

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated quarterly report QSr 2 / 2010

(In accordance with § 82, section 2 and § 83, section 1 of the Decree of the Minister of Finance dated 19 February 2009 – Journal of Laws No. 33, point 259)

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

For the second quarter of the financial year **2010** comprising the period from **1 April 2010** to **30 June 2010**
Containing the condensed consolidated financial statements according to International Financial Reporting Standards in PLN, and condensed financial statements according to International Financial Reporting Standards in PLN.

publication date: 13 August 2010

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This report is a direct translation from the original Polish version. In the event of differences resulting from the translation, reference should be made to the official Polish version.

SELECTED FINANCIAL DATA

data concerning the condensed consolidated financial statements of KGHM Polska Miedź S.A.

	in '000 PLN		in '000 EUR	
	2 quarters accrued period from 1 January 2010 to 30 June 2010	2 quarters accrued period from 1 January 2009 to 30 June 2009	2 quarters accrued period from 1 January 2010 to 30 June 2010	2 quarters accrued period from 1 January 2009 to 30 June 2009
I. Sales	7 811 777	5 611 914	1 950 896	1 242 014
II. Operating profit	2 797 396	1 458 571	698 615	322 807
III. Profit before income tax	2 928 428	1 577 321	731 339	349 088
IV. Profit for the period	2 403 278	1 291 059	600 189	285 734
V. Profit for the period attributable to shareholders of the Parent Entity	2 399 850	1 291 159	599 333	285 756
VI. Profit for the period attributable to non-controlling interest	3 428	(100)	856	(22)
VII. Other comprehensive income	172 916	(513 454)	43 184	(113 637)
VIII. Total comprehensive income	2 576 194	777 605	643 373	172 097
IX. Total comprehensive income attributable to the shareholders of the Parent Entity	2 572 766	777 705	642 517	172 119
X. Total comprehensive income attributable to non-controlling interest	3 428	(100)	856	(22)
XI. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	12.00	6.46	3.00	1.43
XIII. Net cash generated from operating activities	2 185 229	1 210 565	545 734	267 919
XIV. Net cash used in investing activities	(961 904)	(780 721)	(240 224)	(172 787)
XV. Net cash used in financing activities	(87 502)	(16 846)	(21 853)	(3 728)
XVI. Total net cash flow	1 135 823	412 998	283 657	91 404
	At 30 June 2010	At 31 December 2009	At 30 June 2010	At 31 December 2009
XVII. Non-current assets	11 070 725	9 777 030	2 670 347	2 379 882
XVIII. Current assets	6 879 554	5 089 786	1 659 403	1 238 934
XIX. Total assets	17 950 279	14 866 816	4 329 750	3 618 816
XX. Non-current liabilities	2 406 236	1 970 994	580 403	479 771
XXI. Current liabilities	2 974 631	2 302 604	717 505	560 490
XXII. Equity	12 569 412	10 593 218	3 031 842	2 578 555
XXIII. Non-controlling interest	71 303	67 875	17 199	16 522

data concerning the condensed financial statements of KGHM Polska Miedź S.A.

	in '000 PLN		in '000 EUR	
	2 quarters accrued period from 1 January 2010 to 30 June 2010	2 quarters accrued period from 1 January 2009 to 30 June 2009	2 quarters accrued period from 1 January 2010 to 30 June 2010	2 quarters accrued period from 1 January 2009 to 30 June 2009
I. Sales	7 199 551	5 099 260	1 798 000	1 128 554
II. Operating profit	2 764 478	1 766 160	690 395	390 882
III. Profit before income tax	2 747 857	1 747 264	686 244	386 700
IV. Profit for the period	2 226 638	1 472 634	556 076	325 919
V. Other comprehensive income	173 076	(512 959)	43 224	(113 526)
VI. Total comprehensive income	2 399 714	959 675	599 299	212 393
VII. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
VIII. Earnings per ordinary share (in PLN/EUR)	11.13	7.36	2.78	1.63
IX. Net cash generated from operating activities	2 007 059	1 156 347	501 238	255 920
X. Net cash used in investing activities	(956 113)	(613 436)	(238 778)	(135 764)
XI. Net cash used in financing activities	(5 153)	(2 177)	(1 287)	(482)
XII. Total net cash flow	1 045 793	540 734	261 173	119 674
	At 30 June 2010	At 31 December 2009	At 30 June 2010	At 31 December 2009
XIII. Non-current assets	10 751 910	9 508 897	2 593 446	2 314 614
XIV. Current assets	6 224 973	4 444 133	1 501 513	1 081 772
XV. Total assets	16 976 883	13 953 030	4 094 959	3 396 386
XVI. Non-current liabilities	2 096 518	1 704 420	505 697	414 883
XVII. Current liabilities	2 676 694	1 844 653	645 640	449 017
XVIII. Equity	12 203 671	10 403 957	2 943 622	2 532 486

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Consolidated financial statements

Consolidated statement of financial position

	Note	At	
		30 June 2010	31 December 2009
Assets			
Non-current assets			
Property, plant and equipment		7 788 666	7 673 437
Intangible assets		280 460	268 195
Investment property		17 164	17 164
Investments in associates		1 437 608	1 315 663
Deferred tax assets		365 999	347 395
Available-for-sale financial assets		433 028	19 412
Held-to-maturity investments		86 277	67 144
Derivative financial instruments		649 925	58 034
Trade and other receivables		11 598	10 586
		11 070 725	9 777 030
Current assets			
Inventories		2 277 481	2 072 434
Trade and other receivables		1 805 571	1 531 341
Current corporate tax receivables		4 754	9 329
Available-for-sale financial assets		8 778	8 976
Held-to-maturity investments		460	580
Derivative financial instruments		431 698	263 375
Cash and cash equivalents		2 343 916	1 197 077
Non-current assets held for sale		6 896	6 674
		6 879 554	5 089 786
TOTAL ASSETS		17 950 279	14 866 816
Equity and liabilities			
EQUITY			
Equity attributable to shareholders of the Parent Entity			
Share capital		2 000 000	2 000 000
Accumulated other comprehensive income		299 217	126 301
Retained earnings		10 198 892	8 399 042
		12 498 109	10 525 343
Non-controlling interest		71 303	67 875
TOTAL EQUITY		12 569 412	10 593 218
LIABILITIES			
Non-current liabilities			
Trade and other payables		33 628	36 230
Borrowings and finance lease liabilities	A.IV.6	166 881	120 854
Derivative financial instruments		352 385	61 354
Deferred tax liabilities		44 277	41 785
Liabilities due to employee benefits		1 235 434	1 183 350
Provisions for other liabilities and charges		573 631	527 421
		2 406 236	1 970 994
Current liabilities			
Trade and other payables		2 191 504	1 575 896
Borrowings and finance lease liabilities	A.IV.6	100 981	219 816
Current corporate tax liabilities		297 545	79 104
Derivative financial instruments		234 878	273 717
Liabilities due to employee benefits		111 344	106 704
Provisions for other liabilities and charges		38 379	47 367
		2 974 631	2 302 604
TOTAL LIABILITIES		5 380 867	4 273 598
TOTAL EQUITY AND LIABILITIES		17 950 279	14 866 816

