ANNUAL REPORT 2011

KGHM POLSKA MIEDŹ S.A.

50 KGHM

POLSKA MIEDŹ S.A.

Tempora mutantur et nos mutamur in illis

The times change and we change with them

Polish copper
more valuable than gold
– 50 YEARS OF KGHM

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Change 2010=100
Statement of comprehensive income																	
Sales	PLN M	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	**20 097**	126.0
Profit on sales	PLN M	905	240	348	941	173	152	431	1 445	2 707	4 139	4 880	3 392	3 197	6 657	**9 364**	140.7
EBITDA*	PLN M	1 212	631	319	1 198	144	753	956	1 761	2 937	4 784	5 101	4 078	3 646	6 254	**14 360**	×2.3
Profit before income tax	PLN M	914	310	-58	795	-147	310	569	1 446	2 635	4 380	4 656	3 554	3 067	5 606	**13 654**	×2.4
Profit for the period	PLN M	502	179	-170	618	-190	255	412	1 397	2 289	3 605	3 799	2 920	2 540	4 569	**11 335**	×2.5
Balance sheet																	
Total assets	PLN M	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	**29 253**	147.5
Non-current assets	PLN M	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	**11 697**	96.5
Current assets	PLN M	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	**17 556**	×2.3
Equity	PLN M	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	**23 136**	160.0
Liabilities and provisions	PLN M	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	**6 118**	113.9
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	**56.67**	×2.5
Dividend per share (DPS) **	PLN	0.25	0.10	-	1.00	-	-	-	2.00	10.00	16.97	9.00	11.68	3.00	14.90	**28.34**	190.2
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	**2.0**	26.3
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	**4.5**	173.1
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	**3.9**	×2.1
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	**38.7**	168.3
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	**49.0**	155.1
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	**20.9**	77.1
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	**86.8**	102.2
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	**571.0**	104.4
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	**1 260**	108.5
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	**8 811**	116.9
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	**35.12**	173.9
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	**2.96**	98.0
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	**110.60**	63.9
Capital expenditure	PLN M	649	487	379	584	433	360	424	616	651	709	828	1 140	1 070	1 263	**1 514**	119.9
Equity investments***	PLN M	493	200	229	468	271	105	146	707	613	24	155	793	170	1 321	**643**	48.7
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	**13 566**	104.5
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	**4 578**	106.4
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	**12 604**	99.7
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	**3 810**	98.5
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	**2 201**	103.6
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	**18 615**	99.9

* operating profit (in the years 2000–2006 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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1961 – KGHM BEGINNINGS
1 May 1961 start of the official history of KGHM, when the enterprise "ZG Lubin w budowie" was superseded by the "Kombinat Górniczo-Hutniczy Miedzi", or by its acronym KGHM.

50 KGHM
POLSKA MIEDŹ S.A.

POLISH COPPER MORE VALUABLE THAN GOLD – **50 YEARS OF KGHM**

2011 was the jubilee year of KGHM Polska Miedź S.A. a time for summation and the remembrance of events of particular importance in the rich history of Polish Copper.

50 years have passed…

A half-century of work and effort by generations of people who built from scratch one of the world's largest miners and refiners of copper ore – KGHM Polska Miedź S.A.

Today, Polish Copper is more valuable than gold – for the people of the Copper Belt and Lower Silesia, and for Poland and its citizens.

Thanks to its position in the local and national economy, not to mention its position amongst the leading global producers of copper and silver as well as the role it serves in charitable and social activities.

1961
KGHM – origin*

The history of KGHM starts with Jan Wyżykowski, leader of a team of Polish geologists, who in 1957 discovered the largest single deposit of copper ore in Europe.

This discovery, however important and consequential, did not necessarily mean the deposit would be made use of, as the orebody was associated with particularly challenging conditions.

Many of the people in positions of authority at that time were doubtful that Polish mining technology would be able to successfully deal with such conditions. Nonetheless, the decision to undertake this massive enterprise was based on numerous factors, mainly involving the condition of the country following the cataclysmic damage wrought during the second world war. Natural resources were needed, including valuable copper. In Lower Silesia, remnants of the old copper mining and smelting industry survived in the so-called Old Copper Belt. The functioning of this industrial infrastructure was assured by professional staff in the eventual development of this new orebody.

Towards this end, in January 1960 a state enterprise was founded under the name "Lubin Mine under construction". The task of this new economic entity was to develop and execute the construction of the first mine for the new orebody.

The early 1960s was probably the only period when such a difficult economic investment decision could have been taken. Reforms at the beginning of the Gomułka period, which increased hope and the desire for great undertakings on behalf of the nation, to a significant degree supported this challenge. The sheer scale of the task in 1960 shows that the name "Lubin mine under construction" did not refer to a single mine, but to several, comprising a variety of facilities associated with the excavation of ore and the production of copper.

As it was clear that the minimum facilities required to produce copper concentrate involved more than just the initial mine, at the beginning of April 1961 the then-Minister of Heavy Industry, Franciszek Waniołka, issued a decree calling for organisational changes which resulted in the transformation on **1st May 1961** of the "Lubin mine under construction" into an enterprise called the Copper Mining-Smelting Combine (Kombinat Górniczo-Hutniczy Miedzi w budowie, abbreviated to KGHM). Thus began the history of one of the world's largest producers of copper, from ore mining to smelting and refining.

* Text based on the KGHM Polska Miedź S.A. Monograph, II Edition, Lubin 2007.

1963-1968
First ore, start of extraction*

As a result of the founding in January 1960 of the state enterprise called "Lubin mine under construction", and subsequently "Copper Mining-Smelting Combine under construction" (*Kombinat Górniczo-Hutniczy Miedzi w budowie*, abbreviated to KGHM), further government decisions were taken with respect to the development of needed infrastructure for the newly-created Legnica-Głogów Industrial Zone. In January 1962 the Council of Ministers resolved to establish a program to include the construction of three mines: Lubin, Polkowice and Rudna. This decision wisely expanded the scope of investment of the newly-created enterprise, and in particular accelerated the schedule of construction of the first two mines, Lubin and Polkowice.

The sinking of shafts to extract the copper ore began in the New Copper Belt in November 1960 with the L-III shaft of the Lubin mine. The work was carried out by the enterprise Przedsiębiorstwo Budowy Kopalń Rud Miedzi w Lubinie (today PeBeKa S.A.), which was the general contractor for all of the 29 mine shafts built during the 50-year history of KGHM (another two shafts are currently being built). The first, historic L-III shaft, later renamed as the Bolesław shaft in memory of the engineer Bolesław Sztukowski, was completed in 1138 days. Due to difficult geological-mining conditions encountered during the sinking, it not only represented a pilot project, but also became a valuable training field to develop better methods for sinking the remaining mine shafts of KGHM.

Officially, the first copper ore was taken from the L-III shaft on **20 March 1963**. In fact, miners had reached the copper-bearing seam several days before, at the depth of 610 m, thereby confirming the reality which gave rise to the present-day KGHM – the discovery in 1957 of the great Polish copper deposit.

Over 5 years later, on **19 July 1968**, and after 8 years of construction, the first two mines – Lubin and Polkowice – were formally commissioned. Apart from the celebratory and momentous nature of this day, the mining system applied in the new mines was exceptional and innovative in the Polish mining industry. Modeled on French iron ore mines, the room-and-pillar mining system was based on two main factors: the use of roof bolting and the use of heavy vehicles with combustion engines for all tasks involving the extraction and haulage of copper ore. Contemporary Polish industry acquired a new, particularly valuable significance…

* Text based on material from the 50-year Chronicle of PeBeKa, I Edition, Lubin 2010 and the KGHM Polska Miedź S.A. Monograph, II Edition, Lubin 2007.

1991
From Copper Mining-Smelting Combine to KGHM Polska Miedź S.A.*

The political and economic changes which Poland experienced after 1989, including the process of transformation to free market principles, required companies to undertake actions aimed at adapting their activities to new realities. The Copper Mining-Smelting Combine was no exception, with the company being forced to undertake immediate restructurisation of its operations to effectively meet the new demands.

The process of ownership and structural transformation commenced in July 1990. Analyses carried out showed the need to separate the enterprise into smaller units, and in particular to separate the core operations from their auxillary service plants. Following broad negotiations with the trade unions and the approbation of employee delegations, in February 1991 the workers' council and the General Director of the enterprise submitted a request for the transformation of the enterprise into a state-owned, joint stock company. A few months later,

in September 1991, the Minister of Ownership Transformations, acting on behalf of the State Treasury, signed the notary act on the transformation of the Combine into a joint stock company. On **12 September 1991**, at the Regional Court in Legnica, the new entity was registered under the name "KGHM Polska Miedź Spółka Akcyjna". In this way a new entity appeared on the economic map of Poland, which today remains one of the most important strengths of the Polish economy and is a major player on the world's copper and silver markets.

* Text based on the KGHM Polska Miedź S.A. Monograph, II Edition, Lubin 2007.

1997
KGHM as a traded company

10 July 1997 will always remain an important date in the history of KGHM, for it was on this date that the Company debuted on the Warsaw Stock Exchange. The listing of the shares of KGHM was accompanied by tremendous investor interest, and remains one of the pivotal moments in the history of the Polish capital market.

The transformation of the state enterprise Kombinat Górniczo-Hutniczy Miedzi into the state-owned, joint stock company KGHM Polska Miedź S.A., was not only an important event in the process of the Company's ownership and structural transformation, but also an important step by the Company towards a market listing of its shares. Following the preparation of an issue prospectus required to list the shares of KGHM, in June 1997 the State Treasury sold 65.7 million of the Company's 200 million shares in a public offering, of which 30 million were sold to domestic investors. Private investors were allowed to acquire the shares of KGHM at PLN 19 per share, and institutional investors at PLN 21 per share. Also taking part in the process were the Company's employees, who altogether received 15%, or 30 million shares, free of charge.

The closing price of the shares of KGHM on the date of debut was PLN 23.50, i.e. 23.7% higher than the price paid by private investors for the shares.

Over the 15 years since this historic debut, the Company's shareholders have experienced a variety of situations and sentiment. On 8 October 1998, the share price of KGHM reached its lowest level in history – PLN 9.65. Since October 2008 the shares of KGHM – with the exception of a substantial correction in the spring of 2010 – have steadily risen in value, and in April 2011 reached their highest closing price in history – PLN 198.40, more than 740% higher than on the date of their debut. The share price returned to PLN 198 at the beginning of July 2011. During the remainder of the year the Company's shares underwent a substantial correction.

The Company's shares are listed on the main market of the Warsaw Stock Exchange in a continuous trading system, and

are a component of several market indices: WIG, WIG20, WIG Surowce, RESPECT Index and WIGdiv.

Since its market debut, KGHM remains one of the main engines of the Warsaw Stock Exchange.

2010-2011
Billionth tonne of ore by a global player

The recent history of KGHM is marked by two important dates. On **17 September 2010** the Company's possibilities and potential were demonstrated by the processing on this date of the billionth tonne of copper ore by the Ore Enrichment Plants Division of KGHM. The extraction and processing of a billion tonnes of ore is thanks to the successful close cooperation of the Company's miners and metallurgists.

The ore processed by the OED was used to produce approx. 68 million tonnes of concentrate containing approx. 15 million tonnes of copper and over 36 thousand tonnes of silver. To give an dea of the scale of this, imagine 20 million railway cars carrying 50 tonnes apiece, with a total length of 214 thousand kilometers, long enough to circle the earth over 5 times or be dumped into 142 piles, each the size of the Great Pyramid of Cheops on the Giza Plateau in Egypt.

The fundamental vision of the Company's development, adopted in 2009 in the Strategy for the years 2009–2018, is to become one of the world's leading copper producers with annual production of around 700 thousand tonnes of copper.

6 December 2011 – this is a date in the history of KGHM which will undoubtedly bring the Company closer to achieving its development goals set forth in the Strategy. It was on this day that KGHM Polska Miedź S.A. signed an agreement with Quadra FNX Mining Ltd. with its registered head office in Vancouver, Canada, marking the beginning of the friendly takeover of this company. The conclusion of the transaction occured on 5 March 2012. The name and logo of the acquired company were changed to KGHM INTERNATIONAL LTD.

The core business of this Canada-based company is the mining of metal ores (including copper, nickel, gold and platinum/palladium) from assets in the USA, Chile and Canada. KGHM INTERNATIONAL LTD. also has several greenfield projects: Sierra Gorda in Chile (the major development project being pursued at one of the world's largest deposits of copper and molybdenum), Victoria in Canada and Malmbjerg in Greenland, among others.

Thanks to the acquisition of this Canada-based company, KGHM's production in 2012 will increase by nearly 25%, i.e. 100 thousand tonnes of mined copper, with a target for 2018 of over 180 thousand tonnes annually. Also thanks to this transaction, the Company's total resource base increased to over 8 million tonnes of copper, putting KGHM in fourth place globally. The international expansion of KGHM has become a fact, and has initiated a new era of growth for the Company. KGHM as a result has become a global player on the non-ferrous metals market.

1968 – FIRST ORE
15 February 1968 the Ore Processing Plant of the Lubin mine produces the first concentrate.
19 July 1968 official commissioning of the Lubin and Polkowice mines.

COMPANY PROFILE

KGHM is a global player on the non-ferrous metals market. It has clearly defined and consistently realised its strategy for the growth of shareholder value. Annual production is around 530 thousand tonnes of refined copper and 1200 tonnes of silver. These results put the Company amongst the world's leaders in the production of both metals. KGHM is the 8th-largest producer of refined copper and the world's largest producer of silver.

KGHM Polska Miedź S.A.

The core business of KGHM Polska Miedź S.A. is the production of copper and silver. Annually, KGHM produces around 530 thousand tonnes of refined copper and 1200 tonnes of silver. These results make the Company one of the top global leaders in the production of both metals. KGHM is the 8th-largest producer of mined copper and the world's largest producer of silver.

The copper cathodes produced by KGHM are registered on the London Metal Exchange and the Metal Exchange in Shanghai. Our refined silver holds market certificates in London, Dubaj and New York. KGHM's product assortment also includes a variety of by-products which represent added value to the Company's revenues. These include gold, lead, and now rhenium. KGHM Ecoren – a company in the KGHM Group – is the only European producer of rhenium from its own resources. In 2009 the company sold 3.5 tonnes of ammonium perrhenate, putting it in 3rd place globally amongst producers of this rare metal.

KGHM's copper ore base is the largest in Europe and one of the largest in the world. It covers a surface area of almost 468 km^2. The ore currently being extracted is located at depths of 600 to 1380 meters.

KGHM Polska Miedź S.A., with its own commercial structure, is one of the largest Polish exporters and is the largest employer in Lower Silesia, as well as a major component of the WIG 20 index of the Warsaw Stock Exchange and the recipient of numerous prestigious awards and honors. KGHM has ten divisions, employing over 18 thousand people.

Apart from KGHM's half-century of experience in the metals industry, the Company also nurtures a rich mixture of mining and smelting traditions, as well as involvement in aspects of corporate social responsibility, support for the arts and cultural activities, and the promotion of sport in the Polish Copper Belt, as well as support for the medical services sector and invaluable social initiatives.

Structure/Divisions

Calendar 2011

January

Polish copper more valuable than gold

2011 marked the 50th anniversary of the founding of KGHM (Kombinat Górniczo-Hutniczego Miedzi, or Copper Mining-Smelting Combine), which later was transformed into the state-owned joint stock company KGHM Polska Miedź S.A. The calendar of events celebrating this Golden Jubilee was truly rich. The first of these was the exceptional New Year Jubilee Concert. In May a Historical Seminarium was held, with participation by the builders and pioneers of the Company. Another great event was the two-day Jubilee Festival at the beginning of September. To honor the Golden Jubilee a special website was developed dedicated to KGHM's 50th anniversary. The website provided information not only on the various events, but also detailed the history of KGHM. The people of the Copper Belt also had the opportunity to publish their own anecdotes and photographs.

February

Program to Promote Health and to prevent Environmental Threats

KGHM Polska Miedź S.A. commenced realisation of a comprehensive, health-oriented program to identify the actual impact of the smelters in Legnica and Głogów, and in the municipalities (gminas) of Żukowice, Kotla, Krotoszyce, on the health of their inhabitants. The program is also implementing preventative measures in this regard. Blood screening and psychological testing was performed, primarily those children living

in areas which were formerly part of the protective zones of the smelters. Additionally, in Głogów and Legnica an Environmental Monitoring Clinic was opened. This program is being managed in cooperation with the health center Miedziowy Centrum Zdrowia. As part of the program, blood testing was performed for traces of lead. Moreover – thanks to financing from the Polish Copper Foundation – children from primary schools in those municipalities which are impacted by the activities of the smelters were sent in September to so-called green schools where the children learned about protecting the environment in healthy conditions, and also enjoyed swimming classes throughout the year.

March

Bull and Bear award

For the second year in a row, KGHM Polska Miedź S.A. received the prestigious Bull and Bear statuette presented by the market newspaper Gazeta Giełda "Parkiet". KGHM was awarded the Bull and Bear statuette in the category "Best Investment in a WIG 20 Company". Amongst the factors which determined receipt of the award were the rise in copper prices and the investments on development which the Company made in 2010. Amongst the accomplishments appreciated by shareholders was the investment in Canadian mining assets. In 2011 the share price of KGHM rose by 63 percent. KGHM once again demostrated that it is one of the best companies operating in the Polish capital market.

April

Licenses to operate in the Copper Belt

The process was begun of renewing licenses for the mining of copper ore in deposits in the Copper Belt. By receiving these licenses, KGHM Polska Miedź S.A. will be able to continue operating for another 50 years. The efforts involve licenses for several mining areas where the Company has been operating for many years: Rudna I, Sieroszowice I, Polkowice II, Lubin I, Małomice I and Radwanice Wschód. These licenses represent a guarantee for KGHM that it will continue to be able to ensure livelihoods for the people of the region and the leading position of the municipalities of the Copper Belt in the national ranking of municipal budgets.

May

Polish Copper under sail

The yacht "Polska Miedź" (i.e. Polish Copper) under full sail, captained by Tomasz Cichocki, began a round-the-world journey involving over 24 thousand nautical miles, around 300 days of solitude without the right to sail into any port, or even land on uninhabited islands or approach another ship. Captan Cichocki will have to deal with the elements completely alone to successfully finish his trip. KGHM is the main sponsor of this event.

Drilling in the Old Copper Belt

KGHM Polska Miedź S.A. is carrying out its Strategy for Company growth in the years 2009-2018 in terms of the exploration for ore deposits. The Company is involved in exploratory work in south-western Poland and in the region of Lusatia in German Saxony. These regions are believed to be the most promising in terms of the possibility of copper mineralisation in Zechstein rock. In the vicinity of the Old Copper Belt, KGHM holds an exploration license for the "Grodziecka Trough" zone, where the Company is involved in intensive drilling. The licensed area covers 66.73 km^2. Another advanced-stage drilling project is in Weisswasser in Germany, along the Polish border. KGHM is also conducting work in the licensed area Szklary, north of Ząbkowice Śląskie. This work is aimed at documenting a deposit of nickel ore.

June

A billion-zloty investment at the Głogów copper smelter

The modernisation of pyrometallurgy, renovation of the sulphuric acid plant, construction of a fourth Dörschel furnace – these are some of the most important investment projects being realised by the Głogów copper smelter. These investments involve not only the production process, but also have a positive impact on the environment and on safety and working conditions. Altogether, the Głogów copper smelter is pursuing 10 projects valued at over PLN 2 billion. These investments will result in long-term economic benefits. Apart from representing effective smelting for KGHM, this also means integrated production.
In 2011, the Głogów copper smelter celebrates its 40th jubilee. This is the largest smelter in Europe and is one of the most environmentally-clean copper smelters in the world.

Agreement for the sale of shares of Polkomtel

KGHM Polska Miedź S.A., Polska Grupa Energetyczna S.A., Polski Koncern Naftowy ORLEN S.A., and Węglokoks S.A, along with Vodafone Americas Inc. and Vodafone International Holdings BV, signed a preliminary agreement to sell their shares in Polkomtel S.A, a leading Polish telecommunications operator.

July

Letter of Intent on the creation of a Polish-Chinese Strategic Cooperation Forum

KGHM Polska Miedź S.A. and China Minmetals Corporation reached agreement on the creation of a Polish-Chinese Strategic Cooperation Forum. a Letter of Intent in this regard was

signed at the Head Office of the Polish Ministry of the Economy. This Letter, signed by the parties, declared that they will promote the Forum as a platform for economic, commercial and cultural exchange and cooperation between Poland and China. The Forum will invite the ministry, renowned companies, research institutions and famous experts and researchers to examine and discuss possibilities for cooperation in areas such as mining, agriculture, telecommunications, roadway and railway infrastructure, transportation, energy, renewable energy, environmental protection, scientific research and education.

August

KGHM earned a profit of PLN 4.3 billion in the first half

In the first half of 2011 KGHM earned a profit of PLN 4.3 billion, or almost double that earned in the comparable prior period. Copper and silver prices were higher than forecast by the Company budget, and as a result KGHM began work on an adjusted forecast.
In the first nine months of 2011 the average copper price was 9 398 USD/t, with an exchange rate of 2.82 USD/PLN. The increase in metals prices versus the first half of 2010 was the main factor responsible for the increase in revenues by PLN 2.8 billion, including sales of copper products of PLN 1.8 billion and silver of PLN 0.9 billion. Revenues from sales in the first six months of 2011 amounted to PLN 10.0 billion, or 62% of the amount forecast for the entire year.

September

KGHM a laureate of the Index of Success

Amongst the reasons for KGHM's receipt of this award were the actions taken by the Management Board aimed at reducing costs and improving productivity. In addition, the Index of Success award commitee commended the activities of KGHM in areas such as environmental protection, the sponsoring of art and sport, charitable activities and support for local communities.
For the fifth time, the daily newspaper "Rzeczpospolita" and the company Deloitte prepared a ranking of the 500 largest companies from 19 countries in Central-Eastern Europe.

KGHM and Netia signed an agreement for the sale of 100% of the shares of Telefonia DIALOG S.A.

KGHM Polska Miedź S.A. and Netia S.A. signed an agreement based on which KGHM agreed to the sale of 100% of the shares of Telefonia DIALOG S.A. to Netia. The transaction was approved by the President of the Polish Office of Competition and Consumer Protection.

October

KGHM – with science to the future – where and why?

Is the Polish scientific community able to meet the challege faced today by KGHM? Is KGHM able to implement innovative solutions? These are questions which were asked by renowned scientists together with KGHM's representatives during the Discussion Forum "KGHM – with science to the future – where and why?" organised on 7 October 2011 at the AGH University of Science and Technology in Kraków. The Management Board of KGHM presented problems and challenges whose solution will determine the future development of the Company. KGHM Polska Miedź S.A. and the AGH University of Science and Technology plan to cooperate in the creation and support of an AGH-KGHM Critical Elements Laboratory, and to carry out research at the Laboratory.

KGHM a Leader of Philanthrophy 2011

For the fifth time, the Forum of Charitable Providers in Poland, under the banner "Philanthrophy is a good investment", held a competition called Leaders of Philanthrophy. This competition awards those companies which donate the most to social purposes. In 2011, 30 companies took part. KGHM was among the finalists, winning second place. KGHM also received a Special Award for "Consistent Engagement in the Competition and the Development of Corporate Philanthrophy in Poland".

The Best of The Best

KGHM received a special award, The Best of The Best. In 2011, the award committee for The Best Annual Report 2010 decided to grant two "The Best of The Best" special awards for the best company and the best bank which in previous years had won first place in the competition "The Best Annual Report". The idea of the competition is to establish recognised standards for the preparation of annual reports under IFRS/IAS, in accordance with the recommendations of the IFAC and best practice in this regard, as well as to promote those companies which prepare the best consolidated annual reports under IFRS/IAS from the point of view of user friendliness to shareholders and investors.

November

Conclusion of the Polish Transaction of the Year

All of the existing shareholders of Polkomtel S.A. transferred ownership of the company's shares to Spartan Capital Holdings Sp. z o.o., thereby concluding one of the largest deals in the telecommunications sector in Europe in recent years. The total transaction value was PLN 18.1 billion.

KGHM a Pearl of the Polish Economy

KGHM Polska Miedź S.A. won first place in the ranking Pearls of the Polish Economy. The company was honored in the category producers and service providers.
KGHM received the award for consistent realisation of the company's policies and strategy, and for its position as a leader amongst the most dynamic and effective companies in Poland. KGHM Polska Miedź was also a winner in the category Great Pearls.

December

KGHM begins the process of acquiring a Canada-based mining company

KGHM Polska Miedź S.A. announces its bid to acquire the Toronto-listed mining company Quadra FNX. Based on a signed agreement the process begins of the friendly takeover of this company. KGHM hopes to become the owner of a world-class orebody as well as operating mines in Canada, the US and Chile. The transaction is valued at USD 2.83 billion, and will be financed by the internal funds of KGHM.

Sale of the shares of Telefonia DIALOG S.A.

KGHM Polska Miedź S.A. sold to Netia S.A. the shares of Telefonia DIALOG S.A. with its registered head office in Wrocław, with a nominal value of PLN 25.00 per share, and a total nominal value of around PLN 490 million, representing 100% of the share capital of DIALOG S.A. and 100% of the votes at the general meeting of DIALOG S.A.

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

Dear Shareholders

The past year was exceptional for KGHM in many aspects. 2011 was a time of consistent realisation of the long-term strategy for growth and the building of shareholder value.

In 2011 the KGHM Polska Miedź S.A. Group earned a record profit of over PLN 11 billion. This result was due not only to favourable macroeconomic conditions, but also to the rational management of the orebody and consistent realisation by the Management Board of the Company's strategy, as well as divestment from the telecommunications sector. Copper production was also at a record level of 571 thousand tonnes (an increase of over 4%). Silver production also increased, by 8%. In 2011 silver reached a record price on the London market. Apart from gold, which the Company also produces, silver is another raw material considered by investors as a safe investment. The production result achieved in 2011 is the highest in the history of Polish Copper, solidly in line with the Company's direction of growth. It is worth noting that the results of 2011 made KGHM the world's number one producer of silver.

Of course, the year 2011 also involved investments – in this case, on a scale never before seen in Poland. No other Polish company has ever made a foreign investment of such magnitude – PLN 9.1 billion. Under an agreement signed in December 2011, the Company began the process of the friendly takeover of the Canadian-based, Toronto-listed mining company Quadra FNX. This was a historic event not only for KGHM, but also for the Polish economy. This international expansion by KGHM is of strategic importance not only for the Company by ensuring its future profitability, building shareholder value and strengthening its position in the global marketplace, but also enhances the global position of the Polish economy as a producer of a strategic resource (copper) as well as rare earth metals (molybdenum, platinum and palladium). This investment conclusively demonstrates that Polish companies are able to be global players of major economic significance. In terms of people, technology and logistics, KGHM is well prepared to pursue the process of integrating with Quadra FNX (now under its new name, KGHM International) and properly managing this company, with assets in Canada, the USA, Chile and Greenland. Thanks to the acquisition of this Canadian-based company, the production of copper by the KGHM Group from its own resources will increase to 635 thousand tonnes. The Strategy for the years 2009–2018 assumes the production of more than 700 thousand tonnes of copper annually.

In 2011 there were a variety of events which positively impacted the condition of the Company. Numerous important transactions were carried out. These involved the sale of shares of Polkomtel S.A., which was the largest transaction in the telecoms sector, and the sale of the subsidiary Dialog S.A. Both of these transactions were carried out at an opportune moment and were professionally prepared and conducted. In consequence, the planned exit strategy of KGHM Polska Miedź S.A. from the telecoms sector was fully and effectively executed. This marked the achievement of a subsequent strategic goal.

Apart from equity investments, KGHM Polska Miedź S.A. engaged in a variety of exploratory work in Poland and Germany. Exploratory drillings were made in Saxony in Germany and in the vicinity of the Old Copper Belt in Poland. The drilling of further test holes is also planned at other new sites.

Thanks to these exceptional economic results, the enormous investments, the effective realisation of the strategy and to the Company's highly-qualified and experienced staff, the future is viewed with optimism. KGHM Polska Miedź S.A. beyond a doubt deserves the full confidence of its shareholders and investors. I am convinced that the Company will enjoy another, solid year.

Chairman of the Supervisory Board

Jacek Kuciński

Annual report on the activities of the Supervisory Board

Annual report on the activities of the Supervisory Board of KGHM Polska Miedź S.A. in financial year 2011.

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

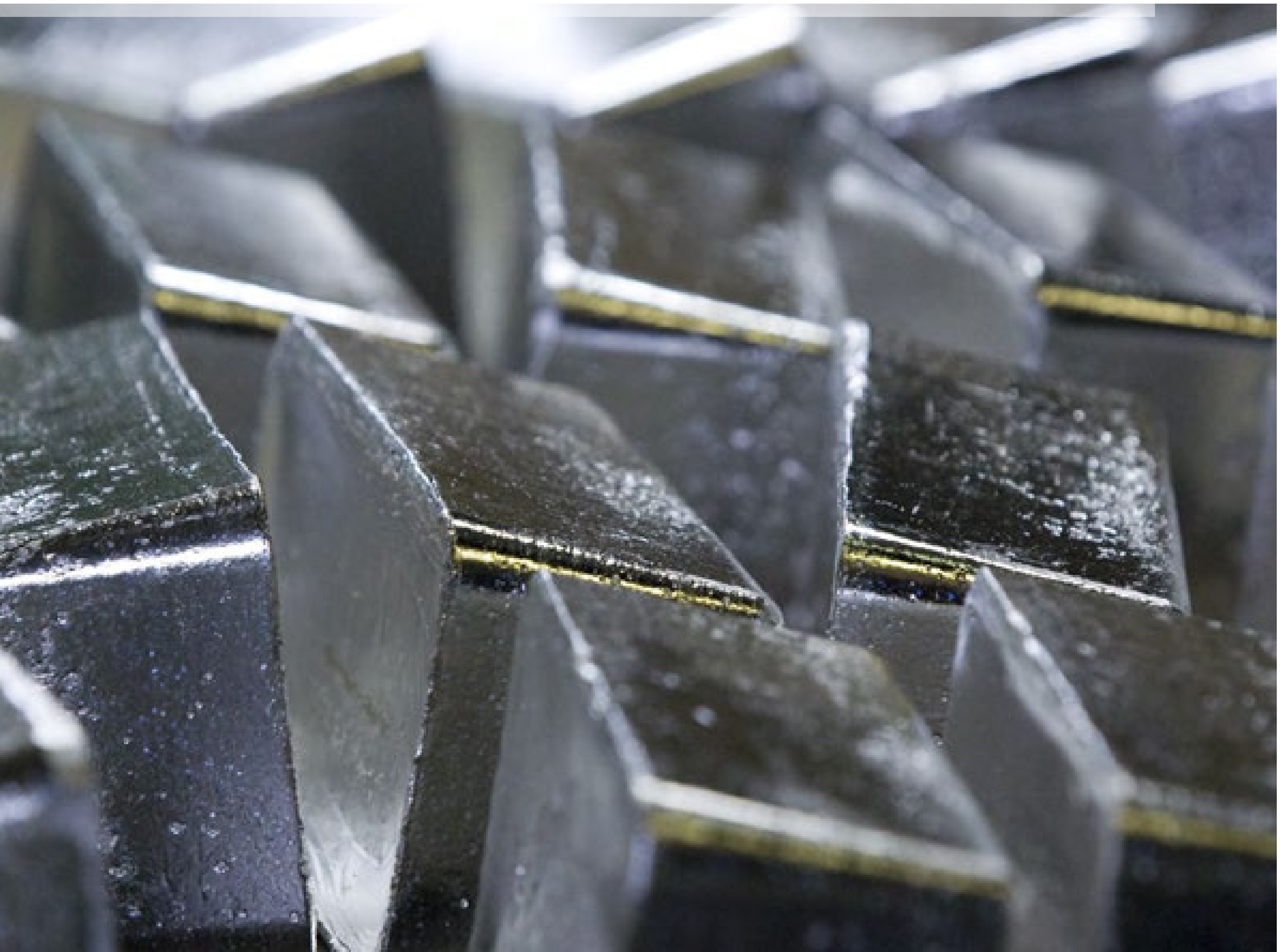
The Supervisory Board of KGHM Polska Miedź S.A. is the permanent supervisory body of KGHM Polska Miedź S.A. in Lubin in all of the Company's functional areas. The Supervisory Board is comprised of 7 to 10 members, appointed by the General Meeting, of which 3 (three) members are elected by the Company's employees.

The members of the Supervisory Board are appointed for a mutual term of office, which lasts three years.

The Supervisory Board acts on the basis of prevailing law, the Statutes of KGHM Polska Miedź Spółka Akcyjna with its registered head office in Lubin and the Regulations of the Supervisory Board of KGHM Polska Miedź S.A. with its registered head office in Lubin as well as the Code of Best Practice for WSE Listed Companies.

In financial year 2011, the Supervisory Board continuously supervised the activities of the Company and realised its tasks based on the special privileges granted to the Supervisory Board of KGHM Polska Miedź S.A. by the Statutes of the Company under Chapter IVB, § 20, and in turn by the Regulations of the Supervisory Board under Chapter III § 8.

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



Company profile

II. Composition of the Supervisory Board of KGHM Polska Miedź S.A. and on Supervisory

The composition of the 7th-term Supervisory Board in 2011 was as follows:

First name, surname	Function	Period when function served in 2011
Jacek Kuciński	Chairman	01.01.2011–15.06.2011
Marcin Dyl	Deputy Chairman	01.01.2011–15.06.2011
Marek Panfil	Secretary	01.01.2011–15.06.2011
Arkadiusz Kawecki	Member	01.01.2011–15.06.2011
Jan Rymarczyk	Member	01.01.2011–15.06.2011
Marzenna Weresa	Member	01.01.2011–15.06.2011
	Members of the Supervisory Board elected by employees of the Company	
Józef Czyczerski	Member	01.01.2011–15.06.2011
Leszek Hajdacki	Member	01.01.2011–15.06.2011
Ryszard Kurek	Member	01.01.2011–15.06.2011

On 15 June 2011 the Ordinary General Meeting made the following decisions:

- all members of the 7th-term Supervisory Board were dismissed,
- the number of members of the Supervisory Board was set at 10 persons,
- 7 members of the 8th-term Supervisory Board were appointed. The 3 employee-elected members were not appointed.

Due to a decision of the Ordinary General Meeting to not appoint employee-elected members of the Supervisory Board, the Supervisory Board resolved to hold supplementary elections, as a result of which the following employee-elected persons were appointed to the Supervisory Board: Lech Jaroń, Maciej Łaganowski and Paweł Markowski.

As a result of the above, the Extraordinary General Meeting on 20 October 2011 appointed the following three employee-elected members to the 8th-term Supervisory Board in repeated elections.

The composition of the 8th-term Supervisory Board in 2011 was as follows:

First name, surname	Function	Period when function served in 2011
Jacek Kuciński	Member	15.06.2011 – 22.06.2011
	Chairman	22.06.2011 – 31.12.2011
Marcin Dyl	Member	15.06.2011 – 22.06.2011
	Deputy Chairman	22.06.2011 – 31.12.2011
Marek Panfil	Member	15.06.2011 – 22.06.2011
	Secretary	22.06.2011 – 31.12.2011
Franciszek Adamczyk	Member	15.06.2011 – 31.12.2011
Arkadiusz Kawecki	Member	15.06.2011 – 31.12.2011
Jan Rymarczyk	Member	15.06.2011 – 31.12.2011
Marzenna Weresa	Member	15.06.2011 – 31.12.2011
	Members of the Supervisory Board elected by employees of the Company	
Lech Jaroń	Member	20.10.2011 – 31.12.2011
Maciej Łaganowski	Member	20.10.2011 – 31.12.2011
Paweł Markowski	Member	20.10.2011 – 31.12.2011

III. Activities of the Supervisory Board of KGHM Polska Miedź S.A.

The Supervisory Board carried out its duties at meetings convened by the Chairman of the Supervisory Board, during which the quorum necessary for taking decisions was present.

The activities of the Supervisory Board were documented in the minutes of the meetings and in resolutions passed in 2011.

The Supervisory Board monitored the current work of the Management Board and Company based on resolutions of the Management Board of the Company and on information regarding the financial results of KGHM Polska Miedź S.A. for individual months of 2011.

Based on quarterly evaluations of the Management Board's work, the Supervisory Board considered the proposal of the Management Board regarding the payment of an advance on variable remuneration.

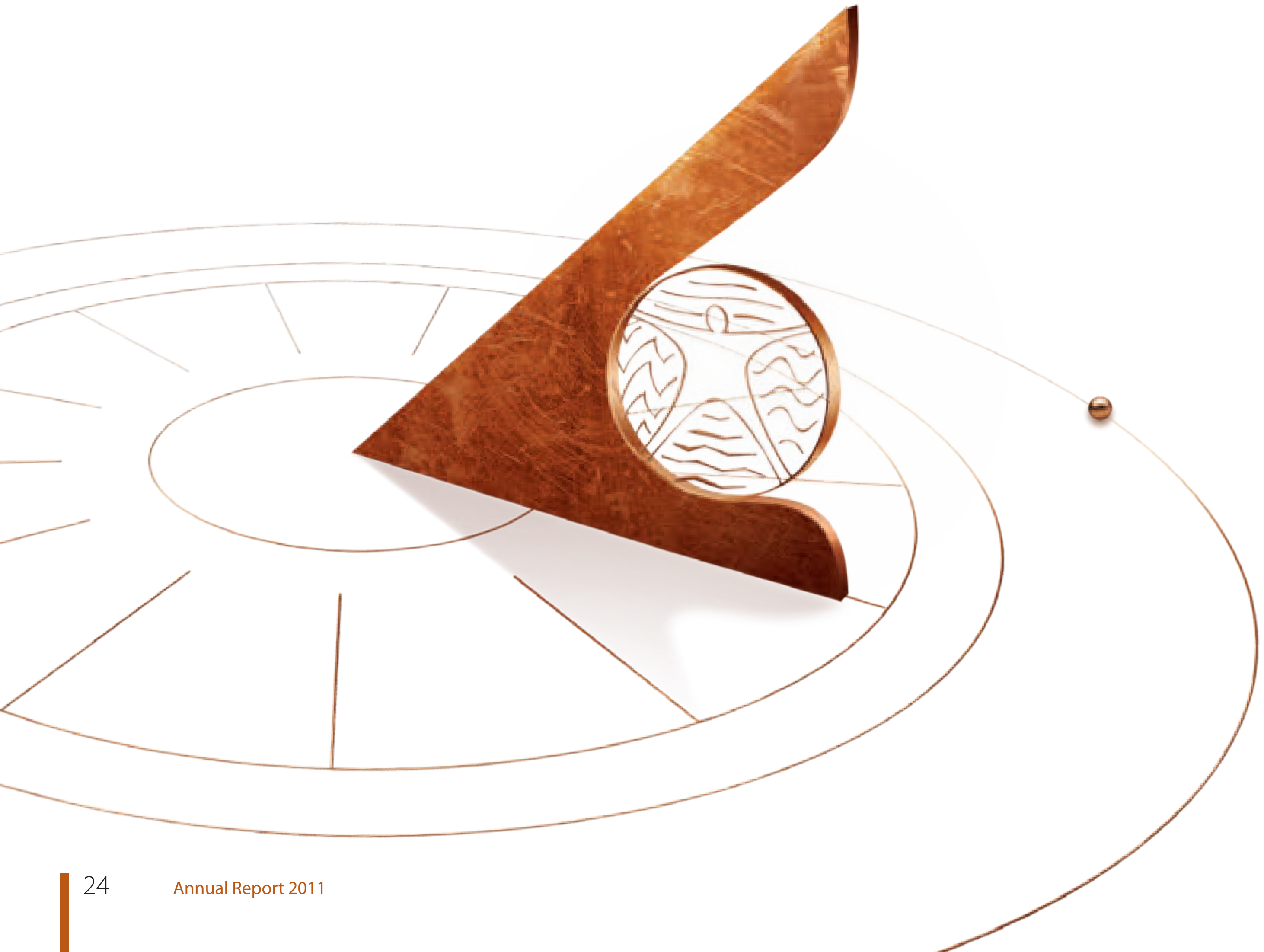
The Supervisory Board also periodically reviewed the report of the Management Board on the realisation of donations, sponsoring, representation, marketing and advertising in KGHM Polska Miedź S.A. and in the Group, as well as the report on the realisation of consulting, advisory and analytical services performed by external entities on behalf of the Company and the KGHM Polska Miedź S.A. Group.

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, after each meeting, on all of the decisions taken by the Supervisory Board during the meeting.

IV. Evaluation 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 2011. 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.

The Ordinary General Meeting of KGHM Polska Miedź S.A., convened on 28 June 2012, did not adopt resolutions regarding approval of the performance of duties of members of the Supervisory Board of KGHM Polska Miedź S.A.: Józef Czyczerski, Leszek Hajdacki and Ryszard Kurek. The remaining members of the Supervisory Board were acknowledged as having properly performed their duties in the financial year ended 31 December 2011.



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

Dear Shareholders

It is with enormous satisfaction that I present to you the report of the past year. The year 2011 will undoubtedly go down in history as a uniquely vital chapter in the chronicle of KGHM Polska Miedź S.A. This was due not only to the celebrations marking the 50th anniversary of KGHM, but also because the decisions taken and investments commenced last year will be the engines of growth for KGHM for the next 50 years. The most important of these was start of the successfully-completed friendly purchase of the Canadian mining company Quadra FNX Mining Ltd, the successful divestiture from the telecommunications sector, and the program of investments in smelting, ecology and safety. There were also numerous events and distinctions in the area of corporate social responsibility and events related to the celebration of KGHM's Golden Jubilee. The slogan for the jubilee – Polish Copper, more valuable than gold – perfectly illustrates the value of the Company and is simultaneously reflected in the record results for 2011.

KGHM achieved a profit for the period of PLN 11.3 billion, meaning an increase versus the prior year by PLN 6.8 billion and the greatest result in the Company's history. The result was substantially impacted by the conclusion in the fourth quarter of 2011 of the sale of the telecom assets. The pre-tax profit on the sale of Polkomtel S.A. and Dialog S.A amounted to PLN 2.7 billion. For the full year 2011, KGHM also recorded a positive result on hedging transactions, which amounted to PLN 562.4 million.

The KGHM Group now owns a diversified portfolio of assets in countries of low-investment risk as well as a portfolio of projects ensuring growth of the production base. This includes 9 mines in Poland, Canada, the USA and Chile, and 5 projects at the investment and preinvestment stage: Sierra Gorda in Chile, Głogów Głęboki Przemysłowy in Poland, Afton-Ajax and Victoria in Canada and Malmbjerg in Greenland. Also included are exploration projects in Weisswasser in Germany, Wartowice, Szklary and Gaworzyce-Radwanice in Poland and Kirkwood, Falconbridge, Footwall and Foy in Canada.

KGHM is consistently realising its strategy of concentrating on its core business, assuming diversification in terms of geography and producing assets. That aspect of the strategy assuming the engagement by KGHM in the energy sector remains in force, including recently in the field of shale gas.

New horizons are opening for the Company. Numerous investment programs were begun related to production, safety and the environment. One of the most important programs undertaken last year is the program of investment at the Głogów smelter. The modernisation of pyrometallurgy, replacement of the sulphuric acid plant, and construction of a fourth Dörschel furnace were the most important projects. These investments involve not only the process of production, but also have an impact on environmental protection, safety and working conditions. 10 large projects valued at over PLN 2 billion are being realised at the Głogów smelter.

One of the Company's strategic assumptions is its active participation on the energy market, which the Company will achieve through realisation of its investment project "Construction of Gas-Steam blocks at the power plants in Głogów and Polkowice". This is a vital element of the consistently realised development strategy.

We are continuing exploration programs in the region of the Old Copper Belt and in the Saxony region of Weisswasser in Germany. The materials obtained from the preliminary drillings are encouraging for further testing.

The process was begun of renewing licenses for the extraction of copper ore from the deposits located in the mining regions of the Copper Belt. Ministerial agreement for KGHM Polska Miedź S.A. will mean the possibility of continuing the Company's activities for another 50 years.

The year 2011 brought KGHM a variety of distinctions documenting its significant role in the Polish economy, and underscoring the Company's corporate social responsibility.

Of particular importance for the Company is the title "One who is changing Polish industry". This award was granted for effective management of a major business structure and for clearly-described goals, their consistent realisation, and also for matching them to the long-term growth prospects of the Company. The award committee recognised that KGHM took advantage of the propitious moment in the copper cycle to expand internationally and to realise its plans to create a global copper company through the plan to purchase Quadra FNX in Canada. The award committee also recognised that these plans offered KGHM a new opportunity for growth and the chance to effectively compete with the global leaders in the resources sector.

KGHM Polska Miedź S.A. has truly become a global company. The Company has gained a historic opportunity to make a quantum leap in its development and in its long-term value. I ensure you that we will take full advantage of this opportunity.

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 of the WSE 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 changed group of principles had been in force representing an annex to resolution no. 17/1249/2010 of the Supervisory Board of the WSE dated 19 May 2010. Subsequent changes to the document "Code of Best Practice for WSE Listed Companies" were introduced by resolutions of the Supervisory Board of the WSE nos. 15/1282/2011 dated 31 August 2011 and 20/1287/2011 dated 19 October 2011. The amended principles came into force on 1 January 2012. The contents of the document "Code of Best Practice for WSE Listed Companies" are available on the official website of the Warsaw Stock Exchange under the section on corporate governance (www.corp-gov.gpw.pl), as well as on the website of the Company (www.kghm.pl) under the section on corporate governance.

KGHM Polska Miedź S.A., whose shares are listed on the Warsaw Stock Exchange, has made every effort to apply the corporate governance principles described in document "Code of Best Practice for WSE Listed Companies". The Company has endeavoured at every stage of its operations to carry out all of the recommendations respecting best practice for listed companies as well as suggestions directed to management boards, supervisory boards and shareholders.

In order to realise a transparent and effective information policy, one ensuring rapid and secure access to information for shareholders, analysts and investors, the Company made the broadest possible use of both traditional as well as modern technology for the distribution of information about the Company (recommendation I.1 of the "Code of Best Practice for WSE Listed Companies"). In 2011 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. The Company has undertaken actions aimed at preparing to provide access to General Meeting on-line transmissions.

In accordance with recommendation 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. Although in 2008 a competition was held for the position of President of the Management Board, there were no women applicants for the position, with the same situation applying to competitions held in 2010 involving the positions of President of the Management Board and Vice President of the Management Board (Production).

Company profile

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.

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.

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.

Amongst the regulations of the Commercial Partnerships and Companies Code, in respect of the organisation of General Meetings and shareholder rights, the Company applies only those regulations which are obligatory, i.e. those which require the publication of announcements and materials for the General Meeting on the Company website and the use of electronic forms of contact with shareholders. Regulations enabling shareholders to participate in General Meetings using electronic means of communication are not applied.

Shareholders and their rights

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 on both 1 January 2011 and 31 December 2011 was the Polish State Treasury.

This shareholder held 63 589 900 shares of KGHM Polska Miedź S.A., which represented 31.79% of the share capital and of the total number of votes at the General Meeting.

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 on the shares of the Company, other than those generally prescribed by laws in force. The Company has not issued securities which would grant special control rights in respect of the Company.

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. According to the Statutes, 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 as at 1 January 2011 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

Due to expiry of the mandate of the 7th-term Supervisory Board, the Ordinary General Meeting on 15 June 2011:
- dismissed all of the Members of the 7th-term Supervisory Board,
- confirmed the validity of the elections carried out in the Company on 11-12 May 2011, as a result of which the employees of KGHM Polska Miedź S.A. elected three members to the Supervisory Board,
- set the number of members of the Supervisory Board at 10 persons, and
- appointed the following persons to the Supervisory Board of the Company: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Jan Rymarczyk and Marzenna Weresa.

On 20 October 2011, the Extraordinary General Meeting of KGHM Polska Miedź S.A. appointed to the Supervisory Board of KGHM Polska Miedź S.A. Lech Jaroń, Maciej Łaganowski and Paweł Markowski, elected by the employees of the Company in elections held on 19-20 September 2011.

The composition of the 8th-term Supervisory Board as at 31 December 2011 was as follows:
- Jacek Kuciński – Chairman
- Marcin Dyl – Deputy Chairman
- Marek Panfil – Secretary
- Franciszek Adamczyk
- Arkadiusz Kawecki
- Jan Rymarczyk
- Marzenna Weresa

as well as the following employee-elected members:
- Lech Jaroń
- Maciej Łaganowski
- Paweł Markowski

On 19 January 2012, the General Meeting of KGHM Polska Miedź S.A. dismissed the following persons from the Supervisory Board: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jan Rymarczyk and Marzenna Weresa, and appointed the following persons: Krzysztof Kaczmarczyk, Mariusz Kolwas, Aleksandra Magaczewska, Robert Oliwa and Jacek Poświata.

