash, was PLN 30 689 thousand.

The decision to acquire a controlling interest in BIPROMET S.A. was due to the identification of significant possibilities for synergy with respect to smelting between the Parent Entity and the Company.

By acquiring the shares of BIPROMET S.A., the KGHM Polska Miedź S.A. Group obtained indirect control over the subsidiaries of BIPROMET S.A.:

- Przedsiębiorstwo Budowlane Katowice S.A., in which BIPROMET S.A. owns 88% of the share capital. The share of the KGHM Polska Miedź S.A. Group was set at 58.08%. The acquisition price of the shares of Przedsiębiorstwo Budowlane Katowice S.A. in the accounts of BIPROMET S.A. is PLN 3 591 thousand.
- Bipromet Ecosystem Sp. z o.o., in which BIPROMET S.A. owns 51% of the share capital. The share of the KGHM Polska Miedź S.A. Group is 33.66%. The purchase price of the shares of Bipromet Ecosystem Sp. z o.o. in the accounts of BIPROMET S.A. is PLN 26 thousand.

Due to settlement of the acquisition of the BIPROMET S.A. Group, in the consolidated financial statements profit from a bargain purchase was set at PLN 1 281 thousand.

Registration of the company KGHM (SHANGHAI) COPPER TRADING CO., LTD. in the People's Republic of China

In September 2010, the company KGHM (SHANGHAI) COPPER TRADING CO., LTD. was registered under the laws of the People's Republic of China. The Company was granted permission to engage in business activities.

The share capital of the Company amounts to PLN 1 545 thousand. The sole owner of the Company is KGHM Polska Miedź S.A. The share capital was paid in October 2010.

The founding of this Company is aimed at gaining a competitive market position in the trading and distribution of commodities such as copper, silicon, artificial materials and chemicals (with the exception of hazardous and poisonous materials).

During the reporting period, the Company earned revenues from sales in the amount of PLN 1 145 thousand and profit for the period of PLN 74 thousand.

Acquisition of newly issued shares in KGHM AJAX MINING INC.

On 12 October 2010 KGHM Polska Miedź S.A. signed an agreement with Abacus Mining & Exploration Corporation with its registered head office in Vancouver, regarding entrance to a company under the name KGHM AJAX MINING INC. to advance the Afton-Ajax copper-gold ore mining project in Canada.

The above-mentioned Agreement is a result of the investment agreement signed by KGHM Polska Miedź S.A. and Abacus on 4 May 2010. Further to the Agreement, KGHM Polska Miedź S.A. has acquired 5 100 shares, representing a 51% interest in the company KGHM AJAX MINING INC. through a cash contribution in the amount of USD 37 million. Abacus has brought to the Company all the rights it owns to the Afton-Ajax deposit and in the Afton region. The acquisition of the Company was settled as an asset-deal, as the acquired entity did not represent businesses as defined in IFRS 3. The purchase price of USD 37 million (the equivalent of PLN 105 543 thousand) was allocated to acquired assets based on their relative fair value. As a result of settlement of this transaction the following was recognised: intangible assets of PLN 101 404 thousand, and cash and cash equivalents of PLN 105 543 thousand. The cash will be used to carry out a Bankable Feasibility Study and for further exploration.

In accordance with the above Agreement, KGHM Polska Miedź S.A. holds the call option on a further 29% in KGHM AJAX MINING INC., for an amount not higher than USD 35 million. Execution of this option will be possible following publication of the Bankable Feasibility Study. The Agreement also includes a commitment by

KGHM Polska Miedź S.A. to arrange financing for the project CAPEX. The commitment will arise at the moment of execution by KGHM Polska Miedź S.A. of the call option on a further 29% in KGHM AJAX MINING INC. (A detailed information on measurement of the above-mentioned option is presented in note 3.2)

Acquisition of shares of ZUK S.A.

On 20 October 2010, KGHM I FIZAN – a subsidiary of KGHM Polska Miedź S.A. – acquired from the State Treasury 3 450 500 shares of Zespół Uzdrowisk Kłodzkich Spółka Akcyjna in Polanica Zdrój with a nominal value of PLN 10.00 each for the price of PLN 40.06 per share, i.e. for the total amount of PLN 138 227 thousand, paid in cash. The share of KGHM I FIZAN in the share capital amounts to 90.09%.

Acquisition of shares of DFM ZANAM – LEGMET Sp. z o.o.

On 3 November 2010, the Parent Entity acquired from KGHM Ecoren S.A. – a subsidiary of KGHM Polska Miedź S.A. – 719 397 shares of DFM ZANAM – LEGMET Sp. z o.o. with a nominal value of PLN 50 each, representing 100% of the share capital. A price was set for the shares of this Company of PLN 48 149 thousand, which was paid in cash on 8 November 2010.

Acquisition of shares of INOVA Sp. z o.o.

On 3 November 2010, the Parent Entity acquired from KGHM Ecoren S.A. – a subsidiary of KGHM Polska Miedź S.A. – 6 600 shares of INOVA Sp. z o.o. with a nominal value of PLN 1 000 each, representing 100% of the share capital. A price was set for the shares of this Company of PLN 13 054 thousand, which was paid in cash on 8 November 2010.

Acquisition of shares of Uzdrowisko Połczyn S.A.

On 22 November 2010, KGHM I FIZAN – a subsidiary of KGHM Polska Miedź S.A. – acquired from the State Treasury 1 600 621 shares of Uzdrowisko Połczyn S.A. with a nominal value of PLN 10.00 each for the price of PLN 16.51 per share, i.e. for the total amount of PLN 26 426 thousand, paid in cash. The share of KGHM I FIZAN in the share capital amounts to 89.91%.

Acquisition of shares of CENTROZŁOM WROCŁAW S.A.

On 20 October 2010, KGHM Ecoren S.A. – a subsidiary of KGHM Polska Miedź S.A. – received the approval of the Office of Competition and Consumer Protection for the concentration of entities and the realisation of an agreement entered into on 14 July 2010 with the Minister of the State Treasury for the acquisition of 85% of the shares of CENTROZŁOM WROCŁAW S.A. for the amount of PLN 176 435 thousand, paid in cash. The multiple-share certificate was received on 30 November 2010.

The investment in CENTROZŁOM WROCŁAW S.A. is an element of the strategy realised by KGHM Ecoren S.A. related to its activities in the waste management sector.

Acquisition of Investment Certificates of KGHM III FIZAN

On 3 December 2010, KGHM Polska Miedź S.A acquired 500 investment certificates of the fund KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM III FIZAN) at the price of PLN 10 thousand per certificate, paid in cash in the amount of PLN 5 000 thousand. The Managing Body of KGHM III FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The indirect share of the KGHM Polska Miedź S.A. Group in the share capital of KGHM III FIZAN is 100%. The KGHM III FIZAN fund was founded for the purpose of investing in the new technology area.

KGHM III FIZAN was registered by the Regional Court in Warsaw Section VII Civil Registrations.

During the reporting period, KGHM III FIZAN did not earned revenues from sales, but incurred a loss for the period of PLN 2 thousand.

Acquisition of shares of "Uzdrowisko Cieplice" Sp. z o.o.

On 22 December 2010, KGHM I FIZAN – a subsidiary of KGHM Polska Miedź S.A. – acquired from the State Treasury 114 290 shares of "Uzdrowisko Cieplice" Sp. z o.o. with a nominal value of PLN 50.00 each for the price of PLN 256.50 per share, i.e. for the total amount of PLN 29 316 thousand. The share of KGHM I FIZAN in the share capital amounts to 89.71%.

Sale of shares of INTERFERIE S.A. between Group companies

In December 2010, KGHM Polska Miedź S.A. and two of its subsidiaries, responding to a call for the sale of shares of INTERFERIE S.A., sold to Fundusz Hotele 01 Sp. z o.o. SKA shares held in the company INTERFERIE S.A.:

- on 23 December 2010, KGHM Ecoren S.A. sold 8 964 200 shares of INTERFERIE S.A., granting the right to 61.55% of the votes at the General Meeting of this company, with a total sale price of PLN 45 897 thousand,
- on 23 December 2010, KGHM Polska Miedź S.A. sold 300 000 shares, granting the right to 2.06% of the votes at the General Meeting of this company, with a total sale price of PLN 1 536 thousand,
- on 27 December 2010 CBJ Sp. z o.o. sold 300 000 shares, granting the right to 2.06% of the votes at the General Meeting of this company, with a total sale price of PLN 1 536 thousand.

Fundusz Hotele 01 Sp. z o.o. SKA (a special purpose company of the fund KGHM I FIZAN) as the result of a call for the sale of shares, acquired altogether 9 731 625 shares of INTERFERIE S.A., granting the right to 66.82% of the votes at the General Meeting of this company. The total acquisition-related costs these shares amounted to PLN 49 826 thousand.

Disclosures on acquired subsidiaries in accordance with IFRS 3.59 and IFRS 3.60.

	BIPROMET S.A. Group	ZUK S.A.	Uzdrowisko Połczyn S.A.	CENTROZŁOM WROCŁAW S.A.	"Uzdrowisko Cieplice" Sp. z o.o.	Total
Total assets	74 752	86 861	32 787	275 868	14 365	484 633
Total liabilities	24 901	30 049	11 764	65 964	7 803	140 481
Net assets at the acquisition date	49 851	56 812	21 023	209 904	6 562	344 152
Net assets attributable to the Group	31 970	51 183	19 043	178 419	5 887	286 502
% of net assets	66.00%	90.09%	89.91%	85.00%	89.71%	
Purchase price*	30 689	138 227	26 426	176 435	29 316	401 093
Acquisition-related costs*	123	1 387	265	1 764	293	3 832
Goodwill determined provisionally**	-	87 044	7 383	-	23 429	117 856
Profit from a bargain purchase determined provisionally***	1 281	-	-	1 984	-	3 265

* Total cash flow from the acquisition of subsidiaries, less cash received (excluding the monetary resources of the company "Uzdrowisko Cieplice" Sp. z o.o. due to the acquisition of this Company on 31 December 2010) in the amount of PLN 380 413 thousand also includes expenditures related to the founding of new subsidiaries and acquisitions within the Group in the amount of PLN 5 999 thousand.

** Provisional determination of acquired net assets and of goodwill was made in accordance with IFRS 3.45.

*** Profit from a bargain purchase determined provisionally was recognised in the consolidated financial statement in other operating income.t

Information relating to equity attributable to non-controlling interest was presented in note 20.

Companies acquired in the reporting period	Sales	Other operating income	Profit/(loss)	Sales	Profit/(loss)
	for the period				
	from 1 January 2010 to 31 December 2010	from 1 January 2010 to 31 December 2010	from 1 January 2010 to 31 December 2010	from acquisition date to 31 December 2010	from acquisition date to 31 December 2010
ZUK S.A.	98 987	5 533	(92)	13 272	(4 078)
Uzdrowisko Połczyn S.A.	24 125	2 015	(216)	1 357	(1 710)
"Uzdrowisko Cieplice" Sp. z o.o.	16 561	1 801	740	-	-
CENTROZŁOM WROCŁAW S.A.	597 033	1 211	18 876	43 277	(3 062)
BIPROMET S.A. Group	38 939	3 431	(1 211)	22 319	2 281
Accumulated sales and profit/(loss) of acquired companies	775 645	13 991	18 097		
Total for the whole Group	17 988 010	662 145	4 739 529		

Contingent liabilities of the Group at 31 December 2010 due to agreements for the sale of shares of the following companies

Company name	Period of investment	Commitment to increase share capital by a cash contribution	Commitment to incur investment expenditure
ZUK S.A.	from the date of signing a contract		
	to 31 December 2013	8 000	-
	to 31 December 2014	-	25 000
Uzdrowisko Połczyn S.A.	from the date of signing a contract to 31 December 2012	1 000	5 000
"Uzdrowisko Cieplice" Sp. z o.o.	from the date of signing a contract		
	to 31 December 2011	1 500	-
	to 31 December 2013	-	6 000
CENTROZŁOM WROCŁAW S.A.	from the date the contract came into force to 20 October 2015	-	35 000

5. Information on business segments

As a result of an analysis of the management model of the Group, the system of reporting within the Group and the economic characteristics of its entities, the reporting segment was identified which was defined 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 separation of this segment was due to its significant share of the results of the entire Group. In addition, it meets the required quantitative thresholds indicated for reporting segments. The results of this segment are separately monitored by the Management Board of the Parent Entity.