Consolidated statement of comprehensive income

	Note	Financial period			
		for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Sales	A.IV.1	4 212 047	7 811 777	2 991 980	5 611 914
Cost of sales	A.IV.2	(2 435 551)	(4 543 210)	(2 070 643)	(3 673 282)
Gross profit		1 776 496	3 268 567	921 337	1 938 632
Selling costs	A.IV.2	(69 256)	(123 231)	(53 487)	(114 177)
Administrative expenses	A.IV.2	(153 803)	(351 960)	(196 888)	(358 148)
Other operating income	A.IV.3	396 586	532 901	87 437	283 819
Other operating costs	A.IV.4	(99 531)	(528 881)	(133 872)	(291 555)
Operating profit		1 850 492	2 797 396	624 527	1 458 571
Finance costs	A.IV.5	(13 317)	(24 187)	(9 449)	(25 837)
Share of profits of associates accounted for using the equity method		84 808	155 219	92 634	144 587
Profit before income tax		1 921 983	2 928 428	707 712	1 577 321
Income tax expense		(347 825)	(525 150)	(121 575)	(286 262)
Profit for the period		1 574 158	2 403 278	586 137	1 291 059
Other comprehensive income due to:					
Available-for-sale financial assets		(11 932)	(13 484)	(2 568)	(8 699)
Cash flow hedging instruments		284 454	226 961	(228 670)	(625 195)
Income tax related to items presented in other comprehensive income		(51 779)	(40 561)	43 936	120 440
Other comprehensive net income for the financial period		220 743	172 916	(187 302)	(513 454)
TOTAL COMPREHENSIVE INCOME		1 794 901	2 576 194	398 835	777 605
Profit for the period attributable to:					
shareholders of the Parent Entity		1 573 775	2 399 850	585 803	1 291 159
non-controlling interest		383	3 428	334	(100)
Total comprehensive income attributable to:					
shareholders of the Parent Entity		1 794 518	2 572 766	398 501	777 705
non-controlling interest		383	3 428	334	(100)
Earnings per share attributable to the shareholders of the Parent Entity during the period (in PLN per share)					
- basic		7.87	12.00	2.93	6.46
- diluted		7.87	12.00	2.93	6.46

Consolidated statement of changes in equity

	Attributable to shareholders of the Parent Entity				Total	Attributable to non- controlling interest	Total equity
	Share capital	Retained earnings	Accumulated other comprehensive income due to:				
			Available- for-sale financial assets	Cash flow hedging instruments			
At 1 January 2010 as previously stated	2 000 000	8 429 651	561	125 740	10 555 952	67 875	10 623 827
Prior periods error	-	(30 609)	-	-	(30 609)	-	(30 609)
At 1 January 2010	2 000 000	8 399 042	561	125 740	10 525 343	67 875	10 593 218
Dividends for 2009 resolved but unpaid	-	(600 000)	-	-	(600 000)	-	(600 000)
Total comprehensive income	-	2 399 850	(10 922)	183 838	2 572 766	3 428	2 576 194
At 30 June 2010	2 000 000	10 198 892	(10 361)	309 578	12 498 109	71 303	12 569 412
At 1 January 2009	2 000 000	8 407 049	8 972	508 484	10 924 505	58 360	10 982 865
Dividends for 2008 resolved but unpaid	-	(2 336 000)	-	-	(2 336 000)	-	(2 336 000)
Total comprehensive income	-	1 291 159	(7 046)	(506 408)	777 705	(100)	777 605
Other changes in equity attributable to non-controlling interest	-	-	-	-	-	(8 670)	(8 670)
At 30 June 2009	2 000 000	7 362 208	1 926	2 076	9 366 210	49 590	9 415 800

Consolidated statement of cash flows

	Note	Financial period	
		for the 6 months ended 30 June 2010	for the 6 months ended 30 June 2009
Cash flow from operating activities			
Profit for the period		2 403 278	1 291 059
Adjustments to profit for the period	A.IV.7	140 757	226 100
Income tax paid		(358 806)	(306 594)
Net cash generated from operating activities		2 185 229	1 210 565
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents		(29)	(14 128)
Purchase of property, plant and equipment and intangible assets		(532 136)	(756 234)
Proceeds from sale of property, plant and equipment and intangible assets		7 182	8 934
Purchase of available-for-sale financial assets		(433 747)	-
Proceeds from sale of available-for-sale financial assets		6 779	20 000
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(19 013)	(8 984)
Establishment of deposits		-	(400 500)
Termination of deposits		-	300 500
Proceeds from repayments of loans granted		-	610
Interest received		1 481	4 433
Dividends received		24 116	76 455
Advances granted for purchase of property, plant and equipment and intangible assets		(14 608)	(4 470)
Other investment expenses		(1 929)	(7 337)
Net cash used in investing activities		(961 904)	(780 721)
Cash flow from financing activities			
Proceeds from transactions with non-controlling interest		-	57
Proceeds from loans and borrowings		86 660	46 164
Repayments of loans and borrowings		(158 856)	(53 735)
Payments of liabilities due to finance leases		(7 158)	(1 558)
Interest paid		(8 586)	(7 765)
Other financial proceeds/(expenses)		438	(9)
Net cash used in financing activities		(87 502)	(16 846)
Total net cash flow		1 135 823	412 998
Exchange gains/(losses) on cash and cash equivalents		11 016	(12 576)
Movements in cash and cash equivalents		1 146 839	400 422
Cash and cash equivalents at beginning of the period		1 197 077	2 065 763
Cash and cash equivalents at end of the period		2 343 916	2 466 185
including restricted cash and cash equivalents		64 024	4 208

Selected explanatory data to the consolidated financial statements

I. Policies applied in preparing the financial statements

1. Introduction

The Parent Entity of the KGHM Polska Miedź S.A. Group is KGHM Polska Miedź S.A. with its registered head office in Lubin, whose shares are traded on a regulated market. The core business of the Company is the production of copper and silver.