Consequently, the composition of the Supervisory Board, at the date of preparation of this report, was as follows:
- Jacek Kuciński – Chairman
- Marek Panfil – Deputy Chairman
- Mariusz Kolwas – Secretary
- Krzysztof Kaczmarczyk
- Aleksandra Magaczewska
- Robert Oliwa
- Jacek Poświata

as well as the following employee-elected members
- Lech Jaroń,
- Maciej Łaganowski,
- Paweł Markowski.

Supervisory Board Committees

Under the auspices of the Supervisory Board are three committees: the Audit Committee, the Remuneration Committee and the Strategy 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 Strategy Committee, set on 28 March 2011, supervises the realisation of Company strategy, the Company's annual and multi-year operating plans, supervising the coherence of these documents, and also provides its opinion to the Supervisory Board on the strategic projects presented by the Management Board of the Company and any changes thereto, as well as on the Company's annual and multi-year operating plans.

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 2011:
- Marek Panfil – Chairman
- Marcin Dyl
- Marzenna Weresa

Following the changes in the Supervisory Board on 19 January 2012, the composition of the Audit Committee at the date of preparation of this report was as follows:
- Marek Panfil – Chairman
- Lech Jaroń
- Krzysztof Kaczmarczyk
- Mariusz Kolwas
- Robert Oliwa

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 a 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.

As at 1 January 2011 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:
- Arkadiusz Kawecki – Chairman
- Leszek Hajdacki
- Jacek Kuciński

Following appointment of the Members of the Supervisory Board to the new 8th-term Supervisory Board, the composition of the Committee changed, and as at 31 December 2011 the following Members of the Supervisory Board served on the Remuneration Committee of the Supervisory Board of KGHM Polska Miedź S.A.:
- Arkadiusz Kawecki – Chairman
- Franciszek Adamczyk
- Jacek Kuciński

Following the changes in the Supervisory Board on 19 January 2012, the composition of the Remuneration Committee at the date of preparation of this report was as follows:
- Jacek Kuciński,
- Maciej Łaganowski,
- Paweł Markowski

Strategy Committee

In accordance with the Regulations of the Supervisory Board the duties of the Strategy Committee are as follows:
- the performance of tasks on behalf of the Supervisory Board of the Company respecting supervision of matters related to Company strategy and the Company's annual and multi-year operating plans,
- monitoring the realisation by the Management Board of the Company of the Company's strategy, and evaluating to what extent the existing strategy is appropriate in dealing with changes in the actual situation,
- monitoring the realisation by the Management Board of the Company's annual and multi-year operating plans, and evaluating whether they require modification,
- evaluating the consistency of the Company's annual and multi-year operating plans with the realisation by the Management Board of the Company's strategy, and presenting proposed changes to any of these Company documents,
- submitting to the Supervisory Board of the Company its opinions in respect of the strategic projects presented by the Management Board of the Company and any changes thereto, as well as on the Company's annual and multi-year operating plans.

The composition of the Strategy Committee of the Supervisory Board of KGHM Polska Miedź S.A. from the date of its appointment, i.e. 28 March 2011, included the following Members of the Supervisory Board:
- Jacek Kuciński
- Ryszard Kurek
- Jan Rymarczyk

Following appointment of the Members of the Supervisory Board to the new 8th-term Supervisory Board, the composition of the Committee changed, and as at 31 December 2011 the following Members of the Supervisory Board served on the Strategy Committee of the Supervisory Board of KGHM Polska Miedź S.A.:
- Franciszek Adamczyk
- Jacek Kuciński
- Jan Rymarczyk

Following the changes in the Supervisory Board on 19 January 2012, the composition of the Strategy Committee at the date of preparation of this report was as follows:
- Krzysztof Kaczmarczyk,
- Jacek Kuciński,
- Aleksandra Magaczewska,
- Jacek Poświata.

After the end of the year the Audit, Remuneration and Strategy Committees submit a report of their activities to the Supervisory Board.

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.

The composition of the Management Board and the segregation of duties amongst its Members from 1 January to 31 December 2011 was as follows:

- 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)

Herbert Wirth

Appointed as President of the Management Board of KGHM Polska Miedź S.A. on 20 July 2009. A graduate of the AGH University of Science and Technology in Kraków, Faculty of Geology – Exploration, specialisation: geology of ore deposits and mathematical geology; holds a PhD in Science from the AGH University of Science and Technology in Kraków, and received the degree doctor habilitatus in mining and geological engineering from Wrocław University of Technology. Completed post-graduate Management studies in International Economics and Environmental Law at Wrocław University, and PMI-standard Project Management at George Washington University. Holds qualifications from the Central Office of Geology to conduct geological work on solid mineral deposits and from the Minister of Environmental Protection with respect to water-related legal procedures. He is a certified expert in preparing forecasts of the environmental impact of terrain management plans and in preparing environmental impact statements, and is a chief management system auditor for the standards ISO 9000, 14000, 18000 and OHSAS. From 2002 to 2006 he worked in KGHM Polska Miedź S.A. as Director of the Department of New Businesses and Project Management. During the period 2006–2008 he was Vice President of the Management Board of one of the KGHM Group companies, KGHM CUPRUM sp. z o.o. – CBR. In April 2008 he became a member of the Management Board of KGHM Polska Miedź S.A., in the position I Vice President for Production.

Maciej Tybura

Appointed as a Member of the Management Board of KGHM Polska Miedź S.A. on 23 April 2008. Serves as I Vice President of the Management Board, responsible for finance, sales and hedging. During the period 2005–2008 worked in Wintech Production Group Sp. z o.o. as Vice President of the Management Board. Participated in numerous projects. A graduate of the Academy of Economics in Poznań, Faculty of Management, specialisation: Finance and corporate accounting. Completed post-graduate studies in Management through costs at the University of Business in Wrocław. Has sat on the Supervisory Boards of PIGO S.A.-MCC&Fagor Electrodomesticos Group and Dialog S.A., and is currently Chairman of the Supervisory Board of PHP "MERCUS" sp. z o.o.

Wojciech Kędzia

Appointed as a Member of the Management Board of KGHM Polska Miedź S.A. on 19 November 2010. A graduate of the Wrocław University of Technology, Faculty of Mining, specialisation: Underground deposit mining methodology. Holds a PhD in Economics. Completed post-graduate studies in Organisation and Management in free market economics at the Oskar Lange University of Economics in Wrocław, and post-graduate studies in Hydrometallurgy in the Faculty of Chemistry at Wrocław University of Technology. Received a diploma from the "Academy of Strategic Leadership" organised by ICAN and Harvard Business Publishing Polska. Since 1992 has been related with KGHM Polska Miedź S.A. as a Shift Foreman at the Rudna mine, and as a section head and senior foreman in the Rudna mine. In 2002 he came to the Head Office of KGHM, where he was appointed as a Section Head in the Department of New Business Ventures, followed by Executive Director, Department Director and General Director for 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

KGHM Polska Miedź S.A. has an internal control and risk management system, for whose proper and effective functioning in the process of preparing the separate financial statements of KGHM Polska Miedź S.A. and the consolidated financial statements of the Group the Management Board of KGHM Polska Miedź S.A. is responsible. The system of internal control and risk management in this regard is based on 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 the accounting records of KGHM Polska Miedź S.A. and the uniformity of applied accounting principles in preparing the financial statements of Group subsidiaries, 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, continuously updated based on new regulations,

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

- Principles for Financial Management and for an Economic System,
- Documentation for an IT system for the processing of accounting data,
- 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 KGHM Polska Miedź S.A. and the Group, along with the established scope and principles of financial reporting.

KGHM Polska Miedź S.A. keeps accounting records in an integrated IT system. The modular structure of this system ensures a transparent segregation of processes and duties, coherence of accounting records and control 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 KGHM Polska Miedź S.A. 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 KGHM Polska Miedź S.A. and the management boards of subsidiaries.

In order to ensure the proper use and protection of systems and data, as well as secure access to data and hardware, KGHM Polska Miedź S.A. has introduced appropriate organisational and systemic solutions. 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.

Control of the accounting principles applied in the process of preparing the financial statements of KGHM Polska Miedź S.A. and in the subsidiaries of the Group is based on functionally-developed reporting systems with

control mechanisms, which continuously verify the conformity of these principles with the existing Accounting Policy and other documents representing the basis for the preparation of financial statements.

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 KGHM Polska Miedź S.A. 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 KGHM Polska Miedź S.A. 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 fundamental 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. The tasks realised by internal audit are based on the "Integrated Audit Plan of KGHM Polska Miedź S.A. for the years 2011-2015" and the annual "Integrated Audit Plan" for the given calendar year, approved by the Management 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, and received a positive opinion by the Audit Committee of the Supervisory Board. The goal of internal audit is to provide the Management Board and Supervisory Board of the Company with independent and objective information on and evaluations of the risk management and internal control systems, and analyses of business processes in KGHM Polska Miedź S.A.

The internal control system in KGHM Polska Miedź S.A. encompasses all of the processes functioning in KGHM Polska Miedź S.A., including those areas which directly or indirectly affect the correctness of the financial statements. Internal (institutional) control is performed by a separate department in the organisational structure. Apart from institutional control, the obligation fully remains for each employee in KGHM Polska Miedź S.A. to control their own performance, and for every level of management staff to perform their control – within supervisory-related duties.

The effectiveness of the internal control and risk management procedures in the process of preparing financial statements in KGHM Polska Miedź S.A. is the high assessment of the quality of these statements, confirmed the top position in the competition The Best Annual Report, in which KGHM Polska Miedź S.A. has participated for years.

The Company on the stock exchange and Investor Relations

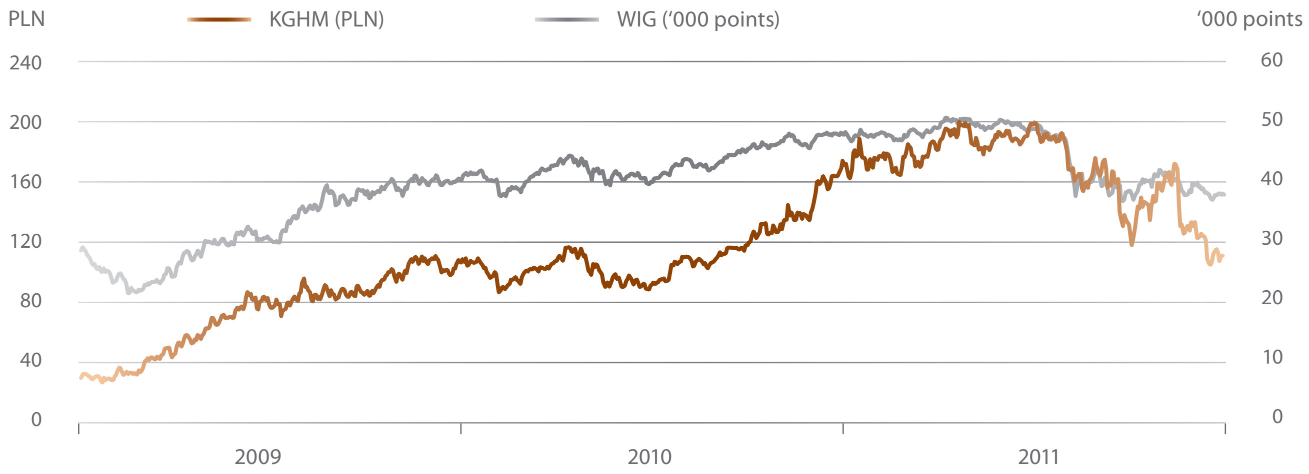
Company quotations in 2011

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, WIG Surowce, RESPECT and WIGdiv indices.

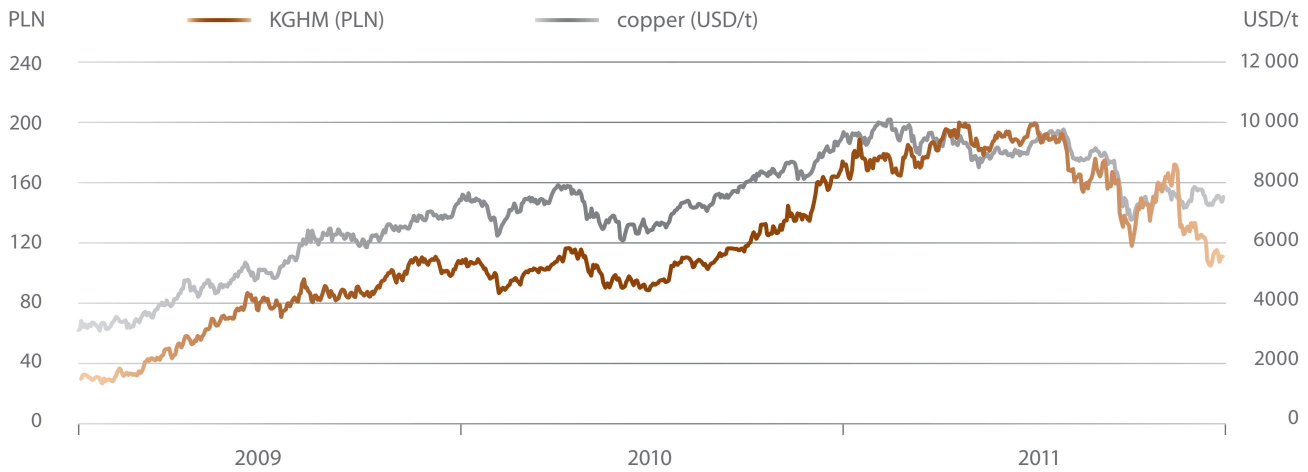
The Company's share price in 2011 broke its own historic records numerous times. At the close of session on 20 April 2011 the Company's share price was PLN 198.40, and was the highest closing price in 2011, as well as in the Company's market history. The Company's share price returned to the PLN 198 level at the start of July 2011. Thereafter the Company's quotations entered a bearish period. Overall, in 2011 the share price fell by 36.1%, from PLN 173.00 at the closing session of 2010 to PLN 110.60 on the last trading day of 2011. During this period, the Warsaw Stock Exchange WIG index fell by 20.8%, and the WIG20 by 21.9%.

In 2011 the shares of KGHM Polska Miedź S.A. were amongst the most liquid on the Warsaw Stock Exchange. The Company's share of turnover in value terms amounted to 17.2%. The average per-session trading volume of the Company's shares on the Warsaw Stock Exchange in 2011 amounted to 1 070 047.

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



Share price of KGHM Polska Miedź S.A. versus the copper price



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.

The dividends paid by the Company place it amongst those listed Polish companies with the highest dividend payout ratio. The Company is 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.

On 28 June 2012 the Ordinary General Meeting of KGHM Polska Miedź S.A. resolved on the payment of a shareholders dividend for the year 2011 in the amount of PLN 5 668 million, i.e. PLN 28.34 per share.

Ownership structure

The share capital of the Company, in accordance with the entry in the National Court Register, amounts to PLN 2 000 000 000 and is 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 2011 there was no change either in registered share capital or in the number of issued shares.

Key share quotation data of the Company on the Warsaw Stock Exchange

	Unit	2009	2010	2011
Number of shares issued	million	200	200	200
Closing price from the last day of trading in the year	PLN	106.00	173.00	110.60
Market value of the Company at year's end	PLN M	21 200	34 600	22 120
Highest closing price in the year	PLN	110.70	173.00	198.40
Lowest closing price in the year	PLN	27.50	86.50	104.60
Average trading volume per session	'000	1 222	966	1 070

Capital market ratios

		2009	2010	2011
EPS (PLN)	Profit for the period / number of shares	12.70	22.84	56.7
P/CE	Price per share / financial surplus per share*	6.9	25.9	1.9
P/E	Price per share / earnings per share	8.3	7.6	2.0
MC/S	Market capitalisation**/ revenues from sales	1.9	2.2	1.1
P/BV	Price per share / book value per share***	2.0	2.4	1.0

* 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; PLN 110.60 in 2011)

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

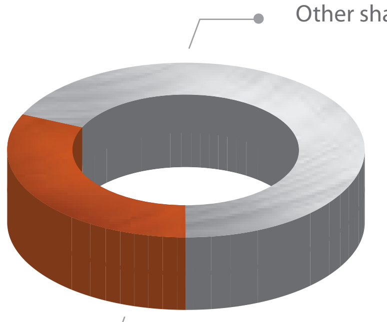
Dividend payout in the years 2009–2011

	Unit	2009	2010	2011
Dividend paid in the financial year from appropriation of profit for the prior year	PLN/share	11.68	3.00	14.90
	PLN M	2 336	600	2 980

There was also no change in the structure of ownership of significant blocks of shares of KGHM Polska Miedź S.A. The only shareholder who in 2011 held 5% or more of the Company's share capital was the Polish State Treasury, which held 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 in the total number of votes. 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 2011



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.

Members of the Company's Supervisory Board and Management Board were not in the possession of shares of KGHM Polska Miedź S.A. at 31 December 2011.

Investor Relations

KGHM Polska Miedź S.A., whose shares are traded on a regulated market, apart from its legal obligations, applies an active investor relations policy. The goal of this policy is to create shareholder value, present an accurate picture of the Company and to build trust in the eyes of investors.

The Company engages in regular actions aimed at representatives of international investment funds, investment banks, market analysts and individual investors. In 2011, KGHM Polska Miedź S.A. met with investors during metals and mining and emerging market conferences. KGHM representatives took part in nine conferences, organised by international investment banks and brokerages,

among others in Austria, Denmark, Canada, the Unted States and the UK. The Management Board and senior leadership took part in 70 one-on-one and 30 group meetings, providing information to 120 institutional investors.

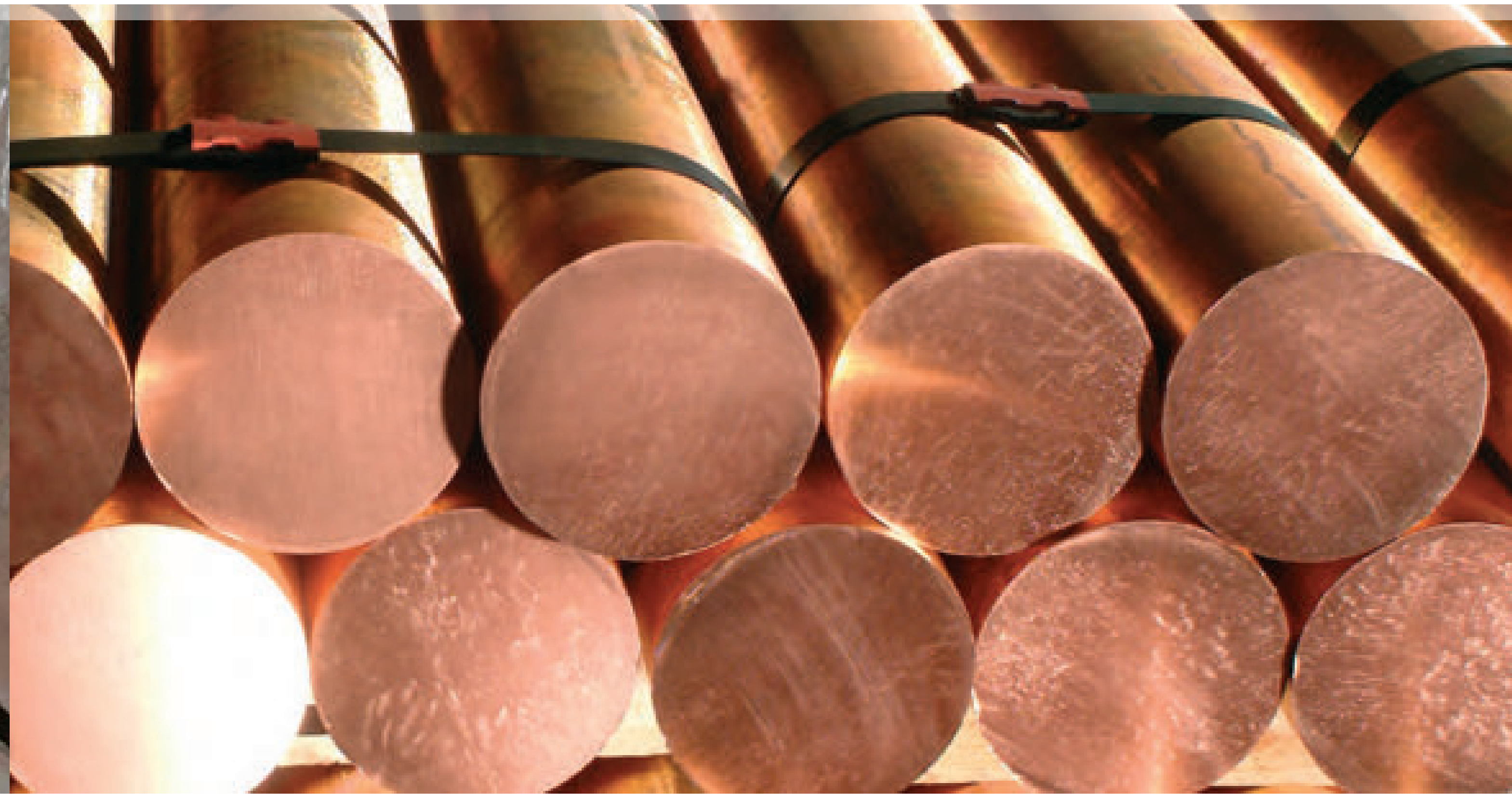
Publication of the Company's quarterly reports was accompanied by meetings of the Management Board of KGHM with analysts, portfolio managers and economic reporters, which were transmitted live via the internet. This modern form of communication enables shareholders to enjoy virtual participation and present questions. Video copies of these meetings are available at the Company's website, under Investors Zone.

A new initiative by KGHM Polska Miedź S.A. implemented in 2011 was the Investor Day – an event bringing together invited analysts and portfolio managers to help them better understand the nature of the Company. During this two-day meeting, the Company's guests were familiarised with the core business (involving visits to the Polkowice-Sieroszowice mine, an Ore Enrichment Plant, the Głogów smelter and the Cedynia wire rod plant) and participated in meetings with the Management Board of KGHM. During the meetings the topics discussed included the Company's near-term strategy, the growth of the resource base, costs, capex-related investments and risk management.

The investor relations staff of KGHM makes use of electronic media. In its, Apart from the internet transmissions mentioned, contact with investors is maintained through the use of conference calls and video conferences (around 35 in 2011) as well as e-mail (around 500 investor-related messages in 2011). At the Company's website, www.kghm.pl, in the section Investors Zone, is information on the Company's current condition (including current and periodic reports), General Meeting-related documents, corporate governance, forward-looking statements on forecast results, power-point presentations from the quarterly Management Board meetings and also videos. Investors interested in receiving current information can subscribe to the Company's newsletter, which in 2011 was sent to 500 recipients.

In 2011 the Company was the recipient of various prestigious capital market awards, such as the Bull and Bear statuette in the category best investment in a WIG 20 company; the highest honor in the Best Annual Report 2010 competition, receiving a special award above that of the general classification The Best of The Best; the Fray International Sustainability Award for achievements in the area of balanced growth and also first place in the ranking Pearls of the Polish Economy. KGHM Polska Miedź S.A. was once again a component of the Warsaw Stock Exchange's RESPECT Index of socially-responsible companies, demonstrating that it is one of the most socially-responsible companies on the Warsaw Stock Exchange.

Investor Relations is an important element in the functioning of KGHM Polska Miedź S.A. The Investor Relations Team is constantly endeavoring to improve its performance. In 2012 IR activities will focus on improving the flow of information provided to investors, analysts and shareholders. We are aiming at improved effectiveness, in particular with respect to investors from the Metals and Mining sector. a priority will be to strengthen the way in which KGHM is perceived by market participants as a global mining corporation with a diversified portfolio of high-value assets, with great potential for growth, and successfully realising its strategy of increased shareholder value.


Company profile

Calendar of investor events and selected IR activities in 2011

Event	Date
Publication of forecast for 2011	31 January
Participation in the BMO Capital Markets 2011 Global Metals & Mining Conference	27 February
Publication of the consolidated Q4 2010 report	1 March
Presentation of Q4 2010 results – meeting with the Management Board of KGHM with analysts and portfolio managers	1 March
Participation in the Citi Group Global Resources Conference 2011	8 March
Participation in the UniCredit 12th Annual Emerging Europe Conference	9 March
Publication of the 2010 annual reports (Parent and Group)	31 March
Publication of the consolidated annual report for 2010	31 March
Participation in the Raiffeisen Institutional Investors Conference	6 April
Investor Day at KGHM Polska Miedź S.A.	14-15 April
Publication of the Management Board recommendation regarding payment of the dividend	12 May
Publication of the consolidated Q1 2011 report	13 May
Publication of the proposed 2010 dividend-related dates	17 May
Ordinary General Meeting	15 June
Publication of information on payment of the dividend for 2010	15 June
Participation in the Wood & Company Metals & Mining Day Conference	7 July
Publication of the consolidated Q2 2011 report	12 August
Presentation of Q2 2011 results – meeting with the Management Board of KGHM with analysts and portfolio managers	12 August
Publication of the H1 2011 reports (Parent and Group)	31 August
Publication of the consolidated report for the first half of 2011	31 August
Publication of an adjusted forecast for 2011	5 September
Participation in the UniCredit Emerging Europe Conference	7 September
Participation in the Credit Suisse Global Steel & Mining Conference	21 September
Publication of the consolidated Q3 2011 report	10 November
Presentation of Q3 2011 results – meeting with the Management Board of KGHM with analysts and portfolio managers	10 November
Participation in the ING Securities 14th Annual EMEA CEO/CFO Forum	30 November
Meeting of the Management Board of KGHM with analysts and portfolio managers on the signing of an agreement to purchase the shares of Quadra FNX Mining Ltd	6 December
Participation in a conference organised by the Warsaw Stock Exchange in Copenhagen	14 December
Publication of an adjusted forecast for 2011	21 December

Investor Relations
Anna Krug-Żarnowska
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IR section on the Company Website
www.kghm.pl, Investors Zone

1991 – JOINT STOCK COMPANY
9 September 1991 the Minister of Ownership Transformations, acting on behalf of the State Treasury, signed the notary act on the transformation of the Kombinat Górniczo-Hutniczy Miedzi into a joint stock company called KGHM Polska Miedź S.A.

RESULTS AND FORECAST

2011 was a record year for KGHM in terms of financial results achieved. These results were achieved thanks to favourable copper prices as well as effective optimisation of production and costs control in existing operations and divestment from the telecom sector.

Market conditions and trends

Global economy

Global economic growth in 2011 was lower than most forecasts at the start of the year. The debt problems of Eurozone countries harmed the entire global economy. There was an economic slowdown in emerging markets, which until then had shown substantial resistance to volatility on the financial markets. Nearly all of the large economies were impacted by the increased premium on market risk, which led to a higher cost for debt, lower prices for stocks and lower capital inflows to emerging markets. Three key regions for the global economy – the USA, Japan and the Eurozone – remained in stagnation, of which by the end of 2011 only the United States showed signs of hope for an improvement in the macroeconomic situation. In the emerging markets, in particular Brazil and India, there were clear signs of a substantial slowdown in growth, while for the first time in a decade China's potential for growth over the next few years was lowered.

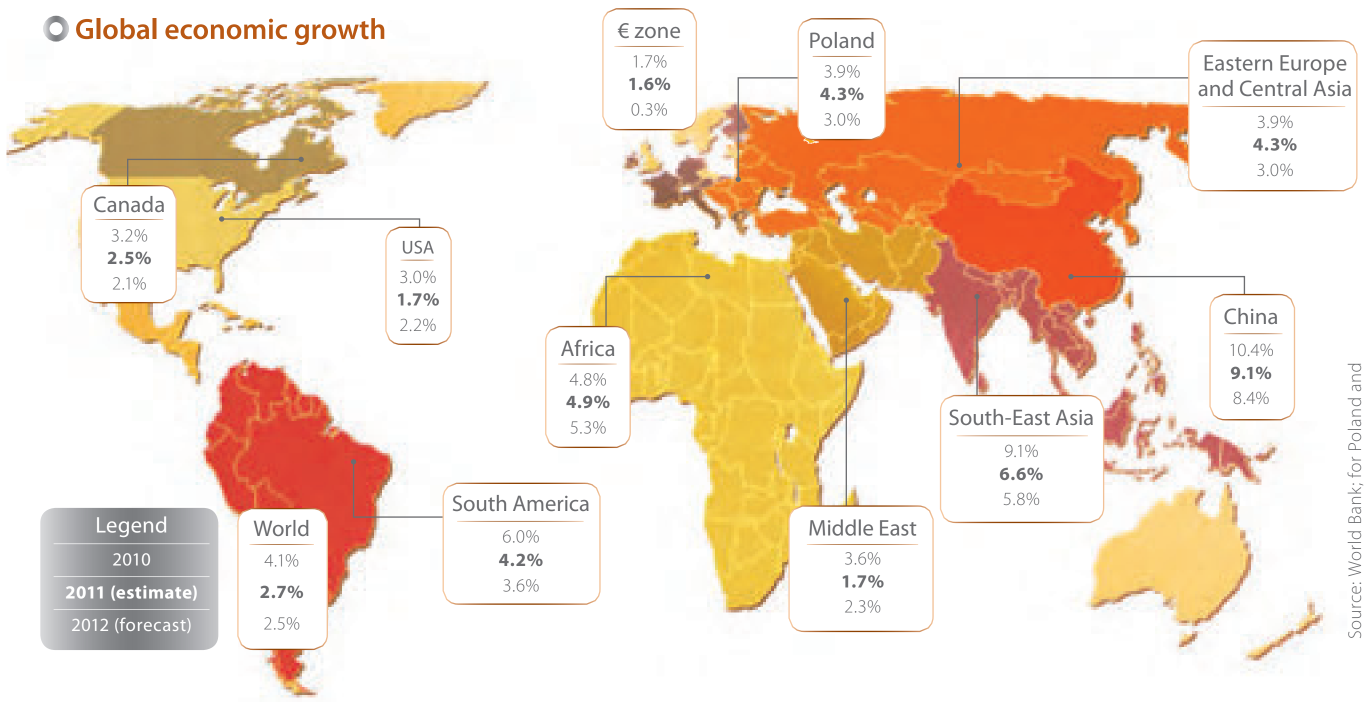
According to World bank estimates, global economic growth in 2011 amounted to 2.7%, and was substantially lower than the 4.1% achieved in 2010. Nonetheless, the measured growth in global GDP led to a further increase in demand for raw materials. In USD terms, prices for raw materials – food, base and precious metals, plastics – increased on average by 20.7% in 2011. There was a dramatic increase in the price of crude oil, which in 2010 cost 79 USD/barrel, whereas in 2011 it rose 31.6% to 104 USD/barrel. Such a rapid rise in the price of a raw material which is crucial to economic growth led to inflationary pressure, and in consequence to the need for tighter monetary policy in many emerging market countries, and therefore to a slowdown in economic growth. In the second half of the year, the Purchasing Managers' Index (PMI) fell to its lowest level in three years, and in the case of most European economies it fell below 50 percentage points, meaning the increased likelihood of at least a short-term recession.

Due to tight financing in the equity markets, central banks and international institutions took numerous actions. To increase liquidity, a program to increase the capitalisation of banks (Long-term refinancing operations, or LTROs) was instituted, and the decision was made to reduce the negative impact of bad debt by restructuring Greek bonds. In the opinion of the International Monetary Fund, financial stability should be a governmental priority, though during the next several years it will be necessary to balance the flow of trade between emerging and developed economies. The former should concentrate on stimulating internal demand, while developed economies should reduce external demand.

In 2011, business conditions in the Euro zone and in the United States remained extremely limited due to the instability of the financial system, high government deficits and the enormous level of public and private debt. In particular, the second half of the year brought a large amount of negative information on the condition of Euro zone economies, raising fears of a repeat of the "Japanese disease" i.e. a repeat of the long-term stagnation which afflicted Japan in the 1990s. In terms of positive factors, there was improvement in the employment market in the USA, as well as a better balance of trade and personal spending, with indebtedness by Americans falling by up to 10 percent of GDP.

China seemingly continued to display the greatest stability and economic growth. This does not mean, however, that 2011 was a successful year for China. An increasing number of signals from this largest of Asian nations are worrisome for investors, in particular a return to the use of open lines of credit, the heavily undervalued yuan and steady pressure on asset appreciation, threatening the emergence of a new global financial bubble. Similarly as in the Euro zone, there was a weakening of Chinese economic indices, which by the end of the year had fallen for the first time in three years to a level foreseeing a deterioration in industrial output. The deterioration in the macroeconomic situation in China can also be seen in the strong outflow of direct foreign investment in the fourth quarter of 2011. A major discouragement for investors was the economic forecast for the next 5 years. For the first time in the current decade, the Chinese authorities reduced target GDP to 7.5% from 8.0%, simultaneously announcing the desire to increase internal consumption and to limit state participation in some sectors of the economy, such as banking. By instituting a new economic policy, China has an impact not only on the country's internal situation, but also on the condition of its largest trade partners.

Global economic growth



Source: World Bank; for Poland and Canada, data from Bloomberg

Situation on the copper market

2011 was another year of records on the copper market. The average price of copper in 2011 reached the highest level in history - 8 811 USD/t, or 17% higher than the year before. Specifically, on 14 February the highest daily price in the history of the metal was recorded – 10 179.5 USD/t. Nonetheless, the past year will be remembered not only for high copper prices, but also as a period of high price volatility.

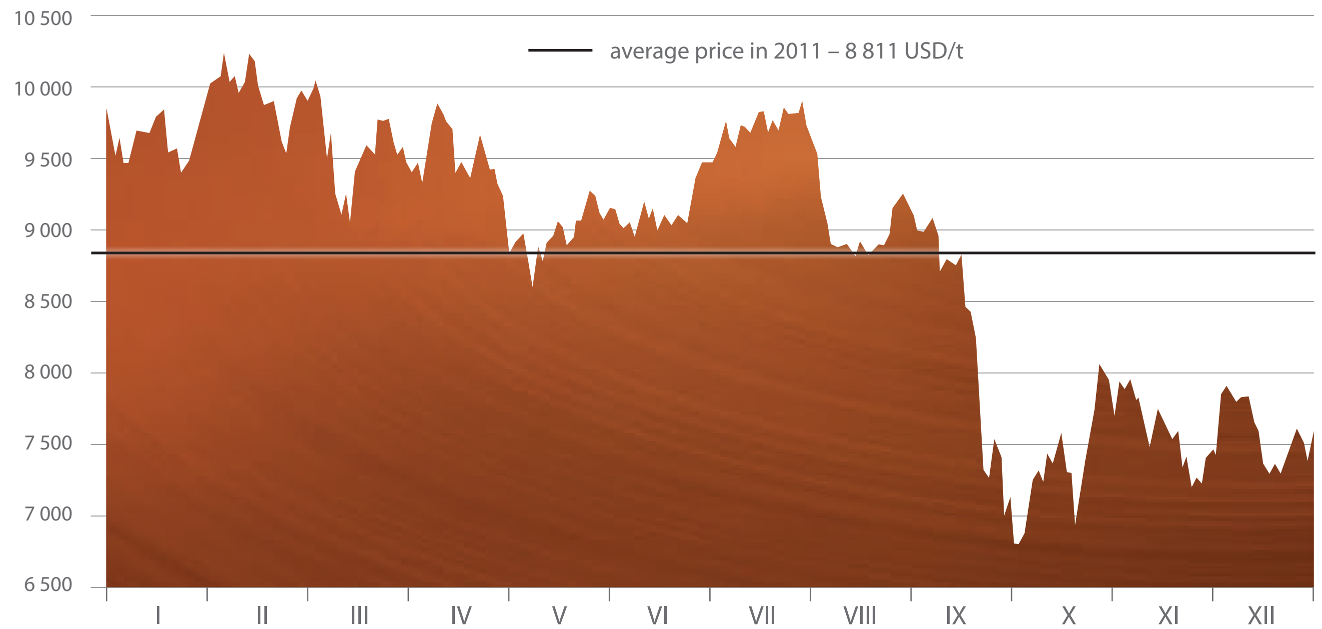
As a result of restricted market supply of the metal, the stable increase in Chinese consumption and several months of stability on the financial markets, from the beginning of the year the price of copper remained at around the 10 000 USD/t level. In mid-March, the tragic events in Japan (earthquake and subsequent tsunami) caused a momentary drop in the copper price, though it quickly recovered to the levels at the start of the year. Investors came to the conclusion that the destruction in Japan will require reconstruction, and consequently the use of a substantial amount of raw materials, including copper. Another test of market strength occurred in May, when Greece came close to bankruptcy. Stock markets and raw materials prices headed downwards, as the market feared a reprisal of 2008, when Lehman Brothers went bankrupt. Fortunately the Greeks, thanks to aid by other European countries, avoided the worst-case scenario, and trust returned to the market, leading to higher prices. In the first half of the year the average copper price was nearly 9 400 USD/t.

Copper underwent a real test in September, when over the course of several weeks the copper price fell to around 7 000 USD/t. Another round of fears surrounding indebted countries, this time involving not only Greece, turned out to be much more serious than in May. Germany and France, which had long resisted providing aid to indebted countries, added fuel to the fire. At that point the copper price fell to its lowest level for the year – 6721.5 USD/t, and subsequently stabilised towards the end of the year around 7 500 USD/t.

In real terms, i.e. reflecting inflation, the average annual copper price in 2011 surpassed the peak reached in 1966. In the past century there was only a single year when the average annual copper price was higher than last year. This was 1916 when, taking inflation into account, the copper price exceeded 9 000 USD/t. The average real copper price from 1908 to 2011 amounted to around 4 000 USD/t.

Over the years, the real price of copper has formed several long-term trends. At the beginning of the last century there was a gradual drop in the copper price. An exceptional event which momentarily broke this trend was the First World War.

Daily LME copper cash settlement (USD/t)



Source: KGHM, LME

The introduction during this period of innovative products, making ever-greater use of copper, led to a rapid rise in the metal's price, a record in real terms up to that point. However, it was the 1930s which brought the beginning of a long-term rise in the price of copper. The apogee of copper demand came after the Second World War. The heavily-damaged infrastructure of Europe and Japan required enormous investments, which caused a deficit in the metal's supply for many years.

The process of reconstruction was completed near the end of the 1960s, and this marked the start of a long-term bear trend for the metal. Apart from lower demand, a major reason for this was the introduction of new mining methods and to a significant improvement in productivity, which led to lower production costs. In addition, during this period several major mining projects came into production, such as Grasberg and Escondida, which substantially altered the essentials of the copper market. The resulting large copper production surplus led to increases in inventories, and consequently reduced the potential for any price rises.

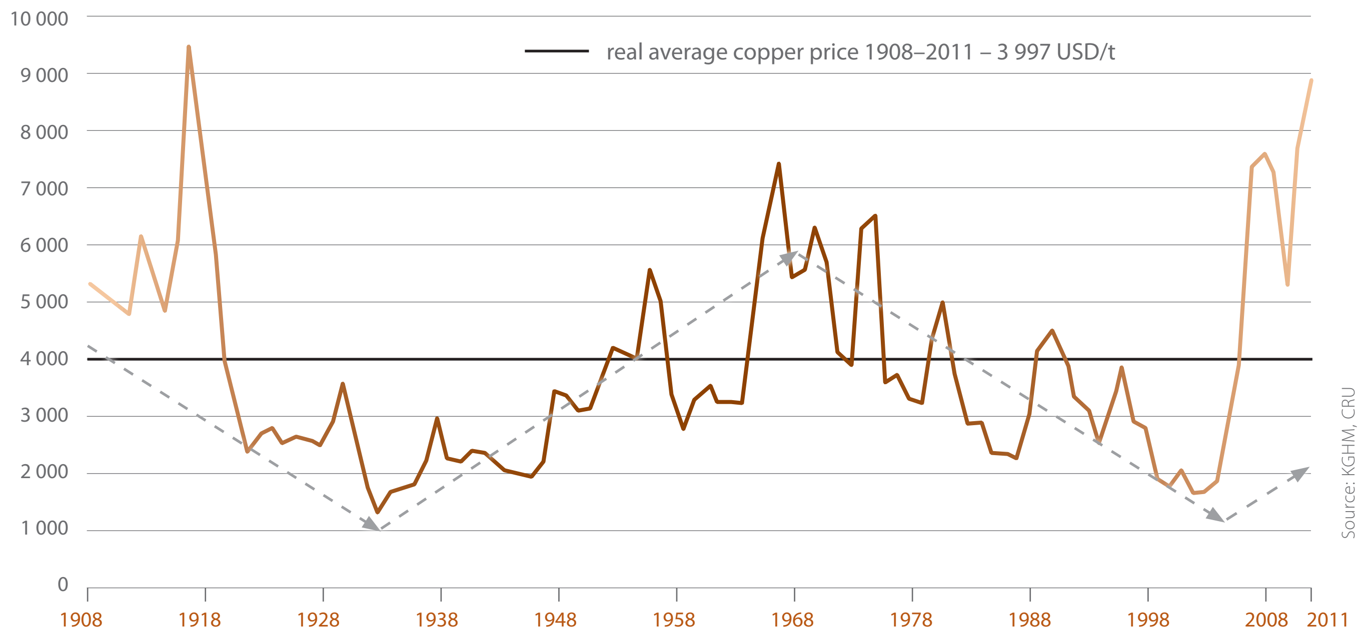
The high copper prices which have been recorded since the beginning of this century are treated by some analysts as a signal for the start of a new period of growth in the price of copper. The main cause given is the industrialisation of China and other so-called BRIC nations (Brazil, Russia, India). The increasing importance of emerging markets for the copper market and demand for the metal will in the future depend to a large extent on their economic growth. In terms of supply, the most important factor shaping the market's balance over the long term will be the extent to which the development of new copper mines will be able to satisfy growing demand.

Copper production

According to data published by CRU International, global copper mine production in 2011 fell to the lowest level in three years, and amounted to 15 927 thousand tonnes (i.e. by 0.5% versus the prior year). The main cause of this fall in extraction was the substantially faster than expected drop in copper grade in ore, weather-related interruptions in the first half of the year and numerous strikes and social disturbances, especially in the second half of the year. In 2011 there was a substantial increase in output in Africa and Oceania as well as Canada. On the other hand, many countries recorded a fall in production versus 2010. Leading this group were Indonesia, where strikes broke out in one of the world's largest mines, Grasberg, and Chile, which is dealing with falling copper grades. Over the last five years, the average copper ore grade of countries in Central and South America fell by over 25%. The current fall in mined copper production and the deficit of this metal on the market is due in large measure to an insufficient level of development in recent years. Work on a number of mine projects was deferred when they encountered problems with financing, as well as operational difficulties.

Refined production in 2011 amounted to 19 337 thousand tonnes, and was 2.9% higher than in 2010. China once more led this rise, with an increase in refined cathode production of 517 thousand tonnes and total production of over 5 million tonnes. China continues to develop its smelting capacity, based to an increasing degree on scrap. Material from the secondary market was available in particular in the first half of the year, when copper prices reached record levels. There was also a stable increase in refined production in Europe, where several technologically-advanced scrap processing plants are in operation, even for scrap of very low copper content. Developed European countries, where heavy emphasis is placed on environmental protection and recycling, are important suppliers of scrap to the copper market. There was also a substantial increase in refined production in Africa, and in particular Zambia, where due to low production costs and taxation policy, many companies decided to build copper smelters.

Real average annual copper price, 1908–2011 (USD/t)



Mined copper production in 2010 and 2011 by region ('000 tonnes)

Region	2010	2011	Change [%]
Africa	1261	1381	9.47%
Chile	5422	5165	-4.74%
Americas (ex-Chile)	3447	3626	5.19%
Asia	3372	3187	-5.48%
Europe	1458	1471	0.90%
Oceania	1041	1097	5.41%
Total world	16 001	15 927	-0.46%

Source: KGHM, CRU

Refined copper production in 2010 and 2011 by region ('000 tonnes)

Region	2010	2011	Change [%]
Africa	817	1011	23.66%
Chile	5450	5284	-3.05%
Americas (ex-Chile)	4570	5087	11.32%
Asia	4014	3845	-4.20%
Europe	3491	3604	3.24%
Oceania	436	506	16.04%
Total world	18 778	19 337	2.98%

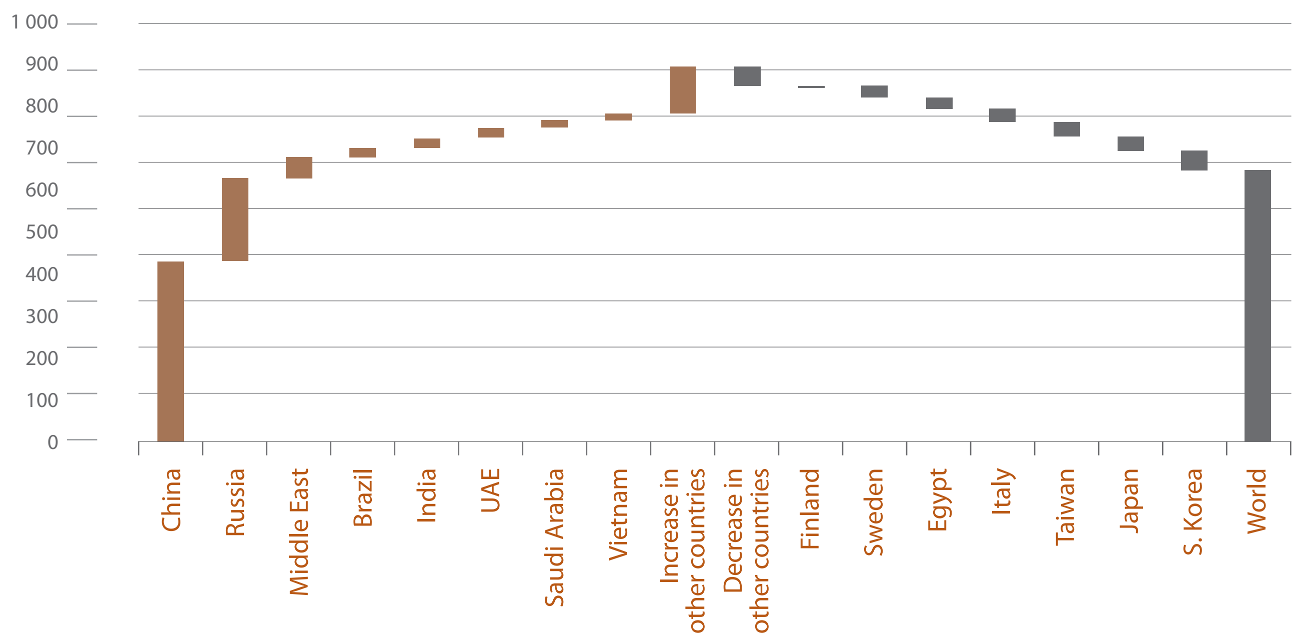
Source: KGHM, CRU

Copper consumption

According to analysis conducted by CRU International, consumption of refined copper in 2011 increased versus 2010 by 3.5%, to 19 194 thousand tonnes, or in terms of volume by 642 thousand tonnes. This increase was mainly attributed to emerging market countries, mainly from the BRIC group (Brazil, Russia, China, India), which heavily invest in infrastructure development. The largest increase in global copper consumption came from China, which accounted for over half of the world's consumption of this metal (428 thousand tonnes). There was also a large increase in copper consumption by Russia. This country introduced an export tax on copper cathodes, encouraging local businesses to use cathodes in the manufacture of more highly-processed products. Simultaneously there was a clear drop in copper consumption in Europe and the USA. The weakening of demand in these regions was due to fears of a widening of the debt crisis and a fall in economic sentiment.

The increase in copper consumption in 2011, alongside falling mine production, led to heightened interest in the use of scrap. The secondary market had a major impact on total copper supply, due to copper prices remaining at historically-high levels for most of the year, which encouraged recycling. The record

Increase in copper consumption by country in 2011



Source: KGHM, CRU

copper prices also affected the behavior of end consumers. Many of these decided to switch to substitute products to copper, such as aluminium and plastic.

Over the last several decades the structure of copper consumption has changed substantially. Among the most important factors resulting in increased copper use are: the general use of renewable energy sources, globalisation leading to increased accessibility of electronic devices and the significant increase in the use of these devices in everyday life.