The activities of the segment "Production of copper, precious metals and other smelter products", encompass the core business of KGHM Polska Miedź S.A. and focuses mainly on the copper mining, production of copper, precious metals and other non-ferrous metals.

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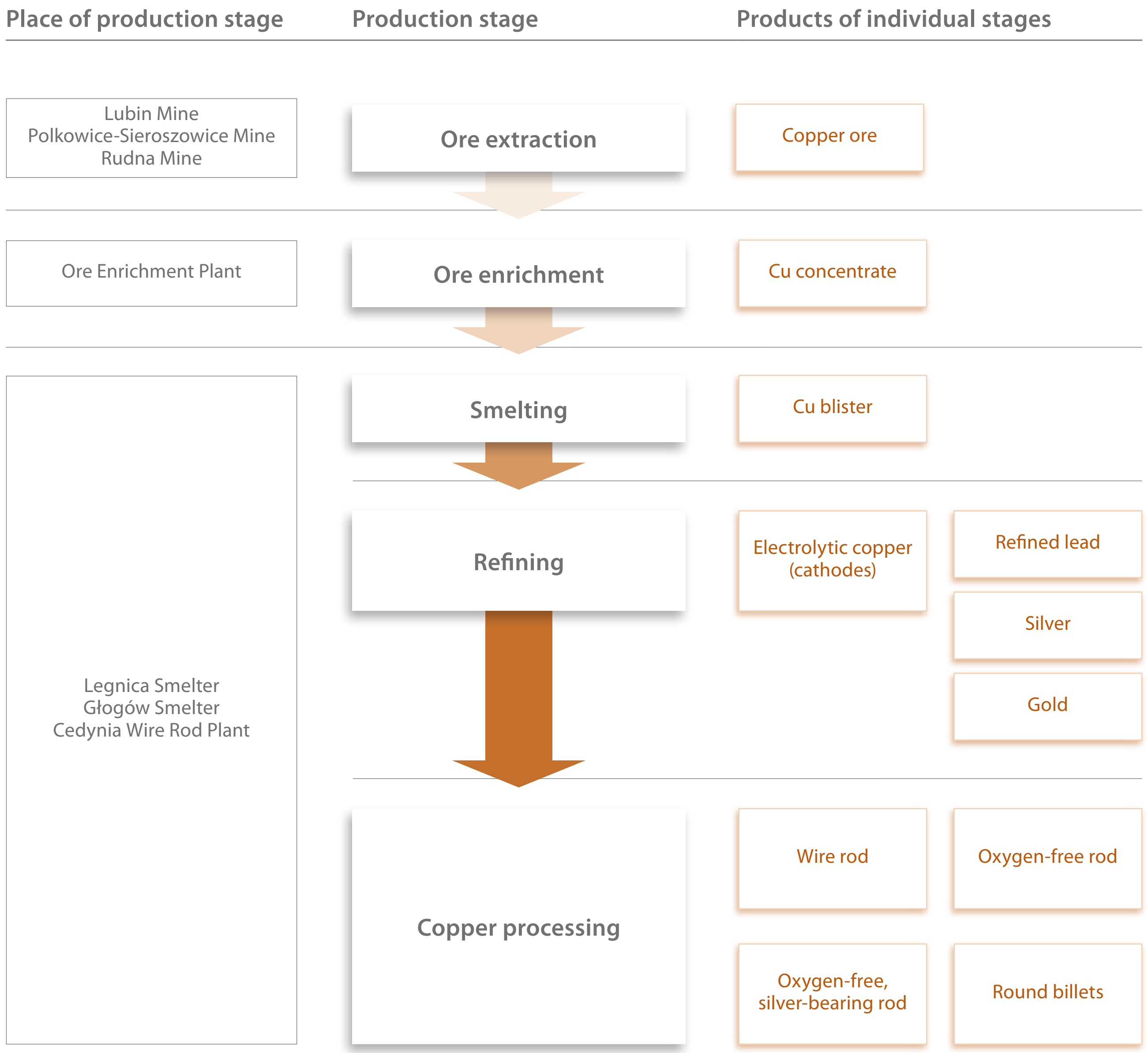
amounts in tables in thousand PLN, unless otherwise stated KGHM Polska Miedź S.A. 147



The principal production of KGHM Polska Miedź S.A. is a fully integrated process, in which the end-product of one stage is the half-finished product used in the next stage. Copper ore extracted in the mines is transported to enrichment plants where it is enriched. As a result of this process, copper concentrate is produced, which is then supplied to the smelters. At the smelters, concentrate is smelted and fire refined into copper anodes, which is then subjected to electrolytic refining into copper cathodes. From these cathodes wire rod and round billets are produced. Anode slimes, which arise from the process of copper electrorefining, is a raw material used to produce precious metals. Lead-bearing dust which is generated from the smelting processes is used to produce lead. Nickel sulphate and copper sulphate are recovered from the used electrolyte. Gases generated from the smelting furnaces are used to produce sulphuric acid. Economic use is also made of smelter slags, which are sold as road-building materials.

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".

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. KGHM (SHANGHAI) COPPER TRADING CO., LTD. CENTROZŁOM WROCŁAW S.A.
exploration and mining of copper and other minerals	KGHM HMS Bergbau AG KGHM AJAX MINING INC.
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.in liquidation
generation, transmission and distribution of electricity and heat, water-sewage management	"Energetyka" sp. z o.o. "BIOWIND" sp. z o.o. WPEC w Legnicy S.A.
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. Interferie Medical SPA Sp. z o.o. Fundusz Hotele 01 Sp. z o.o. Fundusz Hotele 01 Sp. z o.o. S.K.A. Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. Fundusz Uzdrowiska 01 Sp. z o.o. BIPROMET S.A. Przedsiębiorstwo Budowlane Katowice S.A. Bipromet Ecosystem Sp. z o.o. ZUK S.A. Uzdrowisko Połczyn S.A. "Uzdrowisko Cieplice" Sp. z o.o.
creation of investment funds and their management, cash investing	KGHM TFI S.A. KGHM I FIZAN KGHM II FIZAN KGHM III FIZAN
technology transfer, promotion of scientific achievements	KGHM LETIA S.A.
sport activities	Zagłębie Lubin S.A.

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 profit or loss

	Production of copper, precious metals, and other smelter products	All other segments	Adjustment*	Eliminations (according to IAS 27)	Consolidated amount
For the period from 1 January 2010 to 31 December 2010					
Revenue of which:	15 945 032	6 726 031	10 307	(5 388 780)	17 292 590
external sales	14 831 458	2 436 632	10 307	14 193	17 292 590
inter-segment sales	1 113 574	4 289 399	-	(5 402 973)	-
Interest income	62 748	14 542	(21)	(4 993)	72 276
Interest costs	(739)	(18 403)	-	4 106	(15 036)
Depreciation/Amortisation	(615 468)	(213 248)	(166)	(15 056)	(843 938)
Revaluation of provisions for employee benefits	(29 766)	(6 526)	-	-	(36 292)
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	-	(19 569)	-	(743)	(20 312)
Gains on measurement and realisation of derivatives	463 604	13 064	-	-	476 668
Losses on measurement and realisation of derivatives	(1 635 888)	(2 803)	-	-	(1 638 691)
Share of profit of associates	-	-	-	280 542	280 542
Profit before income tax	5 605 567	71 937	16 033	84 013	5 777 550
Income tax expense	(1 036 978)	23 981	591	(50 281)	(1 062 687)
Share of profit (losses) of subordinated entities accounted for using the equity method	-	3 070	(3 070)	-	-
Profit for the period	4 568 589	98 988	13 554	33 732	4 714 863
At 31 December 2010					
Segment assets	19 829 296	4 973 955	37 690	(3 663 618)	21 177 323
Segment liabilities	5 372 819	1 283 887	(4 644)	(366 518)	6 285 544
Bank and other loans	-	274 115	-	(46 082)	228 033
Investments in associates	1 159 947	-	-	271 152	1 431 099
For the period from 1 January 2010 to 31 December 2010					
Capital expenditure	1 262 992	299 000	-	(36 110)	1 525 882

* Adjustment – adjustment restating the amounts to the measurement principles of International Financial Reporting Standards.

Data for the management reporting purposes are prepared in accordance with the principles applied for the needs of preparing statutory financial statements by the Group entities. 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. Four Group companies, i.e. the Parent Entity, DIALOG S.A., BIPROMET S.A. and INTERFERIE S.A., keep their accounts in accordance with IFRS. The remaining companies of the Group from 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 needs of preparation of consolidated financial statements.

Details of adjustments restating the amounts shown in the segment "All other segments" to the measurement bases of International Financial Reporting Standards at 31 December 2010 and for the period from 1 January 2010 to 31 December 2010:

	Sales	Interest income	Depreciation / Amortisation	Profit before income tax	Income tax expense	Segment assets	Segment liabilities
Netting off of Social Fund assets and liabilities	-	-	-	-	-	(9 469)	(9 469)
Offsetting of deferred tax assets/liabilities	-	-	-	-	-	(7 295)	(7 295)
Measurement of shares by equity method	-	-	-	792	-	(8 082)	-
Separate presentation of assets and liabilities for sales transaction from past years	10 319	-	-	33	-	-	-
Impairment losses on shares	-	-	-	(2 747)	-	-	-
Deferred tax liability	-	-	-	-	720	-	11 320
Result on sale of shares	-	-	-	20 688	-	-	-
Fair value measurement of assets	-	-	-	(3 395)	-	60 077	-
Adjustment to retained earnings in connection with first-time adoption of IFRS	-	-	-	17	-	-	-
Other	(12)	(21)	(166)	645	(129)	2 459	800
Total adjustment	10 307	(21)	(166)	16 033	591	37 690	(4 644)

Revenues from sales of the Group – external clients with geographical areas breakdown

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

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Poland	4 970 621	3 374 311
Germany	3 739 356	2 053 935
France	581 027	752 682
Great Britain	1 568 507	1 298 036
Czech Republic	1 156 340	563 983
Austria	345 213	190 944
Hungary	412 392	240 215
China	1 893 285	1 674 758
Other countries	2 625 849	1 971 046
Total	17 292 590	12 119 910

Main customers

During the period from 1 January 2010 to 31 December 2010, the revenues from no customer exceeded 10% of the revenues of the Group.

During the period from 1 January 2009 to 31 December 2009, the revenues from no customer exceeded 10% of the revenues of the Group.