The principal activities of the Parent Entity comprise:

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

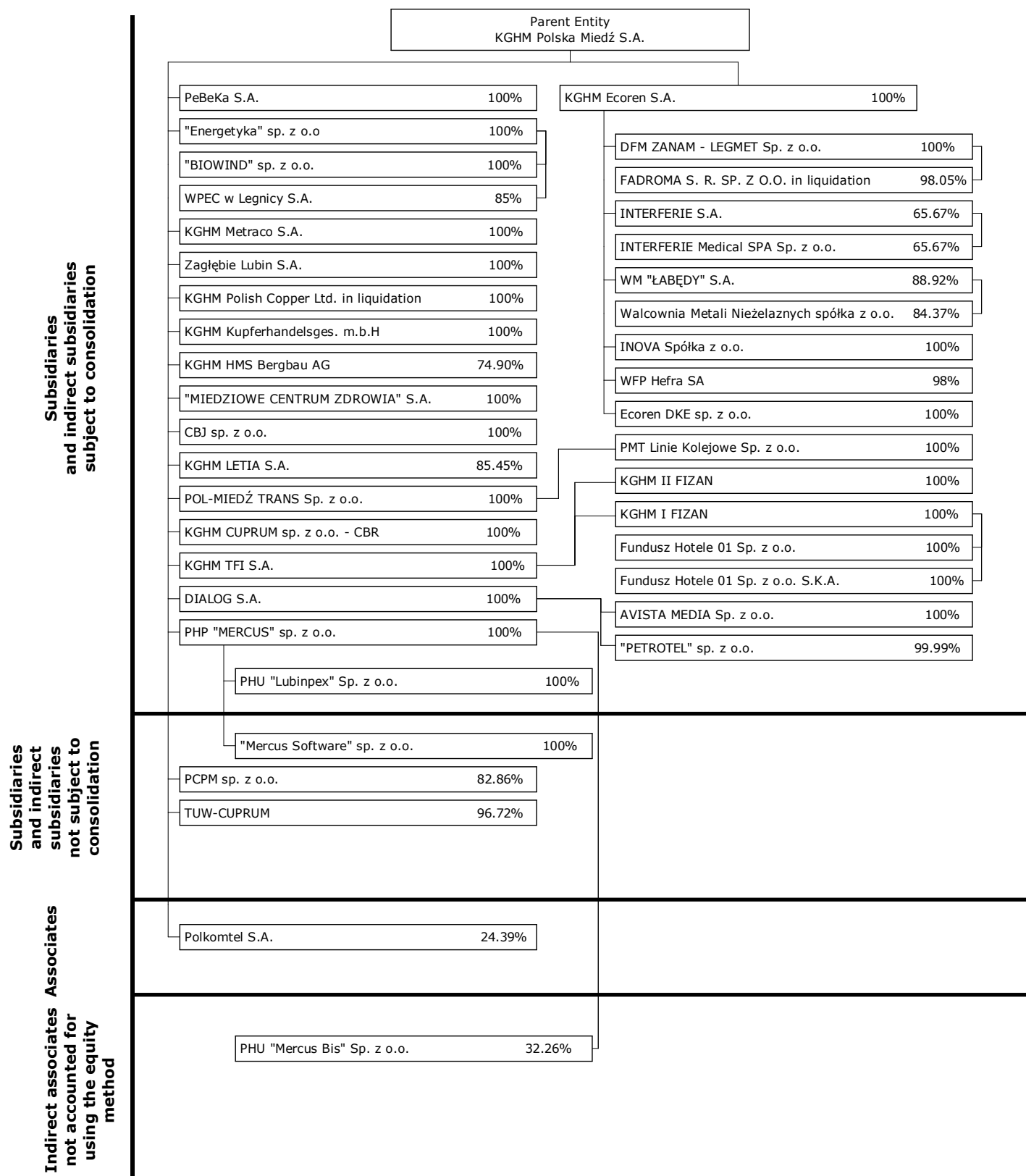
Activities involving the exploitation of copper ore, salt deposits and common minerals are carried out based on licenses held by KGHM Polska Miedź S.A., which were issued by the Minister of Environmental Protection, Natural Resources and Forestry in the years 1993-2004.

The business activities of the Group also include:

- production of goods from copper and precious metals,
- underground construction services,
- production of machinery and mining equipment,
- transport services,
- activities in the areas of research, analysis and design,
- production of road-building materials, and
- recovery of metals associated with copper ores.

Selected explanatory data to the consolidated financial statements (continuation)

2. Composition of the KGHM Polska Miedź S.A. Group at 30 June 2010



The percentage share represents the total share of the Group.

Selected explanatory data to the consolidated financial statements (continuation)

In the current quarter KGHM Polska Miedź S.A. consolidated 35 subsidiary entities, while one associated entity was accounted for using the equity method.

Beginning from 1 January 2005 (*based on IAS 8 par. 8, which allows exemption from the application of principles described in IFRS if the results of such an exemption are immaterial*), the following subsidiaries were excluded from consolidation - Polskie Centrum Promocji Miedzi sp. z o.o., PU „Mercus Software” Sp. z o.o., and TUW Cuprum. Altogether, in the presented consolidated financial statements 3 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 effect the honest presentation of the assets, profit or loss and cash flows of the Group.

The following quarterly report includes:

1. the consolidated financial statements of KGHM Polska Miedź S.A. for the current period from 1 April to 30 June 2010 and the comparable period from 1 April to 30 June 2009, together with selected explanatory data to the consolidated financial statements, and
2. other information to the consolidated quarterly report.

The quarterly financial information of KGHM Polska Miedź S.A. for the current period from 1 April to 30 June 2010 and the comparable period from 1 April to 30 June 2009 is an integral part of the report.

Neither the consolidated financial statements at 30 June 2010 nor the separate financial statements at 30 June 2010 were audited by a certified auditor.

3. Exchange rates applied

The following currency rates were applied in the calculation of selected financial data in EUR:

- for the calculation of turnover, profit or loss and cash flow for the current period, the rate of **4.0042 PLN/EUR**,
- for the calculation of turnover, profit or loss and cash flow for the comparable period, the rate of **4.5184 PLN/EUR**,
- for the calculation of assets, equity and liabilities at 31 December 2009, the rate of **4.1082 PLN/EUR**,
- for the calculation of assets, equity and liabilities at 30 June 2010, the rate of **4.1458 PLN/EUR**.

4. Accounting policies

The following condensed interim consolidated financial report for the period from 1 April 2010 to 30 June 2010 has been prepared in accordance with IAS 34 Interim Financial Reporting. The condensed interim consolidated financial report should be read jointly with the consolidated financial statements for the year ended 31 December 2009.

The financial statements are prepared, applying these same principles to the current and comparable periods, restating the comparable period to reflect the changes in accounting and presentation principles to those applied in the statements in the current period. Changes were with respect to revaluation of the shares of Polkomtel S.A. using the equity method due to an adjustment of the financial statements of Polkomtel S.A. for the year 2009 following an audit of its accounts. Due to a prior period error, retained earnings were decreased at 1 January 2010 by the amount of PLN 30 609 thousand with a respective decrease in the value of investments in associates at 31 December 2009. The adjustment to the prior period error did not affect profit or loss for the six months ended 30 June 2009 or the statement of financial position as at 1 January 2009. This resulted however in an increase in the share of profits of associates in the amount of PLN 84 thousand for the three months ended 30 June 2009.

Changes in force in the Group from 1 January 2010 introduced by new standards, updated standards and interpretations:

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

Selected explanatory data to the consolidated financial statements (continuation)

As at the date of publication of these financial statements, all of the above changes to the standards and interpretations have been approved for use by the European Union. It is considered that their application will not have a material impact on the financial statements of the Group.