Copper inventories

Despite the large volatility in copper prices in 2011, the level of inventories in official warehouses was relatively stable, and at year's end amounted to 544 thousand tonnes. During the first few months inventories rose, particularly in exchange warehouses located in Europe. Fears of the possible bankruptcy of Greece led to a lower amount of orders by consumers. In the second half of the year there was a transfer of metal between various geographic regions. Material gradually left European warehouses, while the metal's availability increased in Asia, in particular in Shanghai. It is estimated that the amount of metal accumulated in unofficial and official warehouses located in Shanghai may be on the order of a million tonnes. Concern may be raised by the fact that the built-up inventories are not only destined for consumers. Workers in unofficial warehouses where this material is stored admit that the copper coming to China is used more and more for speculative purposes. In 2011, the general procedure in China was to use copper inventories as security to obtain loans. The funds obtained in this manner were invested later, among others, on the property market. Recently there have been a growing number of investors interested in increasingly exotic and risky instruments, related not only to the copper price, but also with the juan exchange rate and with future interest rates. At the end of the year the greatest amount of official inventories were in LME warehouses – 68% of all warehouses, 17% on the Shanghai exchange, and 15% on the American exchange COMEX.

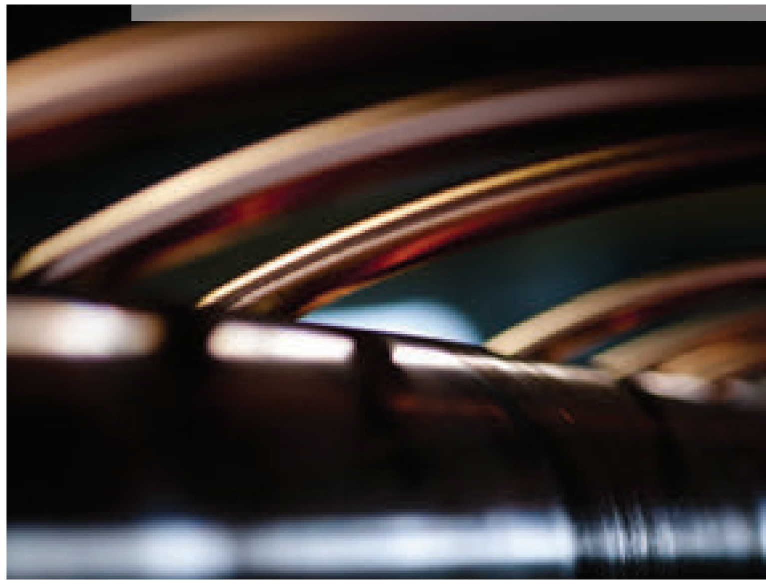
Investment funds

For several decades there has been a continuous inflow of investment funds to the commodities market. Commodities are considered to be a safe means of hedging against inflation, as well as against the fall of the USD. Because of this, fund managers are increasingly willing to invest in metals and other natural resources. The market collapse in the fourth quarter of 2008 showed nonetheless how volatile investor sentiment can be, and how rapidly they can withdraw their money from these funds if the market situation deteriorates.

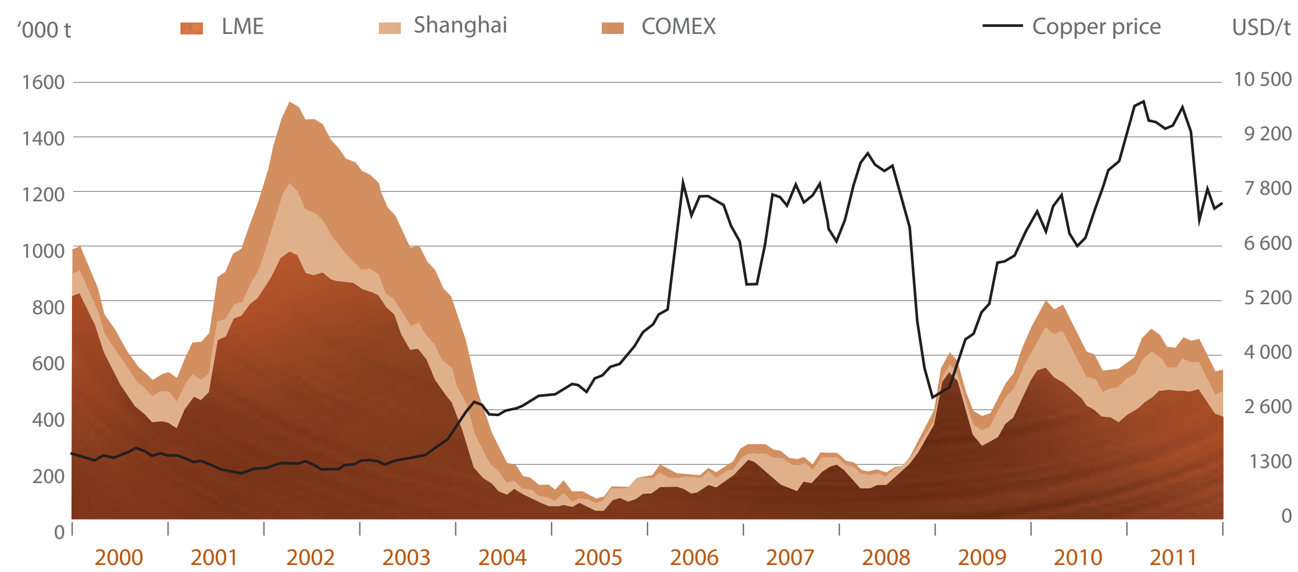
Furthermore, recently on the metals market, as well as on the copper market, there has been exceptionally high volatility, which encourages financial investors and hedge funds to open speculative positions. Year after year the number of open positions on copper contracts on COMEX is larger, and in the last three years has numbered around 140 000 contracts, representing the equivalent of over 8% of annual refined global copper production.

Copper market perspective

Copper prices, like those of most natural resources, are currently determined by the level of global economic growth, the stability of the global financial system and, to an increasing extent, by geopolitical factors. The three most serious economic risks may be considered a deepening of the crisis in Europe, recession in the USA and a slowdown in China threatening a hard landing. If none of these risks materializes, it appears possible that we will observe positive growth in the natural resources sector, including copper, compared to other assets.

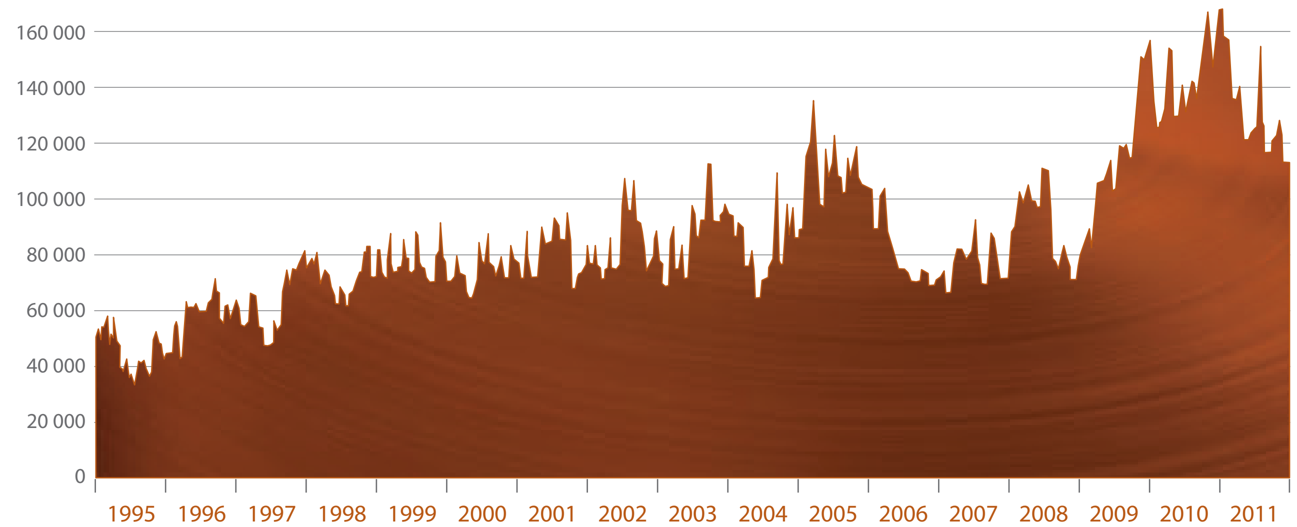


Copper warehouse inventories, 2000–2011



Source: KGHM, LME, COMEX, SHFE

Number of open positions on copper contracts on COMEX (1 contract – 25 000 lbs)



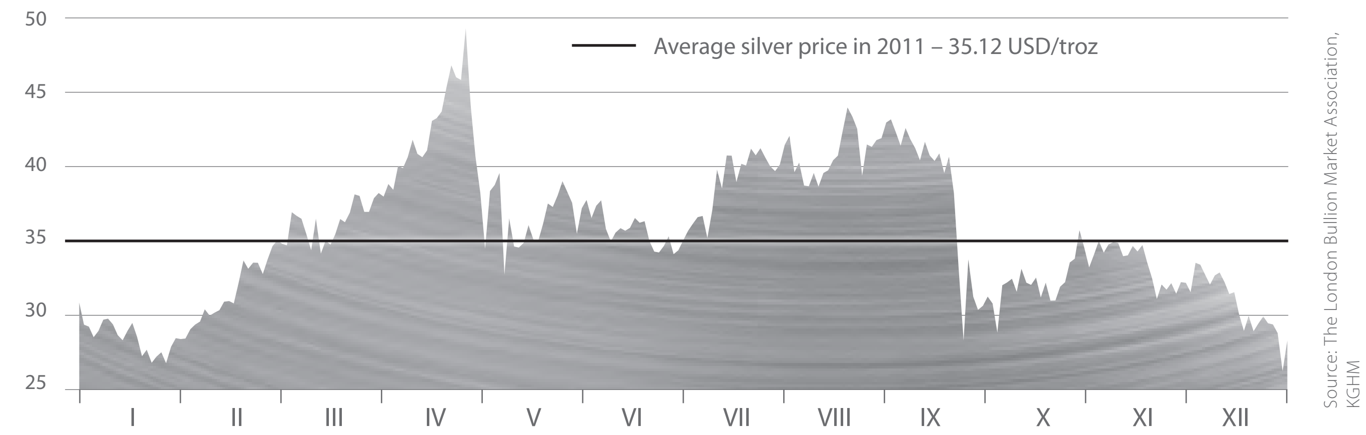
Source: KGHM, COMEX

Silver market

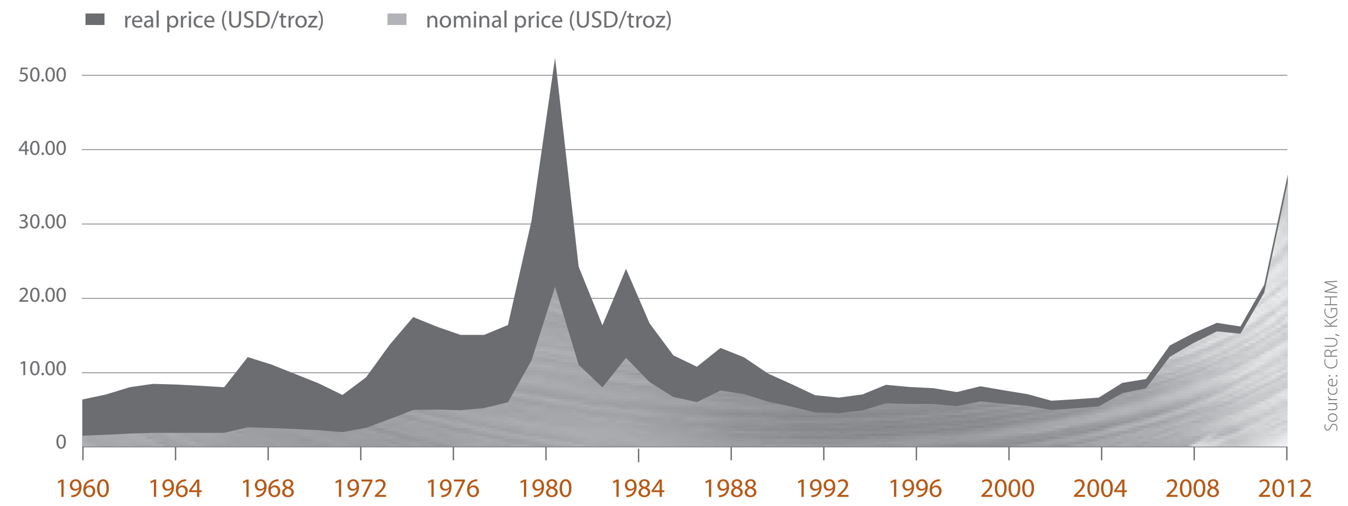
The average annual silver price in 2011 on the London Bullion Market was 35.12 USD/troz, meaning a 74 percent increase versus the prior year (20.19 USD/troz). In the first half of the year there was a dynamic increase in the silver price, from 26.7 USD/troz, to nearly 49 USD/troz. This was the highest price in over 30 years, when, as a result of unprecendented speculation by a narrow group of investors, silver soared momentarily to 50 USD/troz. The increase in the silver price in the first half of 2011 was mainly due to financial investors, who, given a weakening USD and fears of growing debt by European countries, sought safe havens for their capital, sending enormous amounts onto the market, especially for gold, but also onto the much smaller silver market. Joining this rapid appreciation were speculators hoping to profitably exploit the situation, which drove up silver prices even more. However, the historic price peak turned out to be a formidable barrier to break, and within just a few days there was a spectacular slump in the silver price of over 30%. After a two-month period of consolidation, investors again began buying, significantly raising silver prices. This time, demand was exhausted at around 44 USD/troz, and another rapid drop brought the silver price to under 30 USD/troz. During the final months of the year silver prices consolidated between 30 and 35 USD/troz, and in December reached their lowest price for the year – 26.16 USD/troz. The main reasons for the fall in the silver price in the second half of the year were the weakening possibilities for global economic growth and lower forecasts for the industrial use of silver.

The silver market is markedly smaller than that of gold, and is therefore more susceptible to market volatility. In periods when precious metals are seen as safe havens for protecting capital, silver usually appreciates more rapidly than gold. Likewise, during downturns in economic sentiment silver prices are again usually more sensitive than gold. This correlation is well shown by the Gold/Silver Ratio. Over the last several

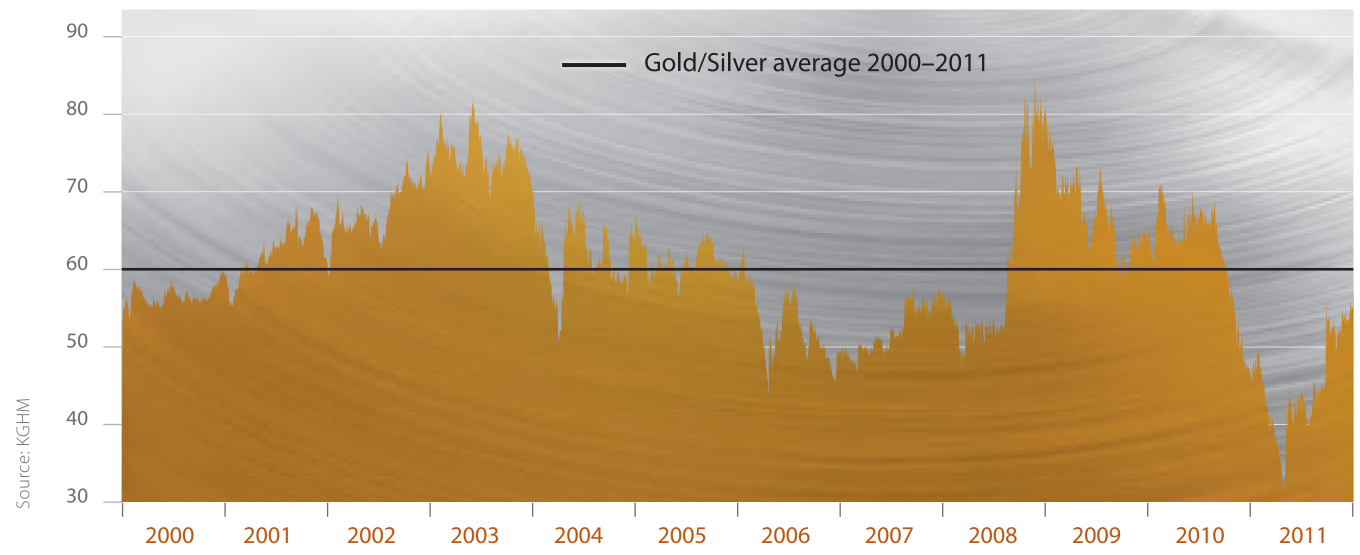
Daily silver prices in 2011 – LBMA fixing



Silver prices in 1960–2011 – LBMA fixing



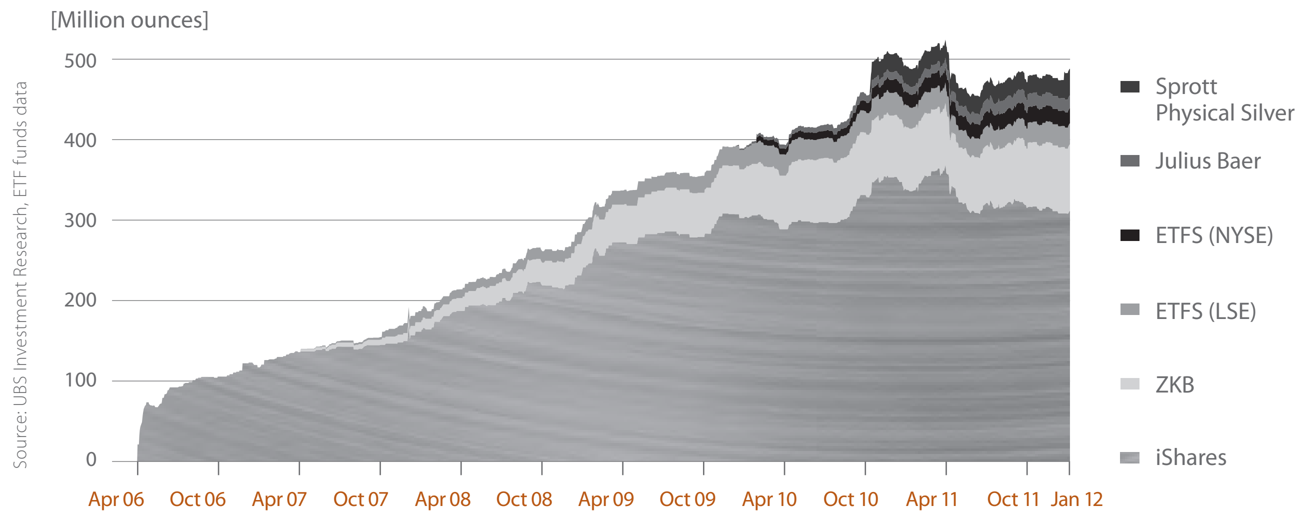
Gold/Silver ratio, 2000–2011



decades the Gold/Silver Ratio averaged around 60. Since the beginning of August 2010, when it was around 65, in subsequent months the ratio fell to 31.5 – a long-term minimum. In this same period the price of gold increased by nearly 30%. Silver meanwhile rose by nearly 170%. Some investors consider the substantial variance of the ratio from its average as the signal of a coming price correction. After a significant correction of silver prices in the second half of the year, the Gold/Silver Ratio returned to a state of balance, and at the end of the year amounted to 56.

In the sixth year since the inauguration of the first ETF on the silver market, for the first time the amount of metal amassed decreased versus the prior year. At the end of 2011, fund warehouses held 475 million ounces, or 29 million ounces less than at the end of 2010. The largest fall in assets occurred, naturally, during the spectacular price adjustment in May of 2011. Altogether, in the second half of 2011 fund assets shrank by 60 million ounces. All of the price bottoms in subsequent months were scrupulously utilised by investors to rebuild their positions. The scale of the withdrawal of funds in 2011 was not actually large (approx. 6%), which makes it possible to conclude that these types of investments are of a long-term nature and have a positive impact on prices over the long term. The size of fund assets is nevertheless sufficiantly large (45% of total annual silver supply), that even relatively small changes in the size of these funds may result in substantial short-term volatility in silver prices.

Assets of the major ETFS on the Silver market



Silver supply

Mine production of silver for a subsequent year recorded a new record of 761 million ounces. This increase occured mainly in mines producing this metal as a by-product from the extraction of other metals such as gold, zinc, lead and copper. Due to the high prices there was also an increase in the availability of scrap - by 12%, to 256 million ounces. The systematic fall in the availability of silver-bearing waste from the photographic industry was more than balanced by that of industrial waste, mainly from the procesing of old products made of silver as well as coinage. Nonetheless, total silver supply decreased in 2011 by 3.2% to 1040 million ounces due to the clear drop in government sales of the metal and to a lower volume of producer hedging than that implemented in 2010.

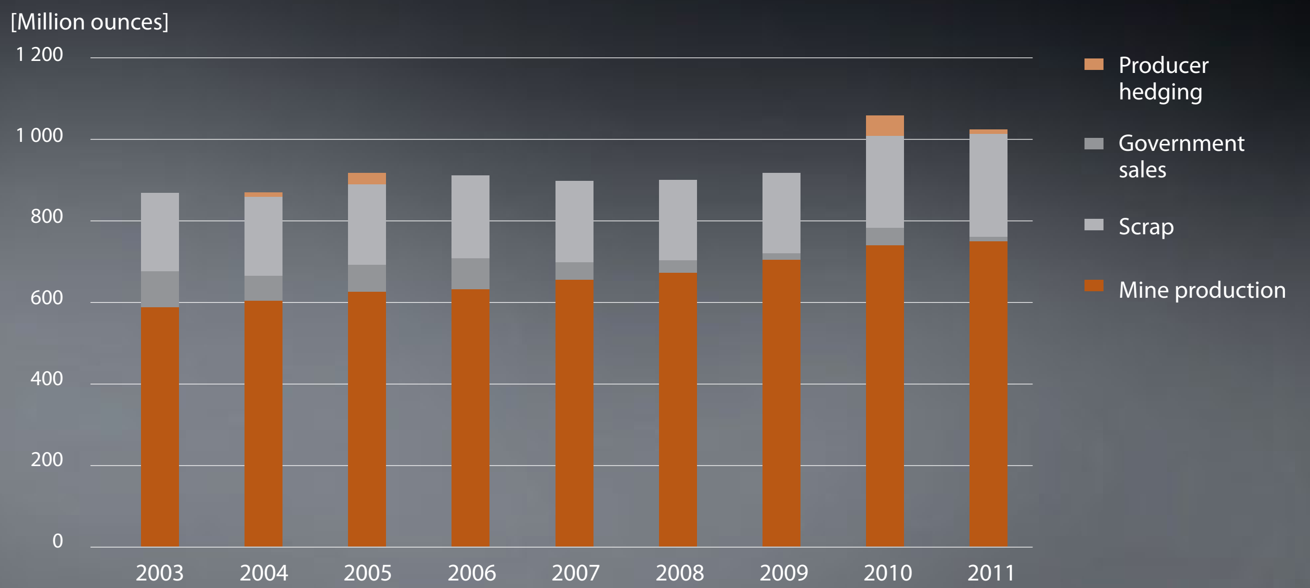
Silver consumption

Due to the high prices and to the fall in industrial activity in the second half of the year, industrial demand for silver decreased versus the prior year by 1.5% to 876 million ounces. Demand for silver fell in every category of use except for the production of coinage and medallions. This segment of the market was exceptional, and grew by nearly 19% versus 2010. It is interesting to note that, on the gold market, demand for coinage has been systematically falling in recent years. These products are mainly sold on the retail market, amongst small investors with limited resources. It appears that due to the systematic rise in the price of gold in recent years, gold coinage has become a bit too expensive, while that made of silver shines just as brightly and may serve a similar function as a safe haven to protect one's capital. This is partially the result of the substitution effect, i.e. the effort to find a cheaper substitute. Despite the fact that implied net investment, i.e. demand by large investors, fell by 11%, it remains at an exceptionally high historic level. The largest increase in this segment was due to demand for bullion (+68%). However, in terms of value, it was the investment segment (coinage, medallions and implied net investment) that increased in 2011 to a record level of nearly 10 billion USD.

Currency market

According to the data of Eurostat, in 2011 the rate of growth oAccording to the data of Eurostat, in 2011 the rate of growth of Poland's economy was almost the fastest in Europe, with higher rates being recorded only by the small Baltic republics (Lithuania, Latvia and Estonia) and Turkey. Gross Domestic Product in 2011 was higher by 4.3% than in the prior year. According to the forecast of Eurostat, 2012 should again see Poland as one of the fastest-growing European economies at around 2.5% GDP growth, despite the expected slowdown in the 27 countries of the European Union from 1.5% to 0%, with at least 9 of them in recession. In 2011, the main engine of growth was, and continues to be, domestic demand, as well as export thanks to the relatively weak currency. Despite this, the rate of consumption slowed throughout the year, from 3.7% y/y at the start of the year to 2.0% y/y in the final quarter. Taking into consideration the high rate of price rises and continued stagnation on the labour market, consumer sentiment was significantly worse than in 2010, as demonstrated by the consumer sentiment index prepared by the Polish Statistical Office (GUS). Opportunities for domestic economic growth in 2012 will continue to come from renewed internal investment, as well as from foreign investments in Poland. Taking into consideration the solid results of the Polish economy, it should not be surprising that investors have been looking favourably at the Polish currency, expecting a strengthening of the Polish zloty versus the USD and Euro.

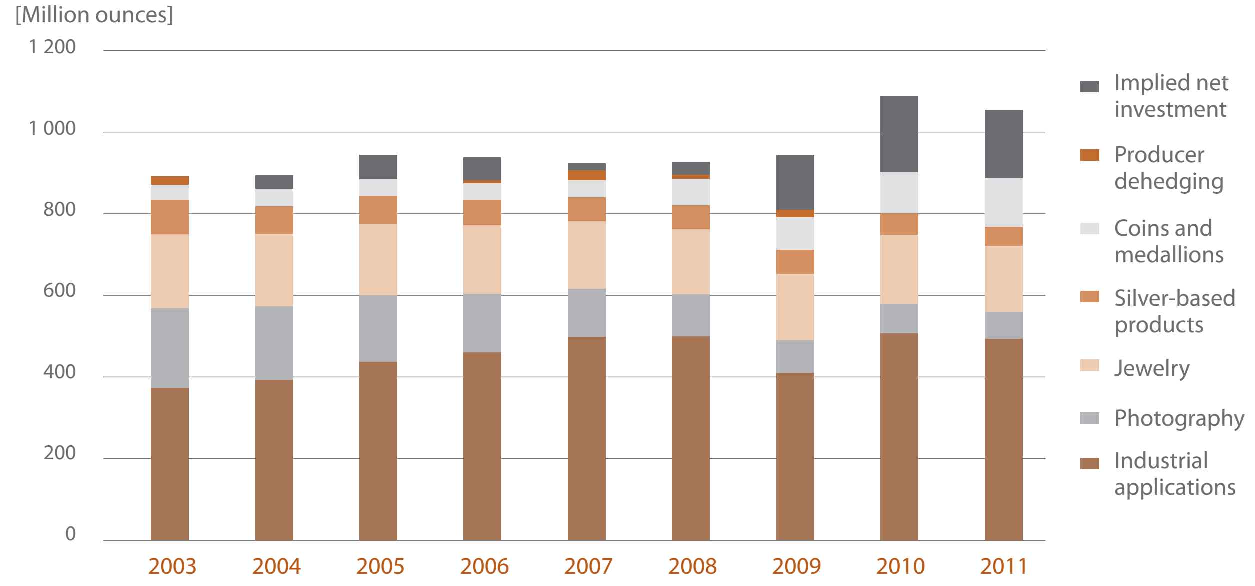
Silver supply, 2003–2011 [Million ounces]



Source: World Silver Survey 2012 – Thomson Reuters GFMS for The Silver Institute.

Results and forecast

Silver demand, 2003–2011 [Million ounces]



Source: World Silver Survey 2012 – Thomson Reuters for The Silver Institute.

The condition of the Polish economy continued to play a lesser role in determining the USD/PLN and EUR/PLN exchange rates. Here the decisive role was held by external stimuli, in particular investor sentiment and the information coming from the United States and the Euro zone. As a result of the need for Euro zone countries to secure financing for a substantial portion of their borrowing needs within a short period of time, as well as the rapidly worsening situation on the government bond market and the deteriorating economic conditions, investor sentiment towards risky assets remains poor. The Polish zloty is treated as an emerging market currency, and during periods of aversion to risk it is subjected to heavy selling by financial investors. This was the cause of the strong depreciation of the zloty in the second half of 2011. In the course of only a few months, the USD/PLN exchange rate rose from just over 2.80 to more than 3.40, while the EUR/PLN rate increased from around 4.00 to 4.50. Excessive volatility in the exchange rate continued, sometimes changing sesion-by-session by 2-3%, though in terms of the entire year the Polish currency was not harmed, displaying only a slight weakening versus the USD. Despite the rapid rise in exchange rates in the second half of the year, the average USD and EUR rates versus the zloty for all of 2011 were similar to the levels of 2010. The USD/PLN exchange rate rose from 1.8% to 2.9636, while the EUR/PLN rate increased by 3.1% to 4.1196. According to the data of the National Bank of Poland, the highest fixing for the USD/PLN rate was 3.5066, and the lowest 2.6458. In the case of the EUR/PLN exchange rate, the maximum and minimum fixings were, respectively, 4.5642 and 3.8403.

Resource base*

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 (52 grams per tonne of ore in 2011). Due to the thinness of the layer of mineralisation of precious metals, the lack of mineralisation continuity and its high irregularity, the concentrations documented are not treated as ore which meets economic criteria for separate mining operations. It should however be pointed out that a significant part of the precious metals contained in the copper ore are retained in the concentrate and recovered by the processing of anode slimes.

The amount of documented copper ore resources in areas licensed by KGHM Polska Miedź S.A. gives Poland 7th place globally in terms of its copper resources, and 3rd place in terms of its silver resources (per the 2012 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.

Ore resources of copper and other metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S. A. (at 31 December 2011)

Ore in production	Ore resources [mln t]	Cu [%]	Ag [g/t]	Amount of Cu [mln t]	Amount of Ag [t]
Lubin-Małomice	388	1.32	56	5.14	21 563
Polkowice	115	2.33	48	2.67	5 484
Sieroszowice	298	2.61	65	7.77	19 309
Radwanice Wschód	7	1.92	26	0.14	189
Rudna	398	1.79	47	6.76	18 815
Głogów Głęboki-Przemysłowy	292	2.40	79	7.00	22 939
KGHM Polska Miedź S.A.	1 498	1.97	59	29.48	88 298

Reserves of copper and other metals (Cu, Ag) in areas licensed by KGHM Polska Miedź S.A. (at 31 December 2011)

Ore in production	Ore resources [mln t]	Cu [%]	Ag [g/t]	Amount of Cu [mln t]	Amount of Ag [t]
Lubin-Małomice	324	1.00	42	3.24	13 760
Polkowice	97	1.71	34	1.66	3 315
Sieroszowice	273	1.93	50	5.27	13 501
Radwanice Wschód	8	1.25	18	0.10	137
Rudna	246	1.60	45	3.94	11 103
Głogów Głęboki-Przemysłowy	233	1.90	61	4.42	14 330
KGHM Polska Miedź S.A.	1 181	1.58	48	18.62	56 148

* Resource base – based on documentation operatives for 2011 in accordance with the Decree of the Minister of the Environment dated 15 November 2011 regarding documentation operatives and informational models on changes in mineral ore resources.

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

In 2010, in accordance with Polish law, KGHM Polska Miedź S.A. began the process of obtaining new mining licenses for those which expire in 2013.

The estimated geological copper ore resources and reserves of KGHM Polska Miedź S.A. are presented in the following tables.

Potential 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 copper ore resources. These are treated at present as areas which may in the near future be brought into operation.

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 1500m occur regions of proven increased copper mineralisation: Głogów, Bytom Odrzański and Retków.

Apart from the licensed areas, the Company is also involved in intensive exploration in the so-called Old Copper Belt (Grodziecka trough), Gaworzyce – Radwanice and Szklary, as well as in Germany (Weisswasser project).
- Grodziecka Trough: a copper-silver ore deposit in the vicinity of Bolesławiec. Documentation is planned of approx. 1.5 million tonnes of copper equivalent, enabling construction of an underground mine. Drilling is currently underway (18 holes) aimed at precise defining of existing copper ore resources as well as documentation of new resources.
- Gaworzyce-Radwanice: the Company is furthering its knowledge of this copper ore deposit within currently-licensed areas. The goal of this work is to further the Company's knowledge of the C1-category ore. During phase one, 5 holes were drilled. The irregular occurance of the copper ore means that the exploratory C1-category exploratory already performed may be insufficient, although performing additional drilling is very expensive and ineffective.

Consequently, on 16 February KGHM Polska Miedź S.A. submitted a request to the Minister of the Environment for a change in the license asking that further exploratory exploratory not be required.
- Szklary: this project involves the possibility of mining a lateritic nickel ore deposit in the vicinity of Szklar in Lower Silesia. Advanced work is underway to improve knowledge of the orebody and to develop a model for an open-pit mine as well as develop necessary ore processing technology.
- Weisswasser Project: managed by the subsidiary KGHM Kupfer AG. This company has a license in Saxony, along the Polish border, in an area where drilling in the 1960s indicated the occurance of copper mineralisation.

The company is performing exploratory drilling and geophysical work to discover o copper-silver orebody similar to that currently being worked by KGHM. The project is currently in phase 1 of exploration, which foresees 4 test drillholes and geophysical research.

Production results

The main objectives set forth by the Management Board with respect to production in 2011 were:

- optimal utilisation of the resource base and of the production capacity of the Company,
- optimisation of the copper content in ore and concentrate, and
- maximum utilisation of the production capacity of the smelting divisions.

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 (i.e. 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 specific areas of the Ore Enrichment Plants to the amount and quality of ore supplied,
- improving enrichment parameters through the successive replacement of floatation equipment,
- preparation of infrastructure and terrain at the Głogów 1 smelter required for the further modernisation of the smelter – construction of a flash furnace,
- construction of a 4th Doerschel furnace at the Głogów smelter,
- realisation of the first stage of modernisation of the sulphuric acid plant at the Głogów smelter,
- general maintenance on the Contirod line at the Cedynia plant in Orsk.

Mine production

Ore extraction by dry weight in 2011 was higher by 414.8 thousand tonnes than in 2010, and amounted to 29.7 million tonnes. The increase in extraction in 2011 was due to an increase in daily extraction on working days and an intensification of work on days legally free from work.

The average copper content in extracted ore amounted to 1.61% and was lower than that achieved in – 1.64 %. The decrease in Cu content in extracted ore was due to work in regions with lower copper ore mineralisation.

Despite the increase in ore extraction, the decrease in its quality led to a decrease in copper content in extracted ore. The amount of Cu in extracted ore was lower than that achieved in 2010 by 1320 t Cu (i.e. by 0.3 %) and amounted to 479 257 t.

The amount of ore processed increased by 555.6 thousand tonnes versus 2010. the increase in the amount of Cu in ore directly impacted the amount of copper in concentrate. Copper in concentrate was higher by 1 218 t than the amount produced in 2010 (an increase of 0.3 %).

Mining zone

Mining in KGHM Polska Miedź S.A. is carried out in three Mining Divisions: ZG Lubin, ZG Polkowice-Sieroszowice and ZG Rudna. The ore is then processed into concentrate for the smelters by the Ore Enrichment Division. The mining chain terminates with the deposition of floatation waste (tailings) at the Tailings Division. Safety in the mines of KGHM Polska Miedź S.A. is augmented by the Emergency Mine-Smelter Rescue Division, whose personnel remain in constant vigilance to provide expert aid in case of need.

Smelter production

The production of electrolytic copper increased in 2011 versus the prior year by nearly 24 thousand tonnes, i.e. 4.4% and reached the highest level in KGHM's history, i.e. 571 041 t. This was achieved thanks to optimisation of production, various modifications and the competent management of machines and equipment, resulting in enhanced efficiency, the effective use of time and the continued high recovery rates for copper and silver. The increase in production was also due to higher processing of own concentrate and higher use of purchased copper-bearing materials in the form of scrap, copper blister and imported concentrate.

Mine production in 2009–2011

	Unit	2009	2010	2011
Ore extraction (dry weight)	000 t	29 730	29 303	**29 718**
of which mineral extracted from ore	000 t	23 161	22 448	**22 985**
Copper content in ore	%	1.68	1.64	**1.61**
Copper concentrate (dry weight)	000 t	1 929	1 841	**1 875**
Copper content in concentrate	%	22.76	23.11	**22.75**

The augmentation of own concentrates with purchased copper-bearing materials enabled the effective utilisation of existing technological abilities.

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

After four years of work the Lead Refinery exceeded 100 thousand tonnes of accrued refined lead production, achieving a record recovery of lead and silver. After 32 years and 7 months of operation by the HM Cedynia wire rod plant, the 5 millionth tonne of wire rod was produced.

Smelter production in 2009–2011

	Unit	2009	2010	2011
Electrolytic copper	'000 t	502.5	547.1	**571.0**
Wire rod	'000 t	177.5	237.3	**226.2**
OFE and CuAg rod	'000 t	14.0	16.1	**16.4**
Round billets	'000 t	14.9	18.7	**20.3**
Metallic silver	t	1 203	1 161	**1 260**
Gold	kg	813.5	775.8	**703.8**

Main directions in production

The main production goals set out by the Management Board in 2012, similar to prior years, are: optimal utilisation of the resource base and of the production capacity of the Divisions, gaining licenses for the extraction of copper ore in reserve and prospective areas and increasing the Company's participation in the exploration for foreign mine assets. Work was also succesively performed on optimising copper content in ore and concentrate.

Stabilising the level of production over the next several years requires efforts to be made in a variety of technical and organisational areas, related to:

- expanding the existing resource base,
- the continued development of surface and underground infrastructure and of a broad scope of mine development work to access the Deep Głogów ore zone,
- expanded use of automated mining complex technology for ore extraction,
- development of new mining technology to work at depths below 1200m, in conditions associated with natural hazards (tremors, thermal excess, gas emissions and rock bursts),
- the implementation of technological and technical solutions enabling the mechanisation and automation of copper ore extraction and processing,
- taking effective actions to improve workplace safety for miners and for workers employed in difficult climatic conditions,
- continued replacement of floatation machinery,
- optimisation of the enrichment process, in terms of reducing the impact of decreased process feed quantity and quality,
- continued improvement in the stability and efficiency of the enrichment process through application of the FLOVIS floatation machinery control system,
- a more rigorous classification system,
- improvement in the parameters of the milling and enrichment process,
- the commencement of activities aimed at identifying the mineralogical properties of the processed ore in terms of optimising enrichment parameters,
- ensuring the safe operation and expansion of the Żelazny Most tailings pond.
- continued realisation of the Pyrometallurgy Modernisation Program involving the replacement of technology at the Głogów I smelter,
- continuation of a project related to the construction of a Scrap Melting Unit at the Legnica smelter,
- completion of modernisation of the overhead pouring units at the Głogów I smelter,
- completion of construction of a concentrate warehouse at the Głogów II smelter,
- modernisation of the casting forms unit and caissons at the Głogów smelter,
- development of a unit for the thermal elimination of oil emulsions in the Contirod line of the Cedynia wire rod plant.

Review of financial position

Assets

As at 31 December 2011, total assets amounted to PLN 29 253 189 thousand, meaning an increase by PLN 9 423 893 thousand (48%) versus the end of 2010.

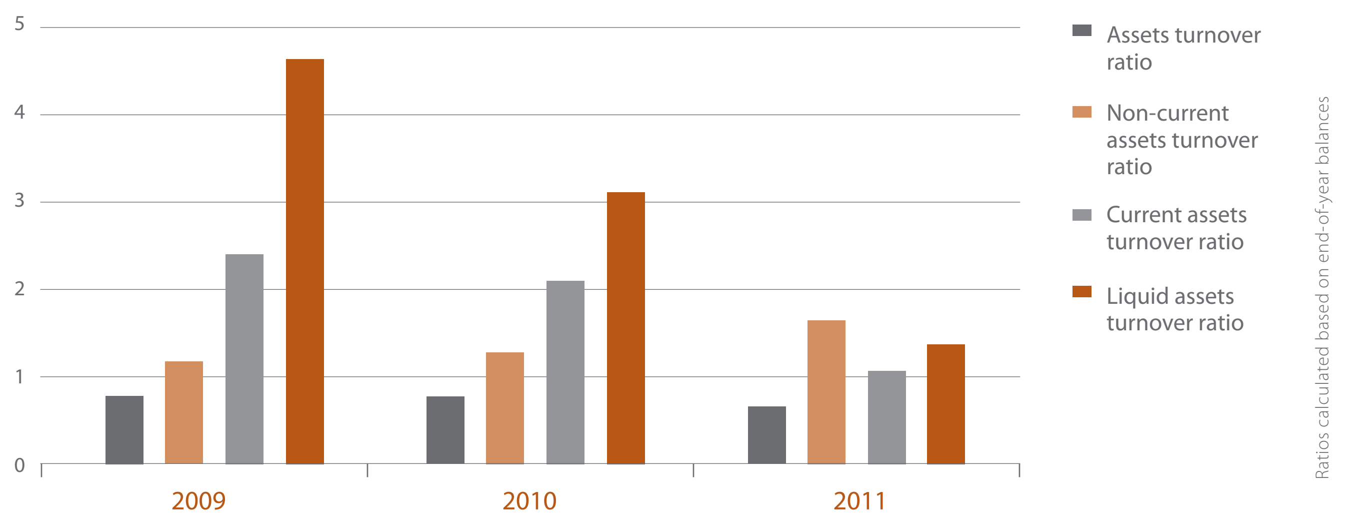
The most important changes in major items of assets in 2011 were in:

- Cash and cash equivalents – carrying amount: PLN 12 835 999 thousand (an increase by PLN 10 240 470 thousand).
  In 2011, KGHM Polska Miedź S.A. earned an operating profit in the amount of PLN 9 363 553 thousand, which generated cash resources. In addition, the Company concluded the sale of its telecom assets, increasing the result on other operations by PLN 2 662 245 thousand. Cash generated from basic and other operations were mainly invested in short-term deposits to prepare for the financing of the Company's investment projects (Quadra FNX Mining Ltd. and AJAX MINING INC.).
- Property, plant and equipment – carrying amount: PLN 7 277 903 thousand (an increase by PLN 726 792 thousand).
  The main cause of the increase in property, plant and equipment was the realisation of investments – expenditures in this regard amounted to PLN 1 513 898 thousand, of which replacement-related investments amounted to PLN 660 801 thousand.

Current and non-current assets ('000 PLN)

	31.12.2009	31.12.2010	31.12.2011
Property, plant and equipment	5 937 513	6 551 111	7 277 903
Shares and investment certificates in subsidiaries and associates	3 075 171	3 802 993	2 012 209
Deferred tax asset	167 062	359 833	168 462
Available-for-sale financial assets	17 700	1 155 017	992 068
Derivatives	321 281	697 860	1 759 053
Trade and other receivables	1 424 771	2 480 594	1 587 165
Inventories	1 890 286	2 011 393	2 355 741
Cash and cash equivalents	975 198	2 595 529	12 835 999
Other assets	144 048	174 966	264 589
Total assets	**13 953 030**	**19 829 296**	**29 253 189**

Assets effectiveness ratios



- Shares and investment certificates – carrying amount: PLN 2 012 209 thousand (a decrease by PLN 1 790 784 thousand).
  In November and December 2011, the Company finalised the sale of its telecom assets (Polkomtel S.A., DIALOG S.A.), which decreased the carrying amount of investments in subsidiaries and associates in total by PLN 1 984 873 thousand. Also in 2011, the company Nitroerg S.A., a leading Polish producer of explosive materials, joined the KGHM Polska Miedź S.A. Group (carrying amount of the shares: PLN 121 272 thousand). In addition, due to an increase in the share capital, the carrying amount of the shares of KGHM Kupfer AG increased by PLN 53 818 thousand (realisation of exploration work) and of KGHM Metraco S.A. by PLN 15 000 thousand (realisation of the project "Construction and operation of the Sulphuric Acid Trading Base").
- Derivatives – carrying amount: PLN 1 759 053 thousand (an increase by PLN 1 061 193 thousand).
  The change in derivatives (net) was due to a change in the forward prices of metals, the settlement of derivatives in 2011 and the opening of new transactions on the copper, silver and currency markets.
- Receivables – carrying amount: PLN 1 587 165 thousand (a decrease by PLN 893 429 thousand)
  There was a substantial decrease in Company trade receivables (by PLN 623 118 thousand). This decrease also affected deposits with a maturity of over 12 months (mid-term) presented as financial receivables. By the end of 2011 these deposits were terminated, which decreased receivables by PLN 351 130 thousand.
- Available-for-sale financial assets – carrying amount: PLN 992 068 thousand (a decrease by PLN 162 949 thousand).
  The change versus 2010 was due to an increase in non-current assets and a decrease in current assets:
  - non-current – an increase by PLN 242 244 thousand, mainly due to the acquisition of further shares of Tauron Polska Energia S.A., alongside a negative impact of measurement (a decrease in share price on the WSE). The shares of Tauron Polska Energia S.A. are the main item in non-current available-for-sale financial assets,
  - current – at the end of 2010, current available-for-sale financial assets consisted of participation units of open-end liquid investment funds in the amount of PLN 405 193 thousand. In the third quarter of 2011, the Company sold all of the assets it held in this regard.

The sale of the shares of Polkomtel S.A. and DIALOG S.A. led to a substantial increase in cash and cash equivalents, alongside a worsening in assets effectiveness ratios, being relations of revenues from sales to total assets and current assets. The non-current assets turnover ratio increased from 1.3 to 1.7.

Equity and liabilities

In 2011 the basic source for financing assets was equity, whose share in total assets increased from 73% to 79%. In 2011 the Company did not make use of borrowing. At the end of the year there were finance lease liabilities.

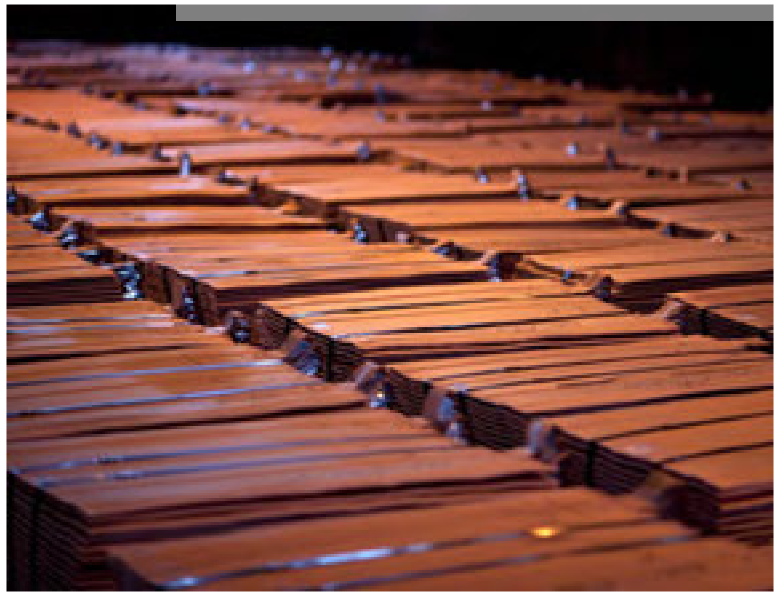
Equity and liabilities ('000 PLN)

	31.12.2009	31.12.2010	31.12.2011
Equity	10 403 957	14 456 477	23 135 511
Share capital	2 000 000	2 000 000	2 000 000
Accumulated other comprehensive income	127 228	211 159	535 673
Retained earnings	8 276 729	12 245 318	20 599 838
Current and non-current liabilities	3 549 073	5 372 819	6 117 678
Trade and other payables	1 393 521	1 742 188	1 839 115
Borrowings and finance lease liabilities	17 685	11 455	93
Derivatives	334 857	1 193 432	868 667
Current corporate tax liability	78 183	668 924	1 587 847
Employee benefits liabilities	1 191 521	1 221 287	1 323 826
Provisions for other liabilities and charges	533 306	535 533	498 130
Total liabilities and provisions	**13 953 030**	**19 829 296**	**29 253 189**

There were significant changes in the following items of equity and liabilities:

- Equity – carrying amount PLN 23 135 511 thousand (an increase by PLN 8 679 034 thousand).
  The increase in equity is mainly the result of a raise in retained earnings by PLN 8 354 520 thousand, due to the higher profit for the period (PLN 11 334 520 thousand in 2011; PLN 4 568 589 thousand in 2010), alongside a higher than in 2010 dividend payout (PLN 2 980 000 thousand in 2011, PLN 600 000 thousand in 2010).
- Current corporate tax liability – carrying amount PLN 1 587 847 thousand (an increase by PLN 918 923 thousand).
  The increase in the current corporate tax liability was due to the higher amount of taxable income. Both in 2010 as well as in 2011, the Company paid monthly instalments on income tax in advances.
- Derivatives – carrying amount: PLN 868 667 thousand (a decrease by PLN 324 765 thousand).
  Due to a change in forward metals prices, the forward USD/PLN exchange rate, the settlement of instruments during the year and the opening of new transactions on the copper, silver and currency markets, liabilities due to derivatives (net) changed. In the case of the copper market there was a decrease in liabilities by PLN 632 571 thousand, while for the silver and currency markets there was an increase in liabilities by respectively PLN 34 015 thousand and PLN 273 791 thousand.