98.7% of the non-current assets of the Group are located in the country of origin of the Parent Entity. The remaining 1.3% are located in other countries.

amounts in tables in thousand PLN, unless otherwise stated

6. Property, plant and equipment

	At	
	31 December 2010	31 December 2009 restated
Land	36 546	22 598
Buildings	3 777 940	3 511 327
Technical equipment and machinery	3 154 471	2 954 097
Motor vehicles	198 653	175 058
Other fixed assets	68 061	62 474
Fixed assets under construction	1 317 963	1 021 558
Total	8 553 634	7 747 112

Major investment projects recognised at 31 December 2010 under fixed assets under construction

Construction of the SW-4 shaft	392 400
Głogów Głęboki – Przemysłowy	208 329
Ventilation and air conditioning equipment in the mines	215 643
Exchange of floatation machinery in the OEPs	60 872
Investments related to mining region infrastructural development in mines	48 216
Intensification of lead production – construction of 4th Doerschel furnace at the Głogów smelter	37 037
Investments in power and communications infrastructure	35 353
Sulphuric acid plant in smelters	34 950
Modernisation of steam and water boilers	32 234
Construction of a hotel "Medical SPA" in Świnoujście	26 473
Primary equipment in mines	24 540
Total	1 116 047

7. Intangible assets

	At	
	31 December 2010	31 December 2009 restated
Development costs	4 618	3 673
Goodwill	171 109	53 996
Software	41 630	22 086
Acquired concessions, patents, licenses	23 054	27 413
Other intangible assets	110 218	66 380
Assets used in the exploration for and evaluation of mineral resources	148 801	790
Intangible assets not yet available for use	24 444	43 786
Total	523 874	218 124

8. Investment property

	For the period	
	od 01.01.10 do 31.12.10	od 01.01.09 do 31.12.09 restated
Beginning of financial period	17 164	18 083
Changes during the financial period:	42 596	(919)
- due to acquisition of subsidiaries	37 675	-
- due to fair value measurement	4 921	(919)
End of financial period	59 760	17 164

9. Investments in associates

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Beginning of financial period	1 315 663	1 498 116
Share of profits of associates	280 542	239 463
Changes in equity due to payment of dividend	(146 658)	(418 222)
Adjustment to purchase cost by returned tax on civil-law transactions	-	(3 694)
Amortisation of relations with customers identified in the process of allocating purchase cost	(18 448)	-
End of financial period	1 431 099	1 315 663

Interests held by the Group in associates

At 31 December 2010 Polkomtel S.A. was an associate of the Group.

Financial data of Polkomtel S.A.

	At	
	31 December 2010	31 December 2009*
% of share capital held	24.39%	24.39%
% of voting power	24.39%	24.39%
Total assets	7 965 918	8 425 970
Non-current liabilities	1 892 622	940 432
Current liabilities	2 321 642	4 282 778

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009*
Sales	7 672 409	7 773 120
Profit for the period	1 150 159	981 747

* Data for 2009 were adjusted in relation to those presented in the report for the 2009 with respect to the changes in financial statement of Polkomtel S.A. as a result of the auditing by a certified auditor.

amounts in tables in thousand PLN, unless otherwise stated

10. Available-for-sale financial assets

	At	
	31 December 2010	31 December 2009 restated
Shares in unlisted companies	11 274	11 475
Shares in listed companies	740 324	-
Share in investment funds	-	7 930
Other	7	7
Non-current available-for-sale financial assets	751 605	19 412
Participation units in open-end investment funds	407 214	-
Shares in listed companies	8 448	8 976
Current available-for-sale financial assets	415 662	8 976
Total available-for-sale financial assets:	1 167 267	28 388

11. Held-to-maturity investments

	At	
	31 December 2010	31 December 2009 restated
Monetary resources of Mine Closure Fund	84 115	67 097
Other securities	42	47
Non-current held-to-maturity investments	84 157	67 144
Monetary resources of Mine Closure Fund	4 129	580
Current held-to-maturity investments	4 129	580
Total held-to-maturity investments:	88 286	67 724

12. Derivatives

	At	
	31 December 2010	31 December 2009 restated
Non-current assets		
Hedging instruments	402 234	57 636
Trade instruments	1 605	398
Non-current assets due to derivatives, total:	403 839	58 034
Current assets		
Hedging instruments	211 186	125 130
Trade instruments	9 137	1 481
Instruments initially designated as hedging instruments excluded from hedge accounting	77 261	136 764
Current assets due to derivatives, total:	297 584	263 375
Total assets due to derivatives	701 423	321 409
Non-current liabilities		
Hedging instruments	606 154	54 867
Trade instruments	105 426	6 487
Non-current liabilities due to derivatives, total:	711 580	61 354
Current liabilities		
Hedging instruments	294 161	76 441
Trade instruments	187 503	196 782
Instruments initially designated as hedging instruments excluded from hedge accounting	454	494
Current liabilities due to derivatives, total:	482 118	273 717
Total liabilities due to derivatives	1 193 698	335 071

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13. Trade and other receivables

	At	
	31 December 2010	31 December 2009 restated
Non-current trade and other receivables		
Trade receivables	14 715	16 565
Other financial receivables	5 408	5 495
Impairment allowances	(13 158)	(15 226)
Total loans and financial receivables, net:	6 965	6 834
Other non-financial receivables	1 719	11
Prepayments	4 824	3 741
Total non-financial receivables, net	6 543	3 752
Non-current trade and other receivables, net:	13 508	10 586
Current trade and other receivables		
Trade receivables	2 043 788	1 266 369
Other financial receivables	409 630	27 541
Impairment allowances	(85 825)	(82 225)
Total loans and financial receivables, net	2 367 593	1 211 685
Other non-financial receivables	370 907	346 782
Prepayments	24 171	18 381
Impairment allowances	(32 013)	(45 507)
Total non-financial receivables, net	363 065	319 656
Current trade and other receivables, net	2 730 658	1 531 341
Total non-current and current trade and other receivables, net	2 744 166	1 541 927

At 31 December 2010 and 31 December 2009 there were no receivables due to unsettled derivatives.

14. Inventories

	At	
	31 December 2010	31 December 2009 restated
Materials	247 277	298 288
Half-finished products and work in progress	1 683 819	1 456 411
Finished goods	209 316	270 479
Merchandise	81 909	47 256
Total carrying amount of inventories	2 222 321	2 072 434

Write-down of inventories in the financial period	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Write-down of inventories recognised in cost of sales	(6 933)	(11 519)
Reversal of write-down recognised in cost of sales	3 852	1 886

15. Cash and cash equivalents

	At	
	31 December 2010	31 December 2009 restated
Cash in hand	847	450
Cash at bank	103 046	41 582
Other cash	1 361	632
Other financial assets with a maturity of up to 3 months from the date of acquisition	2 981 703	1 154 413
Total cash and cash equivalents	3 086 957	1 197 077

Other financial assets with a maturity of up to 3 months from the date of acquisition include mainly deposits in the amount of PLN 2 906 645 thousand (as at 31 December 2009: PLN 1 153 051 thousand), participation units in investment funds in the amount of PLN 68 289 thousand (at 31 December 2009: PLN 0 thousand), and interest accrued on financial assets in the amount of PLN 6 769 thousand (as at 31 December 2009: PLN 1 362 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.

16. Non-current assets held for sale

	At	
	31 December 2010	31 December 2009 restated
Property, plant and equipment	689	6 007
Intangible assets	389	667
Total non-current assets held for sale	1 078	6 674

amounts in tables in thousand PLN, unless otherwise stated

17. Share capital

At 31 December 2010, the share capital of the Parent Entity, 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, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Parent Entity has not issued preference shares. Each share gives the right to one vote at the General Meeting. The Parent Entity does not have treasury shares.

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

In the years ended 31 December 2010 and 31 December 2009 there were no changes in the registered share capital or in the number of shares.

During 2010 the State Treasury, which at 31 December 2009 held 83 589 900 shares of KGHM Polska Miedź S.A., representing 41.79% of the share capital and the same number of votes at the General Meeting, decreased its share in the share capital of the Parent Entity. On 8 January 2010, 20 000 000 shares of KGHM Polska Miedź S.A. were sold on a regulated market, directed to qualified investors.

In 2009 there were no changes in significant blocks of shares of KGHM Polska Miedź S.A.

At 31 December 2010 and at the date of preparation of these financial statements, the shareholder structure of the Parent Entity is as follows:

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

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 2010 – restated	561	125 740	126 301
Fair value gains on available-for-sale financial assets	152 228	-	152 228
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets	(4 716)	-	(4 716)
Impact of effective cash flow hedging transactions	-	97 786	97 786
Amount transferred to profit or loss due to the settlement of hedging instruments		(142 187)	(142 187)
Deferred income tax	(28 027)	8 436	(19 591)
Other comprehensive income	119 485	(35 965)	83 520
At 31 December 2010	120 046	89 775	209 821

Accumulated other comprehensive income is not subject to distribution.

amounts in tables in thousand PLN, unless otherwise stated

18.1. Accumulated other comprehensive income components

	At			
	31 December 2010		31 December 2009 restated	
	Gross value	Net value	Gross value	Net value
Accumulated other comprehensive income due to available-for-sale financial assets	148 207	120 046	694	561
Fair value gains	148 207	120 046	694	561
Accumulated other comprehensive income due to cash flow hedging instruments	110 832	89 775	155 233	125 740
Gains on measurement	110 832	89 775	155 233	125 740
Total accumulated other comprehensive income	259 039	209 821	155 927	126 301

19. Retained earnings

	At	
	31 December 2010	31 December 2009 restated
Undistributed profit/(loss) from prior years	1 441 693	(2 293 789)
including valuation of the put option for employee shares	67 382	27 086
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	682 547	682 533
Reserve capital created and utilised in accordance with the Statutes of Group entities	5 607 666	7 655 219
Profit for the current period	4 708 946	2 327 993
Total retained earnings	12 440 852	8 371 956

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

At 31 December 2010 this statutory reserve capital in the Group entities amounts to PLN 682 547 thousand, of which PLN 660 000 thousand relates to the Parent Entity.

20. Changes in equity attributable to non-controlling interest

	For the period from 1 January 2010 to 31 December 2010	For the period from 1 January 2009 to 31 December 2009 restated
At beginning of the period	77 082	58 360
Non-controlling interest in profits of subsidiaries	5 917	568
Changes in equity attributable to non-controlling interest due to obtaining control of subsidiaries	159 210	26 880
Changes in equity attributable to non-controlling interest due to change in share capital of subsidiaries	(1 103)	(8 726)
At end of the period	241 106	77 082

21. Trade and other payables

	At 31 December 2010	At 31 December 2009 restated
Non-current trade and other payables		
Trade payables	11 732	10 223
Liabilities due to measurement of employee shares put options	68 872	27 086
Other financial liabilities	11 562	12 509
Total financial liabilities (scope of IFRS 7)	92 166	49 818
Deferred income	29 268	13 250
Other non-financial liabilities	126	248
Total non-financial liabilities	29 394	13 498
Total non-current trade and other payables	121 560	63 316
Current trade and other payables		
Trade payables	890 150	619 728
Payables due to unsettled derivatives	49 690	30 611
Other financial liabilities	20 956	36 476
Total financial liabilities (scope of IFRS 7)	960 796	686 815
Other financial liabilities (IAS 19 – Employee benefits)	168 419	150 181
Total financial liabilities	1 129 215	836 996
Liabilities due to taxes and social security	307 039	258 135
Other non-financial liabilities	46 006	34 256
Special funds	112 054	85 324
Deferred income	22 284	21 134
Accruals	377 981	340 051
Total non-financial liabilities	865 364	738 900
Total current trade and other payables	1 994 579	1 575 896
Total non-current and current trade and other payables	2 116 139	1 639 212

Payables due to unsettled derivatives represent the derivatives whose date of settlement fall on 5 January 2011 for the balance at 31 December 2010 and 5 January 2010 for the balance at 31 December 2009.