II. Information on significant changes in estimates

1. Provisions for future liabilities

The effects of revaluation or recognition of estimates of future liabilities (provisions) were settled in the financial result of the current quarter, and in particular:

1.1 provisions for future employee benefits due to one-off retirement or disability payments, jubilee awards, post-mortem benefits and the coal equivalent also paid after the period of employment. The result of this change in estimates is a decrease in the provision in the amount of PLN 11 972 thousand which was settled as an increase in profit (after reflecting the results in deferred tax, an increase in profit in the amount of PLN 9 699 thousand),

(an accrued decrease in profit by PLN 56 725 thousand excluding the results in deferred tax since the beginning of the financial year)

1.2 provision for future costs of decommissioning (restoration) of the Group's mines, comprising the estimated costs of dismantling and removing technological facilities, for which the obligation for restoration upon the conclusion of activities is a result of separate law or standard practice. The result of this change in estimates is an increase in the provision in the amount of PLN 5 338 thousand, which was settled as a decrease of the financial result in the amount of PLN 7 665 thousand and as a decrease of property, plant and equipment in the amount of PLN 2 327 thousand. The increase in the provision caused an increase in deferred tax assets in the amount of PLN 842 thousand,

(an accrued increase in the provision by PLN 64 631 thousand since the beginning of the financial year, of which PLN 16 724 thousand was settled as a decrease in the financial result and PLN 47 907 thousand was settled as an increase in property, plant and equipment)

1.3 provisions for future employee remuneration costs together with charges in the amount of PLN 182 094 thousand, paid (in accordance with the Collective Labour Agreement) on the occasion of mining and smelting holidays and after approval of the annual financial statements.

(provision at 30 June 2010 amounted to PLN 335 864 thousand)

The revaluation and recognition of other provisions for liabilities did not significantly impact the current period financial result.

2. Deferred income tax

The result of differences between the carrying amount and the tax base of statement of financial position items is a change in the estimated value of the deferred tax asset and the deferred tax liabilities.

There was a decrease in the deferred tax asset in the current quarter in the amount of PLN 24 080 thousand, which was settled:

- as a decrease of the financial result, PLN 26 347 thousand,
- as an increase of other comprehensive income due to measurement of available-for-sale financial assets, PLN 2 267 thousand.

(an accrued increase in the deferred tax asset by PLN 118 651 thousand since the beginning of the financial year, of which the following was settled:

- *as an increase of the financial result, PLN 116 438 thousand*
- *as an increase of other comprehensive income due to measurement of available-for-sale financial assets, PLN 2 213 thousand.)*

There was an increase in the deferred tax liability in the current quarter in the amount of PLN 91 669 thousand, of which the following was settled:

- as a decrease of the financial result, PLN 37 622 thousand,
- as a decrease of other comprehensive income due to measurement of hedging financial instruments and available-for-sale financial assets, PLN 54 047 thousand.

(an accrued increase in the deferred tax liability by PLN 102 539 thousand since the beginning of the financial year, of which the following was settled:

- *as a decrease of the financial result, PLN 59 765 thousand*
- *as a decrease of other comprehensive income due to measurement of cash flow hedging financial instruments and available-for-sale financial assets, PLN 42 774 thousand.*

Selected explanatory data to the consolidated financial statements (continuation)

After offsetting the deferred tax asset and deferred tax liability, the deferred tax asset at the end of the reporting period was set at PLN 365 999 thousand, while the deferred tax liability was set at PLN 44 277 thousand.

III. Financial assets and property, plant and equipment

In the current quarter changes in financial assets concerned the following:

1. in **investments in associates** – use of the equity method and an increase in investments due to the share of profit of an associate for the financial period in the amount of PLN 84 808 thousand, an adjustment to investments due to the received remainder of the dividend from appropriation of profit for 2009 in the amount of PLN 24 050 thousand, and amortisation of intangible assets in the form of customer relationships of Polkomtel S.A. in the amount of PLN 4 612 thousand identified in the final settlement of the acquisition of the shares of the Company.

(accrued since the beginning of the financial year, changes concerned the following:

- *increase in assets due to share of profit, in the amount of PLN 155 219 thousand,*
- *decrease in investments due to the received dividend, in the amount of PLN 24 050 thousand,*
- *amortisation of intangible assets (customer relationships) in the amount of PLN 9 224 thousand)*

2. in **available-for-sale financial assets**

- a) **non-current** – acquisition of shares in listed companies in the amount of PLN 433 264 thousand, the settlement in other comprehensive income of losses on the measurement at the balance sheet date of these shares in the amount of PLN 11 448 thousand, and reclassification of available-for-sale financial assets to held for sale assets in the amount of PLN 270 thousand,

(accrued changes since the beginning of the financial year concerned the following:

- *acquisition of shares in listed companies in the amount of PLN 433 264 thousand,*
- *closure of investment in AIG investment fund in the amount of PLN 7 930 thousand,*
- *negative measurement of shares in listed companies settled in other comprehensive income in the amount of PLN 11 448 thousand, and*
- *reclassification of available-for-sale financial assets to held-for-sale assets in the amount of PLN 270 thousand)*

- b) **current** - settlement in other comprehensive income of the negative measurement of assets in the amount of PLN 484 thousand

(accrued changes since the beginning of the financial year concerned the settlement in other comprehensive income of the measurement of shares in listed companies in the amount of PLN 198 thousand (an excess of losses in the amount of PLN 484 thousand over gains from measurement in the amount of PLN 286 thousand))

3. in **non-current held-to-maturity investments** - purchase of financial assets financed from the resources of the Mine Closure Fund in the amount of PLN 759 thousand, and reclassification to non-current held-to-maturity investments of the resources of the Fund in the amount of PLN 120 thousand, which will not be used during the 12 months from the end of the reporting period

(accrued changes since the beginning of the financial year concerned the purchase of financial assets financed from the resources of the Mine Closure Fund in the amount of PLN 19 013 thousand, and reclassification to non-current held-to-maturity investments of the resources of the Fund in the amount of PLN 120 thousand, which will not be used during the 12 months from the end of the reporting period as well as the negative measurement of other assets in the amount of PLN 3 thousand)

4. in **current held-to-maturity investments** - reclassification from current to non-current held-to-maturity investments of the resources of the Fund in the amount of PLN 120 thousand, which will not be used during the 12 months from the end of the reporting period

(accrued changes since the beginning of the financial year, concerned reclassification from current to non-current held-to-maturity investments of the resources of the Fund in the amount of PLN 120 thousand, which will not be used during the 12 months from the end of the reporting period)

Selected explanatory data to the consolidated financial statements (continuation)

5. in **derivative financial instruments** – as a result of restructurisation of option strategies entered into on the currency and copper market, and derivative transactions entered into in the second quarter of 2010, as well as changes in macroeconomic factors, there was an increase in the fair value of open derivative instruments at 30 June 2010. The financial result of the current quarter was increased by PLN 149 052 thousand (an accrued decrease since the beginning of the financial year of the financial result in the amount of PLN 52 281 thousand). Detailed information on derivative instruments of the Parent Entity may be found in part C point II 5, Risk management.

6. in **financial receivables** – recognition of an impairment allowance in the amount of PLN 3 894 thousand (an excess of the impairment allowance recognised, PLN 8 312 thousand over released, PLN 4 418 thousand).