The increase in current assets due to the Company's anticipated investment projects was the primary reason for the decrease in the ratio describing the coverage of current assets by current liabilities. The other assets financing ratios increased versus their levels at the end of 2010.

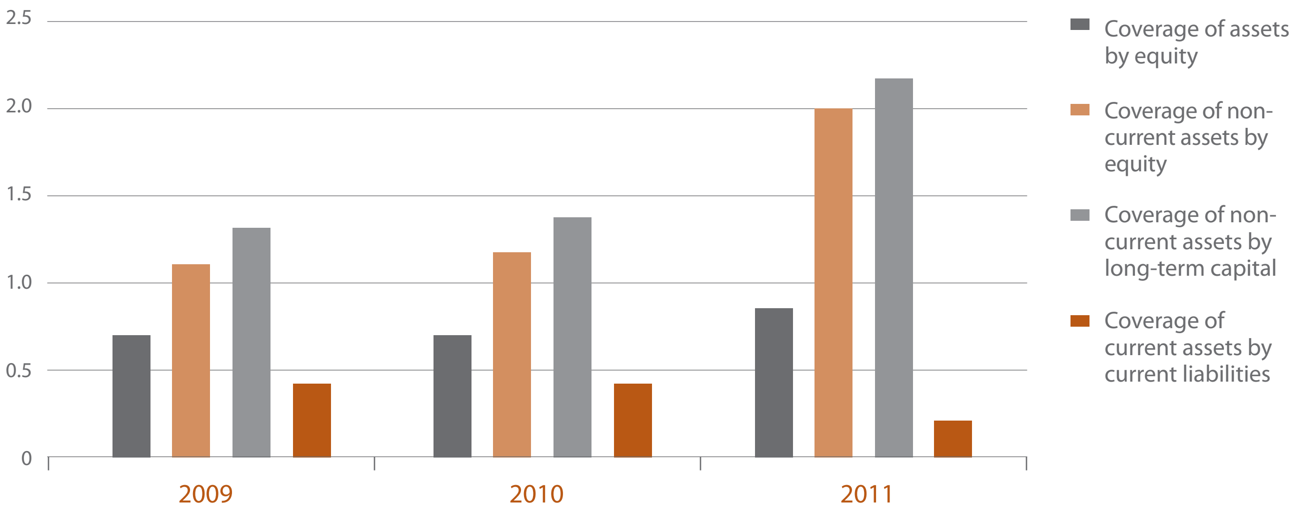


Contingent assets and liabilities

As at 31 December 2011, contingent assets of the Company amounted to PLN 373 223 thousand and related mainly to guarantees received (in the amount of PLN 167 018 thousand), mainly related to securities to cover potential claims by the Company due to the non-execution or improper execution of agreements by contractors) and to overpayment of the tax on underground mines (PLN 85 489 thousand). Other contingent assets primarily involve disputed State budget issues, promissory note receivables and implementation of projects and inventions.

Contingent liabilities at the end of 2011 amounted to PLN 141 430 thousand, including PLN 113 967 thousand due to implementation of projects and inventions.

Assets financing ratios



Ratios calculated based on year-end balances

Financial resources of the Company

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

Structure of cash and cash equivalents ('000 PLN)

	31.12.2009	31.12.2010	31.12.2011
Cash*	8 685	50 234	8 454
Other monetary assets with a maturity up to 3 months	966 513	2 545 295	12 827 545
Total	**975 198**	**2 595 529**	**12 835 999**

* in hand and on-demand bank deposits

Financial income from the depositing of periodically unallocated cash and cash equivalents and financial investments is presented below:

Income from the depositing of periodically unallocated cash and cash equivalents and short-term investments ('000 PLN)

	31.12.2009	31.12.2010	31.12.2011
On-demand bank deposits	887	3 985	1 820
Securities and participation units	-	4 158	16 855
Fixed term bank deposits	69 453	46 514	171 172
Total	**70 339**	**54 657**	**189 847**

Periodically unallocated cash and cash equivalents generated income in the amount of PLN 189 847 thousand. The increase in income was due to the significant increase in the Company's cash and cash equivalents and to higher interest rates.

Bank and other loans received

In 2011, KGHM Polska Miedź S.A. did not make use of financing in the form of bank loans. As at 31 December 2011, the Company did not hold financing in the form of loans.

Loans granted and received and financial guarantees

On 21 December 2009, KGHM Polska Miedź S.A. granted a loan to "Energetyka" sp. z o.o. in the amount of PLN 50 300 thousand. Interest on the loan is based on WIBOR 1M + a margin of 2.77%, with interest payable monthly. Repayment is in forty equal instalments in the amount of PLN 1 258 thousand payable at the end of each quarter, beginning from 31 March 2010. In 2011, "Energetyka" sp. z o.o. made partial repayment on the loan in the amount of PLN 5 030 thousand. As at 31 December 2011, the balance of the loan granted was PLN 40 968 thousand.

In 2011, the Company granted no financial guarantees, although it held a customs guarantee with a maturity to 1 March 2013. The guarantee is a contingent liability which do not significantly affect the Company's liquidity risk.

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

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

Statement of comprehensive income

In 2011, the Company realised a profit for the period in the amount of PLN 11 334 520 thousand, the highest in the history of KGHM Polska Miedź S.A.

In relation to 2010, profit for the period increased by 2.5-times, i.e. by PLN 6 765 931 thousand.

Statement of comprehensive income – basic items ('000 PLN)

	2009	2010	2011
Sales	11 060 540	15 945 032	20 097 392
Operating costs	7 863 635	9 287 686	10 733 839
Profit from operations	**3 196 905**	**6 657 346**	**9 363 553**
Profit on other operating activities	(98 813)	(1 019 198)	4 324 087
Profit on the sale of companies	-	34	2 662 245
Exchange differences	(61 664)	(30 445)	895 164
Measurement and realisation of derivatives	(538 637)	(1 172 284)	320 919
Dividends	454 848	146 658	277 330
Other	46 640	36 839	168 429
Operating profit (EBIT)	**3 098 092**	**5 638 148**	**13 687 640**
Finance costs	31 523	32 581	34 043
Profit before income tax	3 066 569	5 605 567	13 653 597
Profit for the period	**2 540 185**	**4 568 589**	**11 334 520**
EBITDA (EBIT + depreciation/amortisation)	3 645 745	6 253 616	14 360 013

Basic factors impacting the change in the financial result

Item	Impact on change in result ('000 PLN)	Description
Change in prices of basic products (Cu, Ag)*	+3 752 055	Copper prices higher by 17% and silver by 74%.
Sale of telecom assets	+2 656 201	Profit realised on Polkomtel S.A. sales, before taxation (PLN 2 512 200 thousand) and DIALOG S.A. (PLN 144 001 thousand) increased the result on other operating activities.
Impact of hedging transactions	+1 592 581	Includes the change in the result due to measurement and realisation of derivatives (+PLN 1 493 203 thousand) and the change in adjustment of revenue due to hedging (+PLN 99 378 thousand).
Operating costs	-1 446 158	An increase in the total unit cost of electrolytic copper production in PLN/t by 4.5%.
Income tax	-1 282 099	An increase in the financial result caused higher taxation. In addition, the change in the level of taxation was impacted by tax deductible costs related to the sale of DIALOG S.A. (higher than the recognised cost of sale of the shares) which reduced tax due by PLN 220 516 thousand.
Exchange differences	+925 609	The high level of cash and cash equivalents in foreign currencies accumulated due to planned investment expenditures and changes in the exchange rate gave this item major significance in the statement of comprehensive income.
Change in volume of sales of basic products (Cu, Ag)*	+368 894	An increase in the volume of copper sales by 21.6 thousand t alongside lower silver sales by 68 t.
Change in exchange rate*	-280 892	A change in the exchange rate from 3.02 USD/PLN to 2.96 USD/PLN.

* Impact on sales

Financial ratios

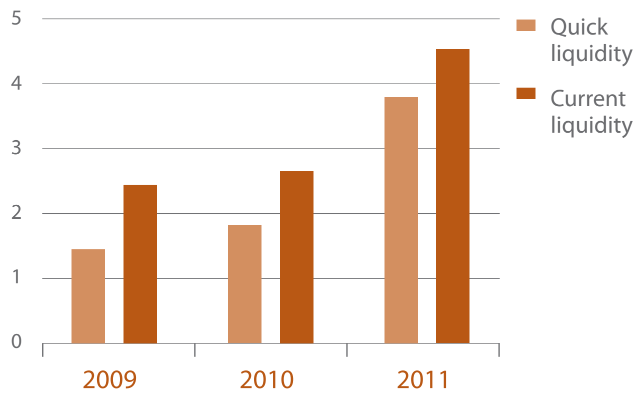
Ratios describing the structure of basic liquidity, assets and equity profitability, and financing, are shown in the charts below.

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.

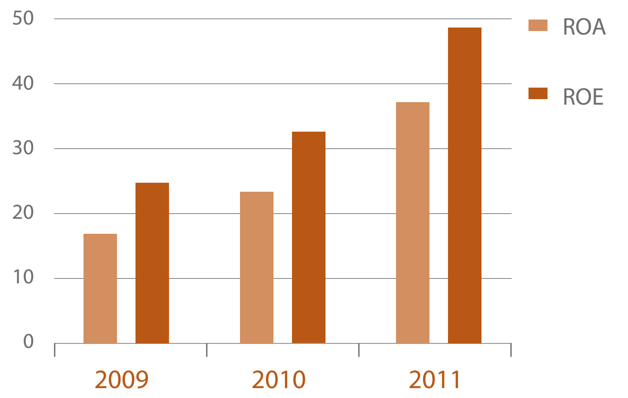
The increase in the profit brought an improvement in the return on assets (ROA) and the return on equity (ROE) ratios.

The decrease in the debt ratio is due to a lower rate of increase of liabilities (13.9%) than equity (60.0%). On the contrary, the financing structure durability ratio increased from 84.9 to 86.8, mainly due to an increase in the share of equity and non-current liabilities in the financing sources structure.

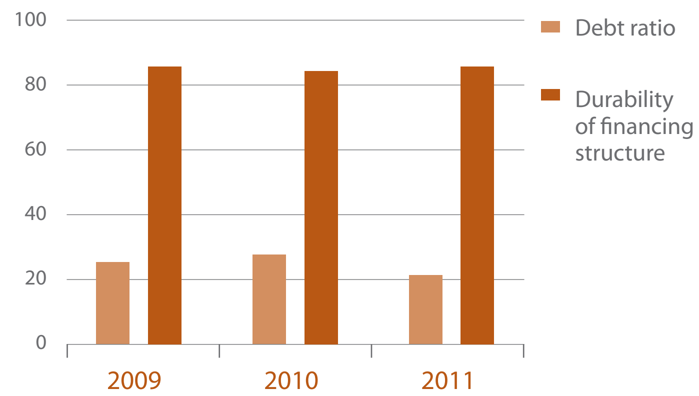
Liquidity ratios

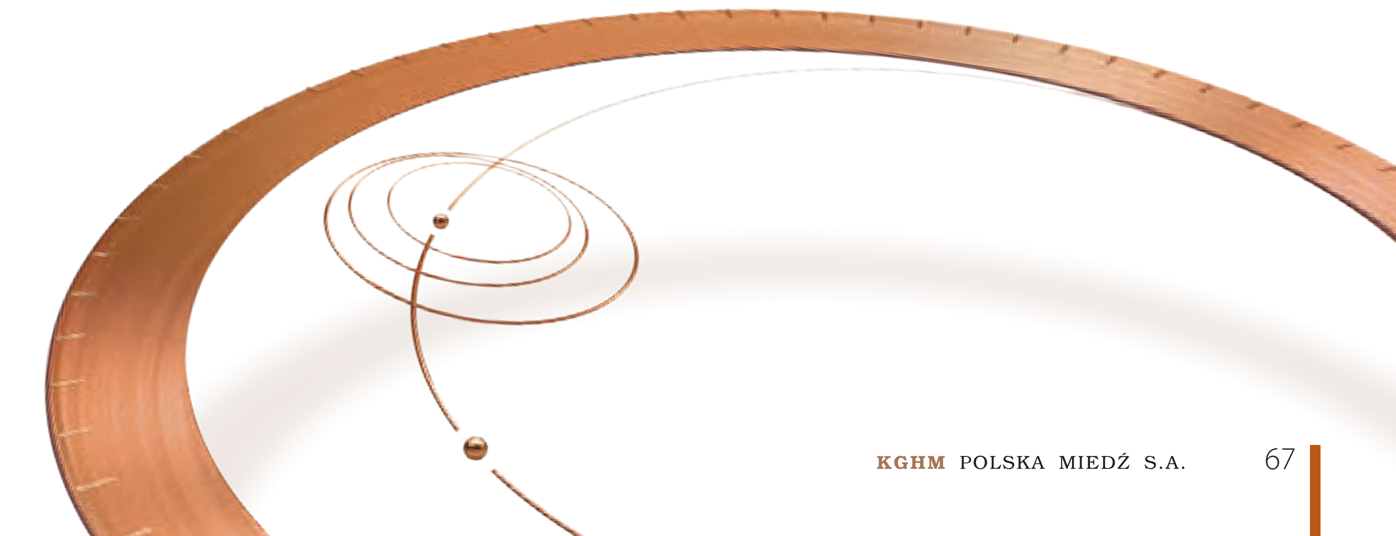


Profitability ratios



Financing ratios





Capital market ratios

The activities of the Company are described by the following ratios:

Capital market ratios

		2009	2010	2011
EPS (PLN)	Profit for the period / number of shares	12.70	22.84	56.7
P/CE	Price per share / financial surplus per share *	6.9	25.9	1.9
P/E	Price per share / earnings per share	8.3	7.6	2.0
MC/S	Market capitalisation**/ revenues from sales	1.9	2.2	1.1
P/BV	Price per share / book value per share ***	2.0	2.4	1.0

* 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; PLN 110.60 in 2011)

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

The capital market ratios were substantially impacted in 2011 by the high profit earned by the Company and by the fall in the share price of KGHM from PLN 173.00 at the end of 2010 to PLN 110.60 at the end of 2011.

Operating costs

Unit cost of electrolytic copper production – total (PLN/t)

	2009	2010	2011
Pre-precious metals credit cost of copper production	13 944	15 540	17 534
Value of anode slimes	2 774	2 557	3 968
Total unit cost of copper production	11 170	12 983	13 566
Electrolytic copper production ('000 t)	502.5	547.1	571.0

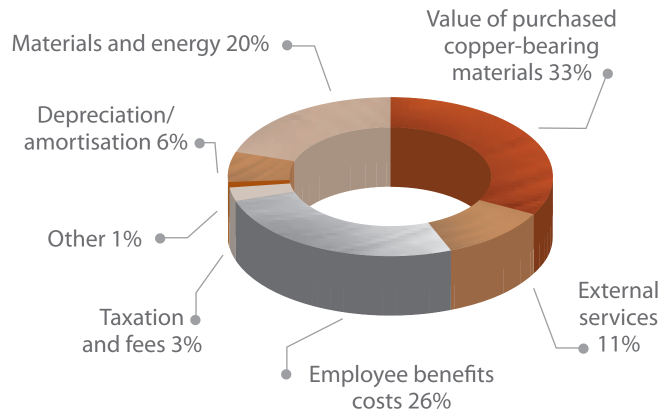
Unit cost of electrolytic copper production – from own concentrate (PLN/t)

	2009	2010	2011
Pre-precious metals credit unit cost of copper production	13 153	13 661	14 875
Value of anode slimes	3 403	3 174	4 576
Total unit cost of copper production	9 750	10 487	10 299
Electrolytic copper production from own concentrate ('000 t)	398.6	427.0	446.4

The Company's operating costs are decisively impacted by the costs of electrolytic copper production, whose share in the Company's costs is over 93%.

The pre-precious metals credit unit cost of copper production (unit cost prior to decrease by the value of anode slimes containing among others silver and gold) in 2011 increased versus 2010 by 1 994 PLN/t, i.e. by 12.8%, mainly due to an increase in the value of purchased copper-bearing materials (+1 010 PLN/t) due to a higher volume of consumption by 4% (4.6 thousand tonnes of copper) and of purchase prices by 22%.

Structure of expenses by nature in 2011



The pre-precious metals credit unit cost of copper production from own concentrate increased by 1 214 PLN/t, i.e. by 8.9%, mainly due to an increase in the expenses by nature described below (excluding purchased copper-bearing materials), alongside the positive impact of a higher volume of copper production from own concentrate (+4.5% in relation to 2010).

In 2011 total expenses by nature increased by PLN 1 660 328 thousand, i.e. by 17.6%, mainly due to:

- the higher value of purchased copper-bearing materials (PLN 880 640 thousand) due to an increase in purchase prices and in the volume of consumption by 10.7 thousand tonnes of copper (of which 4.6 thousand tonnes relates to electrolytic copper production),
- external services (PLN 227 028 thousand) – mainly due to an increase in the scope of mining preparation work (+9 km) (PLN 118 197 thousand),
- materials and fuel (PLN 214 731 thousand) – mainly due to an increase in prices,
- labour costs (PLN 193 530 thousand) – mainly due to higher provisions for future employee benefits by PLN 72 773 thousand,
- depreciation/amortisation (PLN 56 905 thousand) – due to an increase in realised investments in property, plant and equipment (+20%).

The structure of expenses by nature in 2011 is shown in Chart 9. With respect to prior years, the change in the structure is mainly due to higher consumption of purchased copper-bearing materials (in 2009: 23%, in 2010: 30%) alongside the lower share of employee benefits costs (in 2009: 31%, in 2010: 28%).

Realisation of projected financial results for 2011

In a current report dated 31 January 2011, the Company published its Budget assumptions for 2011 as accepted by the Supervisory Board on the same day. The Budget assumed the achievement in 2011 of revenues from sales in the amount of PLN 16 067 million and profit of PLN 8 345 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 21 December 2011. Basic assumptions, projected results and their realisation are shown in Table – Realisation of projected Company financial results for 2011.

Due to the continuous updating of the forecast for 2011, the final realisation of financial results was not different from the planned amounts.

Realisation of projected Company financial results for 2011

		Forecast (31.01.2011)	Forecast update (5.09.2011)	Forecast update (22.12.2011)	Execution 2011	Realisation of forecast (%)
Sales	**million PLN**	**16 067**	**18 934**	**20 084**	**20 097**	**100.1**
Profit for the period	**million PLN**	**8 345**	**9 643**	**11 192**	**11 335**	**101.3**
Average annual copper price	USD/t	8 200	9 000	8 827	8 811	99.8
Average annual silver price	USD/troz	25.00	32.00	35.11	35.12	100.0
Exchange rate	USD/PLN	2.80	2.80	2.97	2.96	99.7
Electrolytic copper production	'000 t	543.0	570.3	570.3	571.0	100.2
- of which from purchased copper-bearing materials	'000 t	111.0	128.0	128.0	124.6	97.3
Silver production	t	1 027	1 144	1 144	1 260	110.1
Capital expenditure	million PLN	1 892	1 732	1 645	1 514	92.0
Equity investments*	million PLN	9 046	10 757	642	640	99.7

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

Projected Company financial situation

On 27 March 2012, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2012. The bases for development of the Budget were the results for 2011 and the assumptions of individual operating plans. The basic assumptions of the Budget for 2012 are presented in table.

Assumptions of Company's Budget for 2012

		Execution 2011	Budget 2012
Sales	**PLN million**	**20 097**	**19 418**
Profit for the period	**PLN million**	**11 335**	**3 804**
Average annual copper price	USD/t	8 811	8 000
Average annual silver price	USD/troz	35.12	30.00
Exchange rate	USD/PLN	2.96	3.09
Unit cost of electrolytic copper production from own concentrate	PLN/t	10 299	15 729
Electrolytic copper production	'000 t	571.0	562.0
of which from purchased copper-bearing materials	'000 t	124.6	147.3
Silver production	t	1 260	1 098
Capital expenditure	PLN million	1 514	2 100
Equity investments*	PLN million	640	10 671

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

The decrease in profit by PLN 7 531 million, i.e. by 66%, is mainly due to: recognition in the result for 2011 of the sales of telecom assets, a change in exchange differences, effects of the introduction of the minerals extraction tax and the deterioration of macroeconomic conditions.

The increase in the cost of electrolytic copper production from own concentrate versus 2011 by 53% is mainly due to the minerals extraction tax. Under comparable conditions, the above cost would be higher by 22%, of which mainly due to lower electrolytic copper production from own concentrate. In 2011, the relatively high level of production from own concentrates was due to the use of concentrate inventory accumulated in prior years due to the maintenance cycle. The volume of copper production in concentrate in KGHM Polska Miedź S.A. remains at a stable level.

The substantial increase in equity investments is due to the purchase in the first quarter of 2012 of Quadra FNX Mining Ltd. shares.

The results of the Company will be substantially impacted by the inclusion in the projection of payment of the minerals extraction tax, beginning from May 2012. Detailed information regarding the on-going legislative process for the introduction of the aforementioned tax is presented below.

Information on the legislative process with respect to the minerals extraction tax

On 14 December 2011, the Finance Minister presented a draft law for the mineral extraction tax (hereafter: Draft Law). In accordance with laws regulating lobbying during the formation of a law, the Company announced its interest in work on the Draft Law.

On 27 January 2012, the first parliamentary reading was held of the Draft Law, and was subsequently sent for further work by the Committee of Public Finance. On 14 February 2012, the Committee of Public Finance approved the report on the government's Draft Law for the mineral extraction tax, in which the Committee recommended adoption of the Draft Law as amended by the Committee.

On 2 March 2012, Parliament adopted the aforementioned Law, and on 14 March 2012 the Senate gave its approval without enacting changes. It was then sent to the President for approval.

The Law came into force on 18 April 2012.

The results of KGHM Polska Miedź S.A. will be substantially impacted by the minerals extraction tax.

Assuming realisation of the Budget assumptions for 2012, the amount of this tax for 2012 (from the date it comes into force) will amount to PLN 1.3 billion.

The mineral extraction tax is calculated from the amount of copper and silver contained in produced concentrate, and will be accounted for under manufacturing costs. This tax is not deductible, and therefore does not decrease the taxable base for CIT.

Investments and Research and Development

Report on capital expenditures incurred in the Divisions of KGHM Polska Miedź S.A. in 2011

Capital expenditure in the reporting period:

Analysis of the capital expenditures realised in the Company showed a segregation of projects into small, repeatable projects related primarily to the need to replace assets, and projects of significantly greater difficulty, size and risk which have a substantial impact on the Company's development and the realisation of its strategy.

As a result of the aforementioned analysis, assumptions were developed to reorganise investment activities and to segregate capital expenditures into:

- centrally-realised projects – development- and replacement-related investments of particular importance for the Company, which in 2011 amounted to PLN 616 918 thousand (41%),
- locally-realised projects – these are replacement-related projects, and typical/repeatable development projects, minor conformatory and purchases, which in 2011 amounted to PLN 896 980 thousand (59%).

Responsibility for the management of centrally-realised investments is assigned to project leaders, and for those locally-realised to Division directors. In classifying projects as central or local, the following is considered:

- the unrepeatability of the activity and its result – uniqueness of the product
- the degree of complication of the project (is it interdisciplinary),
- whether the project is high risk,
- the need to segregate the organisational structure of the project if the functional structure does not permit its realisation.

Capital expenditure by Division ('000 PLN)

	2009	2010	2011
Mining	833 507	985 097	1 056 553
Smelting	218 998	230 798	218 404
Other	17 307	47 097	238 941
Total	**1 069 812**	**1 262 992**	**1 513 898**

Development-related investments ('000 PLN)

	2009	2010	2011
Development-related investments:	**513 195**	**742 932**	**853 097**
in mining	429 759	629 734	538 046
in smelting	78 180	81 809	97 113
in other Divisions	5 256	31 389	217 938

Investments related to replacing assets ('000 PLN)

	2009	2010	2011
Replacement-related investments	**556 617**	**520 060**	**660 801**
in mining, of which:	403 748	355 363	518 507
mining machines	194 485	190 486	210 883
in smelting	140 818	148 989	121 291
in other Divisions	12 051	15 708	21 003

Central investments ('000 PLN)

	Expenditures incurred for 2011
Central investments	**616 918**
in mining	341 496
in smelting	57 741
in other Divisions	217 681

Local investments ('000 PLN)

	Expenditures incurred for 2011
Local investments	**896 980**
in mining, of which:	715 057
mining machines	210 883
in smelting	160 663
in other Divisions	21 260

Investments by KGHM Polska Miedź S.A. ('000 PLN)

	Expenditures incurred for 2011
Local investments	896 980
Central investments	616 918
Total	**1 513 898**

Major projects and facilities realised in 2011:

Mining

- Construction of the SW-4 shaft – work continued on sinking the shaft – since work started the depth of the shaft has reached 872.9 meters, while 212.5 meters of drifts have been excavated.
- Głogów Głęboki – Przemysłowy – work continued on realisation of drifts with infrastructure – in 2011, 2 375 meters of drifts were excavated and preparatory work to sink the GG-1 shaft was performed (work was completed on the drilling of 18 freeze holes).
- With respect to modernisation and replacement of the machinery park in the mines, 226 mining machines were purchased.
- In the mining divisions, work was carried out on investments related to development of the infrastructure of the mining sections, ventilation and cooling equipment and investments in the conveyor belts and pipelines.
- With respect to the replacement of floatation machinery, 25 floatation machines were renovated and work was completed on the machinery development project for the years 2012- 2013.
- As part of the exploration project "Investigation and documentation of the Synklina Grodziecka region of the "Niecka grodziecka" deposit, 7 drillholes were made with work begun on an 8th hole. The results obtained from chemical analysis of ore series core samples from the first three drillholes showed that they meet the criteria applied to the deposits mined by KGHM. The remaining core samples are undergoing testing.
- Facilities were realised related to improving and maintaining the safe operation of the Żelazny Most tailings treatment pond and to elimination of its environmental impact.
- Realisation was continued on the project "Development of the Żelazny Most mining tailings treatment pond to ensure the ability to store floatation tailings after 2016".
- As part of the project Licensing 2013, geological information was purchased for 7 of the basic mining areas of KGHM Polska Miedź S.A.
- Realisation began on the project Achieving rock salt production of 1 million tonnes/year; geological information

was purchased on the deposit, tenders were held and equipment delivery began.

- As part of the project "Development and implementation in the mines of KGHM Polska Miedź S.A. of technology for the mechanical extraction of ore" (automated extraction machinery), the testing site for the ACT complex was prepared
- Realisation was continued on the project "Ore Extraction Information Management System" – IT applications were realised, whose task is to support the ore extraction management process in terms of the project's main goal, which is the creation of conditions for the organisation and realisation of production control (analysis of various extraction scenarios).
- As part of the project "System for the operation and servicing of underground machinery (CMMS)" a system for the operation and servicing of machinery was implemented at the Lubin mine, with preparation of the system for implementation in 2012 at the other mining divisions.

Smelting

- As part of the Pyrometallurgy Modernisation Program – during the reporting period preparatory work was performed so as to realise the investment without operational interference with working equipment.
- The 4th Doerschel furnace was brought into operation.
- Investments were realised involving among others renovation of the sulphuric acid plant, the concentrate warehouse, modernisation of a smelting furnace and the scrap warehouse, replacement of electrofilters and construction of the electrolite tubs.

Other

- As part of the project Construction of Gas-Steam Blocks in the Powerplants in Głogów and Polkowice, foundation construction continued by the General Investment Contractor in the Powerplants in Głogów and Polkowice, with delivery and assembly of recovery boilers and gas turbo units.

Employment in KGHM Polska Miedź S.A.

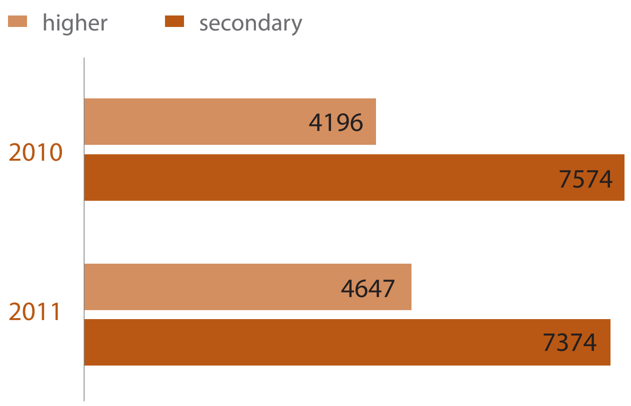
Employment in KGHM Polska Miedź S.A. at the end of 2011 amounted to 18 615 persons, which was 0.1% lower than at the end of the prior year. The employment structure was as follows:

	2009	2010	2011
Mines	12 397	12 645	12 604
Smelters	3 931	3 869	3 810
Other	2 085	2 125	2 201
KGHM Polska Miedź S.A.	**18 413**	**18 639**	**18 615**

Educational structure

In 2011, the number of employees of KGHM Polska Miedź S.A. with higher education increased. The number of employees with secondary and higher education was as follows:

Educational structure



Human Resource Management System

In 2011, work was performed on a new employee incentive system and a new Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. a Code of Ethics was also developed for the employees of KGHM Polska Miedź S.A. In June another survey of employee satisfaction was performed. With respect to the Human Resource Management System, further modifications were made to the Periodic Employee Assessment System.

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 PZU FIO Parasolowy investment fund, comprising the following subfunds:
1. PZU Akcji KRAKOWIAK (PZU KRAKOWIAK)
2. PZU Stabilnego Wzrostu MAZUREK (PZU MAZUREK)
3. PZU Papierów Dłużnych POLONEZ (PZU POLONEZ).

The basic contribution financed by the employer amounts to 5% of employee wages. At 31 December 2011, 88% 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. Employees can take advantage of visits to specialised physicians as well as laboratory tests. At 31 December 2011, 47% of employees had opted for the additional medical packet.

Purpose and use of the Social Fund in KGHM Polska Miedź S.A. in 2011

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 5 458. 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 2011 amounted to PLN 101.4 million.

18.5 thousand employees and over 17.5 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 2011 was approx. PLN 2 247 per employee.

- Holidays for children and youth.
  KGHM organises and subsidises various forms of recreation for children and youth. In 2011 nearly 6 600 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. Loans for the construction or purchase of flats or homes are granted in the amount of approx. PLN 50 000.

- 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 2011 this financing amounted to PLN 2 042.

- 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 2011 this financing was from PLN 40 to PLN 83, depending on any discounts held for railway travel, and covered all of the employee's family members.

- Health-related holidays.
  In 2011 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.

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 2011 this equivalent amounted to PLN 1 799.40 per entitlee.

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

The highest employment is in the Parent Entity. In 2011 the average level of employment was 18 578 positions. Among the remaining Group companies the highest average number of employees in 2011 was recorded in the following entities (in positions):

- ZANAM-LEGMET Sp. z o.o. – 1 722,
- PeBeKa S.A. – 1 596,
- POL-MIEDŹ TRANS Sp. z o.o. – 1 093,
- NITROERG S.A. – 991.

The changes in the level of employment in the KGHM Polska Miedź S.A. Group was due to changes in the Group's structure, mainly due to an increase in the number of Group entities.

Average employment by period (positions)

Description	2009	2010	2011
White-collar workers	8 957	10 051	9 149
Blue-collar workers	19 927	20 877	22 034
Total	**28 884**	**30 928**	**31 183**

Corporate Social Responsibility

Sponsoring in KGHM Polska Miedź S.A.

The Strategy of KGHM in terms of sponsoring is closely related to the activities undertaken with respect to Corporate Social Responsibility (CSR) and assumes that most of the funds will be used to achieve planned goals aimed at promoting the region and supporting valuable initiatives as well as cultural, scientific and sporting events, thanks to which Lower Silesia is establishing its position on the maps of Poland and Europe.

KGHM participates in the organisation, and serves as patron, of important cultural events, which – based on local traditions and creative potential – distinguish the Copper Belt in the calendar of events on a country-wide scale. In terms of science, KGHM cooperates with institutions of higher learning by sponsoring conferences and discussion panels, which serve as a bridge for the exchange of knowledge and experience between industry and the academic environment. The Company treats sport as an important area of social life, and therefore it supports various sporting disciplines – both professional and amateur sport.

Total spending on culture, science and sport in 2011 amounted to PLN 28.5 million.

Polish Copper Foundation

One of the pillars of CSR in KGHM Polska Miedź S.A. is its charitable work performed through the Polish Copper Foundation founded in 2003, a legally-recognised charitable organisation. The idea to establish the Fund was based on the active social policy of KGHM Polska Miedź S.A. Its creation represented a continuation of the Company's charitable and socially-oriented activities, which since the inception of the Company in Lower Silesia have supported a variety of local and national projects.

The social activities engaged in by the Polish Copper Foundation provdes subsidies in areas such as the protection and promotion of health; actions on behalf of the handicapped; science, edication and child rearing; learning about the country and recreational activities for children and youth; culture and art; protecting items of cultural importance and traditions; promoting physical fitness and sport; ecology and protection of animals; protection of environmental heritage sites; public order and safety and combatting social pathologies; charitable activities; and aiding victims of natural disasters.

In 2011 the Polish Copper Foundation provided cash subsidies to institutions for the realisation of 400 projects amounting to PLN 12 million, and supported 1438 individuals with cash subsidies amounting to PLN 3.5 million.

In 2012, for the first time, a Corporate Social Responsibility Report was published, which described in detail the sponsoring-related activities of KGHM Polska Miedź S.A. and the charitable and social activities of the Polish Copper Foundation.

1997 – MARKET DEBUT
On 10 July 1997 KGHM was privatised and its shares began to be traded on the Warsaw Stock Exchange.
On this date the share price amounted to PLN 23.50.

DEVELOPMENT PROJECTS

KGHM is consistently realising its strategy for growth through the modernisation of existing infrastructure and operational improvements, as well as intensification of mining operations.

Development projects

New horizons – economy, safety, ecology

One of the strategic assumptions of KGHM Polska Miedź S.A. involves the investment project "Construction of Gas-Steam Blocks in the Power Plants in Głogów and Polkowice". This investment involves two gas-fired power plants (Gas-Steam Blocks) of 45MW$_e$ and 40 MW$_t$ each. The new power plants are being built alongside the existing coal-fired power plants of Energetyka, and in their basic mode of operation will be treated as the primary power generation source, while during the heating season, together with the coal-fired units, will fully ensure the heating needs of the industrial and municipal customers of Energetyka.

The following factors were the driving force behind the decision to undertake this investment:

- Economics.
  The production of electricity to meet the needs of KGHM Polska Miedź S.A., as a by-product of the production of heat, using GZ-41.5 natural gas as the fuel source. This will decrease energy purchases by 546 000 MW$_h$.
  The achievement of revenues from the generation of electricity in highly-efficient gas cogeneration (so-called yellow certificates) in the approx. amount of PLN 72 million/year.

- Energy security.
  The gas turbounits in the gas-fired power plants were adapted to island operation and, in the case of a lack of energy supply from the TAURON Distribution network, guarantee energy supply to allow for continued production in KGHM Polska Miedź S.A., including the following divisions: The Głogów smelter, the Rudna mine and the Polkowice – Sieroszowice mine.

The supply of energy to allow for continued production, and in cases of extended stoppages of energy supply from the external network, ensures the safe completion of these operations. Each gas-fired power plant is equipped with generator units and enables the start-up of the facilities without the need for power from the external network. In addition, as part of the investment project Construction of Gas-Steam Blocks, power lines are being built to supply the Głogów smelter and the mines, as wel as modernisation of the 110/6 kV electrical switching stations. This work is aimed at ensuring the reliability of the electrical generating equipment and, in the case of external supply stoppages, will guarantee the supply of energy from the internal resources of KGHM Polska Miedź S.A.

- Ecology
  The Gas-Steam Blocks will be fueld by natural gas from local domestic sources situated in the vicinity of Kościan, generating electricity and heat with over 80% efficiency, with all of the electricity generated being added to the highly-efficient gas cogeneration. Thanks to the use of gas as a fuel, emissions of carbon dioxide per 1 MW$_h$ of the energy produced will amount to barely 0.230 tonnes, and will be several times lower than traditional emissions from coal-fired plants. Moreover, the gas turbines and recovery boilers have been equipped with instalations to reduce emissions of mono-nitrogen oxides (NO_x), thanks to which existing and future requirements in this regard will be met. Construction of the Gas-Steam Blocks in the Power plants in Głogów and Polkowice has been registered in the National Investment Plan.
  The generation of electricity and heat from natural gas will enable a reduction in the consumption of brown coal in the power plants of Energetyka of approx. 100 thousand tonnes/year, while retaining the possibility for the preparation and execution of further modernisation, using biomass, syngas or other available technology, depending on the financial possibilities and available support systems.
  Following the completion of this investment, KGHM Polska Miedź S.A. will be transformed from a passive consumer of power to that of an active player on the energy market. Depending on market-related cost factors, it will be possible to either decrease or increase the amount of power generated and to achieve an optimal proportion between energy consumed and produced using these internal sources and that bought on the market. Aspects related to improving energy security and reducing environmental impact also confirmed the rationale of the investment decisions taken.

Automated industrial systems

In KGHM Polska Miedź S.A. the question of continual improvement in employee worksite safety is a challenge which determines the actions of all of the company's employees. Due to the fact that KGHM's miners have been finding themselves working increasingly at depths below 1200m, with rock temperatures at these depths approaching 50oC, remotely-controlled control and production monitoring systems have been in use for several years with great success. Employees supervise production, controlling machines and equipment from their surface-based worksite or from a relatively safe location, where working conditions pose virtually no hazard (e.g. at control points located approx. 2km from the actual worksite). Surface-based remotely-controlled control and production monitoring systems:

- power transmission and distribution systems,
- ore conveyor belts,
- ventilators and pumps,
- air circulation barriers and system for the continuous monitoring of worksite environmental parameters,

in KGHM Polska Miedź. S. A. are now the standard. The data transmission and communications infrastructure currently in use – highly developed, mobilely secure, based on cutting-edge global standards – utilises analog and digital data transmission systems, an optical fiber network around 150 km in length, a commun ications network thousands of kilometers in length, data concentrators, and telephone centrals operating in a comprehensive structure.

Such well-developed infrastructure, combined with modern, automated industrial systems, IT production support systems (ISZEZ, CMMS, EKSPERT), and experienced production supervisors and staff, as well as the promotion of activities related to the implementation of new technology, means that KGHM Polska Miedź S.A. is continuously pursuing innovative projects either directly or indirectly related to improving employee safety and comfort as well as enhancing efficiency in production.

In terms of the development of power generation infrastructure technology in KGHM Polska Miedź S.A., it may be stated that the current level of techniques and technology applied in the mines is at a world class level. This beyond doubt is due to:

- the continuous exchange of know-how between domestic and international scientific and research institutions as well as other global copper producers, in terms of searching for new, more effective technological solutions,
- participation in European and global projects, whose goal is to introduce into mining modern technology (ARTEMIS, Deep Intelligent Mine, Mine of the Future etc.),
- the Company's solid position amongst the major global copper producers and its transparent, long-term strategy, which provides other companies, offering the newest technology in the mining sector, the confidence to meet mutual obligations,
- a highly-qualified engineering and technical staff, which stimulates and ensures further technical development based on in-house solutions as well as solutions offered by the market,
- continuous modernisation of various aspects of the production chain,
- continuous upgrading of employee expertise, as well as the preparation of reserve staff thanks to active cooperation with secondary and post-secodary schools,
- the monitoring of the production chain in terms of evaluating the effectiveness of achieving production targets, and
- the actions taken to permanently and systematically improve workplace safety.

Voice and alarm communication

Radio communication system KST STAR-DOTRA for the Mining Divisions of KGHM Polska Miedź S.A.

KGHM Polska Miedź S.A., at a cost of approx. PLN 40 million, is completing construction in the Company's underground mines of a modern, trunked radio system KST STAR – DOTRA.

This trunked radio system is based on the MPT 1327 system and is a standard radio communication system using digital signals.

The system's designer and operator is a company owned by KGHM Polska Miedź S.A. – INOVA Centrum Innowacji Technicznych Spółka z o.o.

The system being installed by KGHM Polska Miedź S.A. will be, most likely, the longest such system in the world, and together with development carried out during construction of the system, will be over 340 km in length underground, together with feeder cables, signal enhancers and a radiating leads serving as antennas.

This radio-voice communication system ensures voice communication between hand sets, mobile units (mounted in the cabins of mining machinery) and fixed (base) units, and is integrated with mine central switchboards as KST STAR – DOTRA. Thanks to this, communication is also ensured between radio units as well as with the general fixed-line mine phones.

To ensure radio communication at the mining faces, supporting directional antennas are also being installed.

The system will raise the level of safety of employees in the mining sections, improve labour organisation and productivity and make the process of mine management more efficient and rapid. This communication is based on emitting cable/radiating antenna technology for voice communication, broadcasting alarms and informing staff of dangerous situations.

Scope of underground and surface telecomunications infrastructure built for the project:

KGHM MINES	Length of antennas (km)	Radiotelephone mobile units	Radiotelephone hand sets	Radiotelephone fixed units	Charging points	Testers
Lubin mine	92.95	270	132	5	11	3
Polkowice-Sieroszowice mine	142	466	372	21	32	4
Rudna mine	86.03	497	217	37	19	3
Total KGHM	320.98	1233	721	63	62	10

Integration of the voice radio communication system DOTRA with the STAR alarm/broadcast system will improve the effectiveness of broadcasting staff announcements on dangerous situations by the STAR dispatcher, using mobile radio communications.

This is especially important for contacting machinery operators, working in sealed, climatised cabins, where until now, announcements sent out by the STAR alarm/broadcast system could not be heard.

A total of 1233 mining machines have been equipped with radiotelephones.

The system will provide for:
- the broadcasting of group alarms or ordinary announcements – the dispatcher, using the STAR system's dispatch panel, may broadcast alarm signals and voice announcements to the STAR system's telephones and signalling units as well as to the DOTRA system's radiotelephones,
- contacting dispatchers and central switchboards by pressing programmable buttons in the radiotelephones,
- connecting the STAR system's dispatch panel with any radiotelephone or group of radiotelephones in the DOTRA system.

In March 2012 construction of the KST STAR – DOTRA radio-voice communication system in the mines of KGHM Polska Miedź S.A. was completed. The telecomunications infrastructure built represents both a basis for further development of the system and the implementation of other functions.

Program to optimise machinery management

The machinery management optimisation program which has been in operation for several years has resulted in continuous improvement in machinery productivity, in comparative conditions.

The mining machinery potential of KGHM Polska Miedź S.A. is composed of a total of 1289 mining machines, of which basic machinery includes: 220 loaders, 160 haulers, 153 bolting rigs, 113 drilling rigs, 44 shearers and 43 tracked bulldozers.

Each year over 200 mining machines are purchased, with a machinery turnover ratio in the years 2007-2011 of 17%. The investment process involves the simultaneous realisation of the modernisation and development program as well as the program to enhance the safety of underground miners. Increased safety is guaranteed by the introduction in recent years of machines equipped with insulated cabins, which effectively protect the operator during periods with the potential for hazardous event occurrance, such as rock bursts or collapses of the ceiling or walls. Already, 154 machines are equipped with such cabins. In addition, machines are being developed with insulated cabins with emergency hatches to assist in the freeing of the operator during rescue operations following rock bursts or collapses. KGHM already has 39 of these machines. Due to the conditions prevalent in the mines, cabins in 320 of the machines are climatized, improving the comfort of operators of loaders at mining faces with high temperatures. Nearly 100 machines are climatized with outside air.

The mining machines used are mainly equipped with high-performance, STAGE 2 and 3A engines. All machines have fire extinguishers. 862 machines have automatic fire extinguishers for dousing fires at their source, while 55 low-profile machines also have installed fire fighting equipment for extinguishing fires which cannot be fully extinguished at the source.

Cameras are installed on low-profile machines to provide operators with better control by improving visibility.

The process of bolting requires two persons, the bolting rig operator and an assistant, who is exposed to the danger of rock bursts and collapses. Since 2011, work has been performed in the Rudna mine on testing an automated bolting rig, which allows the operator to work in a climatised cabin, without an assistant.

Moreover, starting from 2012 new machines will be equipped with registering devices designed to monitor selected technical parameters and the work performed by the machines.

Practical training for the machinery operators takes place in a training section located in the Lubin mine, using machines which are currently in use.

KGHM is also involved in R&D aimed at developing new copper ore mining technology using a mechanical roadheader, which is something unique in the global mining industry. This project is one of the Company's strategic goals assigned to Pillar I of the strategy – Improving effectiveness.

The goal of the project is to develop and implement comprehensive technology for the mining of thin ore seams up to 2.0 m thick, as a technical and economic alternative to the current room-and-pillar system where explosives are used to extract the ore. Work comprising industrial research has been completed.

Work is underway related to the construction and testing of individual elements of the overall mining complex and to prepare the test site, including:

- Testing performed by the producer at its research facility. Work is underway aimed at implementing necessary changes in the mining machine as well as the overall mining complex as a result of worksite tests.
- In the Polkowice-Sieroszowice mine a pilot section was outfitted with required technical infrastructure (e.g. power supply, ore haulage, ventilation). Employees are being trained in the operation of the equipment in this section, which will be completed in the second week of May 2012. From the technical point of view, the mine is ready for the delivery, assembly and operation of the equipment comprising the mining complex.

Positive results from the application of this project should result in an end to the trend of rising mine production costs and allow for the extraction of ore from thin seams of up to 2.0m. This in turn will allow for the efficient functioning of the copper mining industry in Poland, despite the increasingly challenging mining and geological conditions and the rapidly changing environment, both near and far.

Personal Climate System

Rock temperature, which rises as mining operations descend to lower parts of the orebody, along with the increasing power of the machinery and equipment used, are responsible for increased air temperatures in the mines, making working conditions more challenging for the people employed in these areas. This climate hazard is, and will remain, one of the primary hazards faced by miners, and will determine the ability to work at depths below 1200 m.

The extraction of ore at increased depth requires the use of specialised climate control equipment, ensuring employees the necessary level of worksite comfort, such as:

- a central climate control system – to control climate in the mining sections, drift tunnels and in functional cells,
- climate control machinery at the working faces – to cool air flow to the mining faces during drift work,
- workplace climate control – built into vehicles, at dumping points, conveyor belt engines, etc.

For persons employed at mobile stations, apart from the mining sections, protection from climate hazard could be provided by the "Personal Climate System" program. In 2011, a technical materials testing program for a "Personal Climate System" was developed and commenced for adaptation to the climate conditions prevailing in the mines. The goal of this program is to perform preliminary testing and to select equipment for employees working in hazardous climate conditions from equipment available in the domestic and international markets, to restrict this hazard. During phase two of the testing, this equipment will be subjected to more comprehensive analysis conducted in cooperation with Wroclaw Medical University, in order to select the most effective equipment to protect staff employed in areas affected by such conditions.

The technical materials testing program for a "Personal Climate System" will include the application of the following elements:

- Hardhats with a system of ventilation slots.
- Hardhats with cooling inserts.
- Hardhats with forced air flow.
- Vests with evaporation cooling.
- Vests with phase-change materials.
- Vests combining two cooling technologies, evaporation cooling and phase-change materials (hybrid systems).
- Compact body cooling system.

This equipment is currently being tested in a heat chamber and under actual underground conditions in the Rudna and Polkowice-Sieroszowice mines, under the supervision of the Director of the Emergency Mine-Smelter Rescue Division in Lubin. The purpose of these tests is to confirm the functionality of the equipment during normal work.

2011 – STRATEGY FOR GLOBAL GROWTH
6 December 2011 commencement of the successfully-completed friendly takeover of the Canada-based mining company Quadra FNX Mining Ltd., which owns mines in Canada, the USA and Chile.
This international expansion by KGHM marks a new era of growth for the Company.

KGHM POLSKA MIEDŹ S.A. GROUP

The KGHM Polska Miedź S.A. Group not only comprises its core business of copper and silver production as a world leader in this regard, but also includes companies associated with the core business as well as a large number of other companies operating in various sectors which together represent the richly diversified pantheon of Polish Copper.

General information on the Group

The KGHM Polska Miedź S.A. Group has developed over the last 20 years. During the initial phase, most entities arose as a result of the separation of specific operational areas of KGHM Polska Miedź S.A. In this manner, in 1993 the Group's first companies arose. In subsequent years there were changes to the composition of the Group and the number of entities it contained. At the end of 2011 the KGHM Polska Miedź S.A. Group numbered 50 entities, 47 of which are subsidiaries, including three closed-end non-public investment funds.