These instruments were measured to fair value at the average settlement price for the month of December 2010 and respectively December 2009.

Accruals consist mainly of one-off bonus paid after the approval of the annual financial statements and other employee benefits resulting from the collective labour agreements in the amount of PLN 294 930 thousand (PLN 272 976 thousand at 31 December 2009) and costs due to unused annual leave in the amount of PLN 19 395 thousand (PLN 22 262 thousand at 31 December 2009).

Non-current liabilities represent a written put option liability for employee shares in the amount of PLN 68 872 thousand (at 31 December 2009, PLN 27 086 thousand). These liabilities represent liabilities due to an irrevocable purchase offer submitted by Group companies as part of a sales agreement by the State Treasury of shares of WPEC w Legnicy S.A., "Uzdrowisko Cieplice" Sp. z o.o., ZUK S.A., Uzdrowisko Połczyn S.A., CENTROZŁOM WROCŁAW S.A., all other shares held by the State Treasury and not acquired by the entitled employees of these companies and shares acquired by employees (shares acquired from the State Treasury during the privatisation of these companies). The liabilities were valued at the best estimate of the discounted amount payable, based on contractual provisions respecting the purchase price of these shares; the purchase price is similar to the fair value of these shares. Liabilities due to the measurement of put options for employee shares are discounted by applying a discount rate at the level of 5.5% assuming a 5-year period of realisation. The written put option liability for employee shares is recognised with debit entry in retained earnings in "Valuation of the put option for employee shares".

Details on measurement of liabilities due to employee shares options are presented in the table below:

Companies whose employees were offered shares of companies free of charge by the State Treasury under the Privatisation Act	Number of employee shares	Share price (PLN)	Amount of liability (PLN '000) at 31 December 2010	Amount of liability (PLN '000) at 31 December 2009 restated
WPEC w Legnicy S.A.	1 770 000	20	28 576	27 086
"Uzdrowisko Cieplice" Sp. z o.o.	13 110	256.50	2 573	-
Zespół Uzdrowisk Kłodzkich S.A.	379 500	40.06	11 632	-
Uzdrowisko Połczyn S.A.	179 550	16.51	2 268	-
CENTROZŁOM WROCŁAW S.A.	1 650 000	18.87	23 823	-
Liabilities due to employee shares options			68 872	27 086

22. Borrowings and finance lease liabilities

	At 31 December 2010	At 31 December 2009 restated
Non-current borrowings and finance lease liabilities		
Bank loans	141 829	86 340
Loans	2 420	3 715
Finance lease liabilities	29 403	30 799
Total non-current borrowings and finance lease liabilities	173 652	120 854
Current borrowings and finance lease liabilities		
Bank loans	81 901	204 442
Loans	1 883	4 788
Finance lease liabilities	12 378	10 586
Total current borrowings and finance lease liabilities	96 162	219 816
Total borrowings and finance lease liabilities	269 814	340 670

23. Deferred tax

	At	
	31 December 2010	31 December 2009 restated
Net deferred tax assets at the beginning of the period, of which:	291 213	120 810
Deferred tax assets at the beginning of the period	347 395	188 992
Deferred tax liabilities at the beginning of the period	56 182	68 182
Credited to profit or loss	202 903	92 555
(Decrease)/increase in other accumulated comprehensive income	(19 591)	91 753
Deferred tax assets at the date of acquisition of shares in a subsidiary	(14 970)	(13 905)
Net deferred tax assets at the end of the period, of which:	459 555	291 213
Deferred tax assets at the end of the period	592 947	347 395
Deferred tax liabilities at the end of the period	133 392	56 182

24. Employee benefits

A general description of the employee benefit plans is presented in note 2.2.16.

Change in liabilities due to future employee benefits

	At	
	31 December 2010	31 December 2009 restated
Present value of obligations	1 338 609	1 297 643
Jubilee awards	298 001	288 191
Retirement and disability benefits	226 203	211 414
Coal equivalent	764 060	753 305
Other benefits	50 345	44 733
Value of obligations at 31 December 2010	1 332 706	1 290 054
Jubilee awards	298 001	288 191
Retirement and disability benefits	220 300	203 825
Coal equivalent	764 060	753 305
Other benefits	50 345	44 733
of which:		
Carrying amount of non-current liabilities	1 221 794	1 183 350
Carrying amount of current liabilities	110 912	106 704

amounts in tables in thousand PLN, unless otherwise stated

Total costs recognised in profit or loss due to future employee benefits

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Interest costs	70 718	62 216
Current service cost	46 771	59 239
Actuarial losses	9 043	132 383
Gains due to limitation of the employee benefit plans	(571)	(640)
Past service cost	1 686	1 686
Total costs recognised in profit or loss	127 647	254 884

Main actuarial assumptions at 31 December 2010

	2011	2012	2013	2014	2015 and beyond
Discount rate	5.50%	5.50%	5.50%	5.50%	5.50%
Rate of increase in coal prices	0.00%	3.00%	3.00%	3.00%	3.00%
Rate of increase in the lowest salary	5.20%	4.00%	4.00%	4.00%	4.00%
Expected inflation	2.50%	2.50%	2.50%	2.50%	2.50%
Future expected increase in salary	3.50%	4.00%	4.00%	4.00%	4.00%

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 salary.

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

25. Provisions for other liabilities and charges

	At	
	31 December 2010	31 December 2009 restated
Total provisions	567 643	574 788
Decommissioning costs of mines and other facilities	515 877	511 384
Costs of scrapping property, plant and equipment	5 609	5 307
Disputed issues and court proceedings	12 297	24 124
Other provisions	33 860	33 973
of which:		
Non-current provisions	520 727	527 421
Current provisions	46 916	47 367

amounts in tables in thousand PLN, unless otherwise stated

26. Sales

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

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
copper, precious metals, smelter by-products	15 739 320	10 992 841
salt	72 080	45 358
energy	90 744	35 399
services, of which:	842 058	728 554
telecommunications services	525 074	517 879
mining machinery, transport vehicles for mining and other	22 975	16 508
merchandise	297 127	219 013
scrap and materials	10 369	11 260
other finished goods	217 917	70 977
Total	17 292 590	12 119 910
of which:		
Net revenues from the sale of products, merchandise and materials – domestic	4 970 620	3 374 311
Net revenues from the sale of products, merchandise and materials – foreign	12 321 970	8 745 599

Additional data

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Average copper price on LME (USD/t)	7 539	5 164
Average exchange rate (USD/PLN) per NBP	3.02	3.12

27. Expenses by nature

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Depreciation of property, plant and equipment and amortisation of intangible assets	843 938	743 790
Employee benefits expenses	3 383 588	3 262 073
Materials and energy	5 046 509	3 857 174
External services	1 406 607	1 216 401
Taxes and charges	365 898	342 012
Advertising costs and representation expenses	54 685	38 570
Property and personal insurance	24 155	20 062
Other costs, of which:	73 790	102 254
Impairment losses on non-current and current property, plant and equipment	32 658	77 691
Reversal of impairment losses on non-current and current property, plant and equipment	(12 135)	(13 030)
Other operating costs	53 267	37 593
Total expenses by nature	11 199 170	9 582 336
Cost of merchandise and materials sold (+), of which:	223 776	158 742
Allowance for write-down of inventories and impairment of receivables	3 264	2 029
Reversal of allowance for impairment of receivables	(545)	(884)
Change in inventories of finished goods and work in progress (+/-)	(156 447)	(368 246)
Cost of manufacturing products for internal use (-)	(663 617)	(435 996)
Total cost of sales, selling costs and administrative expenses	10 602 882	8 936 836

28. Employee benefits expenses

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Remuneration	2 514 006	2 332 345
Costs of social security	833 290	767 643
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which:	36 292	162 085
Present value of obligation	34 606	160 399
Past service costs	1 686	1 686
Employee benefits expenses	3 383 588	3 262 073

amounts in tables in thousand PLN, unless otherwise stated

amounts in tables in thousand PLN, unless otherwise stated

29. Other operating income

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Income and gains from financial instruments classified under other operating activities, resulting from:	549 364	368 747
Measurement and realisation of derivatives	476 668	270 057
Interest	65 102	89 386
Other	7 594	9 304
Increase in fair value of investment property	4 358	-
Gains from the disposal due to loss of control over a subsidiary	-	21 457
Gains on a bargain purchase of subsidiaries	3 265	-
Gains from the disposal of intangible assets	1 385	1 556
Interest on non-financial receivables	7 174	3 538
Reversal of allowance for impairment of other non-financial receivables	3 425	1 810
Government grants and other donations received	2 989	825
Release of unused provisions	21 232	47 768
Surpluses identified in current assets	11 879	-
Penalties and compensation received	25 065	23 085
Foreign exchange gains - non-financial	4 386	2 568
Other operating income/gains	19 395	24 218
Total other operating income	653 917	495 572

amounts in tables in thousand PLN, unless otherwise stated

30. Other operating costs

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Costs and losses on financial instruments classified under other operating activities, resulting from:	1 680 906	888 576
Measurement and realisation of derivatives	1 638 691	802 437
Interest	145	1 728
Foreign exchange losses	38 686	75 464
Other	3 384	8 947
Allowances for impairment of other non-financial receivables	7 192	552
Losses on the sale of property, plant and equipment	21 360	23 914
Impairment losses on fixed assets under construction	12 314	21 151
Interest on overdue non-financial liabilities	158	4 504
Donations granted	13 089	7 193
Provisions	18 240	20 124
Penalties and compensation paid	3 609	3 412
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events	4 432	2 480
Contributions to a voluntary organisation	8 202	7 433
Other operating costs/losses	28 776	19 050
Total other operating costs	1 798 287	999 308

31. Finance costs

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Interest expense:	14 733	14 608
On bank and other loans	12 457	12 696
Due to finance leases	2 276	1 912
Net foreign exchange gains on borrowings	(728)	(748)
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	32 174	29 764
Measurement of provisions for decommissioning of mines	31 843	29 171
Measurement of other provisions	331	593
Losses due to measurement of non-current liabilities	1 755	381
Other finance costs	396	1 254
Total finance costs	48 330	45 259

amounts in tables in thousand PLN, unless otherwise stated

32. Financial instruments

32.1. Carrying amount

At 31 December 2010

Classes of financial instruments	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		
Listed shares	748 772	-	-	-	-	-	-	-	748 772
Unlisted shares	11 274	-	-	-	-	-	-	-	11 274
Participation units of investment funds	407 214	-	-	68 289	-	-	-	-	475 503
Trade receivables (net)	-	-	-	1 972 186	-	-	-	-	1 972 186
Cash and cash equivalents and deposits	-	88 244	-	3 371 135	-	-	-	-	3 459 379
Other financial assets (net)	7	42	-	49 906	-	-	-	-	49 955
Derivatives - Currency	-	-	85 281	-	(108 979)	-	-	284 462	260 764
Derivatives - Commodity contracts - metals	-	-	2 722	-	(184 404)	-	-	(571 357)	(753 039)
Trade payables	-	-	-	-	-	(901 882)	-	-	(901 882)
Bank and other loans	-	-	-	-	-	(228 033)	-	-	(228 033)
Other financial liabilities	-		-	-	-	(151 080)	(41 781)	-	(192 861)
Total	1 167 267	88 286	88 003	5 461 516	(293 383)	(1 280 995)	(41 781)	(286 895)	4 902 018