(accrued changes since the beginning of the financial year concerned recognition of an impairment allowance in the amount of PLN 1 932 thousand as an excess of the impairment allowance recognised, PLN 10 792 thousand over released, PLN 8 860 thousand).

With respect to other assets in the current quarter the following impairment losses were recognised and reversed:

property, plant and equipment and intangible assets

- impairment loss recognised PLN 1 042 thousand
- impairment loss reversed PLN 97 thousand

(accrued since the beginning of the financial year

- *impairment loss recognised PLN 5 631 thousand*
- *impairment loss reversed PLN 121 thousand)*

non-financial receivables

- impairment allowance recognised PLN 1 665 thousand
- impairment allowance reversed PLN 430 thousand

(accrued since the beginning of the financial year

- *impairment allowance recognised PLN 3 999 thousand*
- *impairment allowance reversed PLN 804 thousand)*

inventories

- write-down recognised PLN 494 thousand
- write-down reversed PLN 685 thousand

(accrued since the beginning of the financial year

- *write-down recognised PLN 882 thousand*
- *write down reversed PLN 3 219 thousand)*

IV. Selected additional explanatory notes

1. Sales

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Copper, precious metals, smelter by-products	3 864 501	7 121 554	2 697 343	5 037 271
Energy	11 361	50 508	17 948	18 979
Services	195 243	401 935	171 056	342 565
Mining machinery, transport vehicles for mining and other	3 791	9 385	2 272	3 938
Goods for resale	62 963	112 121	78 435	151 260
Wastes and materials	1 107	3 684	2 250	4 379
Other goods	73 081	112 590	22 676	53 522
Total	4 212 047	7 811 777	2 991 980	5 611 914

Selected explanatory data to the consolidated financial statements (continuation)

2. Costs by type

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Depreciation of property, plant and equipment and amortisation of intangible assets	205 269	412 521	183 738	362 493
Employee benefit costs	800 139	1 649 221	937 983	1 645 601
Materials and energy consumption	1 316 635	2 639 490	903 524	1 677 602
External services	338 937	612 901	288 126	569 339
Taxes and charges	89 007	180 068	86 441	167 649
Advertising costs and representation expenses	15 009	24 963	8 776	18 674
Property and personal insurance	7 276	13 256	3 864	8 073
Research and development costs not capitalised in intangible assets	1 489	1 834	539	542
Other costs, of which:	12 062	26 582	11 695	44 661
Impairment loss on property, plant and equipment, intangible assets	1 042	5 631	758	1 190
Write-down of inventories	494	882	896	922
Allowance for impairment of trade receivables	4 951	7 249	3 284	28 542
Reversal of impairment loss on property, plant and equipment, intangible assets	(97)	(117)	-	-
Reversal of write-down of inventories	(685)	(3 219)	(23)	(1 391)
Reversal of allowance for impairment of trade receivables	(3 921)	(6 426)	(2 772)	(3 987)
Losses from the disposal of financial instruments	345	834	70	380
Other operating costs	9 933	21 748	9 482	19 005
Total costs by type	2 785 823	5 560 836	2 424 686	4 494 634
Cost of goods for resale and materials sold (+), of which:	41 730	76 137	39 495	69 998
Allowance for impairment of receivables	63	120	638	1 272
Reversal of allowance for impairment of receivables	(115)	(285)	(327)	(498)
Change in inventories of finished goods and work in progress (+/-)	(25 173)	(365 133)	(31 550)	(181 801)
Cost of manufacturing products for internal use (-)	(143 770)	(253 439)	(111 613)	(237 224)
Total cost of sales, selling and administrative costs	2 658 610	5 018 401	2 321 018	4 145 607

3. Other operating income

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Income and gains on financial instruments, classified under other operating activities, resulting from:	366 622	485 598	60 693	217 886
Measurement and realisation of derivative instruments	236 059	343 157	97 657	137 354
Interest	16 352	24 995	28 072	61 217
Foreign exchange gains	114 401	114 401	(65 718)	11 093
Gains from disposal	-	896	5	7 519
Gains from measurement of non-current financial liabilities	(572)	-	-	-
Reversal of allowance for impairment of loans and receivables	382	2 149	677	703
Gains from the loss of control of a subsidiary	-	-	-	21 457
Gains from the disposal of intangible assets	1 782	1 782	(100)	119
Other interest	1 861	2 313	182	1 426
Dividends received	-	64	-	251
Reversal of impairment losses on assets under construction	-	4	9	9
Reversal of allowance for impairment of other non-financial receivables	430	804	6	787
Government grants and other donations received	344	538	167	342
Release of unused provisions due to:	7 143	11 278	14 710	22 957
Decommissioning of mines	308	434	9 349	16 818
Disputed issues and court proceedings	5 991	6 648	3 703	4 143
Other anticipated losses, expenses and liabilities	844	4 196	1 658	1 996
Surpluses identified in tangible current assets and cash and cash equivalents	5 137	5 150	-	-
Penalties and compensation received	5 679	10 513	3 631	7 054
Other operating income/gains	7 588	14 857	8 139	11 531
Total other operating income	396 586	532 901	87 437	283 819

Selected explanatory data to the consolidated financial statements (continuation)

4. Other operating costs

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Costs and losses on financial instruments, classified under other operating activities, resulting from:	77 709	481 736	111 961	252 260
Measurement and realisation of derivative instruments	127 136	477 732	111 714	246 369
Interest	24	39	312	644
Foreign exchange losses	(53 291)	-	-	-
Losses from the measurement of liabilities	542	542	(992)	1 314
Losses from disposal	-	-	851	851
Allowances for impairment of loans and receivables	3 298	3 423	76	3 082
Allowances for impairment of other non-financial receivables	1 665	3 999	(234)	522
Losses on the sale of intangible assets	(93)	-	-	-
Losses on the sale of property, plant and equipment	2 927	3 300	7 136	9 020
Impairment losses on assets under construction	-	-	2 161	2 161
Interest on overdue non-financial liabilities	66	101	1 040	1 418
Donations granted	400	9 948	2 632	2 768
Provisions for liabilities due to:	3 975	6 175	2 577	7 868
Decommissioning of mines	23	1 470	482	499
Disputed issues and court proceedings	529	1 089	1 283	3 071
Other	3 423	3 616	812	4 298
Penalties and compensation paid	549	1 313	499	1 563
Contributions to a voluntary organisation	1 889	4 802	1 831	5 572
Other operating costs/losses	10 444	17 507	4 269	8 403
Total other operating costs	99 531	528 881	133 872	291 555

5. Finance costs

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Interest expense due to:	3 655	7 905	3 105	6 881
Bank and other loans	3 048	6 611	2 827	5 819
Finance leases	607	1 294	278	1 062
Net exchange (gains)/losses on borrowings	1 396	89	(1 433)	1 262
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of discount effect)	8 039	15 870	6 603	16 375
Losses on measurement of financial liabilities	70	145	92	209
Other finance costs	157	178	1 082	1 110
Total finance costs	13 317	24 187	9 449	25 837