Nine of these subsidiaries formed their own groups:
- KGHM Ecoren S.A.;
- PHP "MERCUS" sp. z o.o.;
- POL-MIEDŹ TRANS Sp. z o.o.;
- "Energetyka" sp. z o.o.;
- BIPROMET S.A.;
- NITROERG S.A.;
- KGHM I FIZAN;
- Fundusz Hotele 01 Sp. z o.o. S.K.A.;
- Fermat 1 S.à r.l.

The companies of the KGHM Polska Miedź S.A. Group are diversified in terms of types 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 transportation, commerce, medicine and capital investment. Many of these companies, mainly those involved in production, provide services to KGHM Polska Miedź S.A.

Information on management of the Group

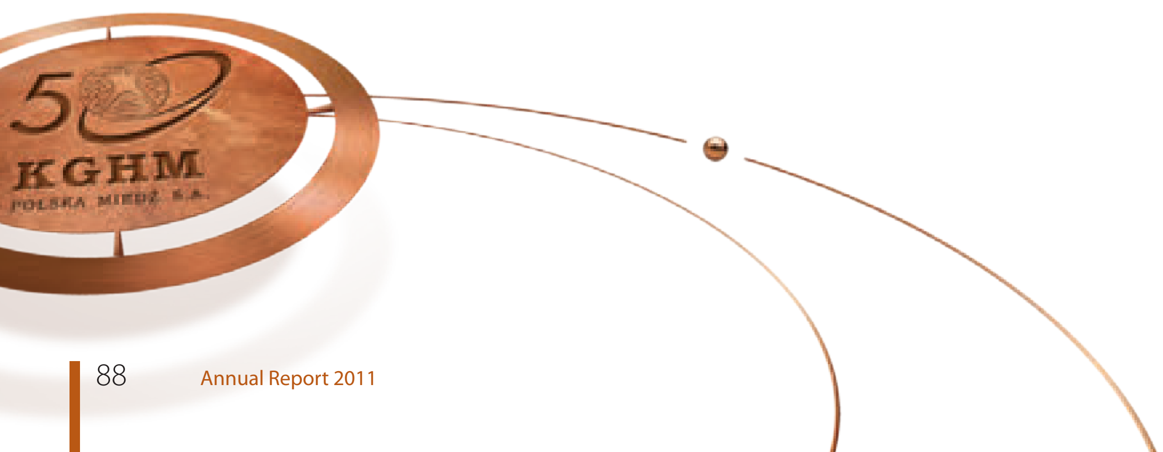
In 2011, the Management Board of KGHM Polska Miedź S.A. decided to introduce a new model for management of the KGHM Polska Miedź S.A. Group.

Introduction of the new model was aimed at adapting supervision over the activities of the Group's companies to the strategy and investment policy of KGHM Polska Miedź S.A., which involves increasing the activities of the Group with regard to acquisitions and realising activities aimed at increasing value.

The management model adopted involves the expansion of supervision over Group companies, beyond that exercised up to now by appropriate units of the Head Office, to include business supervision. This is carried out by separate business units through the managers of these units designated by the Management Board of KGHM Polska Miedź S.A. This model enables business supervision of individual areas of the Group's activities, and also leads to improved management effectiveness of the Group.

As a result of introduction of the new model, changes were made in the manner of presentation of Group operating segments in the consolidated financial statements of KGHM Polska Miedź S.A., adapting them to individual business supervisory units:

Segment I	comprising companies involved in production and in international expansion and resource base development,
Segment II	comprising companies involved in equity-portfolio investment
Segment III	includes companies assigned to the Commerce and Hedging unit
Segment IV	comprising companies involved in CSR



Structure of the KGHM Polska Miedź S.A. Group at 31.12.2011

KGHM Polska Miedź S.A.

Production

- PeBeKa S.A. 100%
- "Energetyka" sp. z o.o. 100%
  - WPEC w Legnicy S.A. 85%
  - "BIOWIND" sp. z o.o. 100%
- ZANAM-LEGMET Sp. z o.o. 100%
- BIPROMET S.A. 100%
  - Przedsiębiorstwo Budowlane Katowice S.A. 58.08%
  - Bipromet Ecosystem Sp. z o.o. 33.66%
- INOVA Spółka z o.o. 100%
- KGHM CUPRUM sp. z o.o. – CBR 100%
- CBJ sp. z o.o. 100%

International expansion and resource base development

- Fermat 1 S.à r.l. 100%
  - Fermat 2 S.à r.l. 100%
- KGHM AJAX MINING INC. 51%
- KGHM Kupfer AG* 100%

Equity-portfolio investments

- KGHM I FIZAN 100%
  - Fundusz Uzdrowiska 01 Sp. z o.o. 100%
  - Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A. ** 100%
  - Fundusz Hotele 01 Sp. z o.o. 100%
  - Interferie Medical SPA Sp. z o.o. 89.17%
  - ZUK S.A. 91.8%
  - Uzdrowisko Połczyn S.A. 90.45%
  - "Uzdrowisko Cieplice" sp. z o.o. 91.67%
  - Uzdrowisko "Świeradów-Czerniawa" sp. z o.o. 87.74%
  - Fundusz Hotele 01 Sp. z o.o. S.K.A. 100%
    - INTERFERIE S.A. 66.82%
- KGHM II FIZAN 100%
- KGHM TFI S.A. 100%
- PHP "MERCUS" sp. z o.o. 100%
  - PHU "Lubinpex" Sp. z o.o. 100%
  - "Mercus Software" sp. z o.o. 100%
  - PHU "Mercus Bis" Sp. z o.o. 32.26%
- POL-MIEDŹ TRANS Sp. z o.o. 100%
  - PMT Linie Kolejowe Sp. z o.o. 100%
- NITROERG S.A. 85%
  - BAZALT-NITRON Sp. z o.o. 30%
- KGHM III FIZAN 100%
- KGHM Ecoren S.A. 100%
  - Ecoren DKE sp. z o.o. 100%
  - CENTROZŁOM WROCŁAW S.A. 85%
  - WFP Hefra SA 98.5%
  - Walcownia Metali Nieżelaznych "ŁABĘDY" S.A. 84.96%

Commerce and hedging

- KGHM Metraco S.A. 100%
- KGHM (SHANGHAI) COPPER TRADING CO., LTD. 100%
- KGHM Kupferhandelsges. m.b.H.i.L 100%

Corporate social responsibility

- KGHM LETIA S.A. 85.45%
- "MCZ" S.A. 100%
- Zagłębie Lubin S.A. 100%

Insurance services center

- TUW-CUPRUM 96.88%

* name changed – previously KGHM HMS Bergbau AG

** company name changed due to change of general partner - previously Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.

Segment I
Production and resource base development

includes Group companies supporting the core business and exploration companies and pre-production companies/projects.

Major entities of Segment I:

PeBeKa S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

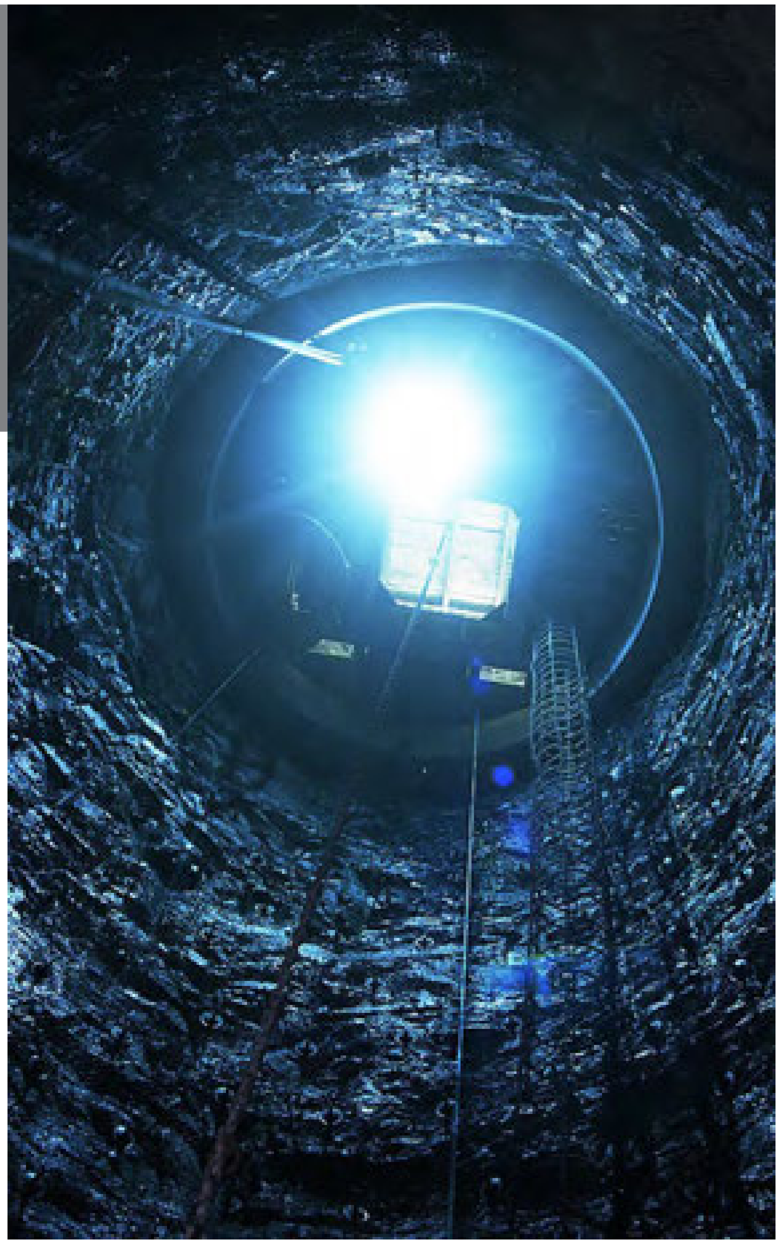
Subject of activities, main focus of operations:

- 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.

Major strengths:

Know-how in realisation of the following work:

- underground and surface facilities and infrastructure for mines – the company is the general contractor for mining work at KGHM Polska Miedź S.A.;
- underground metro tunnels and stations – the company was the general contractor for three metro stations in Warsaw and and a portion of the route 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, a railway connection to the Okęcie airport in Warsaw, tunnels in Turkey, Israel, Algieria and Hong-Kong, and other projects;
- sporting facilities – construction of a new 16 000-seat stadium for the Zagłębia Lubin football club,
- industrial facilities.



Main directions of growth:

- realisation of a project to commence the comprehensive realisation of mine drifts using automated mining technology (mine roadheader complex technology for the mechanical extraction of ore), to increase progress on underground drifts;
- development of contracting capabilities and company skills with respect to underground drilling;
- realisation of a concept to introduce to the company's portfolio of services the sinking of shafts and test holes through freezing.

Significant events in 2011:

- The company joined a consortium of construction companies on the project "Construction of a tramway route for the Lech – Franowo neighborhoods in Poznań";
- The company received the title "Pearl of the Polish Economy" for its consistent realisation of company policy and strategy and for its position as a leader amongst the most dynamic and effective companies in Poland.

"Energetyka" sp. z o.o.

Percentage of company owned by the KGHM Polska Miedź S.A. 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

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;
- 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.

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.

Significant events in 2011:

- realisation of the technological integration of "Energetyka" sp. z o.o. with the subsidiary – WPEC w Legnica S.A., based on utilising synergies;
- development of the project for raising plants used in power generation;
- continuation of work on constructing and bringing into operation windpower turbine units in the protective zone of the Głogów smelter.

WPEC w Legnicy S.A.

Subject of activities, main focus of operations:
- generation, transfer, distribution and trade in heat in the following towns: Legnica, Głogów, Lubin, Chocianów, Chojnów, Ścinawa and Złotoryja;
- servicing for the following types of installations: plumbing-sewage, heating, natural gas and air conditioning.

Major strengths:
- over 35 years of experience in guaranteeing the heating needs of homes and businesses;
- 3 power plants with total capacity of over 390 MW;
- servicing of a heating network for the following towns: Legnica, Lubin, Chocianów, Chojnów, Głogów, Ścinawa and Złotoryja.

Main directions of growth:
- changes in the structure for supplying heat to Lubin and Legnica: from heat supplied to the towns of Lubin and Legnica by its own resources to heat purchased from the company "Energetyka" sp. z o.o.;
- an improvement in network operating parameters and raising the quality of its services;
- the introduction of modern technological solutions with respect to energy supply, ensuring fault-free functioning and appropriate environmental and economic conditions;
- an improvement in the company's environmental impact;
- creating a positive company image as environmentally friendly.

Significant events in 2011:
- realisation of the technological integration of WPEC w Legnica S.A. with "Energetyka" sp. z o.o., based on utilising synergies;
- gaining funds from the Conformity Fund under the Infrastructure and Environment Operating Program, point 9.2 "Effective energy distribution" for renovation of the distribution and connection network and replacement of insulation of artery networks in the heating systems of Legnica, Lubin and Głogów in the total amount of PLN 17 million;
- realisation of important investments in the heating infrastructure.

KGHM Polska Miedź S.A. Group

ZANAM-LEGMET Sp. z o.o.

Percentage of company owned by the KGHM Polska Miedź S.A. 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, transportation units, 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, repair and maintenance, crushers, casters, boilers, floatation machinery and shaft outfitting.

Main directions of growth:
- maintaining the position of the company as the primary supplier of mining machinery to KGHM;
- improving the quality and reliability of its machinery as well as the servicing it provides for its products;
- development of its maintenance activities and of other services provided to KGHM;
- development of new technology.

Significant events in 2011:
- return to the Russian market and gaining of new customers outside Poland;
- participation in the KGHM Polska Miedź S.A. longwall mining machine project – construction of a longwall conveyor and a multifunctional vehicle to transport elements of the longwall machine;
- project and realisation of remote-controlled URB equipment, used in the loading of ore onto conveyor belts;
- development and production of next-generation prototype machinery, including the WIR-170 driller and the LKP-1601B loader;
- award of a medal in the competition "Innovative Solutions in the Construction of Minig Machinery and Equipment" at the International Mine, Power and Smelting Industries Fair in Katowice.

KGHM CUPRUM sp. z o.o. – CBR

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 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.

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); the high reputation of the company's accredited laboratories; implementation of its work in the economic sphere; 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. in the areas of mining, processing and environmental protection;
- 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;
- cooperation with a range of Polish and foreign centers of learning;
- certification for integrated management systems and for the research laboratory management system.

Main directions of growth:
- creating and gaining new innovative global solutions for the core business of KGHM Polska Miedź S.A. aimed at reducing environmental costs;
- supporting realisation of the key components of the KGHM Polska Miedź S.A. strategy;
- maintaining its status as a Research and Development Center and as a Research organisation;
- increasing funding of its R&D work;
- participation in scientific organisations and domestic/foreign platforms, as well as realisation of projects together with other scientific, research and development entities.

Significant events in 2011:
- initiation by the company of the foundation and coordination of the Polish Mineral Resources Technological Platform, whose role is to initiate and support integrated activities to strengthen and develop the Polish mineral resources market;
- participation in international R&D projects under the 7th Framework Program: IRIS, ProMine, LAGUNA – LBNO, I2Mine;
- taking 3rd place in a ranking of companies which received the largest number of patents in Poland in 2010, granted by the MSN Scientific Network and the Patent Office of the Republic of Poland.

BIPROMET

BIPROMET S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. 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-service 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.

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 (electrofilters, bag filters).

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).

Significant events in 2011:
- signing of significant contracts, including with a customer from Romania for the comprehensive modernisation of two electrofilters with transport of dust from a unit for dedusting gas from a sintering belt;
- The company is the general designer for the Pyrometallurgy Modernisation Program at the Głogów smelter of KGHM Polska Miedź S.A.

KGHM Kupfer AG

KGHM Kupfer AG

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Subject of activities, main focus of operations:

- exploration for and mining of deposits of copper and other minerals.

Major strengths:

- realisation of Weisswasser project, one of the local exploration projects of KGHM Polska Miedź S.A., involving analysis of the extent of the deposit of copper and other minerals in the vicinity of the town of Weisswasser in Germany.

Significant events in 2011:

- an increase in share capital held by KGHM Polska Miedź S.A. in KGHM Kupfer AG to 100%;
- commencement of stage I of the Weisswasser project (exploratory drilling).

KGHM AJAX MINING INC.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 51%

Subject of activities, main focus of operations:

- exploration for and analysis of mineral ore deposits.

Major strengths:

- realisation of the Afton–Ajax copper/gold project located in British Columbia, Canada, one of the international development projects of KGHM Polska Miedź S.A.

Significant events in 2011:

- completion of a bankable feasibility study on the Afton-Ajax project.

KGHM Polska Miedź S.A. Group

Segment II
Equity-portfolio investments

includes Group companies treated as financial investments by KGHM Polska Miedź S.A. as well as investment funds managed by KGHM TFI S.A.

Major entities of Segment II:

KGHM Ecoren S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Subject of activities, main focus of operations:

- 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 rhenium and 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;
- presence in the Minor Metals Trade Association (MMTA), a prestigious organisation for producers of rare metals, as well as the Consortium of Precious Metals and Rhenium;
- realisation of projects aimed at reducing the impact of KGHM Polska Miedź S.A. from the generation of industrial waste;
- plays a significant role in realising the strategy of diversification of the activities of KGHM Polska Miedź S.A. with respect to waste management and the production and recovery of metals.

Main directions of growth:

- maximisation of skills in the following areas:
  - utilisation of waste from the core business of KGHM Polska Miedź S.A. (GCT) in the manufacture of new products;
  - utilisation of technology for the recovery and production of other metals and raw materials from waste (GCT);

- development of activities related to waste management and recycling.

Significant events in 2011:

- commencement of sales of metallic rhenium;
- signing of a long-term contract with a new customer for rhenium pellets;
- participation by the company (as an industrial partner) in two international projects: ProMine and KomCerMet (involving research into alternative applications for rhenium),
- comencement of an investment – a new production line for the processing, enrichment and classification of copper at the Głogów smelter;
- conduct of research into the utilisation of electric furnace slag in the production of cast materials (for construction and road building) – project financed by PARP (Polish Agency for Enterprise Development);
- becoming a member of the Polish Raw Minerals Technology Platform, a joint venture of the European Commission and representatives of industry and science, whose goal is to initiate scientific and technological projects and to support the development of individual sectors of the economy.

POL-MIEDŹ TRANS Sp. z o.o.

Percentage of company owned by the KGHM Polska Miedź S.A. 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.

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.

Main directions of growth:
- developing its capacity as a mass railway carrier;
- meeting the logistical needs of the core business of KGHM Polska Miedź S.A. and of the Group;
- maintaining its position as a reliable supplier of oil-based products.

Significant events in 2011:
- purchase of electric locomotives – investment in modern rolling stock;
- commencement of activities based on maintaining warehouses for tax purposes and acting as an intermediary;
- creation of a Licensed Carrier Section based on externally-managed lines (PKP).

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 Polska Miedź S.A. 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 export of goods and production-related 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 in selected sectors, including through companies in the MERCUS Group.

Significant events in 2011:
- expansion completed of the showroom "Galeria Gwiezdna" in Legnica – a retail outlet of 20 thousand m^2, enabling the company to gain a leading position in the region in terms of furniture sales and interior design;
- celebrations surrounding the company's 20th anniversary;
- construction completed on a liquid fuels station at the Głogów smelter.

CENTROZŁOM WROCŁAW S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 85%

Subject of activities, main focus of operations:
- purchase and sale of steel/iron scrap, colored metals and steel alloys;
- recovery and recycling of scrap, steel, colored metals;
- collection and disassembly of used vehicles;
- collection and processing of used electrical and electronic equipment;
- distribution of smelter products;
- production of containers.

Major strengths:
- well-developed distribution network of 12 branches and warehouses supplied with specialty equipment to collect and process scrap and to process smelter products;
- active in the following Polish districts: opolski, dolnośląski, lubuskiego, łódzki and wielkopolski;
- cooperation with the largest domestic smelters.

Main directions of growth:
- intensified sales of smelter products;
- increased turnover of scrap by expanding the scope of activities, while smultaneously adapting infrastructure to stricter environmental regulations;
- developing a concept for utilising non-scrap waste;
- increasing the share of the steel market while smultaneously increasing transaction profitability.

Significant events in 2011:
- realisation of the process of granting free shares to entitled employees – change in the company's shareholder structure.

NITROERG S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 85%

Subject of activities, main focus of operations:
- production of explosives and detonation systems for underground and open-pit mining;
- production of the fuel additive NITROCET 50® – used to increase the cetane count and to improve the quality of diesel fuel.

Major strengths:
- market recognition and high esteem for the NITROERG S.A. brand both in Poland and abroad;
- stable position in the explosives and detonation systems as well as fuel additives sectors, in Poland and Europe;
- wide product assortment;
- tradition and experience in production;
- 100% share held by NITROERG S.A. in the domestic market in sales of dynamite and detonation fuses;
- the company meets most of the supply needs of the mines of KGHM Polska Miedź S.A. for explosives.

Main directions of growth:
- efforts to maintain the company's strong position as an independent producer of explosives and blasting materials,
- expanding the company's activities to include its own blasting services;
- increasing exports to existing serviced markets,
- intensifying actions aimed at improving quality and production methods;
- continuation of research aimed at creating a comprehensive product offer.

Significant events in 2011:
- Joined the KGHM Polska Miedź S.A. Group;
- Celebration of the 140th anniversary of NITROERG S.A.;
- receipt of a certificate of business reliability granted for the highest evaluation of company stability according to Dun & Bradstreet Poland.

KGHM TFI S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Subject of activities, main focus of operations:
- the creation and management of investment funds, including acting as intermediary in the disposal and buy-back 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;
- the creation and management of private, closed-end investment funds:
  - KGHM 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 creation of a Polish Spa Group, which will enable the KGHM I FIZAN fund to gain significant market share in the health spa sector and an increase in the consolidated value of the entity;
- investments by the KGHM II FIZAN fund in renewable energy and the thermal utilisation of communal waste;
- investments by the KGHM III FIZAN fund in the sector of modern technology utilising materials generated by the core business of KGHM Polska Miedź;
- creation of a new closed-end investment fund investing in property, aimed at the optimal utilisation of property by the KGHM Polska Miedź Group;
- active pursuit of domestic and foreign investors, aimed at the co-financing of projects which will be commenced both through newly-created funds as well as realised through individual investment funds.

Significant events in 2011:
- in the KGHM I FIZAN fund:
  - the purchase, through a public tender organised by the Ministry of the State Treasury, of a majority block of shares (87.7% of the share capital) in the company "Świeradów-Czerniawa" sp. z o.o. (realisation of the fund's investment policy, comprising among others the creation of a Polish Spa Group);
  - realisation of obligations to guarantee capital increases of spa companies acquired in 2010 – Uzdrowisko Połczyn S.A. and "Uzdrowisko Cieplice" sp. z o.o.;
  - the completion and opening of the Hotel Interferie Medical SPA in Świnoujście..

Segment III
Commerce and hedging

includes domestic and foreign companies.

Major entities of Segment III:

KGHM Metraco S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Subject of activities, main focus of operations:
- wholesale sales:
  - scrap and raw material semi-products (main business);
  - chemical products;
  - refined lead;
  - roadway and industrial salt;
  - nickel sulphate, copper sulphate, technical selenium, 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 2011:
- continuation of a significant investment – construction of a sulphuric acid storage and loading warehouse in Szczecin;
- distinguisehd in the Gryfy 2011 competition in the category: Companies, for particular achievement in the development of a medium-large company.

KGHM (SHANGHAI) COPPER TRADING CO., LTD.

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 100%

Subject of activities, main focus of operations:
- wholesale sales, including for copper/silicon products, mined products, copper/silicon materials, chemicals;
- consulting services.

Major strengths::
- know-how in the following areas:
  - active promotion of the KGHM Polska Miedź S.A. brand and of the products of the Group on the dynamically developing Chinese market;
  - ensuring the presence of KGHM Polska Miedź S.A. at the center of the most important copper sales market, ensuring rapid and direct access to information on the current situation in China, changes in trends and market conditions;
  - participation in the Asian part of the International Copper Association of copper producers;
  - analysing possibilities and preparing direct purchases on the Chinese market of goods for the KGHM Polska Miedź S.A. Group.

Main directions of growth:
- realisation of procurement projects to meet the needs of the KGHM Polska Miedź S.A. Group;
- sales of copper to the Chinese market.

Significant events in 2011:
- organisation of the visit of representatives of KGHM Polska Miedź S.A. as part of economic missions to China organised by the Office of the President of the Republic of Poland;
- participation in global copper conferences – "The 7th Copper Industry Summit 2011", "7th Asian Copper Conference" and the "9th China International Copper Conference";
- participation in tenders and other promotional activities aimed at securing optimum commercial conditions for the KGHM Group on the Chinese market.

Segment IV Corporate social responsibility – CSR

includes entities involved in realising corporate social responsibility.

Major entities of Segment IV:

"MCZ" S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. 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;
- realisation of medical services in well-organised organisational units, equipped with modern equipment and medical apparatus, serviced by experienced, highly-qualified medical personnel;
- occupational medicine services and additional medical care packets.

Main directions of growth:
- expanding the company's activities by the purchase of large, specialised medical units, supplementing the offer of "MCZ" S.A.;
- construction of a clinic in Legnica at a new site and the purchase of new medical equipment;
- efforts to increase the upper limits for the admittance of patients under agreements with the Lower Silesia branch of the National Health Service;
- increasing the share of revenues from additional medical care packets and adapting the company's specialty services to meet the needs of insurance companies offering private health insurance.

Significant events in 2011:
- commencement of operations by the Electrophysiology and Blood Dynamics Lab at the "MCZ" S.A. hospital in Lubin;
- completion of work on the Electrophysiology Lab and Blood Dynamics Lab at the Regional Specialty Hospital in Legnica;
- receipt from the Health Ministry of accreditation for the "MCZ" S.A. hospital in Lubin;
- awarded 2nd place in the list of best hospitals in Lower Silesia, and 6th place amongst private surgical hospitals in the newspaper Rzeczpospolita ranking "Safe Hospital 2011";
- awarded 3rd place in the competition Leaders of the Polish Health Care System 2010 (Activities on behalf of patients) and honorary mention in the ranking Forbes Diamonds 2011.

Zagłębie Lubin S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. 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 rejuvination;
- youth training.

Major strengths:

- possession of one of the most modern football stadiums in Poland;
- over 60 years experience in managing a football club which has twice won the Polish Championship;
- victory by the Extraclass Youth League in another Polish title in the 2010/2011 season;
- victory by the Zagłębia Lubin I League of 1st place in the U-11 Polish Championship in Kielce;
- one of the few clubs that supports female football – in 2011 joined the structure of the Female Football Section.

Main directions of growth:

- supplying high-quality sporting entertainment, including ensuring high-quality 1st League play;
- development of youth sport and promotion of sport among youth;
- drawing whole families to matches at the Stadium;
- organisation of non-sporting events at the Stadium.

Significant events in 2011:

- change in the training unit for the company's team;
- champions for the second time running of the Polish championship in the Extraclass Youth League playoffs;
- a match played at the Lubin stadium between the Polish and Georgian national teams.

KGHM LETIA

KGHM LETIA S.A.

Percentage of company owned by the KGHM Polska Miedź S.A. 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 Center) will be a modern office building with total office space of around 8 thousand m² 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 at a good site;
- 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.

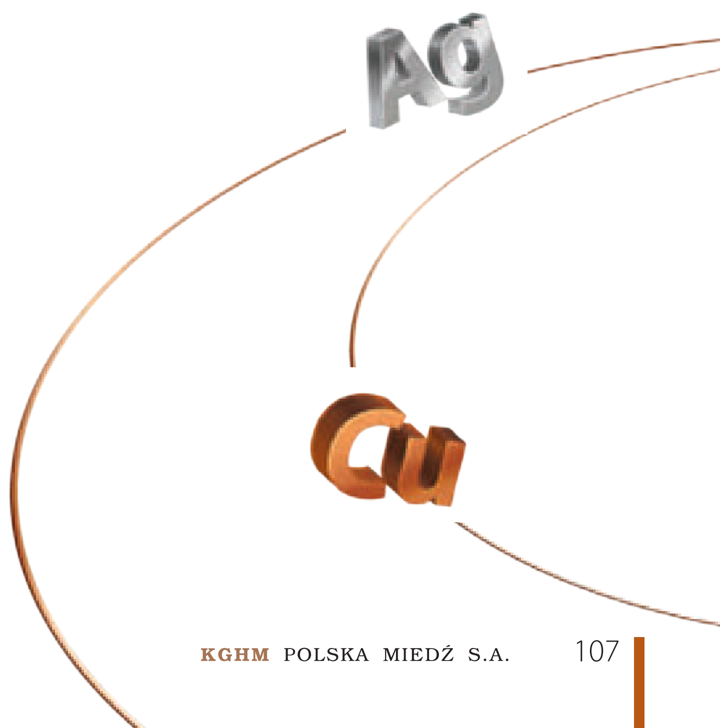
Significant events in 2011:

- realisation of Letia Business Center project – an office-conference-exhibition complex in Legnica with guest rooms and a restaurant called the Letia Business Center (LBC).

Additionally, under the management model of the KGHM Polska Miedź S.A. Group, two further administrative units were established: the Diversified investments in the power sector unit and an Insurance Services Center. These units have not been included in any of the operating segments, as the entities assigned to them were excluded from consolidation.

The Diversified investments in the power sector unit

includes strategic investments in the power sector and other power-releted enterprises not directly related to the core business. In 2011, this unit included only one company – TAURON Polska Energia S.A. (share in capital 10.39% – according to a current report dated 23 March 2011).



Insurance Services Center unit

currently includes one entity engaged in mutual insurance activities – TUW-CUPRUM.

TUW-CUPRUM

Percentage of company owned by the KGHM Polska Miedź S.A. Group: 96.88%

Subject of activities, main focus of operations:

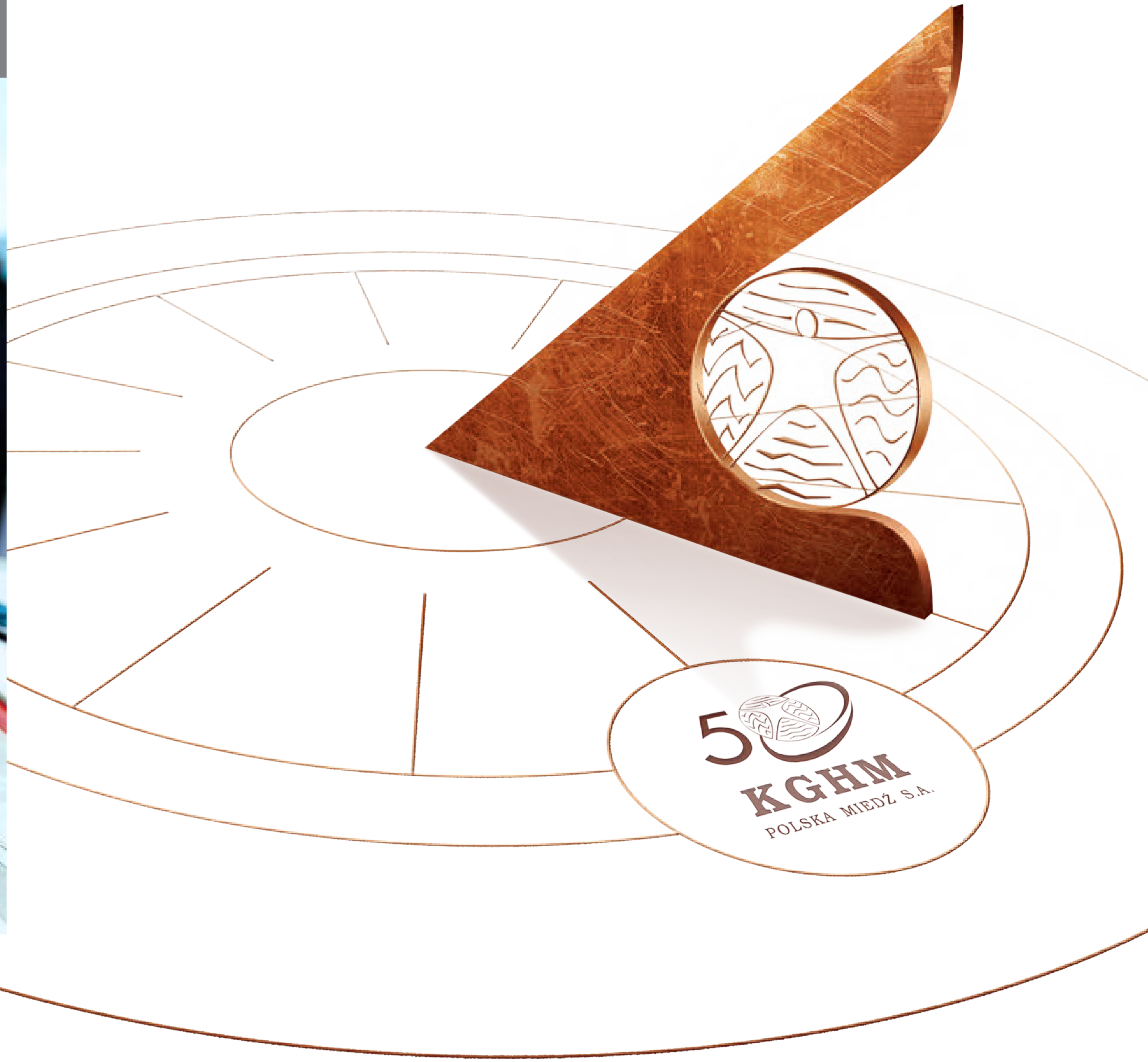
- mutual personal property insurance services;
- coverage of the following: casualty insurance, health insurance, property insurance in domestic and foreign transport, natural disaster insurance, insurance covering other physical damages and general civil responsibility insurance.

Main directions of growth:

- ensuring the maximum security of its insurance activities related to the liquidity of TUW-CUPRUM due to transfering the risk of its members;
- providing insurance services to ensure the members of TUW-CUPRUM lower property insurance costs through refunds of premiums;
- further growth of TUW-CUPRUM through the creation of new mutual member insurance societies and the introduction of new insurance products.

Significant events in 2011:

- awarded in the Polish national program under the patronage of the Institute of Philosophy and Sociology of the Polish Academy of Sciences – Socially Responsible Leader "Good Company 2010".



ANNUAL FINANCIAL STATEMENTS

ANNUAL SEPARATE FINANCIAL STATEMENTS

The accompanying condensed financial report of the 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 2011 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 2011, 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 Registered Auditor's Opinion

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

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 the statement of financial position as at 31 December 2011, showing total assets and total liabilities and equity of PLN 29.253.189 thousand, the statement of comprehensive income for the period from 1 January to 31 December 2011, showing a total comprehensive income of PLN 11.659.034 thousand, the statement of changes in equity, the statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

The Company's Management Board is responsible for preparing the financial statements and the Directors' Report in accordance with the applicable regulations, and for the correctness of the accounting records. The Management Board and Members of the Supervisory Board are required to ensure that the financial statements and the Director's Report 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 perform an audit of the accompanying financial statements and to express an opinion on whether the financial statements comply in all material respects with the applicable accounting policies and whether they present fairly, in all material respects, the Company's financial position and results, and whether the accounting records constituting the basis for their preparation are properly maintained.

We conducted our audit in accordance with the following:
a. the provisions of Chapter 7 of the Act,
b. national standards of 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 provides a reasonable basis for our opinion.

In our opinion, and in all material respects, the accompanying financial statements:
a. present fairly the Company's financial position as at 31 December 2011 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union,
b. comply in form and content with the applicable laws and the Company's Memorandum of Association;
c. have been prepared on the basis of properly maintained accounting records.

The information in the Directors' Report for the year ended 31 December 2011 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 of 2009, No. 33, item 259, with further amendments) 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, 27 March 2012

Annual separate financial statements

Statement of financial position

Assets

	At	
	31 December 2011	31 December 2010
Non-current assets		
Property, plant and equipment	7 277 903	6 551 111
Intangible assets	150 777	86 718
Shares and investment certificates in subsidiaries	2 012 209	2 643 046
Investments in associates	-	1 159 947
Deferred tax assets	168 462	359 833
Available-for-sale financial assets	992 068	749 824
Held-to-maturity investments	111 665	84 115
Derivatives	899 400	403 839
Trade and other receivables	84 221	86 608
Total non-current assets	**11 696 705**	**12 125 041**
Current assets		
Inventories	2 355 741	2 011 393
Trade and other receivables	1 502 944	2 393 986
Available-for-sale financial assets	-	405 193
Held-to-maturity investments	2 147	4 129
Derivatives	859 653	294 021
Cash and cash equivalents	12 835 999	2 595 529
Non-current assets held for sale	-	4
Total current assets	**17 556 484**	**7 704 255**
Total assets	**29 253 189**	**19 829 296**

Equity and liabilities

	At	
	31 December 2011	31 December 2010
Equity		
Share capital	2 000 000	2 000 000
Accumulated other comprehensive income	535 673	211 159
Retained earnings	20 599 838	12 245 318
Total equity	**23 135 511**	**14 456 477**
Liabilities		
Non-current liabilities		
Trade and other payables	11 579	14 249
Borrowings and finance lease liabilities	35	8 490
Derivatives	538 320	711 580
Employee benefits liabilities	1 216 355	1 128 246
Provisions for other liabilities and charges	483 657	517 749
Total non-current liabilities	**2 249 946**	**2 380 314**
Current liabilities		
Trade and other payables	1 827 536	1 727 939
Borrowings and finance lease liabilities	58	2 965
Current corporate tax liabilities	1 587 847	668 924
Derivatives	330 347	481 852
Employee benefits liabilities	107 471	93 041
Provisions for other liabilities and charges	14 473	17 784
Total current liabilities	**3 867 732**	**2 992 505**
Total liabilities	**6 117 678**	**5 372 819**
Total equity and liabilities	**29 253 189**	**19 829 296**

amounts in tables in thousand PLN, unless otherwise stated

amounts in tables in thousand PLN, unless otherwise stated

Statement of comprehensive income

	For the period from 1 January 2011 to 31 December 2011	For the period from 1 January 2010 to 31 December 2010
Sales	20 097 392	15 945 032
Cost of sales	(9 877 794)	(8 617 125)
Gross profit	**10 219 598**	**7 327 907**
Selling costs	(111 043)	(103 171)
Administrative expenses	(745 002)	(567 390)
Other operating income	5 092 919	711 202
Other operating costs	(768 832)	(1 730 400)
Operating profit	**13 687 640**	**5 638 148**
Finance costs	(34 043)	(32 581)
Profit before income tax	**13 653 597**	**5 605 567**
Income tax expense	(2 319 077)	(1 036 978)
Profit for the period	**11 334 520**	**4 568 589**
Other comprehensive income due to:		
Available-for-sale financial assets	(197 525)	148 019
Cash flow hedging instruments	598 160	(44 401)
Income tax related to items presented in other comprehensive income	(76 121)	(19 687)
Other comprehensive net income for the financial period	**324 514**	**83 931**
Total comprehensive income	**11 659 034**	**4 652 520**
Earnings per share for the annual period (in PLN per share)		
– basic	56.67	22.84
– diluted	56.67	22.84

amounts in tables in thousand PLN, unless otherwise stated

Statement of changes in equity

	Share capital	Accumulated other comprehensive income due to:		Retained earnings	Total equity
		Available-for-sale financial assets	Cash flow hedging instruments		
At 1 January 2011	**2 000 000**	**121 385**	**89 774**	**12 245 318**	**14 456 477**
Dividends for 2010 resolved and paid	-	-	-	(2 980 000)	(2 980 000)
Total comprehensive income	-	**(159 995)**	**484 509**	**11 334 520**	**11 659 034**
Profit for the period	-	-	-	11 334 520	11 334 520
Other comprehensive income	-	(159 995)	484 509	-	324 514
At 31 December 2011	**2 000 000**	**(38 610)**	**574 283**	**20 599 838**	**23 135 511**
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**
Profit for the period	-	-	-	4 568 589	4 568 589
Other comprehensive income	-	119 896	(35 965)	-	83 931
At 31 December 2010	**2 000 000**	**121 385**	**89 774**	**12 245 318**	**14 456 477**

amounts in tables in thousand PLN, unless otherwise stated

Statement of cash flows

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010
Cash flow from operating activities		
Profit for the period	11 334 520	4 568 589
Adjustments to profit for the period	(1 281 495)	1 436 897
Income tax paid	(1 284 903)	(658 695)
Net cash generated from operating activities	**8 768 122**	**5 346 791**
Cash flow from investing activities		
Purchase of shares and investment certificates in subsidiaries	(201 440)	(731 224)
Proceeds from sale and liquidation of shares in subsidiaries	981 874	1 534
Proceeds from sale of shares in an associate	3 672 147	-
Purchase of available-for-sale financial assets	(1 565 831)	(1 296 141)
Proceeds from sale of available-for-sale financial assets	1 548 193	310 994
Purchase of property, plant and equipment and intangible assets	(1 406 454)	(1 156 709)
Advances granted for purchase of property, plant and equipment and intangible assets	(59 374)	(65 329)
Proceeds from sale of property, plant and equipment and intangible assets	6 280	4 717
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund	(25 568)	(20 567)
Establishment of deposits	(450 000)	(350 000)
Termination of deposits	800 000	-
Loans granted	-	(40 000)
Repayments of loans granted	5 030	71 162
Interest received	11 543	4 932
Dividends received	277 330	146 658
Other investment expenses	(3 988)	(5 273)
Net cash generated from/(used in) investing activities	**3 589 742**	**(3 125 246)**
Cash flow from financing activities		
Repayments of loans	-	(3 000)
Payments of finance leases liabilities	(13 009)	(3 118)
Interest paid	(11)	(76)
Dividends paid	(2 980 000)	(600 000)
Net cash used in financing activities	**(2 993 020)**	**(606 194)**
Total net cash flow	**9 364 844**	**1 615 351**
Exchange gains on cash and cash equivalents	875 626	4 980
Movements in cash and cash equivalents	**10 240 470**	**1 620 331**
Cash and cash equivalents at beginning of the period	**2 595 529**	**975 198**
Cash and cash equivalents at end of the period	**12 835 999**	**2 595 529**
including restricted cash and cash equivalents	3 036	1 751

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 2011 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 2011, 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 the consolidated statement of financial position as at 31 December 2011, showing total assets and total liabilities and equity of PLN 30.553.874 thousand, the consolidated statement of comprehensive income for the period from 1 January to 31 December 2011, showing a total comprehensive income of PLN 11.427.300 thousand, the consolidated statement of changes in equity, the consolidated statement of cash flows for the financial year and additional information on adopted accounting policies and other explanatory notes.

The Parent Company's Management Board is responsible for preparing the consolidated financial statements and the Directors' Report for the Group in accordance with the applicable regulations. The Management Board and Members of the Supervisory Board are required to ensure that the consolidated financial statements and the Director's Report 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 perform an audit of the accompanying consolidated financial statements and to express an opinion on whether the consolidated financial statements comply in all material respects with the applicable accounting policies and whether they present fairly, in all material respects, the Group's financial position and results.

We conducted our audit in accordance with the following:
a. the provisions of Chapter 7 of the Act,
b. national standards of 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 provides a reasonable basis for our opinion.

In our opinion, and in all material respects, the accompanying consolidated financial statements:
a. present fairly the Group's financial position as at 31 December 2011 and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union,
b. comply in form and content with the applicable laws applicable to the Group;
c. have been prepared on the basis of properly maintained accounting records.

The information in the Group' Report for the year ended 31 December 2011 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 of 2009, No. 33, item 259, with further amendments) and is consistent with the information presented in the audited consolidated 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, 27 March 2012

Table of contents to the consolidated financial statements

Consolidated statement of financial position

Assets

	Note	At		
		31 December 2011	31 December 2010 restated	1 January 2010
Non-current assets				
Property, plant and equipment	6	9 045 777	8 670 554	7 747 112
Intangible assets	7	613 994	473 215	218 124
Investment property	8	59 930	59 760	17 164
Investments in associates	9	472	1 431 099	1 315 663
Deferred tax assets	23	272 331	592 792	347 395
Available-for-sale financial assets	10	993 960	751 718	19 412
Held-to-maturity investments	11	111 709	84 157	67 144
Derivatives	12	899 400	403 839	58 034
Trade and other receivables	13	39 490	13 508	10 586
Total non-current assets		**12 037 063**	**12 480 642**	**9 800 634**
Current assets				
Inventories	14	2 658 253	2 222 231	2 072 434
Trade and other receivables	13	1 838 979	2 727 935	1 531 341
Current corporate tax receivables		7 759	4 511	9 329
Available-for-sale financial assets	10	15 668	415 662	8 976
Held-to-maturity investments	11	2 147	4 129	580
Derivatives	12	860 042	297 584	263 375
Cash and cash equivalents	15	13 130 401	3 086 957	1 197 077
Non-current assets held for sale	16	3 562	1 078	6 674
Total current assets		**18 516 811**	**8 760 087**	**5 089 786**
Total assets		**30 553 874**	**21 240 729**	**14 890 420**

The accounting policies and other explanatory information presented on pages 131 to 220 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Equity and liabilities

	Note	At		
		31 December 2011	31 December 2010 restated	1 January 2010
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	554 924	209 821	126 301
Retained earnings	19	20 544 526	12 456 413	8 371 956
Total equity attributable to shareholders of the Parent Entity		**23 099 450**	**14 666 234**	**10 498 257**
Non-controlling interest	20	**282 907**	**255 889**	**77 082**
Total equity		**23 382 357**	**14 922 123**	**10 575 339**
Liabilities				
Non-current liabilities				
Trade and other payables	21	129 749	119 860	63 316
Borrowings and finance lease liabilities	22	194 370	173 652	120 854
Derivatives	12	538 320	711 580	61 354
Deferred tax liabilities	23	120 153	168 156	56 182
Employee benefits liabilities	24	1 338 743	1 221 794	1 183 350
Provisions for other liabilities and charges	25	485 040	520 727	527 421
Total non-current liabilities		**2 806 375**	**2 915 769**	**2 012 477**
Current liabilities				
Trade and other payables	21	2 182 093	1 994 577	1 575 896
Borrowings and finance lease liabilities	22	103 587	96 162	219 816
Current corporate tax liabilities		1 595 528	672 152	79 104
Derivatives	12	331 331	482 118	273 717
Employee benefits liabilities	24	126 563	110 912	106 704
Provisions for other liabilities and charges	25	26 040	46 916	47 367
Total current liabilities		**4 365 142**	**3 402 837**	**2 302 604**
Total liabilities		**7 171 517**	**6 318 606**	**4 315 081**
Total equity and liabilities		**30 553 874**	**21 240 729**	**14 890 420**

The accounting policies and other explanatory information presented on pages 131 to 220 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Consolidated statement of comprehensive income

	Note	For the period from 1 January 2011 to 31 December 2011	For the period from 1 January 2010 to 31 December 2010 restated
Continued operations			
Sales	26	22 107 230	16 766 504
Cost of sales	27	(11 619 941)	(9 288 411)
Gross profit		**10 487 289**	**7 478 093**
Selling costs	27	(186 917)	(132 771)
Administrative expenses	27	(897 882)	(699 457)
Other operating income	29	4 563 818	648 925
Other operating costs	30	(812 659)	(1 788 481)
Operating profit		**13 153 649**	**5 506 309**
Finance costs	31	(51 705)	(44 080)
Share of profits of associates accounted for using the equity method		187 729	280 542
Profit before income tax		**13 289 673**	**5 742 771**
Income tax expense	34	(2 285 301)	(1 097 062)
Profit for the period from continued operations		**11 004 372**	**4 645 709**
Discontinued operations			
Profit for the period from discontinued operations	39	59 631	84 715
Profit for the period		**11 064 003**	**4 730 424**
Other comprehensive income – continued operations due to:			
Available-for-sale financial assets	18	(195 485)	147 512
Cash flow hedging instruments	18	598 159	(44 401)
Exchange differences from the translation of foreign operations	18	37 131	-
Income tax related to items presented in other comprehensive income	18	(76 508)	(19 591)
Other comprehensive net income for the financial period	18	**363 297**	**83 520**
Total comprehensive income		**11 427 300**	**4 813 944**
Profit for the period attributable to:			
shareholders of the Parent Entity		11 063 456	4 724 507
non-controlling interest		547	5 917
Total comprehensive income attributable to:			
shareholders of the Parent Entity		11 408 559	4 808 027
non-controlling interest		18 741	5 917
Earnings per share from continued operations attributable to the shareholders of the Parent Entity during the period (in PLN per share)			
– basic	35	55.02	23.20
– diluted	35	55.02	23.20
Earnings per share from discontinued operations attributable to the shareholders of the Parent Entity during the period (in PLN per share)			
– basic	35	0.30	0.42
– diluted	35	0.30	0.42

The accounting policies and other explanatory information presented on pages 131 to 220 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Consolidated statement of changes in equity

	Note	Equity attributable to shareholders of the Parent Entity: Share capital	Accumulated other comprehensive income due to: Available-for-sale financial assets	Cash flow hedging instruments	Exchange differences from the translation of foreign operations	Retained earnings	Total	Equity attributable to non-controlling interest	Total equity
At 1 January 2011 restated		**2 000 000**	**120 046**	**89 775**	**-**	**12 456 413**	**14 666 234**	**255 889**	**14 922 123**
Dividends for 2010, paid	36	-	-	-	-	(2 980 000)	(2 980 000)	-	(2 980 000)
Total comprehensive income		-	**(158 342)**	**484 508**	**18 937**	**11 063 456**	**11 408 559**	**18 741**	**11 427 300**
Profit for the period		-	-	-	-	11 063 456	11 063 456	547	11 064 003
Other comprehensive income	18	-	(158 342)	484 508	18 937	-	345 103	18 194	363 297
Obligation to repurchase of non-controlling interest		-	-	-	-	(2 478)	(2 478)	-	(2 478)
Changes due to obtaining control/(loss of control) of subsidiaries	20	-	-	-	-	-	-	15 923	15 923
Changes in ownership shares in subsidiaries which do not lead to a loss of control	20	-	-	-	-	7 135	7 135	(7 646)	(511)
At 31 December 2011		**2 000 000**	**(38 296)**	**574 283**	**18 937**	**20 544 526**	**23 099 450**	**282 907**	**23 382 357**
At 1 January 2010		**2 000 000**	**561**	**125 740**	**-**	**8 371 956**	**10 498 257**	**77 082**	**10 575 339**
Dividends for 2009, paid	36	-	-	-	-	(600 000)	(600 000)	-	(600 000)
Total comprehensive income		-	**119 485**	**(35 965)**	**-**	**4 724 507**	**4 808 027**	**5 917**	**4 813 944**
Profit for the period		-	-	-	-	4 724 507	4 724 507	5 917	4 730 424
Other comprehensive income	18	-	119 485	(35 965)	-	-	83 520	-	83 520
Obligation to repurchase of non-controlling interest		-	-	-	-	(40 296)	(40 296)	-	(40 296)
Changes due to obtaining control of subsidiaries	20	-	-	-	-	-	-	173 993	173 993
Changes in ownership shares in subsidiaries which do not lead to a loss of control	20	-	-	-	-	246	246	(1 103)	(857)
At 31 December 2010 restated*		**2 000 000**	**120 046**	**89 775**	**-**	**12 456 413**	**14 666 234**	**255 889**	**14 922 123**

* explanation in note 2.1

The accounting policies and other explanatory information presented on pages 131 to 220 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

Consolidated statement of cash flows

	Note	For the period	
		from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Cash flow from operating activities			
Profit for the period		11 064 003	4 730 424
Adjustments to profit for the period	37	(649 512)	1 598 571
Income tax paid		(1 315 831)	(667 720)
Net cash generated from operating activities		**9 098 660**	**5 661 275**
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents		(116 630)	(380 413)
Proceeds from sale and liquidation of subsidiaries		891 560	-
Proceeds from sale of an associate		3 672 147	-
Purchase of property, plant and equipment and intangible assets		(1 858 942)	(1 401 111)
Advances granted for purchase of property, plant and equipment and intangible assets		(68 123)	(80 432)
Proceeds from sale of property, plant and equipment and intangible assets	37	18 876	7 217
Purchase of investment property		(2 227)	-
Proceeds from sale of investment property		-	461
Purchase of available-for-sale financial assets		(1 585 813)	(1 298 141)
Proceeds from sale of available-for-sale financial assets		1 560 198	310 994
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(25 568)	(20 567)
Establishment of deposits		(518 369)	(350 000)
Termination of deposits		800 000	-
Loans granted		(180)	-
Interest received		8 510	63
Dividends received		277 484	146 728
Other investment expenses		(4 344)	(4 922)
Net cash generated from/(used in) investing activities		**3 048 579**	**(3 070 123)**
Cash flow from financing activities			
Expenses connected with purchase of own shares for their redemption		-	(2)
Proceeds from bank and other loans		140 630	121 195
Repayments of bank and other loans		(104 549)	(202 349)
Payments of finance leases liabilities		(24 033)	(12 208)
Interest paid		(11 568)	(14 166)
Dividends paid to shareholders of the Parent Entity		(2 980 000)	(600 000)
Other financial proceeds		1 112	33
Net cash used in financing activities		**(2 978 408)**	**(707 497)**
Total net cash flow		**9 168 831**	**1 883 655**
Exchange gains on cash and cash equivalents		874 613	6 225
Movements in cash and cash equivalents		**10 043 444**	**1 889 880**
Cash and cash equivalents at beginning of the period	15	**3 086 957**	**1 197 077**
Cash and cash equivalents at end of the period	15	**13 130 401**	**3 086 957**
including restricted cash and cash equivalents		9 838	5 097

The accounting policies and other explanatory information presented on pages 131 to 220 represent an integral part of these financial statements

amounts in tables in thousand PLN, unless otherwise stated

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 assigned a 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 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,
- scheduled and non-scheduled air transport, and
- telecommunication and IT activities.