At 31 December 2009 – restated

Classes of financial instruments	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		
Listed shares	8 976	-	-	-	-	-	-	-	8 976
Unlisted shares	11 475	-	-	-	-	-	-	-	11 475
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	-	1 197 144	-	-		-	1 264 821
Other financial assets (net)	7	47	-	18 939	-	-	-	-	18 993
Derivatives - Currency	-	-	137 385	-	(165 902)	-	-	43 553	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	-	-	-	-	-	(106 682)	(41 385)	-	(148 067)
Total	28 388	67 724	138 643	2 415 595	(203 763)	(1 035 918)	(41 385)	51 458	1 420 742

amounts in tables in thousand PLN, unless otherwise stated
amounts in tables in thousand PLN, unless otherwise stated

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

For the period from 1 January 2010 to 31 December 2010	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total financial instruments
Interest income/(costs) recognised in:	-	307	110	64 685	(12 602)	(2 276)	-	50 224
Other operating income	-	307	110	64 685	-	-	-	65 102
Other operating costs	-	-	-	-	(145)	-	-	(145)
Finance costs	-	-	-	-	(12 457)	(2 276)	-	(14 733)
Exchange gains/(losses) recognised in:	-	(691)	2	38 969	(76 697)	459		(37 958)
Other operating costs	-	(691)	2	38 969	(76 966)	-	-	(38 686)
Finance costs	-	-	-	-	269	459		728
Gains/(Losses) on measurement of non-current liabilities recognised in:	-	-	-	-	(1 594)	-	-	(1 594)
Other operating income	-	-	-	-	161	-	-	161
Finance costs	-	-	-	-	(1 755)	-	-	(1 755)
Impairment allowances recognised in:	-	-	-	(21 733)	-	-	-	(21 733)
Expenses by nature	-	-	-	(19 585)	-	-	-	(19 585)
Other operating costs	-	-	-	(2 148)	-		-	(2 148)
Reversal of impairment allowances recognised in:	-	-	-	10 440	-	-	-	10 440
Expenses by nature	-	-	-	7 932	-	-	-	7 932
Other operating income	-	-	-	2 508	-	-	-	2 508
Adjustment to sales due to hedging transactions	-	-	-	-	-	-	142 187	142 187
Gains/(losses) from disposal of financial instruments recognised in:	-	4 925	-	(3 573)	-	-	-	1 352
Expenses by nature	-	-	-	(2 337)	-	-	-	(2 337)
Other operating income	-	4 925	-	-	-	-	-	4 925
Other operating costs	-	-	-	(1 236)	-	-	-	(1 236)
Gains on measurement and realisation of derivatives	476 668	-	-	-	-	-	-	476 668
Losses on measurement and realisation of derivatives	(1 638 691)	-	-	-	-	-	-	(1 638 691)
Total net gain/(loss)	(1 162 023)	4 541	112	88 788	(90 893)	(1 817)	142 187	(1 019 105)

For the period from 1 January 2009 to 31 December 2009 restated	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	Total financial instruments
Interest income/(costs) recognised in:	-	21	108	89 257	(14 424)	(1 912)	-	73 050
Other operating income	-	21	108	89 257	-	-	-	89 386
Other operating costs	-	-	-	-	(1 728)	-	-	(1 728)
Finance costs	-	-	-	-	(12 696)	(1 912)	-	(14 608)
Exchange gains/(losses) recognised in:	-	-	(9)	(9 292)	(65 593)	178	-	(74 716)
Other operating costs	-	-	(9)	(9 292)	(66 163)	-	-	(75 464)
Finance costs	-	-	-	-	570	178	-	748
Gains/(Losses) on measurement of non-current liabilities recognised in:	-	-	-	-	(630)	-	-	(630)
Other operating income	-	-	-	-	(249)	-	-	(249)
Finance costs	-	-	-	-	(381)		-	(381)
Impairment allowances recognised in:	-	-	-	(51 506)	-	-	-	(51 506)
Expenses by nature	-	-	-	(45 035)	-	-	-	(45 035)
Other operating costs	-	-	-	(6 471)	-	-	-	(6 471)
Reversal of impairment allowances recognised in:	-	-	-	13 770	-	-	-	13 770
Expenses by nature	-	-	-	11 985	-	-	-	11 985
Other operating income	-	-	-	1 785	-	-	-	1 785
Adjustment to sales due to hedging transactions	-	-	-	-	-	-	433 187	433 187
Gains/(losses) from disposal of financial instruments recognised in:	-	7 500	-	(3 206)	-	-	-	4 294
Expenses by nature	-	-	-	(998)	-	-	-	(998)
Other operating income	-	7 500	-	19	-	-	-	7 519
Other operating costs	-	-	-	(2 227)	-	-		(2 227)
Gains on measurement and realisation of derivatives	270 057	-	-	-	-	-	-	270 057
Losses on measurement and realisation of derivatives	(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

32.3. Financial instruments recognised at fair value in the consolidated statement of financial position

32.3.1. Fair value hierarchy

Classes of financial instruments	At					
	31 December 2010			31 December 2009 restated		
	level 1	level 2	level 3	level 1	level 2	level 3
Listed shares	748 772	-	-	8 976	-	-
Shares in investment funds	-	-	-	-	-	7 930
Participation units of investment funds	475 503	-	-	-	-	-
Derivatives - currency, of which:	-	260 764	-	-	15 036	-
Assets	-	390 610	-	-	180 938	-
Liabilities	-	(129 846)	-	-	(165 902)	-
Derivatives – metals, of which:	-	(753 039)	-	-	(28 698)	-
Assets	-	310 813	-	-	140 471	-
Liabilities	-	(1 063 852)	-	-	(169 169)	-
Other financial liabilities	-	(49 690)	-	-	(30 611)	-

32.3.2. Financial instruments - measure of fair value at level 3 of the fair value hierarchy

Shares in investment funds	At	
	31 December 2010	31 December 2009 restated
Beginning of the period	7 930	11 264
Gains recognised in other comprehensive income	-	2 205
Losses recognised in other comprehensive income	1 838	5 539
Settlement	6 092	-
Total	-	7 930

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 period.

33. 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.

An appropriate policy, organisational structure and procedures support the financial risk management process.

33.1. Market risk

33.1.1. 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/loss before tax,
- To increase the probability of meeting budget assumptions,
- To maintain the healthy financial condition, and
- To support the process of undertaking strategic decisions relating to investing activity, with 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, 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. The Parent Entity applies hedge accounting to hedge the risk of changes of cash flows due to commodity and currency risk.

33.1.2. Techniques for market risk management

The primary technique for market risk management is the use in the Parent Entity of hedging strategies involving derivatives. Apart from this, natural hedging is also used.

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 Group companies, the suitability of instruments to be applied and the cost of hedging. In order to mitigate market risk, derivatives are primarily used. The Group transacts only those derivatives 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 Group 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).

33.1.3. Hedge effectiveness requirement

Hedging transactions can be entered into by Parent Entity only if there is an appropriate derivative 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.

amounts in tables in thousand PLN, unless otherwise stated

33.1.4. Measurement of market risk

The Parent Entity quantifies its market risk exposure using a consistent and comprehensive measure.

Market risk management is supported by simulations (such as scenario analysis, stress-tests, backtests) and calculated risk measures. The risk measures being used are mainly based on mathematical and statistical modelling, which uses historical and current market data concerning risk factors and takes into consideration the current exposure of the 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 as a source of additional information. Such models are not the only basis for decision making in the market risk management process.

33.1.5. 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 purchased copper-bearing materials, the Parent Entity has set limits with respect to commitment in derivatives:
- 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.

Thanks to an integrated approach to market risk management, the Parent Entity gains substantially greater flexibility in constructing its hedging strategy. In order to determine the 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 the 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 over 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 derivatives up to 80% of the planned amounts exposed to market risk, or up to 100% of realised commercial transactions.

33.1.6. Market risk exposure

33.1.6.1. 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 from month of dispatch.

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 purchased copper-bearing materials from the volume of sales.

Exposure of the Group to commodity risk is presented below:

	For the period			
	from 1 January 2010 to 31 December 2010		from 1 January 2009 to 31 December 2009 restated	
	Sales	Purchases	Sales	Purchases
Copper ['000 tonnes]	559	143	514	122
Silver [tonnes]	1 247	8	1 198	72

Sensitivity of the Group's financial instruments to commodity risk at the end of the reporting period is presented in note 35.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

33.1.6.1.1. Price risk related to investments in debt securities and participation units of investment funds

At 31 December 2010, the Group held 1 201 694.6 participation units of open-end, liquidity investment funds in the amount of PLN 407 214 thousand classified as available-for-sale financial assets and participation units of open-end, liquidity investment funds in the amount of PLN 68 289 thousand classified as cash and cash equivalents. This investment is slightly exposed to price risk. The investment funds invest assets in money market instruments and in other debt securities (such as government bills and bonds), whose remaining time to maturity does not exceed one year, or whose rate of interest is set for a period no longer than one year. Since the date of acquisition, this investment has been characterised by a stable rate of growth in the value of the participation units, with profitability higher than interest in comparable bank accounts.

33.1.6.1.2. Price risk related to the purchase of shares of listed companies

At 31 December 2010, the Group held shares with a value of PLN 748 772 thousand listed on the Warsaw Stock Exchange and on the TSX Venture Exchange. These investments expose the Group to the risk of a substantial change in accumulated other comprehensive income due to changes in the prices of the shares held. The sensitivity of assets was presented in note 35.1.11.

33.1.6.2. 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 currency risk at the end of the reporting period is presented in note 35.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

33.1.6.3. Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the financial position.

The Group is exposed to interest rate risk due to:
- changes in the fair value of loans drawn, and bank deposits for which interest is calculated at fixed rates, due to their inflexibility to adaptation to changes in market interest rates,
- changes in cash flow related to bank and other loans drawn, a decrease in expected income from bank deposits, for which interest is calculated at variable rates.

As at 31 December 2010 the Group had liabilities due to bank and other loans in the amount of PLN 226 603 thousand (as at 31 December 2009: PLN 295 863 thousand) based on variable interest rates, and liabilities due to loans in the amount of PLN 1 430 thousand (as at 31 December 2009: PLN 3 422 thousand) based on fixed interest rates. At 31 December 2010 the Group had bank deposits in the amount of PLN 3 259 112 thousand (as at 31 December 2009: PLN 1 153 118 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.

33.1.7. Hedging exposure to market risk in the Parent Entity

In the Group only the Parent Entity applies hedging strategies (as understood by the hedge accounting). In order to reduce the market risk, the Parent Entity makes use mainly of derivatives. In 2010 copper price hedging strategies represented approx. 33% (in 2009 34%) of the sales of this metal realised by the Parent Entity. With respect to silver sales this figure amounted to approx. 18% (in 2009 25%). In the case of currency market, hedged revenues from sales represented approx. 16% (in 2009 34%) of total revenues from sales realised by the Parent Entity.