6. Borrowings and liabilities due to finance leases

	At	
	30 June 2010	31 December 2009
Non-current	166 881	120 854
Bank loans	133 768	86 340
Loans	3 676	3 715
Finance lease liabilities	29 437	30 799
Current	100 981	219 816
Bank loans	86 882	204 442
Loans	2 785	4 788
Finance lease liabilities	11 314	10 586
Total	267 862	340 670

Selected explanatory data to the consolidated financial statements (continuation)

7. Adjustments to profit for the period in the consolidated statement of cash flows

	Financial period	
	for the 6 months ended 30 June 2010	for the 6 months ended 30 June 2009
Income tax expense	525 150	286 262
Depreciation/amortisation	412 521	362 493
Share of profits of associates accounted for using the equity method	(155 219)	(144 587)
Interest and share in profits (dividends)	7 287	2 034
Foreign exchange (gains)/losses	(9 001)	18 251
Change in provisions	46 039	30 579
Change in derivative instruments	(198 766)	335 808
Realisation of derivative instruments recognised in accumulated other comprehensive income	(82 294)	(487 548)
Other adjustments	233	25 547
Changes in working capital:	(405 193)	(202 739)
Inventories	(204 567)	(232 223)
Trade and other receivables	(262 088)	104 556
Trade and other payables	61 462	(75 072)
Total adjustments to profit for the period	140 757	226 100

V. Situation and results of significant companies

DIALOG S.A.

DIALOG S.A. is the parent entity of the DIALOG S.A. Group, which at 30 June 2010 comprised the following subsidiaries:

- „PETROTEL” sp. z o.o. – this company provides telecom services in the region of Płock and vicinity,
- AVISTA MEDIA Sp. z o.o. – the core business of the company is providing call center services and direct marketing.

Financial data of the DIALOG S.A. Group ('000 PLN)

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009*	for the 6 months ended 30 June 2009*
Sales	129 482	260 624	130 178	259 587
Result on sales	3 237	16 130	4 099	13 096
Operating profit	7 393	22 155	4 247	14 523
EBITDA	28 819	64 770	29 031	64 078
Profit before taxation	6 236	19 393	1 835	10 189
Profit/(loss) for the period	6 987	21 800	(2 972)	424

* Data for 2009 were adjusted in relation to those presented in the consolidated reports for the first and second quarter of 2009 with respect to the final settlement of the acquisition of shares of „PETROTEL” sp. z o.o.

Selected explanatory data to the consolidated financial statements (continuation)

Financial data of DIALOG S.A. ('000 PLN)

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Sales	122 657	247 167	123 416	245 990
Result on sales	1 816	13 320	4 475	13 432
Operating profit	5 900	19 172	3 890	13 925
EBITDA	25 117	57 371	26 034	58 311
Profit before taxation	4 812	16 562	1 588	9 841
Profit/(loss) for the period	5 737	19 428	(2 881)	588

In the first half of 2010 the DIALOG S.A. Group achieved better financial results than in the comparable prior year period.

The revenues of the DIALOG S.A. Group, during the period from January to June 2010, were higher than those achieved in the comparable prior year period by PLN 1 037 thousand. The main increase in revenues was recorded in the area of services provided based on external infrastructure (mainly WLR services) and revenues from IPTV and data transmission services using the company's own network.

A higher result was also recorded, versus the comparable prior year period, on operating activities and EBITDA (respectively by PLN 7 632 thousand and PLN 692 thousand).

At the end of June 2010 the Dialog S.A. Group had 467.4 thousand ringing lines in its own network and 253.6 thousand WLR lines. The number of data transmission services was 156 thousand.

In the first half of 2010 the company recorded an increase in the number of active IPTV services (digital television offered as part of the DIALOGmedia package with a fixed-line telephone and Internet access) by 8.2 thousand versus the end of 2009.

In February 2010 a new mobile telephone service was introduced called Diallo, based on the virtual operator (MVNO) model. At the end of June 2010 the number of active SIM Diallo cards amounted to 12.5 thousand.

During the first half of 2010 the company realised a project, financed by EU funds, to implement innovative services based on a passive optical network (PON) – so-called „fiber to the premises” network architecture – which will include 70 thousand housing units, including in Wrocław, Legnica, Zielona Góra and Łódź. This is the largest project of its type in Poland and one of the largest in Europe.

Polkomtel S.A.

The carrying amount of the shares of Polkomtel S.A. in the consolidated financial statements of KGHM Polska Miedź S.A. at 30 June 2010 accounted for using the equity method amounted to PLN 1 437 608 thousand.

Financial data of Polkomtel S.A. ('000 PLN)

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Sales	1 933 508	3 765 816	1 988 483	3 962 243
Result on sales	488 737	828 291	511 318	867 413
Operating profit	488 884	849 524	496 858	853 976
EBITDA	823 315	1 520 414	799 243	1 496 267
Profit before taxation	430 307	785 909	473 992	738 910
Profit for the period	347 697	636 365	379 770	592 774

In the first half of 2010, Polkomtel S.A. earned revenues from sales and a result on sales 5 % lower than in the comparable prior year period. The profit for the period from January to June 2010 of the company was higher than that achieved in the comparable prior year period by PLN 43 591 thousand, mainly due to lower financial costs.

Selected explanatory data to the consolidated financial statements (continuation)

On 25 May 2010 the Ordinary General Meeting of Polkomtel S.A. passed a resolution on the allocation of profit for 2009. In accordance with the decision of the shareholders, PLN 562 930 thousand was allocated as a shareholder dividend, of which the proportional share of KGHM Polska Miedź S.A. is PLN 137 307 thousand. KGHM Polska Miedź S.A. received an interim payment of PLN 113 256 thousand on the dividend from Polkomtel S.A. for 2009 in December 2009. The remainder of the dividend in the amount of PLN 24 051 thousand was paid in June 2010.

VI. Seasonal or cyclical activities

The Group is not affected by seasonal or cyclical activities.

VII. Information on the issuance, redemption and repayment of debt and equity securities

There was no issuance, redemption or repayment of debt and equity securities in the Group during the reported period.

VIII. Information related to a paid (or declared) dividend

In accordance with Resolution No. 5/2010 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 17 May 2010 regarding the appropriation of Company profit for financial year 2009, the amount of PLN 600 000 thousand, representing PLN 3.00 per share, was allocated as a shareholders dividend from profit for financial year 2009.

The right to dividend date was set at 17 June 2010 and dividend payment date at 8 July 2010.

All Parent Entity shares are ordinary shares.

IX. Subsequent events

Opening of liquidation proceedings for FADROMA SERWIS REMONTY Sp. z o.o.

On 5 July 2010 the Extraordinary General Shareholders Meeting of FADROMA SERWIS REMONTY Sp. z o.o. resolved to put the company into liquidation and to choose a liquidator – Krzysztof Brzostek.