Activities involving the exploitation of copper ore, salt deposits and common minerals are carried out 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 obtaining 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 obtaining 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 have an unlimited period of operation.

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

Composition of the Management Board of the Parent Entity

From 1 January to 31 December 2011, the Management Board of the Parent Entity consisted of (including segregation of duties):
- 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).

At the date of authorisation of these financial statements for issue, the composition of the Management Board of KGHM Polska Miedź S.A. had not changed.

Authorisation of the financial statements

The consolidated financial statements were authorised for issue and signed by the Management Board of the Parent Entity on 27 March 2012.

Going concern assumption

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

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 2011. 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 2011.

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

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union based on the principle of historical cost (adjusted for the effects of hyperinflation in respect of property, plant and equipment and equity), except for available-for-sale financial assets and derivatives.

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

These financial statements have been prepared applying the same principles for the current and comparable periods, restating the comparable period to changes in accounting principles and in methods of presentation adopted in the financial statements in the current period.

Comparative period data were restated due to final settlement of the acquisition of the following companies' shares: Zespół Uzdrowisk Kłodzkich S.A., Uzdrowisko Połczyn S.A. and "Uzdrowisko Cieplice" Sp. z o.o. pursuant to IFRS 3. As a result of this settlement, the net asset value of these companies was adjusted to final fair value. The impact of differences between the provisional and final settlement of acquisition on the consolidated statement of financial position at 31 December 2010 is presented in the following table. As a result of the restatement of comparative data, the statement of financial position includes data at 1 January 2010 under IAS 1, but the final settlement of acquisition did not impact the carrying amounts of assets and liabilities at 1 January 2010.

	Zespół Uzdrowisk Kłodzkich S.A.	Uzdrowisko Połczyn S.A.	"Uzdrowisko Cieplice" Sp. z o.o.	Total adjustments
Assets				
Non-current assets				
Property, plant and equipment	74 080	18 900	23 940	**116 920**
Intangible assets	(39 808)	4 276	(15 127)	**(50 659)**
including goodwill	(87 044)	(7 383)	(23 429)	**(117 856)**
Other non-current assets	113	(155)		**(42)**
Total non-current assets	**34 385**	**23 021**	**8 813**	**66 219**
Current assets				
Inventories	(37)	(53)	-	**(90)**
Receivables	(468)	(2 250)	(5)	**(2 723)**
Total current assets	**(505)**	**(2 303)**	**(5)**	**(2 813)**
Total assets	**33 880**	**20 718**	**8 808**	**63 406**
Equity and liabilities				
Equity				
Retained earnings – equity attributable to shareholders of the Parent Entity	2 570	12 973	18	**15 561**
including profit for the period	2 570	12 973	18	**15 561**
Equity attributable to non-controlling interest	9 810	2 284	2 689	**14 783**
Total equity	**12 380**	**15 257**	**2 707**	**30 344**
Non-current liabilities				
Trade and other payables	(1 670)	-	(30)	**(1 700)**
Deferred tax liabilities	23 322	5 311	6 131	**34 764**
Total non-current liabilities	**21 652**	**5 311**	**6 101**	**33 064**
Current liabilities	**(152)**	**150**	-	**(2)**
Total equity and liabilities	**33 880**	**20 718**	**8 808**	**63 406**

Details on the final settlement of the above-mentioned acquisitions are described in note 4.

Since 1 January 2011 the following standards and interpretations applied by the Group have been in force:

- Amendment to IAS 32 Financial instruments: Presentation, Classifications of rights issues,
- Amended IFRS 1 First-time Adoption of IFRS, Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters,
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments,
- Amended IAS 24 Related Party Disclosures and changes to IFRS 8 Operating Segments,
- Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement,
- Amendments to International Financial Reporting Standards 2010.

All of the above changes to the standards and interpretations have been adopted by the European Union up to the date of publication of these financial statements.

The Group, based on the updated IAS 24, made use of the exemptions provided for in paragraph 25, and presents information on transactions between companies of the KGHM Polska Miedź S.A. Group and the government (the Republic of Poland) and with entities controlled or jointly controlled by the government, or over which the government has significant influence, pursuant to the requirements set forth in paragraph of 27 IAS 24.

Besides, the Group estimates that application of the above-mentioned standards did not affect significantly its financial statements.

Up to the date of publication of these financial statements, further standards and interpretations have been published by the International Accounting Standards Board which as at this

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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 for use by the European Union:

Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets*

On 7 October 2010, the International Accounting Standards Board issued *Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 Financial Instruments: Disclosures*. 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 amendment to IFRS 7 expands the scope of required disclosures by information regarding transferred financial assets which were not entirely derecognised from the financial statements. The additional disclosures encompass the nature and carrying amount of the 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, by each class of continuing involvement, including in particular 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 entities 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.

Amendments are effective for annual periods beginning on or after 1 July 2011.

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

IFRS *for Small and Medium-sized Entities*

On 9 July 2009, the International Accounting Standards Board issued a standard 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, at the initial recognition, 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 2015 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 are measured at cost less any impairment. It is however expected that the changes will not have a significant impact on the financial statements of the Group.

On 28 October 2010, the International Accounting Standards Board reissued IFRS 9 *Financial Instruments*. This reissue is the result of the conclusion of a further phase of the Board's work aimed at replacing IAS 39 *Financial Instruments: Recognition and Measurement*. To IFRS 9 the Board added requirements regarding the classification and measurement of financial liabilities, the majority of which were transferred to the new standard directly from IAS 39.

Under IFRS 9, liabilities representing derivatives which are related to and settled through the delivery of an unquoted equity instrument are measured at fair value, as in the case of investments in unquoted equity instruments and derivative financial assets related to these investments.

In addition, the standard introduces the requirement to recognise changes in the fair value of financial liabilities measured at fair value through profit or loss resulting from changes in credit risk related to these liabilities, in other comprehensive income. The remaining amount of change in the fair value of liabilities is presented in profit or loss, unless recognition of the affects of these changes in the credit risk of these liabilities would create or enlarge an accounting mismatch; in such a case the entity would recognise the full amount of the change in the fair value in profit or loss.

This standard will be effective for annual periods beginning on or after 1 January 2015, and will affect the Group's financial statements, in particular with regard to presentation, although it is estimated that the impact will be immaterial.

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.*

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 based on 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.

IFRS 10 *Consolidated Financial Statements*

On 12 May 2011, the International Accounting Standards Board published IFRS 10 Consolidated Financial Statements. The new standard supersedes SIC 12 *Consolidation – Special Purpose Entities* and IAS 27 *Consolidated and Separate Financial Statements* with regard to consolidated financial statements.

The purpose of introducing the new standard was primarily to unify definitions of control, which due to inconsistencies between IAS 27 and SIC 12 led to various interpretations by economic entities.

IFRS 10 establishes a revised concept of control as being the deciding factor in whether to include an entity in consolidated financial statements, comprising three elements:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect the amount of the investor's returns.

This standard will be effective for annual periods beginning on or after 1 January 2013, and will have an effect on the financial statements of the Group in terms of deciding whether or not to exercise control.

IFRS 11 *Joint Arrangements*

On 12 May 2011, the International Accounting Standards Board published IFRS 11 *Joint Arrangements*. The new standard supersedes IAS 31 *Interests In Joint Ventures* and SIC 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*.

IFRS 11 describes two types of joint arrangements: joint operations and joint ventures. The classification of a joint arrangement as a joint operation or a joint venture depends upon the rights and obligations of the parties to the arrangement. The standard eliminates incoherence by eliminating proportional consolidation as a method for recognising a joint venture, allowing solely for the valuation of assets in a jointly-controlled entity by the joint operator using the equity method.

This standard will be effective for annual periods beginning on or after 1 January 2013, and will not have an effect on the consolidated financial statements of the Group.

IFRS 12 *Disclosure of Interests in Other Entities*

On 12 May 2011, the International Accounting Standards Board published IFRS 12 *Disclosure of Interests in Other Entities*. This standard will be applicable to entities having interests in subsidiaries, joint ventures, associates or unconsolidated structured entities.

The new standard combines the disclosure requirements regarding interests in other entities which are currently described in IAS 27, IAS 28 and IAS 31, introducing coherence and completeness in disclosures, and also expanding their scope. The purpose of introducing the changes was to ensure that users of financial statements have a better opportunity to evaluate the nature of, and risks associated with, the interests of a given entity in other entities, and to understand the effects of those interests on the investor's financial position, profit or loss and cash flows. The standard sets forth the minimum scope of disclosures which the investor can expand, if it is felt that additional disclosures are required to meet the purposes of the standard. In addition, the investor may decide as to the level of aggregation and disaggregation of disclosed information and may select those areas which the investor wishes to emphasise in its disclosures.

IFRS 12 will be effective for annual periods beginning on or after 1 January 2013 and will affect the presentation of information in the Group's consolidated financial statements through the standard's updated scope of disclosures.

IFRS 13 *Fair Value Measurement*

On 12 May 2011, the International Accounting Standards Board published IFRS 13 *Fair Value Measurement*. This standard is the result of the process carried out by the IASB, introducing unified accounting standards in terms of international and American standards.

IFRS 13 introduces a new definition of fair value, unified conceptual assumptions and amended disclosure requirements with respect to fair value measurements, without expanding the scope of fair value measurements. The new requirements are to be applied to those standards (with certain exceptions), which at present require or allow for the measurement of assets and liabilities to fair value, in respect of which the current guidelines regarding fair value measurements and disclosures are incoherent.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. the exit price). Consequently, the standard provides guidelines as to the method of measurement to fair value, both at the moment of initial recognition as well as on subsequent reporting period end days.

In the current standards, a broad range of disclosures concerning measurement to fair value are mainly in respect of financial instruments. The application of IFRS 13 will encompass those disclosures as well as other assets and liabilities which are subject to fair value measurement.

This standard will be effective for annual periods beginning on or after 1 January 2013. The Group estimates that although IFRS 13 will affect the presentation of disclosures involving measurement to fair value in the financial statements, this will depend on those assets and liabilities held at the date of application which are measured to fair value.

IAS 27 *Separate Financial Statements*

On 12 May 2011, the International Accounting Standards Board published the amended IAS 27 *Separate Financial Statements*, which supersedes the existing IAS 27 *Consolidated and Separate Financial Statements* in that part involving separate financial statements. The change in the standard is a result of the Board's "Consolidation" project, as a result of which the existing content of IAS 27 was divided between IFRS 10 *Consolidated Financial Statements* and IAS 27, which will only deal with separate financial statements. Likewise, the requirements regarding separate financial statements set forth in IAS 28 and IAS 31 were transferred to the amended IAS 27.

The definitions and terminology of the amended standard were unified with IFRS 10, IFRS 11 and IFRS 12. This standard will be effective for annual periods beginning on or after 1 January 2013 and will not affect the Group's financial statements.

IAS 28 *Investments in Associates and Joint Ventures*

On 12 May 2011, the International Accounting Standards Board published the amended IAS 28 *Investments in Associates and Joint Ventures*, which superseded the existing IAS 28 *Investments in Associates*. The change in the standard was due to the Board project "Joint Ventures".

In this project, the IASB decided to include accounting for joint ventures within the scope of the amended IAS 28, as the new standard IFRS 11 *Joint Arrangements* will only allow for the measurement of interests in joint ventures using the equity method. As a result, an entity should apply IFRS 11 solely for the purpose of determining the type of enterprise in which it participates, and upon determining that the interests are in a joint venture, the investment is recognised and is measured using the equity method, in accordance with the amended IAS 28. Although the amended standard introduces no changes in the methodology of measurement using the equity method, it no longer contains requirements concerning disclosures, as these were included in IFRS 12.

The amended standard will be effective for annual periods beginning on or after 1 January 2013, and will not affect the consolidated financial statements of the Group.

Presentation of Other Comprehensive Income
Amendments to IAS 1 *Presentation of Financial Statements*

On 16 June 2011, the International Accounting Standards Board published amendments to IAS 1 *Presentation of Financial Statements* titled *Presentation of Other Comprehensive Income*.

Changes were introduced in the title of one of the basic financial statements, from "Statement of comprehensive income" to "Statement of profit or loss and other comprehensive income", leaving the possibility to present the statement of profit or loss separately. Entities may apply titles for these statements other than those set forth in IAS 1.

Also introduced were clear rules regarding positions which should be presented through profit or loss and through other comprehensive income.

The amended IAS 1 also introduces the requirement to separately group positions presented in other comprehensive income based on their potential reclassification to profit or loss in accordance with other IFRSs.

The amendments to IAS 1 will be effective for annual periods beginning on or after 1 July 2012, and will not have a material effect on the financial statements of the Group.

Amended IAS 19 *Employee Benefits*

On 16 June 2011, the International Accounting Standards Board published an amended IAS 19 *Employee Benefits*. Work on the standard was carried out in conjunction with the American Financial Accounting Standards Board to unify certain regulations concerning employee benefit programs between IFRS and US GAAP.

The amendments to the standard introduce significant changes with respect to accounting for specified employee benefit programs. Among the items eliminated was the so-called 'corridor' approach enabling deferral in the recognition of actuarial gains and losses. This results in the necessity to recognise actuarial gains and losses when they arise. Elimination of this recognition option introduces consistency and clarity to the presented data. The requirement for early recognition (usually in the period in which they initially arise), was also introduced for costs of past employment.

Changes in the standard also involve the means of presentation of changes arising in the assets and liabilities of specified benefit programs. Among others the principle of recognising changes arising as a result of measurement of assets and liabilities of a program in other comprehensive income was introduced.

The amendment significantly expands the scope of disclosures for specified benefit programs, mainly with respect to the nature of these programs and the risk to which an entity is exposed due to participation in a program.

The amended IAS 19 will be effective for annual periods beginning on or after 1 January 2013. The Group considers that application of the amended standard will cause a change in the presentation of actuarial profit or loss in other comprehensive income, and not as until now in profit or loss and one-off recognition in other comprehensive income of unsettled costs of past employment, recognised until now under the straight line method for a period of 13.5 years. The result of this would be to decrease other comprehensive income at 1 January 2013 by the amount of PLN 2 531 thousand, due to the costs of past employment, which were not depreciated to 1 January 2013.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

On 19 October 2011, the International Accounting Standards Board published Interpretation IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*. The Interpretation is applied to the recognition of costs of accessing ore through the removal of overburden during the production phase of a surface mining operation. The Interpretation regulates among others the manner of recognition of these costs as an element of assets, their initial measurement and subsequent measurements of these assets. The Interpretation will be effective for annual periods beginning on or after 1 January 2013. The Group is currently assessing the impact of the standard on the financial statements.

***Mandatory Effective Date and Transition Disclosures from IAS 39 to IFRS 9.* Amendments to IFRS 9 and IFRS 7**

On 16 December 2011, the International Accounting Standards Board published the document *Mandatory Effective Date and Transition Disclosures* as an amendment to IFRS 9 and IFRS 7. This document amends the effective date of IFRS 9 from on or after 1 January 2013 to on or after 1 January 2015, and allows for early voluntary application. The Board also amended IFRS 7, requiring additional disclosures in terms of the transition from IAS 39 to IFRS 9. Deferment of the Mandatory Effective Date to apply IFRS 9 is a result of the Board's deferral of the work on the remaining parts of the project aimed at replacing IAS 39 by IFRS 9 to later periods. The change introduced will cause a deferment in application by the Group of the standard in respect of the initial deadline, due to the high probability that IFRS 9 will be adopted by the European Union only in its complete form.

***Offsetting Financial Assets and Financial Liabilities.* Amendments to IAS 32** *Financial Instruments: Presentation*

On 16 December 2011, the International Accounting Standards Board published the document *Offsetting Financial Assets and Financial Liabilities* as an amendment to IAS 32. The Board supplemented the Application Guidance accompanying the standard with respect to the conditions for offsetting and presenting financial assets and liabilities in a net amount in the statement of financial position. Under paragraph 42 of IAS 32, an entity may offset financial assets and liabilities, if (a) it currently has a legally enforceable right to set off the recognised amounts, and (b) it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Due to practical doubts in interpretation, in terms of the legally enforceable right to set off and in terms of recognising a given settlement as a net settlement (even for gross cash flows) with the participation of settlement institutions, the Board introduced additional explanations, enabling uniform implementation of the requirements of para. 42 of IAS 32 by financial institutions. The amendments will be effective for annual periods beginning on or after 1 January 2014, and will not have an impact on the Group's financial statements.

***Disclosures – Offsetting Financial Assets and Financial Liabilities.* Amendments to IFRS 7** *Financial Instruments: Disclosures*

On 22 December 2011, the International Accounting Standards Board published the document *Disclosures – Offsetting Financial Assets and Financial Liabilities* as an amendment to IFRS 7. The amendments introduce additional information disclosure requirements, which enable users of financial statements to evaluate the impact, or potential impact, of offsetting agreements, with the actual or potential impact from realisation of a legally enforceable right to set off financial assets and liabilities recognised by an entity in its statement of financial position. Additional detailed disclosures will deal with all those amounts which an entity may potentially offset in its statement of financial position, regardless of whether or not an entity made use of this right. The amendments will be effective for annual periods beginning on or after 1 January 2013, and will affect the Group's financial statements through the expanded scope of disclosures.

These consolidated financial statements do not apply standards or interpretations prior to their effective date or prior to 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.

If payment for an item of property, plant and equipment 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.

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 the initial cost of an item of property, plant and equipment 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 accumulated 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 these expenditures will flow to the entity, and the cost of the expenditures 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 costs of overhauls 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 the following 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 consideration 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 and liabilities.

***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 in accordance with the principles described in point 2.2.10.

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 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 on a 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 of 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 acquired 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 acquire 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 have 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, 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 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 risk of the embedded derivative are not closely related to the characteristics and risk 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 recognised in profit or loss as a reclassification adjustment, in the same period or periods in which the hedged item affects profit or loss.

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

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

The 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 on-going basis, of whether the hedging instruments are and will be highly effective in offsetting changes in the cash flows of the hedged items.

Discontinuation of hedge accounting

The 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 operate, 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 than 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 or cash-generating unit 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 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 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 available-for-sale financial assets,
   - exchange differences from translation of foreign operations, and
   - 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,
   - valuation of the put option for employee shares,
   - 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, “equity attributable to non-controlling interest” is a separate position of equity.

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.

Liabilities are measured at amortised cost in accordance with IAS 39.

Current trade payables are recognised in the statement of financial position at their nominal value. The carrying amount of these liabilities 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 finance 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* are presented in the statement of financial position 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 reflects actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the end of the reporting period by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of 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 yield 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.

The Parent Entity participates in a contribution plan on behalf of employees within the confines of an Employee Retirement Plan. With respect to this Plan, the Parent Entity has no legal or constructive obligation to pay any employee benefits if the related insurance firm does not have sufficient assets to cover its obligations in respect of the Plan participants after their period of employment.

* Changes in the discount rate or in the estimated decommissioning cost adjust the value of the relevant item of property, plant and equipment, unless the amount of this change exceeds the carrying amount of 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 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

All items of income and expenses for a given reporting period are presented in the Statement of comprehensive income. This statement comprises income and expenses for the period, recognised directly in profit or loss of the period, as well as profit and loss for the period recognised outside profit or loss, i.e. in other comprehensive income.

The Group recognises profit and loss for the period outside profit or loss if individual standards allow or require it. In other comprehensive income the Group recognises profit and loss for the period relating to the fair value measurement of financial assets classified as available for sale, and of profit and loss from fair value measurement of the effective portion of future cash flow hedging instruments and exchange differences from translation of foreign operations, 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 (including income from dividends and interest),
- 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 (bank and other loans, bonds, finance leases etc.),
- gains on realisation and fair value measurement of derivatives 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, bank loans 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 of Group entities 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 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), 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.

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.

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). As a result of analysis of the manner of supervision of Group companies and of management of the Group, reflecting aggregation criteria and quantitative thresholds from IFRS 8, the following reporting segments were identified: production and resource base development, equity-portfolio investments, commerce and hedging, and Corporate Social Responsibility – CSR. These reporting segments are presented in note 5.

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 purchased allowances are measured at cost and recognised in intangible assets.

Emission allowances received from the government are treated as a non-cash subsidy and are presented in the financial statements at net amounts together with the emission allowances granted, representing intangible assets.

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

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

Under the principle of net obligations, in a situation where actual emissions exceed the amount of allowances granted and still held, the Group recognises a provision in the amount of fair value of the emission allowances, plus any potential 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). 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 attributable 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.

In order to maintain financial liquidity and the creditworthiness to obtain 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 Net Debt/EBITDA* at a level of up to 2.0.

2.2.31. Exploration for and evaluation of mineral resources

Property, plant and equipment (as fixed assets under construction) and intangible assets (as intangible assets not yet available for use – exploration and evaluation expenditures) used in the exploration for and evaluation of mineral resources from the moment the right is acquired to carry out exploratory activities are recognised as exploration and evaluation assets. These assets are presented in the financial statements as a separate asset group under property, plant and equipment and/or intangible assets. At the end of the reporting period exploration and evaluation expenditures are presented in a separate column under intangible assets (note 7).

Exploration and evaluation assets do not include expenditures on development work related to mineral resources or expenditures incurred:

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

Activities related to the exploration for and evaluation of mineral resources include expenditures on work performed as part of a geological project, such as geochemical analysis of terrain, geological charting, exploratory drilling, taking samples for chemical, mineralogical and geophysical analysis, performing geological, hydrological and geological-engineering documentation, whose goal is to develop documentation in the form of an ore management project and the technical feasibility and commercial viability of the ore management project.

Exploration and evaluation assets are measured at the moment of initial recognition at cost. As at the end of each reporting period expenditures are measured at cost less any impairment. Testing for impairment is required at the moment:

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

Any potential impairment losses are recognised prior to reclassification.

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

2.2.32. 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 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 power 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 to coloured energy obtained free of charge from the government 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 are 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 2011 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 Group companies analyses significance of the impact of separated embedded derivatives on the consolidated financial statements. Following this analysis, the Group determined that separation of these instruments at 31 December 2011 would not have a significant impact on the consolidated financial statements.

Afton-Ajax project

In implementation of the approved strategy, in the fourth quarter of 2011 work continued on the Afton-Ajax project. In accordance with the agreement signed on 12 October 2010, KGHM Polska Miedź S.A. acquired 51% of shares in the company KGHM AJAX MINING INC. formed together with Abacus Mining & Exploration Corp. (Abacus), through a cash contribution in the amount of USD 37 million (as at 31 December 2011 carrying amount of shares was PLN 109 763 thousand). Abacus has brought to KGHM AJAX MINING INC. all the rights it owns to the Afton-Ajax deposit. The cash was used to carry out a Bankable Feasibility Study and for further exploration. In accordance with this agreement, KGHM Polska Miedź S.A. holds the option to acquire 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 (at 31 December 2011: PLN 119 609 thousand).

In December 2011 the work on the Bankable Feasibility Study was completed and KGHM Polska Miedź S.A. received the document. The Study confirmed the chief geologic and mining parameters of the Afton-Ajax project, which until now had been estimated. Measured & Indicated mineral resources increased to 512 million tonnes of ore containing 0.31% copper and 0.19 g/t of gold, versus the previous 442 million tonnes of ore containing 0.30% copper and 0.19 g/t of gold. Proven & Probable mineral reserves were calculated at 1.34 million tonnes of copper and 2.75 million ounces of gold. Average annual production of copper and gold in concentrate amounts respectively to 50 000 tonnes of copper and 100 000 ounces of gold. Mine life was calculated at 23 years.

Applying conservative market assumptions, NPV ratio is positive. Under the base scenario, the investment payback period is approx. 8 years, while at current metals prices this period is less than 3 years. Capital expenditure, estimated at USD 795 million (the equivalent of PLN 2 687 million, according to the average USD/PLN exchange rate of the National Bank of Poland of 21 December 2011), reflects several important changes, aimed at optimising technological solutions through increasing metals recovery during processing, decreasing operating costs, and reducing environmental impact (such as changes in preliminary milling and ore transport systems, technological solutions at the processing plant, and in the waste storage system).

The cost of producing one tonne of copper was calculated in the range of USD 1740 – USD 2800. Mine construction will last two years. Considering the progress to date and the time needed to obtain further permits and administrative approval, the start-up date for the mine has been set at 2015.

The Bankable Feasibility Study was prepared in accordance with Canadian standard NI 43-101 by a consortium of independent consultants under the direction of Tetra Tech WEI (Wardrop).

Counting from the date of receipt of the Bankable Feasibility Study, the Parent Entity had 14 days to review the document, and had another 90 days to decide on the realisation of the option to purchase additional 29% of shares in the company KGHM AJAX MINING INC.

If the option to acquire additional 29% of shares in KGHM AJAX MINING INC. is exercised, KGHM Polska Miedź S.A. will be obliged to organise a capital expenditure of the project financing in the amount of USD 795 million (the equivalent of PLN 2 687 million, according to the average USD/PLN exchange rate of the National Bank of Poland of 21 December 2011).

If this option is not executed by KGHM Polska Miedź S.A., Abacus will have an exclusive right for a period of 90 days to buy back 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 (at 31 December 2011: PLN 126 444 thousand). If Abacus decides not to acquire the shares from KGHM Polska Miedź S.A. within this timeframe, KGHM 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 (at 31 December 2011: PLN 4 959 thousand).

Under IAS 39, KGHM Polska Miedź S.A. is required to measure the options included in this agreement as derivatives. However, at the moment of publication of the Financial statements of the Parent Entity and the Consolidated financial statements of the Group at 31 December 2010, the Parent Entity was not able to make a reliable estimation of the fair value of these options, as work on the Bankable Feasibility Study had not yet been concluded. After receiving this document on 22 December 2011, its results and the possibility of calculating the fair value of these options as at 31 December 2011 have been analysed. Due to the assumptions in the methodology applied in the Bankable Feasibility Study and the nature of the scenarios foreseen for the project, in the opinion of the Parent Entity the possibility of determining the reliable fair value of these options is very limited. There exists therefore the risk of substantial uncertainty in estimating the fair value of these options. As a result of facts described above and based on IAS 39.46(c) it was determined that these options should be measured at cost, as derivatives related to an investment in an equity instrument which is not a traded market instrument and whose fair value cannot be reliably measured. Cost at initial recognition is therefore the amount of the premium paid for these options, which in this case is immaterial.

The deadline for making a corporate decision in the matter described above is 4 April 2012.

3.3. Testing for impairment

Pursuant to IAS 36, the Management Board of the Parent Entity, at the end of the reporting period, performs annual testing for the impairment of cash-generating units to which goodwill was allocated. The tests performed in the current year involved goodwill allocated to two cash-generating units in the total amount of PLN 99 280 thousand. At 31 December 2011, as a result of the tests performed, no impairment losses have been recognised.

3.4. Provisions

The sensitivity of provisions was set based on Parent Entity amounts. In the remaining Group companies, due to the immaterial amounts of individual categories for established provisions, the impact of changes in basic parameters used to calculate these provisions on their amounts would be immaterial.

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 121 688 thousand,
   - a decrease in the discount rate by 1% would cause an increase in the provision by PLN 167 693 thousand,
   - an increase by 1% in the coal price and salary increase rates would cause an increase in the provision by PLN 177 518 thousand,
   - a decrease by 1% in the coal price and salary increase rates would cause a decrease in the provision by PLN 132 131 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 5.8%) 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 115 966 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 152 987 thousand.

The programme and schedule of decommissioning of technological facilities and estimates of decommissioning costs have been worked on since 2001 in cooperation with the subsidiary, KGHM Cuprum sp. z o.o. CBR. Revaluations of the basic decommissioning costs, calculated in 2001, are made periodically based on the changes of the price index for the construction–assembly industry, which are published by the Main Statistical Office (GUS), and movements in tangible fixed assets encompassed by the plan.

Subsequent updates are made should there occur significant economic events affecting the amount of the provision, while also utilising experience gained during the decommissioning of individual facilities. The last update to the decommissioning plan was made in 2011. As a result of work carried out, the present decommissioning plan reflects the technological objects mine decommissioning schedule of 2009 and on-going updating of a decommissioning costs forecast. According to the update, the greatest impact on the change in estimates came from labour costs, verified on the basis of the Parent Entity forecasts and, to a lesser extent, other costs estimated using indices for price changes in the production-assembly sector published by GUS. The update assumes that mine production by KGHM Polska Miedź S.A. in the existing licensed areas will end in 2042.

3. Other non-current provisions – they are estimated using a discount rate and inflation rate applied to measurement of provisions for employee benefits (Note 24).

3.5. Contingent liabilities

1. Contingent liabilities due to projects and inventions are estimated at their maximum possible payable amount based on the calculated, anticipated effects of implementation.

2. The value of remaining contingent liabilities are set at their maximum possible payable amount based on the possible risk of the need to realise the liabilities.

Information on contingent liabilities is presented in note 38.

3.6. 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 with future tax income is based on the Group companies Budget. The projected financial results of the Group companies indicate that taxable income will be achieved, based on which the probability of settling a deferred tax asset is determined by the Group companies 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 45 subsidiaries in the current period.

Entity	Head office	Scope of activities	% of Group's share 31 December 2011	% of Group's share 31 December 2010
AVISTA MEDIA Sp. z o.o.	Wrocław	design, implementation and servicing of IPTV systems (interactive television)	-	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; measurement of imissions and emissions; industrial research	100	100
CENTROZŁOM WROCŁAW S.A.	Wrocław	purchase/sale of scrap: steel, coloured metals and steel alloys, sale of 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	wireless and wired telecommunications services, re-emission of television channels and rental of audiovisual content	-	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; water-sewage management	100	100
FADROMA S.R. SP. Z O.O. in liquidation	Wrocław	servicing and maintenance with respect to construction and mining machinery	-	98.05
Fermat 1 S.á r. l.	Luxembourg	foundation, development, management and exercise of control of other companies	100	-
Fermat 2 S.á r. l.	Luxembourg	foundation, development, management and exercise of control of other companies	100	-
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 Uzdrowiska 01 Sp. z o.o.	Warsaw	financial holding activities, financial services, turnover and real estate services	100	100
Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.	Warsaw	financial activities, retail and wholesale of different merchandise and products	100	100
INOVA Sp. 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	hotel services, recreation, rehabilitation, health tourism 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 ammonium perrhenate and road-building material; sale of raw materials for the production of abrasives; the processing and recovery of metals from ores, mineral resources and industrial waste	100	100
KGHM Kupfer AG (until 15 May 2011 – KGHM HMS Bergbau AG)	Berlin	exploration for and evaluation of deposits of copper and other metals in Europe	100	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.i.L	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation; technology transfer; operation of a technology park; property sale and rental	85.45	85.45
KGHM Metraco S.A.	Legnica	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt, spedition services	100	100
KGHM Polish Copper Ltd. in liquidation	London	copper trading	-	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	hospital services; physician practice; activities related to protecting human health; occupational medicine	100	100
NITROERG S.A.	Bieruń	production of explosives and detonation agents used in mining	85	-
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
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	railway and road transportation services; trade in fuels	100	100
"Uzdrowisko Cieplice" Sp. z o.o.	Jelenia Góra	spa services	91.67	89.71
Uzdrowisko Połczyn S.A.	Połczyn Zdrój	spa services	90.45	89.91
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	Świeradów Zdrój	spa services	87.74	-
Walcownia Metali Nieżelaznych Spółka z o.o.	Gliwice	production of sheeting	-	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
WMN "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	84.96	-
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	91.80	90.09

In the current period in the consolidated financial statements one associated entity – BAZALT-NITRON Sp. z o.o. was accounted for using the equity method for purposes of consolidation.

At 31 December 2011, based on IAS 8.8, which allows exemption from the application of IFRS in a case where the effects of exemption are immaterial, the following subsidiaries were excluded from consolidation – "Mercus Software" Sp. z o.o., and TUW Cuprum. Altogether, in the presented consolidated financial statements 2 subsidiaries were not consolidated, and one associated entity was not accounted for using the equity method. At the end of the reporting period they were measured at cost less impairment. Exclusion of these entities from consolidation does not affect the honest presentation of the assets, profit or loss and cash flows of the Group.

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

Purchase of shares of NITROERG S.A.

On 2 February 2011, an agreement was signed with the Minister of the State Treasury for the purchase 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 (i.e. PLN 22.82 per share). The shares were paid for in cash. The shares purchased represent 85% of the share capital of NITROERG S.A. in Bieruń. The carrying value of assets of NITROERG S.A. at the date control was obtained was PLN 84 068 thousand, of which PLN 71 458 thousand is attributable to shareholders of the Parent Entity, and PLN 12 610 thousand is attributable to non-controlling interests. Goodwill, provisionally set in the amount of PLN 48 594 thousand, will be settled during the 12 months from the date of purchase following fair value measurement of the assets and liabilities of NITROERG S.A.

The control held by KGHM Polska Miedź S.A. over NITROERG S.A. (one of the largest producers of explosive materials) enables the strengthening of competitiveness in supplying the production needs of the core business, as well as new future resource projects (in accordance with realisation of the strategy of increasing the copper ore resource base).

Purchase of shares of Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.

On 20 September 2011, KGHM I FIZAN, a subsidiary of KGHM Polska Miedź S.A., purchased from the State Treasury 13 459 shares of Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o. with its registered head office in Świeradów Zdrój with a nominal value of PLN 500.00 per share, at the price of PLN 1 560.30 per share, i.e. the total amount of PLN 21 000 thousand. KGHM I FIZAN holds 87.74% of the share capital of Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o. The shares purchased were paid for in cash.

The net carrying amount of the assets of Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o. at the date control was obtained was PLN 8 121 thousand, of which the net carrying amount of the assets attributable to the Group amounted to PLN 7 125 thousand. Goodwill, provisionally set at the end of the third quarter, amounted to PLN 13 875 thousand. In the fourth quarter of 2011 the acquired assets and liabilities were measured at fair value and as a result of final settlement a gain on a bargain purchase in the amount of PLN 2 751 thousand has been recognized.

The purchase by KGHM I FIZAN of shares of Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o. is a subsequent step in the realisation of the investment policy of the fund, comprising among others the development of a Polish Spa Group, which will enable enrichment of the offering of spa and tourism services and utilisation of the effects of synergy.

Disclosures on purchased subsidiaries in accordance with IFRS 3.59 and IFRS 3.60

	NITROERG S.A. carrying amount	Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o. fair value
Property, plant and equipment	50 754	30 695
Intangible assets	42	8 586
Investments in associates	449	-
Deferred tax assets	3 062	390
Available-for-sale financial assets	5	-
Trade and other non-current receivables – gross	161	-
Trade and other non-current receivables – net	161	-
Inventories	15 874	295
Trade and other current receivables – gross	46 885	1 647
Trade and other current receivables – net	43 884	1 646
Cash and cash equivalents	27 283	143
Total assets	**141 514**	**41 755**
Trade and other non-current payables	1 609	-
Borrowings – non-current	1 241	2 346
Trade and other current payables	33 379	4 749
Borrowings – current	3 154	1 277
Employee benefits liabilities	16 445	1 300
Deferred tax liabilities	-	4 512
Provisions for other liabilities and charges	1 618	500
Total liabilities	**57 446**	**14 684**
Net assets at the purchase date	**84 068**	**27 071**
Net assets attributable to the Group	71 458	23 751
% in net assets	85.00%	87.74%
Purchase price	120 052	21 000
Purchase-related cost	1 221	210
Total cash flow from the purchase less cash and cash equivalents received	93 990	21 067
Goodwill determined provisionally in accordance with IFRS 3.45	**48 594**	-
Gain on a bargain purchase – final settlement	-	**2 751**

Gain on a bargain purchase was recognised in other operating income in the consolidated statement of comprehensive income.

amounts in tables in thousand PLN, unless otherwise stated

Companies purchased in the reporting period	Sales	Other operating income	Profit/(loss)	Sales	Profit/(loss)
	for the period				
	from 1 January 2011 to 31 December 2011	from 1 January 2011 to 31 December 2011	from 1 January 2011 to 31 December 2011	from purchase date to 31 December 2011	from purchase date to 31 December 2011
NITROERG S.A.	278 033	8 236	13 815	259 536	14 263
Uzdrowisko "Świeradów--Czerniawa" Sp. z o.o.	19 918	410	(469)	4 609	(721)
Accumulated sales and profit/(loss) of purchased companies	297 951	8 646	13 346	-	-
Total for the whole Group	22 141 036	4 562 410	11 063 807	-	-

Purchase of shares and increase in the share capital of KGHM Kupfer AG (formerly KGHM HMS Bergbau AG)

On 20 April 2011, a sale and surrender agreement was signed between KGHM Polska Miedź S.A. and HMS Bergbau AG for the purchase by KGHM Polska Miedź S.A. of 12 551 shares of KGHM HMS Bergbau AG held by HMS Bergbau AG, for the price of EUR 127 895, i.e. PLN 509 thousand. The shares purchased were paid for in cash on 21 April 2011. Following this purchase the Group holds 100% of the share capital of KGHM HMS Bergbau AG.

As a result of settlement of this transaction with non-controlling interests, the difference between the purchase price of the non-controlling interests and the value of the non-controlling interests at the purchase date in the amount of PLN (578) thousand was recognised in retained earnings in the consolidated statement of financial position.

On 27 April 2011, the Ordinary General Meeting of KGHM HMS Bergbau AG resolved to increase the company's share capital by EUR 750 thousand, representing PLN 2 953 thousand. The newly-issued shares, with a nominal value of EUR 1 per share and an issue price of EUR 17.71, were acquired by KGHM Polska Miedź S.A.

The shares were paid for in cash in the amount of PLN 52 364 thousand on 27 April 2011. The surplus of the issue amount over the nominal amount from the increase in the share capital of KGHM Kupfer AG amounts to PLN 49 348 thousand.

Increase of share capital in subsidiaries

Realising the obligation to guarantee an increase in the share capital of companies resulting from sales agreements entered into in 2010 between the State Treasury and KGHM I Fundusz Inwestycyjny Aktywów Niepublicznych, (a subsidiary of KGHM Polska Miedź S.A.) share capital was increased and paid in cash, as follows:

- on 3 February 2011, in the company Uzdrowisko Połczyn S.A. in the amount of PLN 1 000 thousand, which represents 0.54% of the share capital and increases the share of the Group to 90.45%. The entire amount of the guaranteed increase will be allocated to acquire or increase the value of company property, plant and equipment,
- on 18 March 2011, in the company "Uzdrowisko Cieplice" Sp. z o.o. in the amount of PLN 1 500 thousand, which represents 1.96% of the share capital and increases the share of the Group to 91.67%.

The funds of the guaranteed increase will be allocated to acquiring, manufacturing, rebuilding, developing and modernising property, plant and equipment, and to acquiring or prolonging water exploitation licenses.

In addition, on 4 January 2011 an increase in share capital was registered for the company ZUK S.A. The increase in share capital was paid in cash in the amount of PLN 8 000 thousand by KGHM I Fundusz Inwestycyjny Aktywów Niepublicznych on 30 November 2010. The percentage held by the Group in the share capital following the increase rose by 1.71% and amounts to 91.8%. Under the sales agreement, all funds of the guaranteed increase will be allocated to the purchase of property, plant and equipment and intangible assets related to the production and sale of mineral water and spa activities.

As a result of the transaction with non-controlling interests resulting from the change in the percentage held by the Group in the share capital of the above-mentioned companies, equity attributable to shareholders of the Parent Entity was increased in the consolidated financial statements, and equity attributable to non-controlling interests was decreased by PLN 2 595 thousand.

The Parent Entity increased share capital in subsidiaries:

- on 17 October 2011, in KGHM Metraco S.A. in the amount of PLN 10 000 thousand, the share of the Group in the share capital of the company following the increase did not change, and amounts to 100%,
- on 5 October 2011, in "MCZ" S.A. in the amount of PLN 4 480 thousand, the share of the Group in the share capital of the company following the increase did not change, and amounts to 100%.

Combination of subsidiaries in the Group

On 3 January 2011, the Regional Court in Gliwice, Economic Section X of the National Court Register issued a ruling on the combination of the companies WMN Sp. z o.o. and WM "Łabędy" S.A. through the founding of a new entity called Walcownia Metali Nieżelaznych "Łabędy" S.A. Registration of this company in the National Court Register was made on 4 January 2011. The share capital of the newly-founded company amounts to PLN 49 145 thousand and was set based on the sum of the share capital of the combined entities amounting to PLN 97 898 thousand, less the share of the company WM "Łabędy" S.A. in the share capital of WMN Sp. z o.o. prior to the combination, in the amount of PLN 45 985 thousand, and the coverage of losses from prior years in the amount of PLN 2 768 thousand. The share of the Group in the share capital of the newly-founded company amounts to PLN 84.96%. As the result of a transaction with non-controlling interests resulting from the decrease in share capital, share capital attributable to non-controlling interests decreased by PLN 5 120 thousand.

Resolution of the Extraordinary General Shareholders' Meeting of KGHM Kupferhandelsges. m.b.H.i.L on the liquidation of the company

On 30 May 2011, the Extraordinary General Shareholders' Meeting of KGHM Kupferhandelsges. m.b.H. with its registered head office in Vienna resolved to dissolve and liquidate the company as at 1 June 2011. Mr. Michał Jezioro was appointed as liquidator of KGHM Kupferhandelsges. m.b.H.i.L. The decision to liquidate KGHM Kupferhandelsges.m.b.H. is connected with the takeover by KGHM Polska Miedź S.A. of the commercial activities of this company.

Liquidation of the company "FADROMA-SERWIS-REMONTY" Sp. z o.o. in liquidation

On 12 August 2011, the Regional Court for Wrocław-Fabryczna in Wrocław, Section IX (Economic) of the National Court Register issued a judgment on the removal of "FADROMA-SERWIS-REMONTY" Sp. z o.o. in liquidation from the National Court Register, attaching to the register a report on liquidation of the company together with the auditor's opinion and report on the audit of the financial statements for the period from 1 January 2011 to 30 June 2011. The liquidation proceedings were concluded as a result of the division of company assets between creditors and shareholders.

Liquidation of KGHM Polish Copper Ltd

On 23 December 2011, the dissolution of KGHM Polish Copper Ltd. was registered in the register of the United Kingdom. At the date of closure of the company's liquidation, its assets were distributed by payment to the owner (the Parent Entity) of the net assets (cash) in the amount of PLN 12 947 thousand. The net assets earned by KGHM Polish Copper Ltd. during the period of the Group's control equal the cash paid to KGHM Polska Miedź S.A. within the liquidation.

Sale of DIALOG S.A. Group – discontinued operations

On 16 December 2011, KGHM Polska Miedź S.A. sold to Netia S.A. 19 598 000 shares of Telefonia DIALOG spółka akcyjna with its registered head office in Wrocław, with a nominal value of PLN 489 950 thousand, representing 100% of the share capital of DIALOG and 100% of the votes at the general meeting of DIALOG.

The sale of these shares took place in performance of obligations arising from the contingent binding agreement on the sale of the shares of DIALOG entered into between KGHM and Netia on 29 September 2011. The final price at which the Parent Entity sold these shares was calculated in accordance with the formula set forth in the contingent agreement, and amounted to PLN 968 927 thousand (paid in cash).

For settling the sales of the DIALOG S.A. Group (a pre-tax loss of PLN 2 035 thousand) cost was set at PLN (970 962) thousand, in accordance with IAS 27.34, composed of the following items:

- the net asset of the Dialog Group in the amount of PLN (1 015 216) thousand,
- the unamortised value of the assets of a subsidiary of the Dialog Group measured at fair value at the purchase date – PLN (3 357) thousand,
- unamortised goodwill from consolidation – PLN (1 864) thousand,
- the value of shares of the Dialog Group's subsidiaries – PLN 49 475 thousand.

The activities of the DIALOG S.A. Group were classified as discontinued activities (further information is presented in note 39).

The result on sales (loss) was recognised in profit for the period from discontinued operations.

Establishment of Fermat 1 S.á r.l. and Fermat 2 S.á r.l.