In 2010 the Parent Entity implemented copper price hedging strategies with a total volume of 336.4 thousand tonnes and a time horizon falling from July 2010 to June 2013. The Parent Entity made use of options (Asian options), including: puts and option strategies (collars, seagulls and producer's puts). In addition, the Parent Entity performed a restructure, implemented in the analysed period, of seagull options for 2011 and for the first half of 2012 with a total volume of 117 thousand tonnes through the repurchase of sold puts[1]. Restructure enables the full use of put options purchased within this structure in the case of any decrease in the price of this metal in 2011 and in the first half of 2012. During the reporting period the Parent Entity implemented an adjustment hedge transaction for 250 tonnes of copper which will be settled in April 2011.

In 2010 the Parent Entity implemented silver price hedging strategies with a total volume of 3.6 million troz and a time horizon falling in 2011. In the reporting period, adjustment hedge transactions were not implemented on this market.

1 Tables presenting the condensed list of open hedging positions, include restructured items: the type of instrument was changed from seagull to collar, the cost of restructuring (premium for repurchase of options) was added to the cost of implementation (i.e. the average weighted premium) and the effective hedge price/exchange rate was changed.

In the case of the forward currency market, in 2010 the Parent Entity implemented transactions hedging revenues from sales with a total nominal amount of USD 1 785 million and a time horizon falling in the second to fourth quarters of 2010 and in years 2011-2012. The Parent Entity made use of options (European options), including puts and option strategies (collars and seagulls). During this period no adjustment hedge transactions were implemented on the currency market. In addition, the Parent Entity performed a restructure, implemented in the prior and in the analysed reporting periods, of options strategies for 2011 with the total nominal amount of USD 540 million through the repurchase of sold puts from a seagull strategy (for USD 360 million) and through the sale of a collar strategy (for USD 180 million). The seagull strategy restructure enables the full use of put options purchased within this structure in the case of any decrease in the USD/PLN exchange rate in 2011. As a result of the collar strategy restructure, the amount of PLN 84 873 thousand was recognised in accumulated other comprehensive income, and will adjust in plus sales revenues in 2011. Additionally, as part of the restructure, put options were purchased to hedge the USD/PLN rate for USD 180 million for the whole of 2011.

The Parent Entity remains hedged for a portion of copper sales planned in 2011 (156 thousand tonnes), in 2012 (136.5 thousand tonnes), and in the first half of 2013 (19.5 thousand tonnes), and also for a portion of silver sales planned in 2011 (3.6 million troz). With respect to revenues from sales (currency market) the Parent Entity holds a hedging position in 2011 (USD 1 200 million), and in 2012 (USD 360 million).

Following is a condensed table of hedging positions, by type of hedged asset and instruments used at 31 December 2010. The hedged nominal/volume in the months included in the presented periods is equally balanced.

Hedging position (condensed information) – copper market

Period		Instrument	Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
I half of 2011	Collar	Sold call option	19 500	8 800	-470	6 230 participation restricted to 8 800
		Purchased put option		6 700		
	Collar[1]	Sold call option	19 500	9 500	-463	6 537 participation restricted to 9 500
		Purchased put option		7 000		
	Collar[1]	Sold call option	19 500	9 600	-345	6 755 participation restricted to 9 600
		Purchased put option		7 100		
		Producer's puts[1]	19 500	8 000	9.78%[2]	minimal effective hedging price 7 288
		Total	78 000			
II half of 2011	Collar[1]	Sold call option	19 500	9 500	-463	6 537 participation restricted to 9 500
		Purchased put option		7 000		
	Collar[1]	Sold call option	19 500	9 300	-521	6 379 participation restricted to 9 300
		Purchased put option		6 900		
	Collar[1]	Sold call option	19 500	9 600	-348	6 752 participation restricted to 9 600
		Producer's puts[2]	19 500	8 000	9.78%[3]	minimal effective hedging price 7 288
		Total	78 000			
		Total 2011	156 000			

Hedging position (condensed information) – copper market

Period		Instrument	Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
I half of 2012	Seagull[2]	Sold call option	19 500	9 300	-397	6 503 restricted to 4 700 participation restricted to 9 300
		Purchased put option		6 900		
		Sold put option		4 700		
	Collar[1]	Sold call option	19 500	9 000	-478	6 322 participation restricted to 9 000
		Purchased put option		6 800		
	Seagull[2]	Sold call option	19 500	9 500	-383	6 817 restricted to 4 700 participation restricted to 9 500
		Purchased put option		7 200		
		Sold put option		4 700		
		Producer's puts[2]	19 500	8 000	9.90%[3]	minimal effective hedging price 7 279
		Total	78 000			
II half of 2012	Seagull[2]	Sold call option	19 500	9 300	-397	6 503 restricted to 4 700 participation restricted to 9 300
		Purchased put option		6 900		
		Sold put option		4 700		
	Seagull[2]	Sold call option	19 500	9 000	-399	6 401 restricted to 4 500 participation restricted to 9 000
		Purchased put option		6 800		
		Sold put option		4 500		
	Seagull[2]	Sold call option	19 500	9 500	-383	6 817 restricted to 4 700 participation restricted to 9 500
		Purchased put option		7 200		
		Sold put option		4 700		
		Total	58 500			
		Total 2012	136 500			
I half of 2013	Seagull[2]	Sold call option	19 500	9 500	-383	6 817 restricted to 4 700 participation restricted to 9 500
		Purchased put option		7 200		
		Sold put option		4 700		
		Total	19 500			
		Total I half of 2013	19 500			

Hedging position (condensed information)– silver market

Period	Instrument	Volume [million troz]	Execution price [USD/troz]	Average weighted premium [USD/troz]	Effective hedge price [USD/troz]
I half of 2011	Purchased put option	1.80	20.00	-1.27	18.73
	Total	1.80			
II half of 2011	Purchased put option	1.80	20.00	-1.27	18.73
	Total	1.80			
	Total 2011	3.60			

amounts in tables in thousand PLN, unless otherwise stated

amounts in tables in thousand PLN, unless otherwise stated

Hedging position (condensed information) – 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 2011	Collar[1]	Sold call option	180	3.7000	-0.1277	2.7723 participation restricted to 3.70
		Purchased put option		2.9000		
		Purchased put option	90	3.3500	-0.2390	3.1110
		Purchased put option	90	2.7000	-0.0781	2.6219
		Purchased put option	120	2.8000	-0.0722	2.7278
		Purchased put option	120	2.9000	-0.0993	2.8007
		Total	600			
II half of 2011	Collar[1]	Sold call option	180	3.7000	-0.1028	2.7972 participation restricted to 3.70
		Purchased put option		2.9000		
	Seagull[2]	Sold call option	90	4.4000	-0.1160	3.1840 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
		Purchased put option	90	2.7000	-0.0920	2.6080
		Purchased put option	120	2.8000	-0.0722	2.7278
		Purchased put option	120	2.9000	-0.0993	2.8007
		Total	600			
		Total 2011	1 200			
I half of 2012	Seagull[2]	Sold call option	90	4.4000	-0.0990	3.2010 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Collar	Sold call option	90	4.5000	-0.1527	3.2473 participation restricted to 4.50
		Purchased put option		3.4000		
		Total	180			
II half of 2012	Seagull[2]	Sold call option	90	4.4000	-0.0767	3.2233 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Collar	Sold call option	90	4.5000	-0.1473	3.2527 participation restricted to 4.50
		Purchased put option		3.4000		
		Total	180			
		Total 2012	360			

1 Tables presenting the condensed list of open hedging positions, include restructured items: the type of instrument was changed from seagull to collar, the cost of restructuring (premium for repurchase of options) was added to the cost of implementation (i.e. the average weighted premium) and the effective hedge price/exchange rate was changed.

2 Due to current hedge accounting laws, transactions embedded within a producer's put – a purchased put option – are shown in the table containing a detailed list of derivatives positions – "Hedging instruments", while sold call options are shown in the table "Trade instruments". In addition transactions included in the seagull structure – purchased put options and sold call options – are shown in the table containing a detailed list of derivatives positions – "Hedging instruments", with sold put options in the table "Trade instruments".

3 Payable at the moment of settlement.

33.1.8. Impact of derivatives on the statement of financial position of the Group

As at 31 December 2010, the fair value of open positions in derivatives amounted to PLN (492 275) thousand, of which PLN 701 423 thousand relate to financial assets and PLN 1 193 698 thousand relate to financial liabilities.

Derivatives whose date of settlement was 5 January 2011 were measured at fair value in the amount of PLN (49 690) thousand, and accounted for in trade and other payables as payables due to unsettled derivatives.

33.1.9. Impact of derivatives on the Group's profit or loss and other comprehensive income

In 2010, the result on derivatives amounted to PLN (1 019 836) 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 142 187 thousand. The loss on the measurement of derivatives amounted to PLN 1 033 354 thousand, while the loss on the realisation of derivatives amounted to PLN 128 669 thousand. Adjustment to other operating costs arising from the measurement of derivatives results mainly from changes of the time value of options, which will be settled in future periods. In accordance with the applied hedge accounting principles, the change in the time value of options is recognised in accumulated other comprehensive income.

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

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Impact on sales	142 187	433 187
Impact on other operating activities	(1 162 023)	(532 380)
Losses from realisation of derivatives	(128 669)	(187 486)
Losses from measurement of derivatives	(1 033 354)	(344 894)
Total impact of derivatives on profit or loss:	(1 019 836)	(99 193)

The Parent Entity accounts for cash flow hedging instruments according to the principles presented in note 2.2.5.7 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 recognised in accumulated other comprehensive income are subsequently transferred to profit or loss in the period in which the hedged transaction is settled.

In 2010 the Parent Entity recognised in profit or loss due to the ineffective portion of cash flow hedges the amount (loss) of PLN 1 328 573 thousand (in 2009: PLN 626 345 thousand), of which PLN 1 170 400 thousand is a loss on the measurement of hedging instruments (in 2009: PLN 431 299 thousand) and PLN 158 173 thousand is a loss on the realisation of the ineffective portion of hedging instruments (in 2009: PLN 195 046 thousand).

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 derivatives designated as hedging instruments in cash flow hedges.

Amounts recognised in other comprehensive income

	At	
	31 December 2010	31 December 2009 restated
Accumulated other comprehensive income – commodity price risk hedging transactions (copper and silver) – derivatives	(98 940)	(3 937)
Accumulated other comprehensive income – currency risk hedging transactions – derivatives	209 772	159 170
Total accumulated other comprehensive income – financial instruments hedging future cash flows (excluding the deferred tax effects)	110 832	155 233

amounts in tables in thousand PLN, unless otherwise stated

Gains or (losses) on derivatives hedging future cash flows recognised in other comprehensive income

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Accumulated gain or (loss) achieved on financial instruments hedging future cash flows at the beginning of the reporting period	155 233	627 757
Amount recognised in the reporting period due to hedging transactions	97 786	(39 337)
Amount transferred from accumulated other comprehensive income to revenues from sales	(142 187)	(433 187)
Accumulated other comprehensive income achieved on instruments hedging future cash flows at the end of the reporting period (excluding the deferred tax effects)	110 832	155 233

33.1.10. 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, EUR/PLN and GBP/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, EUR/PLN and GBP/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 by classes of financial assets and financial liabilities.

Scope of historical data (daily data):
- for copper: 01 January 1978 to 31 December 2010 – settlement prices
- for silver: 01 January 1978 to 31 December 2010 – fixing prices
- for USD/PLN, EUR/PLN and GBP/PLN exchange rates: 01 January 2000 to 31 December 2010 – 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 forward market curve for interest rates, while variability is the exponentially weighted historical variability.