DFM ZANAM-LEGMET Sp. z o.o. as the owner of 98.05 % of shares of FADROMA SERWIS REMONTY Sp. z o.o. decided to strengthen its service potential through taking over the employees of FADROMA SERWIS REMONTY Sp. z o.o.

Actions connected with taking over the employees of FADROMA SERWIS REMONTY Sp. z o.o. and the liquidation of the company represent an element of restructuring and bringing order to the Group, and of an increase in service potential of DFM ZANAM-LEGMET Sp. z o.o.

On 6 July 2010 an application for the liquidation of FADROMA SERWIS REMONTY Sp. z o.o. with its registered head office in Polkowice was submitted to the Regional Court for Wrocław-Fabryczna, Section IX (Economic) of the National Court of Registration.

Purchase of shares of BIPROMET S.A.

On 12 July 2010 settlement took place of a transaction (acquisition of rights to shares) involving purchase of the shares of BIPROMET S.A. as a result of a call on shares (the transaction was entered into on the Warsaw Stock Exchange on 9 July 2010)

KGHM Polska Miedź S.A. purchased 4 091 868 shares of the company, at PLN 7.50 per share, granting the right to 66% of the votes at the GM of BIPROMET SA.

Significant contract with PGNiG

On 30 July 2010 a comprehensive contract was entered into for the purchase of fuel gas with Polskie Górnictwo Naftowe i Gazownictwo S.A. ("the Contract").

The Contract involves the purchase of natural gas for power generation purposes – to supply two Gas-Steam Blocks in Głogów and Polkowice, each of 45 MWe, in the target amounts of 266 million m³ annually. KGHM Polska Miedź S.A. plans to commence this investment in the fourth quarter of 2010.

The fuel gas will be supplied through the distribution network of Wielkopolska Spółka Gazownictwa Sp. z o.o.

Selected explanatory data to the consolidated financial statements (continuation)

The Contract is in force from the date of its signing to 30 June 2033, with the possibility of agreeing the date of commencement of deliveries between 1 July 2012 and 31 December 2012. The estimated value of this Contract is approx. PLN 4.0 billion.

The maximum value of contractual penalties may exceed 10% of the value of the Contract, while its amount depends on the amount of gas ordered and not taken into possession by KGHM Polska Miedź S.A. The Contract does not contain any provisions which would foresee the possibility of seeking additional compensation above the amount of these penalties.

X. Contingent and other items not recognised in the statement of financial position

	At 30 June 2010	Increase/(decrease) since the end of the last financial year
Contingent receivables	211 903	80 839
Contested State budget issues	41 907	(3 665)
Guarantees received	147 842	85 273
Promissory notes receivables	22 154	(769)
Other receivables not recognised in the statement of financial position - inventions, implementation of projects	32 267	1 032
Contingent liabilities	107 539	12 399
Guarantees	29 439	14 389
Promissory note liabilities	60 695	(1 819)
Disputed issues, pending court proceedings	14 930	(132)
Contingent penalties	-	(23)
Preventive safety measures in respect of mine-related damages	2 475	(16)
Other liabilities not recognised in the statement of financial position	749 052	17 637
Inventions, implementation of projects and other unrealised agreements	100 469	(5 872)
Operating leases	61 090	(13 272)
Future payments due to perpetual usufruct of land	587 493	36 781

The value of contingent assets was determined based on estimates.

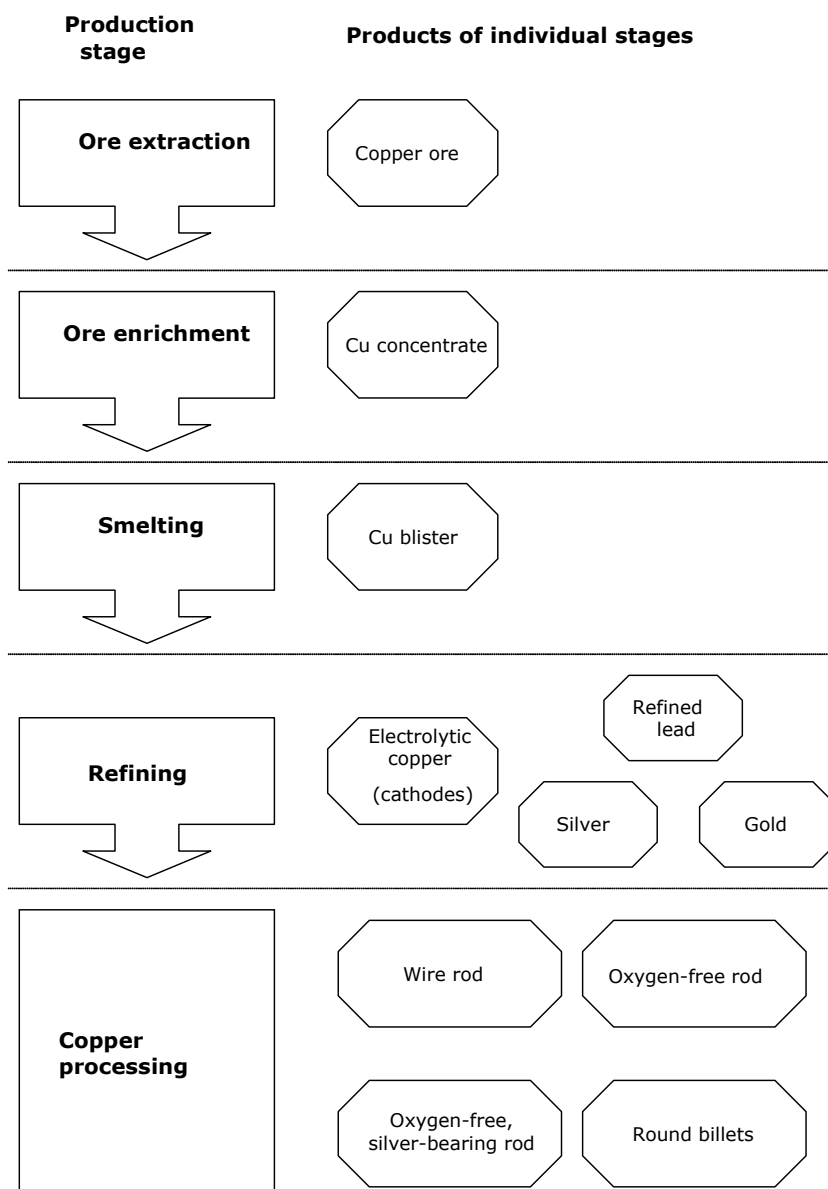
Selected explanatory data to the consolidated financial statements (continuation)

XI. Business segments

IFRS 8, *Operating segments*, was published by the International Accounting Standards Board on 30 November 2006, and replaced IAS 14, *Segment Reporting* and becomes effective for periods beginning on or after 1 January 2009.