On 30 December 2011, KGHM Polska Miedź S.A. established a company under the name Fermat 1 S.á r.l. with its registered head office in Luxembourg, in which, through a cash transfer of EUR 12 500, it acquired 12 500 shares with a nominal value of 1 EUR/share, representing 100% of the share capital of Fermat 1 S.á r.l. (as at 31 December 2011 the carrying value amounted to PLN 55 thousand).

On 30 December 2011, Fermat 1 S.á r.l. established a company under the name Fermat 2 S.á r.l. with its registered head office in Luxembourg, with share capital of EUR 12 500 (as at 31 December 2011 the carrying value amounted to PLN 55 thousand).

Both companies were established as part of the activities related to the creation of a holding structure for purchase the shares of Quadra FNX.

amounts in tables in thousand PLN, unless otherwise stated

Changes in the structure of the KGHM Polska Miedź S.A. Group during period from 1 January 2010 to 31 December 2010

Description	Transaction date	% of purchased shares with voting rights	Number of purchased/ acquired shares	Nominal per-share value (in PLN)	Purchase price	Payment method	Direct parent entity
Purchase							
BIPROMET S.A. Group	12.07.2010	66%	4 091 868	10	30 689	cash	KGHM Polska Miedź S.A.
Zespół Uzdrowisk Kłodzkich S.A.	20.10.2010	90.09%	3 450 500	10	138 227	cash	KGHM I FIZAN
Uzdrowisko Połczyn S.A.	22.11.2010	89.91%	1 600 621	10	26 426	cash	KGHM I FIZAN
CENTROZŁOM WROCŁAW S.A.	30.11.2010	85%	9 350 000	10	176 435	cash	KGHM Ecoren S.A.
"Uzdrowisko Cieplice" Sp. z o.o.	22.12.2010	89.71%	114 290	50	29 316	cash	KGHM I FIZAN
Acquisition of Investment Certificates							
KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN)	2.02.2010	100%	2 095	10 000	20 950	cash	KGHM Polska Miedź S.A.
KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN)	23.06.2010	100%	700	10 000	7 000	cash	KGHM Polska Miedź S.A.
KGHM III Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM III FIZAN)	3.12.2010	100%	500	10 000	5 000	cash	KGHM Polska Miedź S.A.
Founding of new entities							
Interferie Medical SPA Sp. z o.o.	1.02.2010	65.67%	50	1 000	50 000	cash	INTERFERIE S.A.
Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.)	12.03.2010	100%	150	100	15	cash	KGHM I FIZAN
Fundusz Uzdrowiska Sp. z o.o. S.K.A. (currently Fundusz Hotele 01 Sp. z o.o. S.K.A.)	17.05.2010	100%	500	100	50	cash	KGHM I FIZAN
Fundusz Hotele 01 Sp. z o.o. Uzdrowiska Sp. z o.o. S.K.A. (currently Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A.)	17.05.2010	100%	500	100	50	cash	KGHM I FIZAN
Fundusz Uzdrowiska 01 Sp. z o.o.	19.05.2010	100%	150	100	15	cash	KGHM I FIZAN
KGHM (SHANGHAI) COPPER TRADING CO., LTD.	09.2010	100%	not applicable	-	1 545	cash	KGHM Polska Miedź S.A.
KGHM AJAX MINING INC.	12.10.2010	51%	not applicable	-	105 543	cash	KGHM Polska Miedź S.A.

Description	Transaction date	% of purchased shares with voting rights	Number of purchased/ acquired shares	Nominal per-share value (in PLN)	Purchase price	Payment method	Direct parent entity
Increase in share capital							
Fundusz Hotele 01 Sp. z o.o.	20.05.2010	-	2 010	100	201	cash	KGHM I FIZAN
Interferie Medical SPA Sp. z o.o.	1.09.2010	-	19 908	1 000	19 908	contribution in kind 19 808, cash 100	INTERFERIE S.A.
Interferie Medical SPA Sp. z o.o.	11.10.2010	-	41 309	1 000	41 309	cash	KGHM I FIZAN
Fundusz Hotele 01 Sp. z o.o. S.K.A.	21.12.2010	-	503 000	100	50 300	cash	KGHM I FIZAN
Takeover within the Group							**Purchase/seller**
KGHM HMS Bergbau AG (now KGHM Kupfer AG)	16.06.2010	74.90%	37 449	1 EUR	169	cash	KGHM Polska Miedź S.A. / KGHM CUPRUM Sp. z o.o.-CBR
DFM ZANAM – LEGMET Sp. z o.o.	3.11.2010	100%	719 397	50	48 149	cash	KGHM Polska Miedź S.A. / KGHM Ecoren S.A.
INOVA Sp. z o.o.	3.11.2010	100%	6 600	1 000	13 054	cash	KGHM Polska Miedź S.A. / KGHM Ecoren S.A.
INTERFERIE S.A.	23.12.2010	61.55%	8 964 200	5	45 897	cash	Fundusz Hotele 01 Sp. z o.o. SKA / KGHM Ecoren S.A.
INTERFERIE S.A.	23.12.2010	2.06%	300 000	5	1 536	cash	Fundusz Hotele 01 Sp. z o.o. SKA / KGHM Polska Miedź S.A.
INTERFERIE S.A.	27.12.2010	2.06%	300 000	5	1 536	cash	Fundusz Hotele 01 Sp. z o.o. SKA / CBJ sp. z o.o.

In 2011, assets and liabilities purchased in 2010 were measured at fair value at the date control was obtained of subsidiaries, and final settlement of the impact of acquisition was made, as shown in the following table:

	BIPROMET S.A. Group	Zespół Uzdrowisk Kłodzkich S.A.	Uzdrowisko Połczyn S.A.	CENTROZŁOM WROCŁAW S.A.	"Uzdrowisko Cieplice" Sp. z o.o.	Total
Property, plant and equipment	14 598	134 218	45 843	85 213	35 797	315 669
Intangible assets	3 887	49 013	11 678	28 713	8 357	101 648
Property investment	37 675	-	-	-	-	37 675
Deferred tax assets	51	822	-	-	206	1 079
Available-for-sale financial assets	30	153	-	-	-	183
Non-current trade and other receivables – gross	2 008	1	-	37	27	2 073
Non-current trade and other receivables – net	2 008	1	-	37	27	2 073
Inventories	458	2 775	205	42 479	34	45 951
Current trade and other receivables – gross	12 454	14 311	1 766	106 684	1 261	136 476
Current trade and other receivables – net	10 847	13 347	1 416	103 386	1 102	130 098
Cash and cash equivalents	5 113	7 458	1 900	16 040	1 080	31 591
Non-current assets held for sale	85	-	-	-	-	85
Total assets	**74 752**	**207 787**	**61 042**	**275 868**	**46 603**	**666 052**
Non-current trade and other payables	2 254	8 057	3 801	731	1 071	15 914
Deferred tax liability	6 811	23 224	5 311	9 238	6 131	50 715
Current trade and other payables	11 509	13 829	4 366	52 717	1 805	84 226
Borrowings	1 579	3 567	2 132	817	3 845	11 940
Liabilities due to employee benefits	540	3 290	1 313	1 960	1 052	8 155
Provisions for other liabilities and charges	2 208	-	301	497	-	3 006
Total liabilities	**24 901**	**51 967**	**17 224**	**65 960**	**13 904**	**173 956**
Net assets at the purchase date	**49 851**	**155 820**	**43 818**	**209 908**	**32 699**	**492 096**
Net assets attributable to the Group	31 970	140 379	39 399	178 419	29 334	419 501
% 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
Purchase-related costs	123	1 387	265	1 764	293	3 832
Gain on a bargain purchase – final settlement	**1 281**	**2 152**	**12 973**	**1 984**	**18**	**18 408**

amounts in tables in thousand PLN, unless otherwise stated

Gain on a bargain purchase arose as a result of the fair value measurement of the net assets purchased at the date control was obtained, exceeded estimated fair value of the net assets prior to the purchase date was recognised in the consolidated statement of comprehensive income under other operating income.

Adjustment of the net assets of the companies Zespół Uzdrowisk Kłodzkich S.A., Uzdrowisko Połczyn S.A. and "Uzdrowisko Cieplice" Sp. z o.o. due to fair value measurement of their net assets due to final settlement is presented in note 2.1.

The fair value measurement of the net assets of the companies BIPROMET S.A. and CENTROZŁOM S.A. did not differ substantially from the carrying amount assumed for provisional settlement, as a result of which there was no adjustment of settlement, with gain on a bargain purchase being recognised as final.

In agreements for the purchase of State Treasury companies in 2010, the liabilities to incur investment expenditures in the following companies were included:

- ZUK S.A. in the amount of PLN 25 000 thousand,
- Uzdrowisko Połczyn S.A. in the amount of PLN 5 000 thousand,
- "Uzdrowisko Cieplice" Sp. z o.o. in the amount of PLN 6 000 thousand,
- CENTROZŁOM WROCŁAW S.A. in the amount of PLN 35 000 thousand.

5. Information on business segments

With respect to the process of adapting the supervision of companies of the Group to the strategy and investment policy of KGHM Polska Miedź S.A., the Management Board of the Parent Entity implemented in 2011 a new management model for the Group, based on individual business supervisory units:

- Production,
- International expansion and resource base development,
- Equity-portfolio investments,
- Commerce and hedging,
- A group of entities realising corporate social responsibility – CSR.

Taking into consideration IFRS 8 and the utility of information to users of the financial statements, four reporting segments were identified:

- production and resource base development, combining the production and international expansion and resource base development units in fulfilment of IFRS 8.12,
- equity-portfolio investment,
- commerce and hedging, and
- corporate social responsibility – CSR.

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

KGHM Polska Miedź S.A. Group
as at 31 December 2011

Production and resource base development

KGHM Polska Miedź S.A.
"Energetyka" Sp. z o.o.
"BIOWIND" Sp. z o.o.
WPEC w Legnicy S.A.
BIPROMET S.A.
Przedsiębiorstwo Budowlane Katowice S.A.
Bipromet Ecosystem Sp. z o.o.
KGHM CUPRUM Sp. z o.o. – CBR
CBJ sp. z o.o.
PeBeKa S.A.
INOVA Sp. z o.o.
DFM ZANAM-LEGMET Sp. z o.o.
KGHM Kupfer AG
KGHM AJAX MINING INC.
Fermat 1 S.á r.l.
Fermat 2 S.á r.l.

Commerce and hedging

KGHM Kupferhandelsges. m.b.H.i.L.
KGHM Metraco S.A.
KGHM (SHANGHAI) COPPER TRADING CO., LTD.

Corporate social responsibility – CSR

Zagłębie Lubin S.A.
KGHM LETIA S.A.
"MIEDZIOWE CENTRUM ZDROWIA" S.A.

Equity-portfolio investments

POL-MIEDŹ TRANS Sp. z o.o.
INTERFERIE S.A.
Ecoren DKE Sp. z o.o.
PHU "Lubinpex" Sp. z o.o.
PMT Linie Kolejowe 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 Uzdrowiska 01 Sp. z o.o. S.K.A.
Fundusz Uzdrowiska 01 Sp. z o.o.
ZUK S.A.
Uzdrowisko Połczyn S.A.
"Uzdrowisko Cieplice" Sp. z o.o.
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.
CENTROZŁOM WROCŁAW S.A.
PHP "MERCUS" Sp. z o.o.
WMN "ŁABĘDY" S.A.
KGHM Ecoren S.A.
WFP Hefra SA
KGHM TFI S.A.
KGHM I FIZAN
KGHM II FIZAN
KGHM III FIZAN
NITROERG S.A.

To maintain data comparability, the adopted segregation of reporting segments was also applied to data for 2010.

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.

	Production and resource base development	Equity-portfolio investments	Commerce and hedging	Corporate social responsibility – CSR	Discontinued operations	Adjustment*	Consolidation eliminations (according to IAS 27)	Consolidated amount
	For the period from 1 January 2011 to 31 December 2011							
Revenue	21 665 403	2 873 797	3 188 467	143 820	505 920	(20)	(5 782 842)	**22 594 545**
of which:								
– external sales	19 704 969	1 671 285	650 928	91 991	487 315	226	(12 169)	**22 594 545**
– inter-segment sales	1 960 434	1 202 512	2 537 539	51 829	18 605	(246)	(5 770 673)	**-**
Interest income	193 984	5 072	1 006	1 419	4 330	-	(3 609)	**202 202**
Interest costs	(8 394)	(6 555)	(166)	(18)	(1 202)	-	3 121	**(13 214)**
Depreciation/Amortisation	(744 595)	(68 869)	(2 065)	(12 069)	(64 513)	(5 354)	(13 335)	**(910 800)**
Revaluation of provisions for employee benefits	(113 489)	255	(576)	(34)	2 051	-	(2 232)	**(114 025)**
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	(1 503)	2 307	-	(267)	(2 552)	(4 501)	-	**(6 516)**
Income on measurement and realisation of derivatives	1 025 018	2 190	11 007	-	-	-	-	**1 038 215**
Costs on measurement and realisation of derivatives	(704 097)	(6 660)	(4 660)	-	-	-	-	**(715 417)**
Share of profit of associates	-	-	-	-	-	-	187 729	**187 729**
Profit before income tax	13 711 465	14 684	12 756	(906)	66 246	(9 694)	(438 632)	**13 355 919**
Income tax expense	(2 333 710)	(8 623)	(2 470)	(75)	(6 615)	1 695	57 882	**(2 291 916)**
Share of profit (losses) of subordinated entities accounted for using the equity method	-	7 788	-	-	-	(7 788)	-	-
Profit for the period	11 377 755	13 849	10 286	(981)	59 631	(15 787)	(380 750)	**11 064 003**
	At 31 December 2011							
Segment assets	31 162 699	2 256 796	221 994	224 027	-	(339)	(3 311 303)	**30 553 874**
Segment liabilities	6 874 665	684 439	127 103	70 940	-	(6 771)	(578 859)	**7 171 517**
Borrowings and finance lease liabilities	125 733	196 730	51	17 225	-	-	(41 782)	**297 957**
Investments in associates	-	449	-	-	-	-	23	**472**
	Financial period from 1 January 2011 to 31 December 2011							
Capital expenditure	1 699 478	205 857	24 552	49 872	65 672	(94)	(22 412)	**2 022 925**

* Adjustment – adjustment restating the amounts to the measurement principles according to International Financial Reporting Standards.

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. At 31 December 2011, three Group companies, i.e. the Parent Entity, BIPROMET S.A. and INTERFERIE S.A., keep their account books in accordance with IFRS. The remaining companies of the Group keep their account books in accordance with Polish Accounting Standards, restating data to the principles of International Financial Reporting Standards for the preparation of consolidated financial statements.

Details of adjustments restating the amounts shown in segments to the measurement principles according to International Financial Reporting Standards as at 31 December 2011 and for the period from 1 January 2011 to 31 December 2011.

	Profit or loss					Statement of financial position		
	Sales	Operating costs	Depreciation / Amortisation	Profit before taxation	Income tax	Segment assets	Segment liabilities	Capital expenditure
Netting off of Social Fund assets and liabilities	-	-	-	-	-	(10 021)	(10 021)	-
Offsetting of deferred tax assets/ deferred tax liabilities	-	-	-	-	-	(8 683)	(8 683)	-
Accounting for shares using the equity method	-	-	-	1 004	-	(15 536)	-	-
Perpetual usufruct of land	-	-	-	-	-	(15 641)	-	-
Deferred tax liability due to fair value measurement of assets	-	-	-	-	1 388	-	10 078	-
Fair value measurement of assets	-	-	(5 305)	(5 379)	-	48 176	-	-
Other	226	(4 501)	(49)	(5 319)	307	1 366	1 855	(94)
Total adjustment	**226**	**(4 501)**	**(5 354)**	**(9 694)**	**1 695**	**(339)**	**(6 771)**	**(94)**

amounts in tables in thousand PLN, unless otherwise stated

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.

	Financial period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Poland, of which:	5 845 796	4 970 621
discontinued operations	487 315	526 086
Germany	4 478 882	3 739 356
Great Britain	2 733 718	1 568 507
China	2 425 123	1 893 285
The Czech Republic	1 346 565	1 156 340
Italy	1 191 236	790 772
France	653 543	581 026
Hungary	523 480	412 392
Austria	482 581	345 213
Belgium	386 098	299 463
Switzerland	354 402	244 955
Slovakia	109 656	91 978
Finland	40 770	56 711
Other countries	2 022 695	1 141 971
Total	**22 594 545**	**17 292 590**

Main customers

During the period from 1 January 2011 to 31 December 2011, the revenues from any customer exceeded 10% of the revenues of the Group.

During the period from 1 January 2010 to 31 December 2010, the revenues from any customer exceeded 10% of the revenues of the Group.

98.93% of the non-current assets of the Group are located in the country of origin of the Parent Entity. The remaining 1.07% of them are located in other countries.

6. Property, plant and equipment

	At	
	31 December 2011	31 December 2010 restated
Land	39 165	36 922
Buildings	3 586 921	3 885 290
Technical equipment and machinery	3 208 377	3 161 839
Motor vehicles	242 955	198 773
Other fixed assets	84 337	69 152
Fixed assets under construction	1 884 022	1 318 578
Total	**9 045 777**	**8 670 554**

Major investment projects recognised under fixed assets under construction

	At	
	31 December 2011	31 December 2010 restated
Construction of the SW-4 shaft	471 432	392 400
Głogów Głęboki – Przemysłowy	295 997	208 329
Construction of gas-steam blocks in Głogów and Polkowice Powerplants	179 593	9 305
Ventilation and air conditioning equipment in the mines	136 399	215 643
Investments related to mining region infrastructural development in mines	111 431	48 216
Program of Pyrometallurgy Modernisation	78 226	12 813
Sulphuric Acid Plant in Głogów I Smelter, Głogów II Smelter and Legnica Smelter	69 294	34 950
Exchange of floatation machinery in the Ore Enrichment Plants	69 252	60 872
Purchase of mine machinery and technical equipment	50 781	19 613
Conformatory work	42 366	10 019
Power and communications infrastructure	36 557	35 353
Investments in power and communications infrastructure, related buildings and other investments in the Ore Enrichment Plants	32 031	15 151
Construction of the LETIA Business Center (LBC) at the Legnica Technology Park	31 138	9 505
Exploratory drillings (to analyse mineral ore) in the Weisswasser concession	31 099	-
Design, construction and obtaining of permits to utilise a sulphuric acid warehouse-loading base, with required technical infrastructure	23 265	1 722
Shafts and primary equipments in mines	23 009	24 540
Conveyor belt and pipeline transport investments	20 064	6 273
Intensification of lead production – development of the 4th Doerschel furnace at the Głogów smelter	-	37 037
Modernisation of steam and water boilers	-	32 234
Construction of a hotel "Medical SPA" in Świnoujście	-	26 473
Total	**1 701 934**	**1 200 448**

amounts in tables in thousand PLN, unless otherwise stated

7. Intangible assets

	At	
	31 December 2011	31 December 2010 restated
Development costs	347	4 618
Goodwill	99 982	53 252
Software	13 686	41 640
Acquired concessions, patents, licenses	52 177	51 387
Other intangible assets	171 335	149 073
Exploration and evaluation assets	249 438	148 801
Other intangible assets not yet available for use	27 029	24 444
Total	**613 994**	**473 215**

8. Investment property

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Beginning of financial period	**59 760**	**17 164**
Changes during the financial period due to:	170	42 596
- subsidiaries purchase	1 653	37 675
- other changes	(1 483)	4 921
End of financial period	**59 930**	**59 760**

9. Investments in associates

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Beginning of financial period	**1 431 099**	**1 315 663**
Purchase – BAZALT-NITRON sp. z o.o.	449	-
Share of profits of associates	187 729	280 542
Changes in equity due to payment of dividend	(250 013)	(146 658)
Amortisation of relations with customers identified in the process of allocating purchase cost	(9 224)	(18 448)
Reclassification to assets held for sale Polkomtel S.A.	(1 359 568)	-
End of financial period	**472**	**1 431 099**

On 9 November 2011, the Parent Entity transferred the ownership of ordinary registered shares representing 24.39% of the share capital of Polkomtel S.A. and 24.39% of the total number of votes at Polkomtel S.A.'s general meeting to Spartan Capital Holdings Sp. z o.o. The price for the shares paid by the Purchaser to KGHM amounted to PLN 3 672 147 thousand and was paid in cash by the purchaser.

The carrying amount of the shares in the consolidated financial statements of the Parent Entity at the sale date amounted to PLN 1 359 568 thousand.

Profit from sale in the amount of PLN 2 312 579 thousand was recognised in other operating income in the profit from sale of subsidiaries and associates.

10. Available-for-sale financial assets

	At	
	31 December 2011	31 December 2010 restated
Shares in unlisted companies	11 388	11 387
Shares in listed companies	982 568	740 324
Other	4	7
Non-current available-for-sale financial assets	**993 960**	**751 718**
Participation units in open-end investment funds	2 126	407 214
Treasury bonds	8 263	-
Shares in listed companies	5 279	8 448
Current available-for-sale financial assets	**15 668**	**415 662**
Total available-for-sale financial assets:	**1 009 628**	**1 167 380**

11. Held-to-maturity investments

	At	
	31 December 2011	31 December 2010 restated
Cash held in the Mine Closure Fund	111 665	84 115
Other securities	44	42
Non-current held-to-maturity investments	**111 709**	**84 157**
Cash held in the Mine Closure Fund	2 147	4 129
Current held-to-maturity investments	**2 147**	**4 129**
Total held-to-maturity investments:	**113 856**	**88 286**

amounts in tables in thousand PLN, unless otherwise stated

12. Derivatives

	At	
	31 December 2011	31 December 2010 restated
Non-current assets		
Hedging instruments	896 375	402 234
Trade instruments	3 025	1 605
Non-current assets due to derivatives, total:	**899 400**	**403 839**
Current assets		
Hedging instruments	850 530	211 186
Trade instruments	9 512	9 137
Instruments initially designated as hedging instruments excluded from hedge accounting	-	77 261
Current assets due to derivatives, total:	**860 042**	**297 584**
Total assets due to derivatives	**1 759 442**	**701 423**
Non-current liabilities		
Hedging instruments	427 049	606 154
Trade instruments	111 064	105 426
Instruments initially designated as hedging instruments excluded from hedge accounting	207	-
Non-current liabilities due to derivatives, total:	**538 320**	**711 580**
Current liabilities		
Hedging instruments	125 754	294 161
Trade instruments	205 168	187 503
Instruments initially designated as hedging instruments excluded from hedge accounting	409	454
Current liabilities due to derivatives, total:	**331 331**	**482 118**
Total liabilities due to derivatives	**869 651**	**1 193 698**

13. Trade and other receivables

	At	
	31 December 2011	31 December 2010 restated
Trade and other non-current receivables		
Trade receivables	-	14 715
Other financial receivables	38 905	5 408
Impairment allowances	(1 010)	(13 158)
Total loans and financial receivables, net:	**37 895**	**6 965**
Other non-financial receivables	39	1 719
Prepayments	1 556	4 824
Total non-financial receivables, net	**1 595**	**6 543**
Trade and other non-current receivables, net:	**39 490**	**13 508**
Trade and other current receivables		
Trade receivables	1 387 659	2 041 065
Other financial receivables	135 181	409 630
Impairment allowances	(71 493)	(85 825)
Total loans and financial receivables, net	**1 451 347**	**2 364 870**
Other non-financial receivables	397 263	370 907
Prepayments	17 918	24 171
Impairment allowances	(27 549)	(32 013)
Total non-financial receivables, net	**387 632**	**363 065**
Trade and other current receivables, net	**1 838 979**	**2 727 935**
Total trade and other non-current and current receivables, net	**1 878 469**	**2 741 443**

The amount of payables due to unsettled derivatives represents the derivatives whose date of settlement falls on 4 January 2012 for the balance as at 31 December 2011.

14. Inventories

	At	
	31 December 2011	31 December 2010 restated
Materials	307 343	247 187
Half-finished products and work in progress	1 681 837	1 683 819
Finished goods	581 208	209 316
Merchandise	87 865	81 909
Total carrying amount of inventories	**2 658 253**	**2 222 231**

	For the period	
Write-down of inventories in the financial period	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Write-down of inventories recognised in cost of sales	(11 245)	(6 888)
Reversal of write-down recognised in cost of sales	3 409	3 852
Loss of control over subsidiary	(16)	-
Discontinued operations	-	(45)

amounts in tables in thousand PLN, unless otherwise stated

15. Cash and cash equivalents

	At	
	31 December 2011	31 December 2010 restated
Cash in hand	984	847
Cash at bank	51 949	103 046
Other cash	8 016	1 361
Other financial assets with a maturity of up to 3 months from the date of acquisition	13 069 452	2 981 703
Total cash and cash equivalents	**13 130 401**	**3 086 957**

Other financial assets with a maturity of up to 3 months from the date of acquisition include mainly deposits in the amount of PLN 13 053 368 thousand (as at 31 December 2010: PLN 2 906 645 thousand), and interest on financial assets in the amount of PLN 16 084 thousand (as at 31 December 2010: PLN 6 769 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 2011	31 December 2010 restated
Property, plant and equipment	3 173	689
Intangible assets	389	389
Total non-current assets held for sale	**3 562**	**1 078**
	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Beginning of the financial period	**1 078**	**6 674**
Reclassification of property, plant and equipment	2 488	4
Reclassification of investments in associates	1 359 568	-
Reclassification of the DIALOG S.A. Group net assets	1 015 216	-
Sales	(2 374 788)	(5 600)
End of the financial period	**3 562**	**1 078**

17. Share capital

At 31 December 2011, 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 2011 and 31 December 2010 there were no changes in the registered share capital or in the number of shares.

In 2011 there were no changes in ownership of significant packets of shares of KGHM Polska Miedź S.A. In 2010 the State Treasury decreased its share in the share capital and the total number of votes at the General Meeting from 41.79% to 31.79%.

At 31 December 2011 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	Percentage held in share capital/ total number of votes
State Treasury	63 589 900	635 899 000	31.79%
Other shareholders	136 410 100	1 364 101 000	68.21%
Total	200 000 000	2 000 000 000	100.00%

amounts in tables in thousand PLN, unless otherwise stated

amounts in tables in thousand PLN, unless otherwise stated

18. Accumulated other comprehensive income

	Accumulated other comprehensive income due to:			Total accumulated other comprehensive income
	Available-for-sale financial assets	Cash flow hedging financial instruments	Exchange differences from the translation	
At 1 January 2011 – restated	**120 046**	**89 775**	**-**	**209 821**
Fair value loss on available-for-sale financial assets	(189 633)	-	-	(189 633)
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets	(10 692)	-	-	(10 692)
Amount transferred to profit or loss due to impairment of available-for-sale financial assets	4 840	-	-	4 840
Impact of effective cash flow hedging transactions	-	839 724	-	839 724
Amount transferred to profit or loss due to the settlement of hedging instruments	-	(241 565)	-	(241 565)
Exchange differences from the translation of foreign operations	-	-	37 131	37 131
Deferred income tax	37 143	(113 651)	-	(76 508)
Other comprehensive income	**(158 342)**	**484 508**	**37 131**	**363 297**
At 31 December 2011	**(38 296)**	**574 283**	**37 131**	**573 118**

18.1. Accumulated other comprehensive income components

	At			
	31 December 2011		31 December 2010 restated	
	Gross value	Net value	Gross value	Net value
Accumulated other comprehensive income due to available-for-sale financial assets	**(47 278)**	**(38 296)**	**148 207**	**120 046**
Fair value gains/(losses)	(47 278)	(38 296)	148 207	120 046
Accumulated other comprehensive income due to cash flow hedging instruments	**708 991**	**574 283**	**110 832**	**89 775**
Gains on measurement	708 991	574 283	110 832	89 775
Exchange differences from the translation of foreign operations	**37 131**	**37 131**	**-**	**-**
Total accumulated other comprehensive income	**698 844**	**573 118**	**259 039**	**209 821**

19. Retained earnings

	At	
	31 December 2011	31 December 2010 restated
Undistributed profit/(loss) from prior years	(151 505)	(615 872)
including obligation to repurchase of non-controlling interest	(69 860)	(67 382)
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	693 541	692 559
Reserve capital created and utilised in accordance with the Statutes of Group entities	8 939 034	7 655 219
Profit for the current period	11 063 456	4 724 507
Total retained earnings	**20 544 526**	**12 456 413**

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 2011 this statutory reserve capital in the Group entities amounts to PLN 693 541 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 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
At beginning of the period	**255 889**	**77 082**
Non-controlling interest in profits of subsidiaries	547	5 917
Changes in equity attributable to non-controlling interest due to obtaining /(losing) control of subsidiaries	15 923	173 993
Changes in ownership shares in subsidiaries which do not result in loss of control	(7 646)	(1 103)
Changes in equity attributable to non-controlling interest due to exchange differences from the translation of foreign operations	18 194	-
At end of the period	**282 907**	**255 889**

amounts in tables in thousand PLN, unless otherwise stated

amounts in tables in thousand PLN, unless otherwise stated

21. Trade and other payables

	At 31 December 2011	At 31 December 2010 restated
Trade and other non-current payables		
Trade payables	8 024	11 732
Put option liabilities for employee shares	74 437	68 872
Other financial liabilities	13 718	11 562
Total financial liabilities (scope of IFRS 7)	**96 179**	**92 166**
Deferred income	32 864	27 568
Other non-financial liabilities	706	126
Total non-financial liabilities	**33 570**	**27 694**
Total trade and other non-current payables	**129 749**	**119 860**
Trade and other current payables		
Trade payables	989 030	890 300
Payables due to unsettled derivatives*	17 073	49 690
Other financial liabilities	29 587	20 956
Total financial liabilities (scope of IFRS 7)	**1 035 690**	**960 946**
Other financial liabilities (IAS 19 – Employee benefits)	181 316	168 419
Total financial liabilities	**1 217 006**	**1 129 365**
Liabilities due to taxes and social security	316 741	307 039
Other non-financial liabilities	53 747	46 006
Special funds	138 307	112 054
Deferred income	35 732	22 132
Accruals	420 560	377 981
Total non-financial liabilities	**965 087**	**865 212**
Total trade and other current payables	**2 182 093**	**1 994 577**
Total trade and other non-current and current payables	**2 311 842**	**2 114 437**

* Payables due to unsettled derivatives represent the derivatives whose date of settlement falls on 4 January 2012 for the balance as at 31 December 2011 and 5 January 2011 for the balance as at 31 December 2010.

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 305 389 thousand (PLN 294 930 thousand as at 31 December 2010) and costs due to unused annual leave in the amount of PLN 22 308 thousand (PLN 19 395 thousand as at 31 December 2010).

Put option liabilities for employee shares in the amount of PLN 74 437 thousand presented as non-current payables (as at 31 December 2010, PLN 68 872 thousand) 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., Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o., 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. The put option liabilities for employee shares are discounted by applying a discount rate at the level of 5.8% assuming a 5-year period of realisation. The put option liabilities for employee shares are recognised with debit entry in retained earnings in "Valuation of the put option for employee shares".

Details on measurement of put option liabilities for employee shares 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 at 31 December 2011	Amount of liability at 31 December 2010 restated
WPEC S.A. w Legnicy	1 770 000	20.00	29 891	28 576
"Uzdrowisko Cieplice" Sp. z o.o.	13 110	256.50	2 684	2 573
Zespół Uzdrowisk Kłodzkich S.A	379 500	40.06	12 133	11 632
Uzdrowisko Połczyn S.A.	179 550	16.51	2 366	2 268
Uzdrowisko "Świeradów-Czerniawa" Sp. z o.o.	1 881	1 560.30	2 514	-
CENTROZŁOM WROCŁAW S.A.	1 650 000	18.87	24 849	23 823
Put option liabilities for employee shares			**74 437**	**68 872**

22. Borrowings and finance lease liabilities

	At 31 December 2011	At 31 December 2010 restated
Non-current borrowings and finance lease liabilities		
Bank loans	176 909	141 829
Loans	1 738	2 420
Finance lease liabilities	15 723	29 403
Total non-current borrowings and finance lease liabilities	**194 370**	**173 652**
Current borrowings and finance lease liabilities		
Bank loans	91 269	81 901
Loans	2 032	1 883
Finance lease liabilities	10 286	12 378
Total current borrowings and finance lease liabilities	**103 587**	**96 162**
Total borrowings and finance lease liabilities	**297 957**	**269 814**

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23. Deferred tax

	At	
	31 December 2011	31 December 2010 restated
Net deferred tax assets at the beginning of the period, of which:	**424 636**	**291 213**
Deferred tax assets at the beginning of the period	**592 792**	**347 395**
Deferred tax liabilities at the beginning of the period	**168 156**	**56 182**
(Charged)/Credited to profit	(50 474)	167 170
Decrease in other accumulated comprehensive income	(76 508)	(19 591)
Deferred tax assets at the date of acquisition of shares in subsidiaries	1 676	(49 889)
Reclassification of deferred tax to assets held for sale	(147 152)	-
Discontinued activities	-	35 733
Net deferred tax assets at the end of the period, of which:	**152 178**	**424 636**
Deferred tax assets at the end of the period	**272 331**	**592 792**
Deferred tax liabilities at the end of the period	**120 153**	**168 156**

24. Employee benefits

A general description of the employee benefit plans is presented in note 2.2.16.

	At	
	31 December 2011	31 December 2010 restated
Jubilee awards	312 927	298 001
Retirement and disability benefits	245 259	226 203
Coal equivalent	855 274	764 060
Other benefits	56 063	50 345
Present value of obligations	**1 469 523**	**1 338 609**
Jubilee awards	312 927	298 001
Retirement and disability benefits	241 042	220 300
Coal equivalent	855 274	764 060
Other benefits	56 063	50 345
Carrying amount of liabilities	**1 465 306**	**1 332 706**
of which:		
Carrying amount of non-current liabilities	1 338 743	1 221 794
Carrying amount of current liabilities	126 563	110 912

amounts in tables in thousand PLN, unless otherwise stated

Main actuarial assumptions at 31 December 2011

	2012	2013	2014	2015	2016 and beyond
Discount rate	5.80%	5.80%	5.80%	5.80%	5.80%
Rate of increase in coal prices	8.00%	3.30%	3.00%	3.00%	3.00%
Rate of increase in the lowest salary	8.20%	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	5.30%	3.80%	3.50%	3.50%	3.50%

25. Provisions for other liabilities and charges

	At	
	31 December 2011	31 December 2010 restated
Decommissioning costs of mines and other facilities	476 981	515 877
Costs of scrapping property, plant and equipment	5 665	5 609
Disputed issues and court proceedings	6 438	12 297
Other provisions	21 996	33 860
Provisions	**511 080**	**567 643**
of which:		
Non-current provisions	485 040	520 727
Current provisions	26 040	46 916

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 and by destination)

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Copper, precious metals, smelter by-products	19 611 913	15 739 320
Salt	80 378	72 080
Energy	88 389	90 744
Services	474 109	316 222
Mining machinery, transport vehicles for mining and other	17 446	22 975
Merchandise	984 670	296 886
Scrap and materials	66 062	10 360
Other goods	784 263	217 917
Total continued operations	**22 107 230**	**16 766 504**
Discontinued operations	**487 315**	**526 086**
Total	**22 594 545**	**17 292 590**
including:		
Net revenues from the sale of products, merchandise and materials – domestic	5 845 795	4 970 620
Net revenues from the sale of products, merchandise and materials – foreign	16 748 750	12 321 970

Additional data

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Average copper price on LME (USD/t)	8 811	7 539
Average exchange rate (USD/PLN) per NBP	2.96	3.02

27. Expenses by nature

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Depreciation of property, plant and equipment and amortisation of intangible assets	844 137	756 123
Employee benefits expenses	3 701 502	3 296 048
Materials and energy	6 758 630	5 033 022
External services	1 367 416	1 164 258
Taxes and charges	376 657	343 750
Advertising costs and representation expenses	63 881	38 519
Property and personal insurance	31 750	22 528
Research and development costs not capitalised in intangible assets	6 058	5 493
Other costs, of which:	82 502	59 018
Impairment losses on non-current assets and current assets	28 195	19 625
Reversal of impairment of non-current assets and current assets	(6 502)	(6 574)
Losses from the disposal of financial instruments	5 897	2 337
Other operating costs	54 912	43 630
Total expenses by nature	**13 232 533**	**10 718 759**
Cost of merchandise and materials sold (+), of which:	583 494	221 944
Allowance for write-down of inventories and impairment of receivables	2 603	3 264
Reversal of write-down of inventories and allowance for impairment of receivables	(1 784)	(545)
Change in inventories of finished goods and work in progress (+/-)	(367 173)	(156 447)
Cost of manufacturing products for internal use (-)	(744 114)	(663 617)
Total cost of sales, selling costs and administrative expenses	**12 704 740**	**10 120 639**
Total cost of sales, selling costs and administrative expenses of discontinued operations	**435 558**	**481 727**
Total	**13 140 298**	**10 602 366**

28. Employee benefits expenses

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Remuneration	2 688 454	2 441 461
Costs of social security	896 973	818 265
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which:	116 075	36 322
Present value of obligation	113 779	34 636
Past service costs	2 296	1 686
Total continued operations	**3 701 502**	**3 296 048**
Discontinued operations	**82 040**	**87 024**
Total	**3 783 542**	**3 383 072**

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 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Income and gains from financial instruments classified under other operating activities, resulting from:	2 137 123	544 421
Measurement and realisation of derivatives	1 038 215	476 668
Interest	192 412	60 961
Foreign exchange gains	888 985	-
Gains on sale	16 877	4 925
Other	634	1 867
Increase in fair value of investment property	41	4 358
Profit on sale of associate	2 312 579	-
Gains on a bargain purchase of subsidiaries	2 751	18 408
Gains/(losses) from the disposal of intangible assets	(14)	1 385
Interest on non-financial receivables	5 461	7 174
Dividends received	27 471	70
Reversal of impairment losses on fixed assets under construction	3 101	23
Reversal of allowance for impairment of other non-financial receivables	2 702	3 425
Government grants and other donations received	4 820	2 960
Release of unused provisions	20 740	19 634
Surpluses identified in current assets	2 131	11 879
Penalties and compensation received	23 406	18 435
Foreign exchange gains – non-financial	10 958	4 386
Other operating income/gains	10 548	12 367
Total continued operations	**4 563 818**	**648 925**
Discontinued operations	**27 588**	**20 220**
Total	**4 591 406**	**669 145**

30. Other operating costs

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Costs and losses on financial instruments classified under other operating activities, resulting from:	727 995	1 678 921
Measurement and realisation of derivatives	715 417	1 638 691
Interest	545	134
Foreign exchange losses	-	38 771
Losses on measurement of non-current liabilities	1 716	-
Allowances for impairment of financial assets	10 317	1 325
Losses on the sale of investment property	1 968	9
Decrease in fair value of investment property	919	-
Allowances for impairment of other non-financial receivables	817	7 192
Losses on the sale of property, plant and equipment, and intangible assets	7 545	21 360
Impairment losses on fixed assets under construction and intangible assets not yet available for use	5 019	8 003
Interest on overdue non-financial liabilities	497	157
Donations granted	16 028	13 016
Provisions	14 561	17 157
Penalties and compensation	4 298	2 526
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events	1 888	3 667
Contributions to a voluntary organisation	10 808	8 202
Other operating costs/losses	20 316	28 271
Total continued operations	**812 659**	**1 788 481**
Discontinued operations	**11 666**	**9 891**
Total	**824 325**	**1 798 372**

31. Finance costs

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Interest due to:	10 971	10 785
Bank and other loans	8 521	8 578
Finance leases	2 450	2 207
Foreign exchange (gains)/losses on borrowings	4 755	(728)
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	32 052	32 174
Measurement of provisions for decommissioning of mines	31 490	31 843
Measurement of other provisions	562	331
Losses due to measurement of non-current liabilities	3 375	1 755
Other finance costs	552	94
Total continued operations	**51 705**	**44 080**
Discontinued operations	**1 433**	**4 250**
Total	**53 138**	**48 330**

amounts in tables in thousand PLN, unless otherwise stated

amounts in tables in thousand PLN, unless otherwise stated

32. Financial instruments

32.1. Carrying amount
At 31 December 2011

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		
Debt securities	8 263	-	-	-	-	-	-	-	**8 263**
Listed shares	987 847	-	-	-	-	-	-	-	**987 847**
Unlisted shares	11 388	-	-	-	-	-	-	-	**11 388**
Participation units of investment funds	2 126	-	-	-	-	-	-	-	**2 126**
Trade receivables (net)	-	-	-	1 327 554	-	-	-	-	**1 327 554**
Cash and cash equivalents and deposits	-	113 812	-	13 200 107	-	-	-	-	**13 313 919**
Other financial assets (net)	4	44	-	91 982	-	-	-	-	**92 030**
Derivatives – Currency	-	-	389	-	(63 871)	-	-	59 138	**(4 344)**
Derivatives – Commodity contracts – metals	-	-	12 148	-	(252 977)	-	-	1 134 964	**894 135**
Trade payables	-	-	-	-	-	(997 054)	-	-	**(997 054)**
Bank and other loans	-	-	-	-	-	(271 948)	-	-	**(271 948)**
Other financial liabilities	-	-	-	-	-	(134 815)	(26 009)	-	**(160 824)**
	1 009 628	**113 856**	**12 537**	**14 619 643**	**(316 848)**	**(1 403 817)**	**(26 009)**	**1 194 102**	**15 203 092**

At 31 December 2010 – 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	748 772	-	-	-	-	-	-	-	**748 772**
Unlisted shares	11 387	-	-	-	-	-	-	-	**11 387**
Participation units of investment funds	407 214	-	-	68 289	-	-	-	-	**475 503**
Trade receivables (net)	-	-	-	1 969 463	-	-	-	-	**1 969 463**
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	-	-	-	-	-	(902 032)	-	-	**(902 032)**
Bank and other loans	-	-	-	-	-	(228 033)	-	-	**(228 033)**
Other financial liabilities	-	-	-	-	-	(151 080)	(41 781)	-	**(192 861)**
	1 167 380	**88 286**	**88 003**	**5 458 793**	**(293 383)**	**(1 281 145)**	**(41 781)**	**(286 895)**	**4 899 258**

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 2011 to 31 December 2011	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		Hedging instruments	Financial instruments of continued operations	Discontinued operations	Total
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39				
Interest income/(costs) recognised in:	-	**85**	**185**	**192 142**	**(9 066)**	**(2 450)**	-	**180 896**	**3 119**	**184 015**
Other operating income	-	85	185	192 142	-	-	-	192 412	4 320	196 732
Other operating costs	-	-	-	-	(545)	-	-	(545)	(67)	(612)
Finance costs	-	-	-	-	(8 521)	(2 450)	-	(10 971)	(1 134)	(12 105)
Foreign exchange gains/(losses) recognised in:	-	-	-	**985 701**	**(100 321)**	**(1 150)**	-	**884 230**	**(132)**	**884 098**
Other operating income	-	-	-	988 791	(99 806)	-	-	888 985	-	888 985
Other operating costs	-	-	-	-	-	-	-	-	(132)	(132)
Finance costs	-	-	-	(3 090)	(515)	(1 150)	-	(4 755)	-	(4 755)
Losses on measurement of non-current liabilities recognised in:	-	-	-	-	**(5 091)**	-	-	**(5 091)**	-	**(5 091)**
Other operating costs	-	-	-	-	(1 716)	-	-	(1 716)	-	(1 716)
Finance costs	-	-	-	-	(3 375)	-	-	(3 375)	-	(3 375)
Impairment allowances recognised in:	-	**(4 845)**	**(2)**	**(21 949)**	-	-	-	**(26 796)**	**(13 372)**	**(40 168)**
Expenses by nature	-	-	-	(16 479)	-	-	-	(16 479)	(12 220)	(28 699)
Other operating costs	-	(4 845)	(2)	(5 470)	-		-	(10 317)	(1 152)	(11 469)
Reversal of impairment allowances recognised in:	-	-	-	**4 482**	-	-	-	**4 482**	**8 088**	**12 570**
Expenses by nature	-	-	-	3 848	-	-	-	3 848	7 569	11 417
Other operating income	-	-	-	634	-	-	-	634	519	1 153
Adjustment to sales due to hedging transactions	-	-	-	-	-	-	241 565	**241 565**	-	**241 565**
Gains/(losses) from disposal of financial instruments recognised in:	-	**16 877**	-	**(5 897)**	-	-	-	**10 980**	-	**10 980**
Expenses by nature	-	-	-	(5 897)	-	-	-	(5 897)	-	(5 897)
Other operating income	-	16 877	-	-	-	-	-	16 877	-	16 877
Gains on measurement and realisation of derivatives	**1 038 215**	-	-	-	-	-	-	**1 038 215**	-	**1 038 215**
Losses on measurement and realisation of derivatives	**(715 417)**	-	-	-	-	-	-	**(715 417)**	-	**(715 417)**
Total net gain/(loss) from continued operations	**322 798**	**12 117**	**183**	**1 154 479**	**(114 478)**	**(3 600)**	**241 565**	**1 613 064**	**(2 297)**	**1 610 767**

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 (continued)

For the period from 1 January 2010 to 31 December 2010 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		Hedging instruments	Financial instruments of continued operations	Discontinued operations	Total
					Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39				
Interest income/(costs) recognised in:	-	**307**	**110**	**60 544**	**(8 712)**	**(2 207)**	-	**50 042**	**182**	**50 224**
Other operating income	-	307	110	60 544	-	-	-	60 961	4 141	65 102
Other operating costs	-	-	-	-	(134)	-	-	(134)	(11)	(145)
Finance costs	-	-	-	-	(8 578)	(2 207)	-	(10 785)	(3 948)	(14 733)
Foreign exchange gains/(losses) recognised in:	-	**(691)**	**2**	**38 884**	**(76 697)**	**459**	-	**(38 043)**	**85**	**(37 958)**
Other operating costs	-	(691)	2	38 884	(76 966)	-	-	(38 771)	85	(38 686)
Finance costs	-	-	-	-	269	459	-	728	-	728
Gains/(Losses) on measurement of non-current liabilities recognised in:	-	-	-	-	**(1 594)**	-	-	**(1 594)**	-	**(1 594)**
Other operating income	-	-	-	-	161	-	-	161	-	161
Finance costs	-	-	-	-	(1 755)	-	-	(1 755)	-	(1 755)
Impairment allowances recognised in:	-	-	-	**(7 922)**	-	-	-	**(7 922)**	**(13 811)**	**(21 733)**
Expenses by nature	-	-	-	(6 597)	-	-	-	(6 597)	(12 988)	(19 585)
Other operating costs	-	-	-	(1 325)	-	-	-	(1 325)	(823)	(2 148)
Reversal of impairment allowances recognised in:	-	-	-	**4 077**	-	-	-	**4 077**	**6 363**	**10 440**
Expenses by nature	-	-	-	2 371	-	-	-	2 371	5 561	7 932
Other operating income	-	-	-	1 706	-	-	-	1 706	802	2 508
Adjustment to sales due to hedging transactions	-	-	-	-	-	-	**142 187**	**142 187**	-	**142 187**
Profit/(losses) from disposal of financial instruments recognised in:	-	**4 925**	-	**(2 337)**	-	-	-	**2 588**	**(1 236)**	**1 352**
Expenses by nature	-	-	-	(2 337)	-	-	-	(2 337)	-	(2 337)
Other operating income	-	4 925	-	-	-	-	-	4 925	-	4 925
Other operating costs	-	-	-	-	-	-	-	-	(1 236)	(1 236)
Gains on measurement and realisation of derivatives	**476 668**	-	-	-	-	-	-	**476 668**	-	**476 668**
Losses on measurement and realisation of derivatives	**(1 638 691)**	-	-	-	-	-	-	**(1 638 691)**	-	**(1 638 691)**
Total net gain/(loss) from continued operations	**(1 162 023)**	**4 541**	**112**	**93 246**	**(87 003)**	**(1 748)**	**142 187**	**(1 010 688)**	**(8 417)**	**(1 019 105)**

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 2011			31 December 2010 restated		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Debt securities	-	8 263	-	-	-	-
Listed shares	987 847	-	-	748 772	-	-
Participation units of investment funds	2 126	-	-	475 503	-	-
Other financial receivables	-	29 834	-	-	-	-
Derivatives – currency, of which:	-	(4 344)	-	-	260 764	-
Assets	-	400 012	-	-	390 610	-
Liabilities	-	(404 356)	-	-	(129 846)	-
Derivatives financial instruments – metals, of which:	-	894 135	-	-	(753 039)	-
Assets	-	1 359 430	-	-	310 813	-
Liabilities	-	(465 295)	-	-	(1 063 852)	-
Other financial receivables	-	(17 073)	-	-	(49 690)	-

32.3.2. Financial instruments – measure of fair value at level 3 of the fair value hierarchy

Shares in investment funds	At	
	31 December 2011	31 December 2010 restated
Beginning of the period	-	**7 930**
Gains recognised in other comprehensive income	-	-
Losses recognised in other comprehensive income	-	1 838
Settlement	-	6 092
Total	-	-

There was no transfer by the Group to level 3 of instruments classified to levels 1 and 2, nor was there any transfer of instruments classified to level 3 out of this level in either the reporting period or the comparative periods.