Potential price changes at the end of the reporting period 31 December 2010

	Copper	Silver	USD/PLN	EUR/PLN	GBP/PLN
SPOT / FIX	9 650	30.63	2.9641	3.9603	4.5938
DOWN 95%	6 461	19.71	2.4294	3.4875	3.9389
	-33%	-36%	-18%	-12%	-14%
UP 95%	12 965	41.91	3.6292	4.5628	5.4067
	34%	37%	22%	15%	18%

Potential price changes at the end of the reporting period 31 December 2009

	Copper	Silver	USD/PLN	EUR/PLN	GBP/PLN
SPOT / FIX	7 342	16.99	2.8503	4.1082	4.5986
DOWN 95%	4 765	10.93	2.2400	3.5069	3.9491
	-35%	-36%	-21%	-15%	-14%
UP 95%	10 061	24.43	3.5782	4.8508	5.3865
	37%	44%	26%	18%	17%

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 derivatives 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 2010

Financial assets and liabilities	**Value at risk** Currency structure			
	['000 PLN]	['000 USD]	['000 EUR]	['000 GBP]
Trade receivables (net)	1 444 927	296 463	100 260	36 815
Cash and cash equivalents and deposits	497 279	102 319	40 371	7 427
Other financial assets (net)	28 153	604	5 415	1 070
Derivatives – Currency	260 764	lack of data	lack of data	-
Derivatives – Commodity contracts – Metals	(753 039)	(254 053)	-	-
Trade payables	(109 082)	(26 427)	(7 747)	(15)
Bank and other loans	(5 456)	-	(1 378)	-
Other financial liabilitias	(62 876)	(16 775)	(3 322)	-

Currency structure of financial instruments exposed to market risk at 31 December 2009 – restated

Financial assets and liabilities	**Value at risk** Currency structure			
	['000 PLN]	['000 USD]	['000 EUR]	['000 GBP]
Shares in investment funds	7 930	2 782	-	-
Trade receivables (net)	905 082	123 662	115 325	17 142
Cash and cash equivalents and deposits	187 988	37 535	12 663	6 302
Other financial assets (net)	11 672	1 242	1 213	685
Derivatives – Currency	15 036	lack of data	lack of data	-
Derivatives – Commodity contracts – Metals	(28 698)	(10 069)	-	-
Trade payables	(43 742)	(7 892)	(5 164)	(7)
Bank and other loans	(6 728)	-	(1 638)	-
Other financial liabilities	(56 842)	(14 879)	(3 513)	-

Sensitivity analysis as at 31 december 2010

Financial assets and liabilities	Value at risk	Carrying amount	Currency risk												Commodity risk							
			USD/PLN				EUR/PLN				GBP/PLN				Copper prices [USD/t]				Silver prices [USD/troz]			
			3.63		2.43		4.56		3.49		5.41		3.94		12 965		6 461		41.91		19.71	
			+22%		-18%		+15%		-12%		+18%		-14%		+34%		-33%		+37%		-36%	
	['000 PLN]	['000 PLN]	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity
Trade receivables (net)	1 444 927	1 972 186	159 714		(128 400)		48 929		(38 396)		24 241		(19 529)									
Cash and cash equivalents and deposits	497 279	3 459 379	55 122		(44 315)		19 702		(15 461)		4 890		(3 940)									
Other financial assets (net)	28 153	49 955	326		(262)		2 643		(2 074)		705		(568)									
Derivatives – Currency contracts	260 764	260 764	(163 743)	(104 629)	(123 463)	529 874	(11 815)		9 080													
Derivatives – Commodity contracts – Metals	(753 039)	(753 039)	(121 136)	(15 730)	97 386	12 646									182 070	(1 827 586)	612 600	750 806	(1 278)		14 128	1 744
Trade payables	(109 082)	(901 882)	(14 237)		11 446		(3 781)		2 967		(10)		8									
Bank and other loans	(5 456)	(228 033)					(672)		528													
Other financial liabilities	(62 876)	(192 761)	(9 037)		7 265		(1 621)		1 272													
Impact on profit or loss			(92 991)		(180 343)		53 385		(42 084)		29 826		(24 029)		182 070		612 600		(1 278)		14 128	
Impact on other comprehensive income				(120 359)		542 520										(1 827 586)		750 806				1 744

Sensitivity analysis as at 31 December 2009 – restated

Financial assets and liabilities	Value at risk	Carrying amount	Currency risk												Commodity risk							
			USD/PLN				EUR/PLN				GBP/PLN				Copper prices [USD/t]				Silver prices [USD/troz]			
			3.58		2.24		4.85		3.51		5.39		3.95		10 061		4 765		24.43		10,93	
			+26%		-21%		+18%		-15%		+17%		-14%		+37%		-35%		+44%		-36%	
	['000 PLN]	['000 PLN]	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity
Shares in investment funds	7 930	7 930	1 640		(1 375)																	
Trade receivables (net)	905 082	1 199 512	72 911		(61 132)		69 369		(56 169)		10 940		(9 018)									
Cash and cash equivalents and deposits	187 988	1 264 821	22 131		(18 555)		7 617		(6 168)		4 022		(3 315)									
Other financial assets (net)	11 672	18 993	732		(614)		730		(591)		437		(360)									
Derivatives – Currency contracts	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)									(54 596)	(348 905)	96 549	366 613	(10 366)	(7 918)	(10 660)	75 732
Trade payables	(43 742)	(629 951)	(4 653)		3 901		(3 106)		2 515		(5)		4									
Bank and other loans	(6 728)	(299 285)					(985)		798													
Other financial liabilities	(56 842)	(148 067)	(8 772)		7 355		(2 113)		1 711													
Impact on profit or loss			44 676		(66 353)		69 633		(56 391)		15 394		(12 689)		(54 596)		96 549		(10 366)		(10 660)	
Impact on other comprehensive income				(7 097)		163 201										(348 905)		366 613		(7 918)		75 732

33.1.11. Sensitivity analysis of exposure to price risk associated with acquisition of shares of listed companies

Maximum and minimum closing prices from the last 52 weeks were used for sensitivity analysis.

Sensitivity analysis of listed companies shares to price changes at 31 December 2010

Shares of two companies are listed on the Warsaw Stock Exchange and shares of one company are listed on the TSX Venture Exchange.

	Carrying amount At 31 December 2010 (in PLN '000)	Percentage change of share price	
		-36%	22%
Listed shares	748 772		
Impact on other comprehensive income		-263 476	164 730

33.2. 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 2010, as well as in the comparable period, due to positive 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 2010

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	888 926	1 224	11 486	498	-	902 134	901 882
Loans, including bank loans	41 274	55 787	94 207	24 517	36 773	252 558	228 033
Derivatives – Currency contracts	19 268	50 211	-	-	-	69 479	129 846
Derivatives – Commodity contracts – Metals	12 767	42 978	30 671	-	-	86 416	1 063 852
Other financial liabilities	66 931	15 218	27 748	99 910	3 270	213 077	192 161
Total financial liabilities by maturity	1 029 166	165 418	164 112	124 925	40 043	1 523 664	

Contractual maturities for financial liabilities as at 31 December 2009 – restated

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	40 560	108 673	-	-	-	149 233	165 902
Derivatives – Commodity contracts – Metals	-	31 514	6 360	-	-	37 874	169 169
Other financial liabilities	66 235	12 527	25 873	50 893	6 498	162 026	148 067
Total financial liabilities by maturity	753 065	337 349	104 845	74 476	34 432	1 304 167	

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

As at 31 December 2010 the Group had overdraft facilities in the amount of PLN 161 447 thousand (as at 31 December 2009: PLN 135 100 thousand).

As at 31 December 2010 unused overdraft facilities amounted to PLN 110 726 thousand (as at 31 December 2009: PLN 88 345 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 creditworthiness 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 2010 and 31 December 2009 are presented below:

	31 December 2010	31 December 2009 restated
Equity	14 891 779	10 575 339
Less: intangible assets	523 874	218 124
Net assets	14 367 905	10 357 215
Total assets	21 177 323	14 890 420
Equity ratio	0.68	0.70
Operating profit	5 545 338	2 679 338
Plus: depreciation/ amortisation	843 938	743 790
EBITDA	6 389 276	3 423 128
Borrowings and finance lease liabilities	269 814	340 670
Ratio of Debt/EBITDA	0.042	0.100

Due to the low level of debt of the Group as at 31 December 2010, the ratio of Debt/EBITDA was at a safe level and amounted to 0.042.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.68 at 31 December 2010.

In 2010 and in 2009 there were no external equity requirements imposed on the Parent Entity.

33.3. 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,
- derivatives,
- trade receivables,
- loans granted,
- debt securities and participation units of investment funds,
- guarantees granted.

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

All entities with which the Group enters into deposit transactions operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with medium[4] credit ratings, appropriate level of equity and strong, stable market position. The maximum exposure of a single bank in respect of cash and cash equivalents deposited by the Group amounted to 27% as at 31 December 2010.

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.

4 By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moody's.

amounts in tables in thousand PLN, unless otherwise stated

33.3.2. Credit risk related to derivative transactions

All entities with which the Group enters into derivative transactions operate in the financial sector. These are financial institutions (mainly banks), with the highest[5] (40.7%), medium-high[6] (48.2%) or medium[4] (11.1%) credit ratings. At 31 December 2010, based on fair value the maximum exposure of the Group to a single entity in respect of derivative transactions amounts to 29.7%.

Fair value of derivative transactions entered into by the Group at 31 December 2010 amounted to[7]:

- PLN 541 965 thousand (negative balance on the measurement of derivatives), of which:
- PLN 701 423 thousand financial assets (note 12),
- PLN 1 243 388 thousand financial liabilities (notes 12, 21).

All entities with which the Group entered into derivative transactions in 2009 operated in the financial sector. These are financial institutions (mainly banks), with the highest[5] (39.1%), medium-high[6] (55.2%) or medium[4] (8.7%) credit ratings. The maximum exposure of the Group to a single entity in respect of derivative transactions amounted to 46.1%.

The fair value of derivative transactions entered into by the Group at 31 December 2009 amounted to[8]:

- PLN 44 273 thousand (negative balance on the measurement of derivatives), of which:
- PLN 321 409 thousand financial assets (note 12),
- PLN 365 682 thousand financial liabilities (notes 12, 21).

Due to diversification of risk in terms both of the nature of individual entities as well as of 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 balance of fair value remeasurement of hedging transactions with the given counterparty.

33.3.3. 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.

Geographical concentration of credit risk of the Group for trade receivables arising from sales of copper and silver

	At					
	31 December 2010			31 December 2009 restated		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	34.26%	33.95%	31.79%	33.41%	56.76%	9.83%

The Parent Entity makes the significant part 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 secured. The Parent Entity has secured the majority of its receivables by promissory notes[9], frozen funds on bank accounts, registered pledges[10], bank guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers which hold buyer's credit on contracts have ownership rights confirmed by a date certain[11]. 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 2010 the Parent Entity had secured 69.1% of its trade receivables.

4 By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moody's.

5 By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moody's.

6 By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moody's.

7 The measurement of transactions includes the measurement of both open positions as well as transactions which were settled on 5 January 2011, which were presented in the statement of financial position of the Group under other financial liabilities (Note 21).

8 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 presented in the statement of financial position of the Group at 31 December 2009 under other financial liabilities.

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

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

11 A confirmed notarial clause which is applied in trade contracts means that rights to ownership of merchandise are transferred to the buyer only after payment is received despite physical delivery. Application of this clause is aimed solely at hedging credit risk and simplifying any eventual legal claims with regard to deliveries. The Parent Entity transfers substantially all of the risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

The total value of the Group's trade receivables as at 31 December 2010, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 1 972 186 thousand (at 31 December 2009: PLN 1 199 512 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 2010 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, represented 57% of the balance of trade receivables (at 31 December 2009: 66%). Despite the concentration of this type of risk, the Parent Entity believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

Due to lack of data, the risk related to derivative transactions entered into by customers is not reflected in the assessment of credit risk.

The following Group companies have significant trade receivables: CENTROZŁOM WROCŁAW S.A. PLN 78 224 thousand, DIALOG S.A. PLN 69 364 thousand, KGHM Metraco S.A. PLN 59 541 thousand, WPEC w Legnicy S.A. PLN 31 249 thousand, Walcownia Metali Nieżelaznych spółka z o. o. PLN 13 907 thousand, PHP "MERCUS" Sp. z o.o. PLN 13 833 thousand, ZUK S.A. PLN 10 494 thousand, POL-MIEDŹ TRANS Sp. z o.o. PLN 9 692 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.

33.3.4. Credit risk related to loans granted

At 31 December 2010 the carrying amount of loans granted was PLN 0 (at 31 December 2009, PLN 0 thousand). The balance is composed of loans granted in the gross amount of PLN 1 595 thousand. Due to the arising of a high level of credit risk, these loans were fully covered by an allowance for impairment.

33.3.5. Credit risk related to investments in debt securities and participation units of investment funds

Credit risk related to investments in participation units of investment funds with a value of PLN 475 503 thousand at 31 December 2010 is immaterial. Fund management institutions hold a medium-high rating.

33.3.6. Other information related to credit risk

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

	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 2010						
Trade receivables	99 246	69 178	13 567	4 973	9 333	2 195
Other financial receivables	525	245	271	3	2	4
At 31 December 2009 – restated						
Trade receivables	75 046	56 450	3 952	2 200	10 648	1 796
Other financial receivables	394	215	107	9	6	57

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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.

Changes in allowances for impairment of financial assets by asset classes are presented in the tables below:

a) trade receivables (category: loans and financial receivables)

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Impairment allowance at the beginning of the period	83 422	54 687
Increase due to obtaining control of a subsidiary	5 078	2 168
Impairment allowance recognised in profit or loss	19 585	45 035
Impairment allowance reversed through profit or loss	(7 932)	(11 985)
Impairment allowance on foreign exchange differences	258	(1 047)
Impairment allowance utilised during the period	(14 204)	(5 107)
Impairment allowance recognised/(reversed) on costs of legal proceedings	110	(118)
Decrease due to loss of control of a subsidiary	-	(211)
Impairment allowance at the end of the period	86 317	83 422

b) other financial assets (category: loans and financial receivables)

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Impairment allowance at the beginning of the period	14 029	10 252
Increase due to obtaining control of a subsidiary	1 327	-
Impairment allowance recognised in profit or loss	2 148	6 471
Impairment allowance reversed through profit or loss	(2 508)	(1 785)
Impairment allowance on foreign exchange differences	50	(49)
Impairment allowance utilised during the period	(5 573)	(863)
Impairment allowance on costs of legal proceedings	3 193	3
Impairment allowance at the end of the period	12 666	14 029

c) debt securities (category: available-for-sale financial assets)

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Impairment allowance at the beginning of the period	-	248
Increase due to obtaining control of a subsidiary	512	-
Impairment allowance utilised during the period	-	(248)
Impairment allowance at the end of the period	512	-

amounts in tables in thousand PLN, unless otherwise stated

34. Income tax

Income tax	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Current income tax	1 272 339	624 738
Deferred income tax	(202 903)	(92 555)
Adjustments to income tax from prior periods	(6 749)	12 798
Total:	1 062 687	544 981

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.

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Profit before tax	5 777 550	2 873 542
Tax calculated using the average weighted rates applicable to incomes in individual countries is 19.00% (2009: 19.02%)	1 097 622	546 683
Non-taxable income	(43 044)	(88 090)
Expenses not deductible for tax purposes	92 729	61 872
Utilisation of previously-unrecognised tax losses	(43 811)	(3 844)
Tax losses on which deferred tax assets were not recognised	126	13 884
Deductible temporary differences on which deferred tax assets were not recognised	1 216	1 678
Temporary tax differences due to investments in associates, on which deferred tax was not prior recognised	(35 402)	-
Adjustments to income tax from prior periods	(6 749)	12 798
Income tax expense the average income tax rate applied was 18.39% (2009: 18.97%)	1 062 687	544 981

35. Earnings per share

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Profit attributable to shareholders of the Parent Entity	4 708 946	2 327 993
Weighted average number of ordinary shares (,000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	23.54	11.64

There are no dilutive potential ordinary shares.

amounts in tables in thousand PLN, unless otherwise stated

36. Dividend paid and proposed for payment

In accordance with Resolution No. 5/2010 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 17 May 2010 regarding the appropriation of Parent Entity's profit for financial year 2009 and setting of the right to dividend date and dividend payment date, the amount of PLN 600 000 thousand, representing PLN 3.00 per share, was allocated as a shareholders dividend from profit for financial year 2009.

The right to dividend date was set at 17 June 2010, and dividend payment date – at 8 July 2010.

All shares of the Parent Entity are ordinary shares..

37. Notes to the consolidated statement of cash flows

Adjustments to profit for the period

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Income tax recognised in profit or loss	1 062 687	544 981
Depreciation/amortisation	843 938	743 790
Impairment losses on goodwill	743	2 359
Losses on sales of property, plant and equipment and intangible assets	19 975	22 358
Gains on the sale of available-for-sale financial assets	(4 925)	(7 500)
Gains from loss of control over a subsidiary	-	(21 457)
(Gains)/losses on the sale of and change in fair value of investment property	(4 349)	919
Impairment losses on property, plant and equipment, intangible assets and loans	19 582	43 151
Share of profits of associates accounted for using the equity method	(280 542)	(239 463)
Interest and share in profits (dividends)	13 084	9 655
Foreign exchange gains/(losses)	(2 203)	19 001
Change in provisions	36 131	155 905
Change in derivatives	576 401	687 023
Reclassification of accumulated other comprehensive income to profit or loss as a result of realisation of derivatives	(142 187)	(433 187)
Balances of assets and liabilities items at date of obtaining control over subsidiaries and losing control over a subsidiary	71 741	61 869
Other adjustments	(40 255)	(27 650)
Changes in working capital:	(555 689)	(536 359)
Inventories	(148 779)	(463 438)
Trade and other receivables	(786 554)	(36 292)
Trade and other payables	379 644	(36 629)
Total adjustments to profit for the period	1 614 132	1 025 395

Proceeds from sales of property, plant and equipment and intangible assets

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	31 607	48 783
Losses on sales of property, plant and equipment and intangible assets	(19 975)	(22 358)
Positive change in receivables due to sales	(3 506)	(2 245)
Capitalised gains from the liquidation of property, plant and equipment and intangible assets	(909)	(794)
Proceeds from sales of property, plant and equipment and intangible assets	7 217	23 386

Expenditures for acquisition of assets used in the exploration for and evaluation of mineral resources recognised in operating activities

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Acquisition of assets used in the exploration for and evaluation of mineral resources recognised in profit or loss	(4 025)	(3 115)
(Negative)/Positive change in liabilities recognised in operating activities due to assets used in the exploration for and evaluation of mineral resources recognised in profit or loss	(189)	603
Expenditures for acquisition of assets used in the exploration for and evaluation of mineral resources recognised in operating activities	(4 214)	(2 512)

Expenditures for assets used in the exploration for and evaluation of mineral resources recognised in investing activities

	For the period	
	from 1 January 2010 to 31 December 2010	from 1 January 2009 to 31 December 2009 restated
Purchase	(46 607)	(35)
Positive change in liabilities due to acquisition of assets used in the exploration for and evaluation of mineral resources	1 737	-
Expenditures for acquisition of assets used in the exploration for and evaluation of mineral resources recognised in investing activities	(44 870)	(35)

amounts in tables in thousand PLN, unless otherwise stated

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38. Contingent assets and liabilities

The value of contingent assets was determined based on estimates.

	At	
	31 December 2010	31 December 2009 restated
Contingent assets	291 180	162 506
– disputed State Budget issues	38 764	45 779
– guarantees received	178 881	62 569
– promissory note receivables	40 206	22 923
– inventions, implementation of projects	33 329	31 235
Contingent liabilities	236 630	201 481
– guarantees	32 897	15 050
– promissory note liabilities	80 930	62 514
– disputed issues, pending court proceedings	16 226	15 062
– contingent penalties	-	23
– preventive measures in respect of mine-related damages	2 475	2 491
– liabilities due to implementation of projects, inventions and other unrealised contracts	104 098	106 341
– other	4	-

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 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.

39. Subsequent events

Telecom assets being considered for sale

Information on events that occurred after the end of the reporting period in respect of telecom assets may be found in note 3.3.

Combination of Group subsidiaries

On 3 January 2011, the Regional Court in Gliwice, Section X Economic of the National Court of Registration, issued a decree on the combination of the entities WMN Sp. z o.o. and WM "Łabędy" S.A. through the foundation of a new entity called Walcownia Metali Nieżelaznych "Łabędy" S.A. Registration by the National Court of Registration of the new company was on 4 January 2011. The share capital of the newly-created Company amounts to PLN 49 145 thousand.

Significant contract with Tele-Fonika Kable Sp. z o.o. S.K.A.

On 18 January 2011 a contract was signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. for the sale in 2011 of copper wire rod and oxygen-free copper rod. The estimated value of this contract is from USD 622 900 thousand (PLN 1 796 943 thousand) to USD 753 428 thousand (PLN 2 173 490 thousand).

Forecast of results for 2011

On 31 January 2011 the Supervisory Board of KGHM Polska Miedź S.A. approved the Parent Entity Budget for 2011 as presented by the Management Board. The basis for preparation of the Budget were the anticipated results for 2010 and the assumptions contained in specific operating plans. For detailed information on the forecast see Report of the Management Board on the Parent Entity activities, note 4.4.

Acquisition of shares of "NITROERG" S.A.

On 2 February 2011, an agreement was signed with the Minister of the State Treasury for the acquisition by KGHM Polska Miedź S.A. of 5 260 820 shares of "NITROERG" S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 052 thousand. The controlling interest acquired represents 85% of the share capital of "NITROERG" S.A. in Bieruń.

Significant contract with MKM Mansfelder Kupfer und Messing GmbH

On 4 February 2011 a significant contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2011. The estimated value of this contract is USD 692 092 thousand, i.e. PLN 1 967 205 thousand.

Agreement for the purchase of shares of TAURON Polska Energia S.A.

On 22 March 2011, the Ministry of the State Treasury commenced the process of selling 208 478 000 shares of TAURON Polska Energia S.A., representing 11.9% of the share capital at PLN 6.15 per share. The transaction was realised as part of an accelerated book building process. KGHM Polska Miedź S.A. participated in this process, submitting a purchase order for the shares of TAURON Polska Energia S.A. As a result of this transaction, KGHM Polska Miedź S.A. acquired 71 000 000 shares of TAURON Polska Energia S.A. at PLN 6.15 per share. Following this transaction, KGHM Polska Miedź S.A. owns a total of 182 110 566 shares of TAURON Polska Energia S.A., representing 10.39% of the share capital.

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