33. Financial risk management

The Group companies are exposed to risk in each area of its 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 types of financial risk:

- Market risk:
  - Risk of changes in commodity prices,
  - Risk of changes in foreign exchange rates (Currency Risk),
  - Price risk related to investments in debt securities and participation units in investment funds,
  - Price risk related to investments in shares of listed companies,
  - 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 declares an active approach to managing its market risk exposure. The objectives of market risk management are:

- To limit fluctuations in profit or loss before tax,
- To increase the probability of meeting budget assumptions,
- To maintain the healthy financial condition,
- To support the process of undertaking strategic decisions relating to investing activity, with particular attention to sources of capital for this activity.

All the market risk management objectives should be considered as a whole, and their realisation is determined mainly by the internal situation and market conditions.

The Parent Entity applies an integrated approach to market risk management at which it is exposed. 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 impact 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, hedging is possible against unexpected plunges in both copper and silver 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.

33.1.1.1. Techniques for market risk management

The primary technique for market risk management, used in the Parent Entity, is 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.

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 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).

33.1.1.2. Hedge effectiveness requirement

Hedging transactions can be entered into by the 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 the transaction the Parent Entity is required to confirm and document the existence of strong negative correlation between changes in value of the reference instrument and changes in value of actually-hedged exposure. Hedge effectiveness is subject to constant evaluation and monitoring.

amounts in tables in thousand PLN, unless otherwise stated

33.1.1.3. 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 "Earnings at Risk" has been used in the Parent Entity 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 year 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.

33.1.1.4. 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 achieve the defined profile of exposure to market risk, it is possible to define/implement a "comprehensive" hedging strategy, i.e. one which incorporates both the metals and the currency markets.

The maximum time horizon within which the Parent Entity makes decisions concerning the hedging of market risk is set up in accordance with the 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.

33.1.2. 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 Parent Entity's commercial policy 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 the 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.

Therefore, the analysis of the Parent Entity's exposure to the market risk should be performed on a net basis, i.e. by deducting the volume of metals contained in materials purchased from external sources, from the volume of sales.

Exposure of the Group to commodity risk is presented below:

	For the period			
	from 1 January 2011 to 31 December 2011		from 1 January 2010 to 31 December 2010 restated	
	Sales	Purchases	Sales	Purchases
Copper ['000 tonnes]	573	155	559	143
Silver [tonnes]	1 180	52	1 247	8

Sensitivity of the Group's financial instruments to commodity risk at the end of the reporting period is presented in Note 33.1.7 Sensitivity analysis of commodity and currency risk.

33.1.3. Currency risk

The Parent Entity is exposed to the risk of changes in currency rates, as it is generally accepted on commodities markets that physical contracts of metals delivery 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. This leads 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 Parent Entity is also exposed to fluctuations in the exchange rates of other currencies, e.g.: EUR/PLN, 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 33.1.7 Sensitivity analysis of commodity and currency risk.

33.1.4. Commodity and currency risk management 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 2011 copper price hedging strategies represented approx. 35% (in 2010 33%) of the sales of this metal realised by the Parent Entity. With respect to silver sales this figure amounted to approx. 9% (in 2010 18%). In the case of the currency market, hedged revenues from sales represented approx. 19% (in 2010 16%) of total revenues from sales realised by the Parent Entity.

In 2011 the Parent Entity implemented copper price hedging strategies with a total volume of 151 thousand tonnes and a time horizon falling from September 2011 to December 2013. The Parent Entity made use of options (Asian options), including: option strategies (collars and producer's puts). In addition, the Parent Entity performed a restructure, implemented in the first and third quarters of 2010, of seagull options for 2012 with a total volume of 97.5 thousand tonnes through the buyback of sold puts. Restructure enables the full use of put options purchased within this structure in the case of any decrease in the price of copper in 2012.

In 2011 the Parent Entity implemented silver price hedging strategies with a total volume of 14.4 million troz and a time horizon falling in 2012 and 2013. The Parent Entity made use of options (Asian options) including puts, and option strategies: seagulls and collars. Additionally, the Parent Entity performed a restructure, implemented in the analysed period, of a collar strategy for 2012, through the buyback of sold calls for 3.6 million troz, and simultaneously sold puts of the same nominal amount and with an execution price below the price of the put options held (from the collar structure). a put spread structure was thereby gained. Restructure guarantees greater flexibility in the selection of derivatives implemented for 2012 and enables full participation in any eventual increases in the price of silver in this period for the hedged nominal amount of 3.6 million troz. In addition – in case of a deep fall in prices in this period – it restricts benefits from the put options held to the level of executed put options sold.

In the case of the forward currency market, in 2011 the Parent Entity implemented transactions hedging revenues from sales with a total nominal amount of USD 1 920 million and a time horizon falling in years 2012-2014. The Parent Entity made use of options (European options), and option strategies (collars and seagulls).

During this period no adjustment hedge transactions were implemented on the copper, silver or currency market.

The Parent Entity remains hedged for a portion of copper sales planned in the period from January to December 2012 (205.5 thousand tonnes), in 2013 (61.5 thousand tonnes), and also for a portion of silver sales planned in the period from January to December 2012 (10.8 million troz) and in 2013 (3.6 million troz). With respect to revenues from sales (currency market) the Parent Entity holds a hedging position in 2012 (USD 960 million), in 2013 (USD 960 million) and 2014 (USD 360 million).

Following is a condensed table of hedging positions, by type of hedged asset and instruments used at 31 December 2011. 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 2012	Collar[1]	Sold call option	19 500	9 300	(447)	6 453 participation restricted to 9 300
		Purchased put option		6 900		
	Collar[1]	Sold call option	19 500	9 000	(478)	6 322 participation restricted to 9 000
		Purchased put option		6 800		
	Collar[1]	Sold call option	19 500	9 500	(440)	6 760 participation restricted to 9 500
		Purchased put option		7 200		
		Producer's puts[2]	19 500	8 000	9.90%[3]	minimal effective hedging price 7 279
		Producer's puts[2]	24 750	8 300	8.66%[3]	minimal effective hedging price 7 639
		Total	**102 750**			
II half of 2012	Collar[1]	Sold call option	19 500	9 300	(454)	6 446 participation restricted to 9 300
		Purchased put option		6 900		
	Collar[1]	Sold call option	19 500	9 000	(459)	6 341 participation restricted to 9 000
		Purchased put option		6 800		
	Collar[1]	Sold call option	19 500	9 500	(453)	6 747 participation restricted to 9 500
		Purchased put option		7 200		
		Producer's puts[2]	19 500	8 500	8.74%[3]	minimal effective hedging price 7 817
		Producer's puts[2]	24 750	8 300	8.66%[3]	minimal effective hedging price 7 639
		Total	**102 750**			
		TOTAL 2012	**205 500**			
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		
	Collar	Sold call option	10 500	12 000	(460)	8 040 participation restricted to 12 000
		Purchased put option		8 500		
	Collar	Sold call option	10 500	11 500	(333)	7 867 participation restricted to 11 500
		Purchased put option		8 200		
		Total	**40 500**			
II half of 2013	Collar	Sold call option	10 500	12 000	(460)	8 040 participation restricted to 12 000
		Purchased put option		8 500		
	Collar	Sold call option	10 500	11 500	(333)	7 867 participation restricted to 11 500
		Purchased put option		8 200		
		Total	**21 000**			
		TOTAL 2013	**61 500**			

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 call options are shown in the table "Trade instruments", transactions included in the seagull structure – purchased put options and sold call options – are shown in the table "Hedging instruments"; while sold put options are shown in the table "Trade instruments".
3. Payable at the moment of settlement.

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 2012		Purchased put option	1.80	30.00	(2.89)	27.11
	Put spread[4]	Purchased put option	1.80	40.00	(1.18)	38.82 restricted to 19.80
		Sold put option[5]		19.80		
	Collar	Sold call option	1.80	62.00	(1.63)	35.37 participation restricted to 62.00
		Purchased put option		37.00		
		Total	**5.40**			
II half of 2012		Purchased put option	1.80	30.00	(2.89)	27.11
	Put spread[4]	Purchased put option	1.80	40.00	(1.18)	38.82 restricted to 19.80
		Sold put option[5]		19.80		
	Collar	Sold call option	1.80	62.00	(1.63)	35.37 participation restricted to 62.00
		Purchased put option		37.00		
		Total	**5.40**			
		TOTAL 2012	**10.80**			
I half of 2013	Seagull[5]	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
		Total	**1.80**			
II half of 2013	Seagull[5]	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
		Total	**1.80**			
		TOTAL 2013	**3.60**			

Hedging position (condensed information) – currency market

Period		Instrument	Notional [million USD]	Execution price [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]
I half of 2012	Seagull[5]	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		
		Purchased put option	360	2.6000	(0.0947)	2.5053
		Total	**540**			
II half of 2012	Seagull[5]	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		
	Collar	Sold call option	240	4.2000	(0.0650)	3.1350 participation restricted to 4.20
		Purchased put option		3.2000		
		Total	**420**			
		TOTAL 2012	**960**			

4. Tables presenting the condensed list of open hedging positions, include restructured items: the type of instrument was changed from collar to put spread. 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.
5. Due to current hedge accounting laws, transactions embedded within a seagull – a purchased put option or a sold call option – are shown in the table -"Hedging instruments", while sold put options are shown in the table "Trade instruments"; sold put options included in the put spread structure, also are shown in the table "Trade instruments".

Hedging position (condensed information) – currency market (continued)

Period		Instrument	Notional [million USD]	Execution price [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]
I half of 2013	Seagull[6]	Sold call option	240	4.0000	(0.0332)	3.1168 restricted to 2.60 participation restricted to 4.00
		Purchased put option		3.1500		
		Sold put option		2.6000		
	Collar	Sold call option	240	4.2000	(0.0650)	3.1350 participation restricted to 4.20
		Purchased put option		3.2000		
		Total	480			
II half of 2013	Seagull[6]	Sold call option	240	4.0000	(0.0230)	3.1270 restricted to 2.60 participation restricted to 4.00
		Purchased put option		3.1500		
		Sold put option		2.6000		
	Collar	Sold call option	240	4.2000	(0.0650)	3.1350 participation restricted to 4.20
		Purchased put option		3.2000		
		Total	480			
		TOTAL 2013 r.	960			
I half of 2014	Seagull[6]	Sold call option	180	4.5000	(0.0506)	3.4494 restricted to 2.70 participation restricted to 4.50
		Purchased put option		3.5000		
		Sold put option		2.7000		
		Total	180			
II half of 2014	Seagull[6]	Sold call option	180	4.5000	(0.0345)	3.4655 restricted to 2.70 participation restricted to 4.50
		Purchased put option		3.5000		
		Sold put option		2.7000		
		Total	180			
		TOTAL 2014 r.	360			

6. Due to current hedge accounting laws, transactions embedded within a seagull – a purchased put option and a sold call option – are shown in the table "Hedging instruments", while sold put options are shown in the table "Trade instruments".

33.1.5. Impact of derivatives on the Group's statement of financial position

As at 31 December 2011, the fair value of open positions in derivatives amounted to PLN 889 791 thousand, PLN 1 759 442 thousand relate to financial assets and PLN 869 651 thousand relate to financial liabilities.

Derivatives whose date of settlement was 4 January 2012 were measured at fair value and accounted for in trade and other receivables as receivables due to unsettled derivatives or trade and other payables as payables due to unsettled derivatives in the amounts:

- PLN 29 834 thousand accounted for in other finance receivables (Note 13),
- PLN 17 073 thousand accounted for in other finance liabilities (Note 21).

Other information concerning derivatives is presented in Note 12 Derivatives and in Note 32 Financial instruments.

33.1.6. Impact of derivatives on the Group's profit or loss and other comprehensive income

In 2011, the result on derivatives amounted to PLN 564 363 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 241 565 thousand. The gains on the measurement of derivatives amounted to PLN 253 862 thousand, while the gains on the realisation of derivatives amounted to PLN 68 936 thousand. Adjustment to other operating income 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 hedge accounting principles, the change in the time value of options is recognised in accumulated other comprehensive income.

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

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Impact on sales	**241 565**	**142 187**
Impact on other operating activities	**322 798**	**(1 162 023)**
Gains/(losses) from realisation of derivatives	68 936	(128 669)
Gains/(losses) from measurement of derivatives	253 862	(1 033 354)
Total impact of derivatives on profit or loss:	**564 363**	**(1 019 836)**

The Parent Entity accounts for cash flow hedging instruments according to the principles presented in note 2.2.5.7 of Accounting policies – Hedge accounting. 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 2011 the Parent Entity recognised in gains due to the ineffective portion of cash flow hedges – the amount of PLN 259 897 thousand (in 2010: loss PLN 1 328 573 thousand), of which PLN 221 660 thousand is a gain on the measurement of hedging instruments (in 2010: loss PLN 1 170 400 thousand) and PLN 38 237 thousand is a gain on the realisation of the ineffective portion of hedging instruments (in 2010: loss PLN 158 173 thousand).

The effectiveness of hedging instruments used by the Parent Entity during the 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 – based on the changes in the intrinsic value of options.

The tables below present the balances and movements in accumulated other comprehensive income resulting from the recognition of the effective portion of the gain or loss from changes in the fair value of derivatives designated as hedging future cash flows.

Amounts recognised in other comprehensive income

	At	
	31 December 2011	31 December 2010 restated
Accumulated other comprehensive income – commodity price risk hedging transactions (copper and silver) – derivatives	708 991	(98 940)
Accumulated other comprehensive income – currency risk hedging transactions – derivatives	-	209 772
Total accumulated other comprehensive income - financial instruments hedging future cash flows (excluding the deferred tax effects)	**708 991**	**110 832**

Gains/(losses) on derivatives hedging future cash flows recognised in other comprehensive income

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Accumulated gain or loss achieved on financial instruments hedging future cash flows at the beginning of the reporting period	**110 832**	**155 233**
Amount recognised in the reporting period due to hedging transactions	839 724	97 786
Amount reclassified from accumulated other comprehensive income to revenues from sales	(241 565)	(142 187)
Accumulated other comprehensive income due to instruments hedging future cash flows at the end of the reporting period (excluding the deferred tax effects)	**708 991**	**110 832**

amounts in tables in thousand PLN, unless otherwise stated

33.1.7. Sensitivity analysis of commodity and currency risk

The Group identifies the following major types of market risk to which it is exposed.

Currently the Group is mainly exposed to the risk of changes in copper and silver prices and changes in the USD/PLN, EUR/PLN and GPB/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 GPB/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 profit or loss and equity of potential changes in specific risk factors divided by classes of financial assets and financial liabilities.

Scope of historical data (daily data):
- for copper: 01 January 1978 to 30 December 2011 – settlement prices,
- for silver: 01 January 1978 to 30 December 2011 – fixing prices,
- for USD/PLN, EUR/PLN and GPB/PLN exchange rates: 01 January 2000 to 30 December 2011 – 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 and exchange rate change at the end of the reporting period 31 December 2011

	Copper	Silver	USD/PLN	EUR/PLN	GBP/PLN
SPOT / FIX	7 590	28.18	3.4174	4.4168	5.2691
DOWN 95%	5 196	17.06	2.8094	3.8497	4.5139
	-32%	-39%	-18%	-13%	-14%
UP 95%	10 254	41.89	4.1824	5.1795	6.2085
	35%	49%	22%	17%	18%

Potential price and exchange rate change 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%

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 2011

Financial assets and liabilities	Value at risk Currency structure			
	['000 PLN]	['000 USD]	['000 EUR]	['000 GBP]
Trade receivables (net)	949 304	154 103	94 806	1 002
Cash and cash equivalents and deposits	8 030 244	1 796 439	391 301	30 896
Other financial assets (net)	85 040	9 423	9 355	2 186
Derivatives – Currency contracts	(4 344)	lack of data	lack of data	-
Derivatives – Commodity contracts – Metals	894 135	261 642	-	-
Trade payables	(62 444)	(4 033)	(10 900)	(98)
Borrowings	(72 149)	-	(16 335)	-
Other financial liabilities	(27 440)	(6 845)	(916)	-

Currency structure of financial instruments exposed to market risk at 31 December 2010 – restated

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 contracts	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)
Borrowings	(5 456)	-	(1 378)	-
Other financial liabilities	(62 876)	(16 775)	(3 322)	-

Sensitivity analysis as at 31 December 2011

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]			
			4.18		2.81		5.18		3.85		6.21		4.51		10 254		5 196		41.89		17.06	
			+ 22%		- 18%		+ 17%		- 13%		+18%		-14%		+ 35%		- 32%		+ 49%		- 39%	
	['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)	949 304	1 327 554	95 490	-	(75 893)	-	58 570	-	(43 549)	-	762	-	(613)	-	-	-	-	-	-	-	-	-
Cash and cash equivalents and deposits	8 030 244	13 313 919	1 113 164	-	(884 710)	-	241 741	-	(179 745)	-	23 509	-	(18 899)	-	-	-	-	-	-	-	-	-
Other financial assets (net)	85 040	92 030	5 839	-	(4 641)	-	5 779	-	(4 297)	-	1 663	-	(1 337)	-	-	-	-	-	-	-	-	-
Derivatives – Currency contracts	(4 344)	(4 344)	(548 359)	(334 240)	116 768	561 586	(6 171)	-	4 585	-	-	-	-	-	-	-	-	-	-	-	-	-
Derivatives – Commodity contracts – Metals	894 135	894 135	39 064	161 092	(31 047)	(128 031)	-	-	-	-	-	-	-	-	(624 797)	(758 310)	(216 349)	1 884 125	70 169	(412 651)	(151 731)	544 558
Trade payables	(62 444)	(997 054)	(2 499)	-	1 986	-	(6 734)	-	2 864	-	(75)	-	60	-	-	-	-	-	-	-	-	-
Borrowings	(72 149)	(271 948)	-	-	-	-	(10 092)	-	7 504	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	(27 440)	(160 824)	(4 242)	-	3 371	-	(1 001)	-	744	-	-	-	-	-	-	-	-	-	-	-	-	-
Impact on profit or (loss)	-	-	698 457	-	(874 166)	-	282 092	-	(211 894)	-	25 859	-	(20 789)	-	(624 797)	-	(216 349)	-	70 169	-	(151 731)	-
Impact on other comprehensive income	-	-	-	(173 148)	-	433 555	-	-	-	-	-	-	-	-	-	(758 310)	-	1 884 125	-	(412 651)	-	544 558

Sensitivity analysis as at 31 December 2010 – 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]			
			3.63		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	1 969 463	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)	(902 032)	(14 237)	-	11 446	-	(3 781)	-	2 967	-	(10)	-	8	-	-	-	-	-	-	-	-	-
Borrowings	(5 456)	(228 033)	-	-	-	-	(672)	-	528	-	-	-	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	(62 876)	(192 861)	(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

33.1.8. Price risk related to investments in debt securities and participation units of investment funds

At 31 December 2011, the Group held 10 513.5888 participation units of open-end, liquidity investment funds in the amount of PLN 2 126 thousand and 7 774 Treasury bonds in the amount PLN 8 263 thousand with a fixed interest rate classified as available-for-sale financial assets. 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 deposits.

33.1.9. Price risk related to the purchase of shares of listed companies

At 31 December 2011, the carrying amount of shares held by the Group which were listed on the Warsaw Stock Exchange and on the TSX Ventures Exchange was PLN 987 847 thousand. 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, caused by the current macroeconomic situation.

Sensitivity analysis of listed companies shares to price changes

Shares of two companies are listed on the Warsaw Stock Exchange and shares of one company are listed on the TSX Venture Exchange.

At 31 December 2011	Carrying amount (in PLN '000)	Percentage change of share price	
		+50%	-14%
Listed shares	987 847		
Impact on other comprehensive income		493 924	(138 299)

At 31 December 2010	Carrying amount (in PLN '000)	Percentage change of share price	
		+22%	-36%
Listed shares	748 772		
Impact on other comprehensive income		164 730	(263 476)

33.1.10. 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 2011 the Group had liabilities due to bank and other loans in the amount of PLN 271 210 thousand (as at 31 December 2010: PLN 226 603 thousand) based on variable interest rates, and liabilities due to loans in the amount of PLN 738 thousand (as at 31 December 2010: PLN 1 430 thousand) based on fixed interest rates. At 31 December 2011 the Group had bank deposits in the amount of PLN 13 123 074 thousand (as at 31 December 2010: PLN 3 259 112 thousand) based on variable and fixed interest rates.

Most of the bank loans drawn by Group companies are bank loans with variable interest rates. The majority of bank and other loans denominated in PLN are based on the WIBOR 1M reference rate, plus a bank loan margin, depending on the creditworthiness of the entity being financed, within a range of from 1% to 4%, with interest payable in monthly periods. Interest on bank loans denominated in EUR is mainly based on the EURIBOR 1M rate, plus a bank loan margin to 2%.

The base interest rates applied in bank loan agreements entered into by entities of the Group at end of the reporting period were as follows:

Ratio (%)	31 December 2011	31 December 2010
WIBOR 1W	4.6100	3.4800
WIBOR 1M	4.7700	3.6600
WIBOR 3M	4.9900	3.9500
EURIBOR 1M	1.0240	0.7820
EURIBOR 3M	1.3560	1.0060

At the end of the reporting and comparable period the Group had no instruments hedging against interest rate risk.

33.2. Credit risk

Credit risk is defined as the risk that counterparties will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas:
- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

Areas in which credit risk exposure has different characteristics from those mentioned above:
- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- loans granted,
- debt securities and participation units of investment funds,
- guarantees granted.

33.2.1. 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 the highest[7], medium-high[8] and medium[9] credit ratings, appropriate level of equity and strong, stable market position. As at 31 December 2011, the maximum exposure of a single bank in respect of cash and cash equivalents deposited by the Group amounted to 25% (as at 31 December 2010: 27%).

33.2.2. Credit risk related to derivative transactions

All entities with which derivative transactions are entered into in 2011 by the Group operate in the financial sector. These are financial institutions (mainly banks), with the highest (21%), medium-high (73.7%) or medium (5.3%) credit ratings. Based on fair value at 31 December 2011, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Group amounted to 23.6%.

All entities with which derivative transactions were entered into in 2010 by the Group operated also in the financial sector. These are financial institutions (mainly banks), with the highest (40.7%), medium-high (48.2%) or medium (11.1%) credit ratings. Based on fair value at 31 December 2010, the maximum share of a single entity with respect to derivative transactions entered into by the Group amounted to 30%.

The fair value of derivative transactions entered into by the Group[10]

	At	
	31 December 2011	31 December 2010 restated
Balance on the measurement of derivatives	**902 552**	**(541 965)**
Financial assets	1 789 276	701 423
Financial liabilities	(886 724)	(1 243 388)

Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as to cooperation with highly-rated financial institutions, and also taking into consideration the fair value of assets and liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.

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

7. 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.
8. 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.
9. 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.
10. The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled:
- on 4 January 2012, which were presented in the Group's statement of financial position under other unsettled derivative instruments receivables/payables (Note 13, 21) – balance as at 31 December 2011.
- on 5 January 2011, which were presented in the Group's statement of financial position at 31 December 2010 under other financial liabilities – balance as at 31 December 2010.

33.2.3. Credit risk related to trade and other financial receivables

The Group's companies have been cooperating for many years with a number of geographically diversified clients. The vast majority of sales go to EU countries.

Geographical concentration of credit risk of the Group for trade receivables arising from sales of copper and silver

	At					
	31 December 2011			31 December 2010 restated		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	23.15%	49.82%	27.03%	34.26%	33.95%	31.79%

The Parent Entity makes the significant part of its sales transactions based on prepayments. The Parent Entity monitors the creditworthiness of all its customers[11] 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[12], frozen funds on bank accounts, registered pledges[13], bank guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by a date certain[14].

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 2011 the Parent Entity had secured 82.4% of its trade receivables.

The total value of the Group net trade receivables as at 31 December 2011, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 1 327 554 thousand (at 31 December 2010: PLN 1 969 463 thousand).

The concentration of credit risk in the Group 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 2011 the balance of receivables from 7 of the Company's largest clients, in terms of trade receivables at the end of the reporting period, represented 42% of the trade receivables balance (at 31 December 2010: 57%). Despite the concentration of this type of risk, the Group 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.

The following Group companies have significant trade receivables: CENTROZŁOM WROCŁAW S.A.

PLN 85 952 thousand, KGHM Metraco S.A. PLN 78 585 thousand, NITROERG S.A. PLN 31 948 thousand, WPEC w Legnicy S.A. PLN 26 012 thousand, KGHM Ecoren S.A. PLN 21 041 thousand, BIPROMET S.A. PLN 19 658 thousand.

These Group companies operate in various economic sectors, such as transport, construction, trade, industrial production and power industry, 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.

33.2.4. Credit risk related to loans granted

At 31 December 2011 the carrying amount of loans granted was PLN 184 thousand. The balance is composed of loans granted in the gross amount of PLN 1 687 thousand and an allowance for impairment of carrying amount of PLN 1 595 thousand from previous years.

33.2.5. Credit risk related to investments in debt securities and in participation units of investment funds

At 31 December 2011, the credit risk to investments in participation units of investment funds with a value of PLN 2 126 thousand and debt securities in the amount PLN 8 263 thousand is immaterial. Fund management institutions hold a medium-high rating, while debt securities are represented by the secure Treasury bonds with a fixed interest rate (Note 33.1.8).

33.2.6. Other information related to credit risk

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

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 Jan. 2011 to 31 Dec. 2011	from 1 Jan. 2010 to 31 Dec. 2010 restated
Impairment allowance at the beginning of the period	**86 317**	**83 422**
Increase due to obtaining control of a subsidiary	1 814	5 078
Changes recognised in profit or loss	12 631	4 226
Decrease due to loss of control of a subsidiary	(20 633)	-
Other decreases	(20 024)	(13 836)
Discontinued operations	-	7 427
Impairment allowance at the end of the period	**60 105**	**86 317**

b) other financial assets (category: loans and financial receivables)

	For the period	
	from 1 Jan. 2011 to 31 Dec. 2011	from 1 Jan. 2010 to 31 Dec. 2010 restated
Impairment allowance at the beginning of the period	**12 666**	**14 029**
Increase due to obtaining control of a subsidiary	1 209	1 327
Changes recognised in profit or loss	4 836	(381)
Decrease due to loss of control of a subsidiary	(2 338)	-
Other decreases	(3 975)	(2 330)
Discontinued operations	-	21
Impairment allowance at the end of the period	**12 398**	**12 666**

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 2011						
Trade receivables	**107 014**	85 045	11 894	3 434	1 722	4 919
Other financial receivables	**604**	306	32	6	248	12
At 31 December 2010 – restated						
Trade receivables	**99 246**	69 178	13 567	4 973	9 333	2 195
Other financial receivables	**525**	245	271	3	2	4

11. Due to the lack of data necessary to measure credit risk, risk arising from derivatives transactions entered into by customers was not taken into consideration.
12. In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.
13. 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.
14. 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 the substantial risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

amounts in tables in thousand PLN, unless otherwise stated

c) debt securities (category: available-for-sale financial assets)

	For the period	
	from 1 Jan. 2011 to 31 Dec. 2011	from 1 Jan. 2010 to 31 Dec. 2010 restated
Impairment allowance at the beginning of the period	512	-
Increase due to obtaining control of a subsidiary	-	512
Impairment allowance recognised in profit or loss	4 845	-
Impairment allowance at the end of the period	**5 357**	**512**

33.3. 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 policy "Financial Liquidity Management Policy" approved by the Management Board. 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.

The procedures for investing unallocated cash resources are contingent on the maturity of liabilities in terms of reducing the maximum liquidity risk.

Should market conditions deteriorate and the necessity arises for additional financing of activities or the refinancing of its debt from borrowings (bank loans, loans or buyer's credit), the probability would exist of an increased liquidity risk.

Contractual maturities for financial liabilities as at 31 December 2011

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	981 870	7 161	8 005	5	13	**997 054**	**997 054**
Borrowings	72 145	24 069	55 036	43 983	85 896	**281 129**	**271 949**
Derivatives – Currency contracts	984	-	-	-	-	**984**	**404 356**
Derivatives – Commodity contracts – Metals	10 384	46 366	5 126	-	-	**61 876**	**465 295**
Other financial liabilities	43 250	13 657	99 545	19 473	3 170	**179 095**	**160 824**
Total financial liabilities by maturity	**1 108 633**	**91 253**	**167 712**	**63 461**	**89 079**	**1 520 138**	

Contractual maturities for financial liabilities as at 31 December 2010 – 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	888 926	1 224	11 636	498	-	**902 284**	**902 032**
Borrowings	41 274	55 787	94 207	24 517	36 773	**252 558**	**228 033**
Derivatives – Currency	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**	**192 861**
Total financial liabilities by maturity	**1 029 166**	**165 418**	**164 262**	**124 925**	**40 043**	**1 523 814**	

Financial liabilities arising from derivatives are calculated as their intrinsic values, excluding the effects of discounting.

As at 31 December 2011 the Group had overdraft facilities in the amount of PLN 150 235 thousand (as at 31 December 2010: PLN 161 447 thousand), of which PLN 98 818 thousand was used (as at 31 December 2010, PLN 50 721 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 less unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation and amortisation).

In order to maintain financial liquidity and the creditworthiness to obtain 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-described ratios as at 31 December 2011 and 31 December 2010 are presented below:

	31 December 2011	31 December 2010 restated
Equity	23 382 357	14 922 123
Less: intangible assets	613 994	473 215
Net assets	22 768 363	14 448 908
Total assets	30 553 874	21 240 729
Equity ratio	**0.75**	**0.68**
Operating profit	13 153 649	5 506 309
Plus: depreciation/amortisation	844 137	756 123
EBITDA	13 997 786	6 262 432
Borrowings and finance lease liabilities	297 957	269 814
Unallocated cash and cash equivalents	13 120 563	3 081 860
Ratio of Debt/EBITDA	**0.00**	**0.00**

Due to the low level of debt of the Group as at 31 December 2011, the ratio of Debt/EBITDA was at a safe level and amounted to 0.00.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.75 at 31 December 2011.

In 2011 and in 2010 there were no external equity requirements imposed on the Parent Entity.

amounts in tables in thousand PLN, unless otherwise stated

34. Income tax

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Current income tax	2 242 876	1 270 765
Deferred income tax	50 474	(167 170)
Adjustments to income tax from prior periods	(8 049)	(6 533)
Total continued operations	**2 285 301**	**1 097 062**
Discontinued operations	(6 615)	34 277
Total	**2 278 686**	**1 131 339**

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 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Profit before tax	13 287 638	5 742 771
Tax calculated using the average weighted rates applicable to incomes in individual countries is 19.00% (2010: 18.67%)	**2 524 651**	**1 072 175**
Non-taxable income	(64 216)	(43 347)
Expenses not deductible for tax purposes	56 286	108 502
Tax-deductible expenses due to reversal of an impairment loss in connection with the sale of a subsidiary	(220 516)	-
Utilisation of previously-unrecognised tax losses	(4 741)	(999)
Tax losses on which deferred tax assets were not recognised	1 692	1 132
Deductible temporary differences on which deferred tax assets were not recognised	194	1 534
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	(8 049)	(6 533)
Income tax expense the average income tax rate applied was 18.39% (2010: 18.82%)	**2 285 301**	**1 097 062**

35. Earnings per share

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Profit from continued operations attributable to shareholders of the Parent Entity	11 003 825	4 639 792
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	55.02	23.20
Profit from discontinued operations attributable to shareholders of the Parent Entity	59 631	84 715
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	0.30	0.42

There are no dilutive potential ordinary shares.

amounts in tables in thousand PLN, unless otherwise stated

36. Dividend paid

In accordance with Resolution No. 6/2011 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 15 June 2011 regarding the appropriation of Parent Entity profit for financial year 2010, the amount of PLN 2 980 000 thousand, representing PLN 14.90 per share, was allocated as a shareholders dividend from profit for financial year 2010.

The right to dividend date was set at 11 July 2011, and dividend payment date – at 12 August 2011.

All shares of the Parent Entity are ordinary shares.

37. Explanations to the consolidated statement of cash flows

Adjustments to profit for the period from continued and discontinued operations

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Income tax recognised in profit or loss	2 291 916	1 062 785
Depreciation/amortisation	910 800	843 938
Impairment losses on goodwill	-	743
Losses on sales of property, plant and equipment and intangible assets	9 094	19 975
Gains on sales of available-for-sale financial assets	(16 877)	(4 925)
Profit on the sale of subsidiaries and an associate	(2 310 544)	-
(Gains)/losses on the sale of and change in fair value of investment property	2 846	(4 349)
Impairment losses on property, plant and equipment, intangible assets and loans	11 377	19 582
Share of profits of associates accounted for using the equity method	(187 729)	(280 542)
Interest and share in profits (dividends)	(22 663)	13 084
Foreign exchange gains	(866 386)	(2 203)
Change in provisions	117 290	36 131
Change in derivatives	(542 342)	576 401
Reclassification of accumulated other comprehensive income to profit or loss as a result of realisation of derivatives	(241 565)	(142 187)
Other adjustments	(48 526)	14 716
Changes in working capital:	243 797	(554 578)
Inventories	(435 932)	(148 689)
Trade and other receivables	570 942	(783 831)
Trade and other payables	108 787	377 942
Total	**(649 512)**	**1 598 571**

amounts in tables in thousand PLN, unless otherwise stated

Proceeds from sales of property, plant and equipment and intangible assets

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	23 358	31 607
Losses on sales of property, plant and equipment and intangible assets	(9 094)	(19 975)
Negative/(Positive) change in receivables due to sales	4 612	(3 506)
Capitalised gains from the liquidation of property, plant and equipment and intangible assets	-	(909)
Proceeds from sales of property, plant and equipment and intangible assets	**18 876**	**7 217**

Expenditures for acquisition of exploration and evaluation assets recognised in operating activities

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Acquisition of exploration and evaluation assets recognised in profit or loss	(24 221)	(4 025)
(Negative)/Positive change in liabilities recognised in operating activities due to exploration and evaluation assets recognised in profit or loss	4 359	(189)
Expenditures for acquisition of exploration and evaluation assets recognised in operating activities	**(19 862)**	**(4 214)**

Expenditures for exploration and evaluation assets recognised in investing activities

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010 restated
Purchase	(71 286)	(46 607)
Adjustment of purchase	76	-
Internally-produced assets	(44)	-
Positive change in liabilities due to acquisition of exploration and evaluation assets	4 359	1 737
Expenditures for acquisition of exploration and evaluation assets recognised in investing activities	**(66 895)**	**(44 870)**

amounts in tables in thousand PLN, unless otherwise stated

38. Contingent assets and liabilities

	At	
	31 December 2011	31 December 2010 restated
Contingent assets	**425 750**	**291 180**
Disputed State Budget issues	28 739	38 764
Guarantees received	185 814	178 881
Promissory note receivables	88 909	40 206
Inventions, implementation of projects	36 595	33 329
Real estate tax on mining facilities	85 489	-
Other	204	-
Contingent liabilities	**209 731**	**236 630**
Guarantees	49 184	32 897
Promissory note liabilities	23 807	80 930
Disputed issues, pending court proceedings	14 079	16 226
Preventive measures in respect of mine-related damages	8 000	2 475
Liabilities due to implementation of projects, inventions	113 967	104 098
Other	694	4

39. Discontinued operations

Main assets and liabilities groups reclassified to a disposal group

	At 15 December 2011
ASSETS	
Non-current assets	
Property, plant and equipment and intangible assets	717 084
Deferred tax assets	139 245
Other non-current assets	45 499
Total non-current assets	**901 828**
Current assets	
Trade and other receivables	94 500
Cash and cash equivalents	90 313
Other non-current assets	4 940
Total current assets	**189 753**
Total assets included in a disposal group	**1 091 581**
LIABILITIES	
Non-current liabilities	5 706
Current liabilities	70 659
Total liabilities included in a disposal group	**76 365**
Net assets	**1 015 216**

amounts in tables in thousand PLN, unless otherwise stated

Profit for the period from discontinued operations

	Note	For the period	
		from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010
Sales	26, 29	514 903	546 306
Cost of sales	27, 30	(447 224)	(491 618)
Operating profit		**67 679**	**54 688**
Finance costs	31	(1 433)	(4 250)
Profit before income tax from discontinued operations		**66 246**	**50 438**
Income tax expense	34	(6 615)	34 277
Profit from discontinued operations		**59 631**	**84 715**

Cash flow from discontinued operations

	For the period	
	from 1 January 2011 to 31 December 2011	from 1 January 2010 to 31 December 2010
Net cash generated from operating activities	39 093	139 835
Net cash used in investing activities	(73 363)	(79 418)
Net cash used in financing activities	(53 556)	(57 766)
Cash flow from discontinued operations	**(87 826)**	**2 651**

The total value of transaction costs incurred in relation to this sale was immaterial.

40. Subsequent events

Establishment of 0929260 B.C. UNLIMITED LIABILITY COMPANY

On 3 January 2012, Fermat 2 S.à r.l. (a 100% indirect subsidiary of KGHM Polska Miedź S.A.) established a company under the name 0929260 B.C. UNLIMITED LIABILITY COMPANY with its registered head office in Canada. The share capital amounts to CAD 100.

The company was established as a part of the activities related to creating a holding structure to acquire the shares of Quadra FNX Mining Ltd.

Changes in the Supervisory Board

The Extraordinary General Meeting of KGHM Polska Miedź S.A., on 19 January 2012, dismissed from the Supervisory Board of KGHM Polska Miedź S.A. the following persons:
1. Franciszek Adamczyk,
2. Marcin Dyl,
3. Arkadiusz Kawecki,
4. Jan Rymarczyk,
5. Marzenna Weresa.

The Extraordinary General Meeting appointed to the Supervisory Board of the Parent Entity the following persons:
1. Krzysztof Kaczmarczyk,
2. Mariusz Kolwas,
3. Aleksandra Magaczewska,
4. Robert Oliwa,
5. Jacek Poświata.

Establishment of Fermat 3 S.á r.l.

On 15 February 2012, Fermat 1 S.à r.l. (a 100% subsidiary of KGHM Polska Miedź S.A.) established a company under the name Fermat 3 S.à r.l. with its registered head office in Luxembourg, in which, it acquired 20 000 shares with a nominal value of 1 USD/share for USD 20 000 paid for in cash, representing 100% of the share capital of Fermat 3 S.à r.l.

The company was established as a part of the activities related to creating a holding structure to purchase the shares of Quadra FNX Mining Ltd.

Purchase of Quadra FNX Mining Ltd. shares

On 5 March 2012, the KGHM Polska Miedź S.A. Group, purchased from the former shareholders of Quadra FNX Mining Ltd. with its registered head office in Vancouver ("Quadra FNX") 100% of shares of Quadra FNX ("Shares"), for the price of CAD 15.00 per share (representing the equivalent of PLN 47.31 at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012), and the total price of CAD 2.9 billion (representing the equivalent of PLN 9.1 billion at the average CAD/PLN exchange rate of the National Bank of Poland of 5 March 2012). The shares were paid for in cash.

The shares were purchased in execution of the agreement dated 6 December 2011 signed by the Parent Entity of the KGHM Polska Miedź S.A. Group and Quadra FNX under a Plan of Arrangement recommended by the Board of Directors of Quadra FNX ("Agreement"). The shares purchased represent 100% of the share capital of Quadra FNX and 100% of the votes at the General Meeting of this company. 5 March 2012 was assumed as the date of obtaining control.

The operations of KGHM INTERNATIONAL LTD. (until 12 March 2012 Quadra FNX) are focused on mine production of metals (including copper, nickel, gold, platinum, palladium) in the following mines: Robinson and Carlota in the USA, Franke in Chile, and McCreedy West, Levack (with the Morrison deposit) and Podolsky in Canada.

Activities include also pre-operational mining projects at various stages of development, including Sierra Gorda in Chile (the company's major development project, involving one of the largest new copper and molybdenum deposits in the world), and pursuing of exploration projects. Until the moment of obtaining control by the KGHM Polska Miedź S.A. Group, the Quadra FNX shares were listed on the Toronto Stock Exchange.

As a result of the purchase of Quadra FNX, the KGHM Polska Miedź S.A. Group advanced to fourth place globally in terms of documented copper resources and eighth place in terms of copper production.

The signing of the Agreement is consistent with the strategy of the KGHM Polska Miedź S.A. Group aimed at increasing the resource base as well as copper production. The acquisition described above will increase annual mined copper production in the KGHM Polska Miedź S.A. Group by over 100 thousand tonnes beginning from 2012, and in 2018 by over 180 thousand tonnes, meaning a 25% increase versus the pre-acquisition level of KGHM Polska Miedź S.A. Group production. In addition, following the start-up of production in Sierra Gorda in Chile in 2014 and Victoria in Canada, the transaction will lead to a substantial decrease in average unit copper production costs in the entities directly and indirectly managed by KGHM Polska Miedź S.A.

As at 31 December 2011, the carrying amount of the net assets of Quadra FNX, set based on the financial statements prepared under IFRS, amounted to USD 2.3 billion (representing the equivalent of PLN 7.2 billion at the average USD/PLN exchange rate of the National Bank of Poland of 5 March 2012). At the current stage the KGHM Polska Miedź S.A. Group is not in possession of accounting data at the date control was obtained. Work has begun aimed at performing a final measurement of the identified assets and liabilities to fair value. Measurement of the net assets acquired depends significantly on macroeconomic assumptions such as interest rates, price projections for copper and other elements, and of chemicals on international markets. The fair value of identified net assets is also substantially impacted by the expected mineral accumulation of the deposits of the business purchased. Preliminary estimation of the identified assets and liabilities based on data and assumptions as at 31 December 2011 amounts to USD 2.9 billion (representing the equivalent of PLN 9.1 billion at the average USD/PLN exchange rate of the National Bank of Poland of 5 March 2012). The process of measurement at the date control was obtained will be carried out and concluded no later than within 12 months from the date of acquisition.

The remaining disclosures required by IFRS 3 were not presented due to the short period between the acquisition and the preparation of the financial statements, and the difficulties, in determining such disclosures arising from this fact.

amounts in tables in thousand PLN, unless otherwise stated

Forecast of results for 2012

On 27 March 2012, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2012. The bases for development of the Budget were the results for 2011 and the assumptions of individual operating plans. The basic assumptions of the Budget for 2012 are presented in the following table:

	Unit	Execution 2011	Budget 2012	Change 2011=100
Sales	**PLN million**	**20 097**	**19 418**	**96.6**
Profit for the period	**PLN million**	**11 335**	**3 804**	**33.6**
Average annual copper price	USD/t	8 811	8 000	90.8
Average annual silver price	USD/troz	35.12	30.00	85.4
Exchange rate	USD/PLN	2.96	3.09	104.4
Unit cost of electrolytic copper production from own concentrate	PLN/t	10 299	15 729	152.7
Electrolytic copper production	'000 t	571.0	562.0	98.4
of which from purchased copper-bearing materials	'000 t	124.6	147.3	118.2
Silver production	t	1 260	1 098	87.1
Capital expenditure	PLN million	1 514	2 100	138.7
Equity investments*	PLN million	640	10 671	x16.7

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

The decrease in profit by PLN 7 531 million, i.e. by 66%, is mainly due to: recognition in the result for 2011 of the sales of telecom assets, a change in exchange differences, effects of the introduction of the minerals extraction tax and the deterioration of macroeconomic conditions.

The increase in the cost of electrolytic copper production from own concentrate versus 2011 by 53% is mainly due to the minerals extraction tax. Under comparable conditions, the above cost would be higher by 22%, of which mainly due to lower production from own concentrate. In 2011, the relatively high level of production from own concentrates was due to the use of concentrate inventory accumulated in prior years due to the maintenance cycle. The volume of copper production in concentrate in KGHM Polska Miedź S.A. remains at a stable level.

The substantial increase in equity investments is due to the purchase in the first quarter of 2012 of Quadra FNX Mining Ltd. shares.

The results of the Parent Entity will be substantially impacted by the inclusion in the projection of payment of the minerals extraction tax, beginning from May 2012.

The planned mineral extraction tax will be calculated in KGHM Polska Miedź S.A. from the amount of copper and silver contained in produced concentrate.

Given the macroeconomic conditions in 2011, in particular with respect to average copper prices (8 810.90 USD/t), average silver prices (35.12 USD/troz), the average exchange rate (2.9636 USD/PLN) and production of copper (420 665 t) and silver (1 166 598 kg) contained in concentrate, under the government's Draft Law together with the amendments adopted by the Parliamentary Committee of Public Finance on 14 February 2012, the amount of the tax in annual terms would amount to PLN 2 488 227 thousand, reducing the current results of the Parent Entity.

Respectively, given the macroeconomic conditions and production realised in 2010, the mineral extraction tax would have reduced the results of the Company by PLN 1 676 370 thousand.

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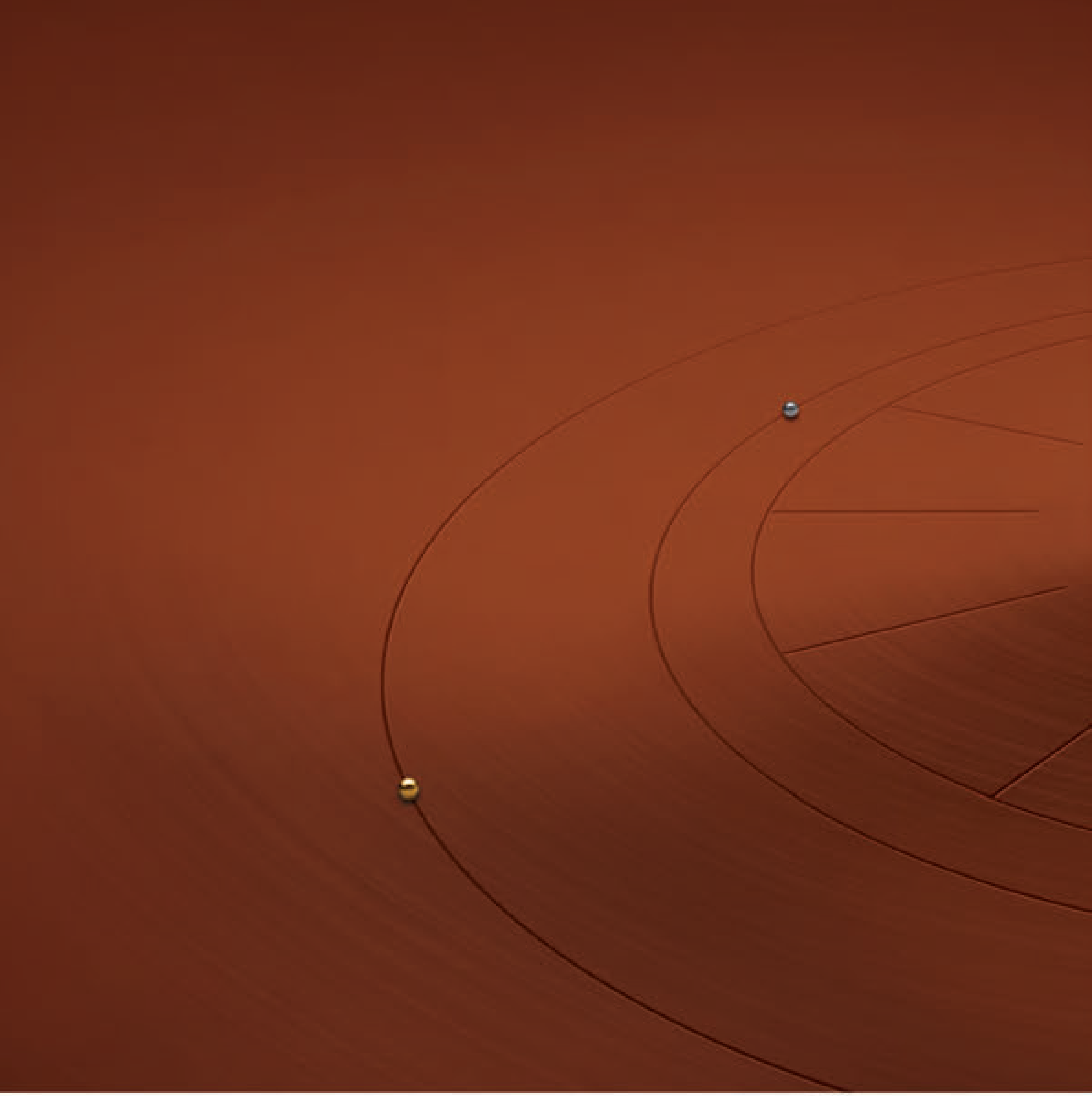

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