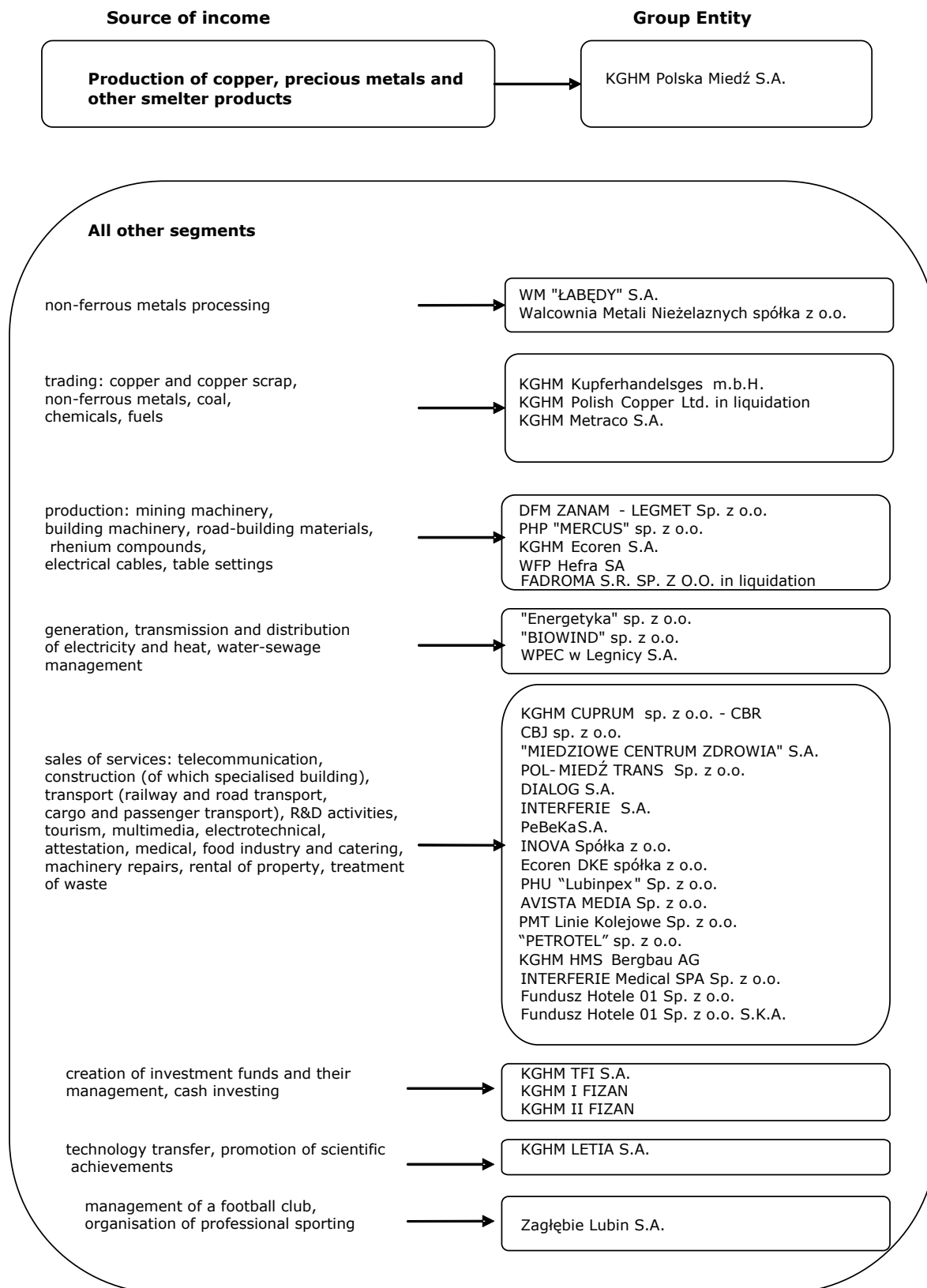
As part of the process of implementation of this standard, an analysis was performed of the management model of the Group, the system of reporting within the Group and the economic characteristics of its entities. As a result of this analysis one reporting segment was identified, which was defined as „Production of copper, precious metals and other smelter products” and the segment „All other segments”, which combined the remaining operating segments, both those which do not meet the criteria for combination as well as those which did not meet the required quantitative thresholds.

The activities of the segment „Production of copper, precious metals and other smelter products” focuses on the production of copper and silver, the core business of KGHM Polska Miedź S.A. Copper is mainly recovered from copper ore. From this, after enrichment, concentrate is obtained, which is then processed in smelters into anode copper. The process of electrorefining produces refined copper of up to 99.99% purity. A by-product of the electrorefining process is anode slime, from which silver and gold are recovered. The factor responsible for the separation of this segment is its significant share in the results of the Group. In addition, it meets the required quantitative threshold for reportable segments. The results of this segment are separately monitored by the Management Board of the Parent Entity. The basic products of this segment are electrolytic copper cathode, round billets, wire rod and silver.



Selected explanatory data to the consolidated financial statements (continuation)

Each of the remaining Group companies represents a separate operating segment. Due to their various economic characteristics they do not meet the criteria for combination according to IFRS 8 § 12 and do not meet any of the quantitative thresholds. As a result they were combined and presented in the category „All other segments”.



Selected explanatory data to the consolidated financial statements (continuation)

Internal reports on the results of Group companies are prepared monthly in a condensed form, and quarterly in an expanded scope. The Management Board of the Parent Entity is the body which performs regular reviews of the internal financial reports of the whole Group for purposes of making major investment decisions, as it is the body which is responsible for allocating resources within the Group.

Inter-segment transaction prices are set under arm's length conditions, similarly as in relations with parties external to the Group.

Segments financial results

Financial period for the 6 months ended 30 June 2010

	Production of copper, precious metals, and other smelter products	All other segments	Adjustment*	Consolidation eliminations (according to IAS 27)	Consolidated amount
REVENUE	7 199 551	3 190 636	10 319	(2 588 729)	7 811 777
of which:					
- external sales	6 694 349	1 112 960	10 319	(5 851)	7 811 777
- inter-segment sales	505 202	2 077 676	-	(2 582 878)	-
Interest income	23 703	6 063	-	(2 458)	27 308
Interest costs	(627)	(9 165)	-	1 747	(8 045)
Depreciation/Amortisation	(306 126)	(101 200)	49	(5 244)	(412 521)
Revaluation of provisions for employee benefits	(56 664)	(61)	-	-	(56 725)
Balance of impairment losses on property, plant and equipment and intangible assets	-	(5 510)	-	-	(5 510)
Income on measurement and realisation of derivative instruments	339 770	3 387	-	-	343 157
Costs on measurement and realisation of derivative instruments	(475 242)	(2 490)	-	-	(477 732)
Share of profit of associates	-	-	-	155 219	155 219
Profit before income tax	2 747 857	60 419	2 990	117 162	2 928 428
Income tax expense	(521 219)	(4 737)	(38)	844	(525 150)
Share of profit (losses) of subordinated entities accounted for using the equity method	-	1 188	(1 188)	-	-
Profit for the period	2 226 638	56 870	1 764	118 006	2 403 278
At 30 June 2010					
Segment assets	16 976 883	3 732 016	(35 402)	(2 723 218)	17 950 279
Segment liabilities	4 773 212	1 175 618	(14 622)	(553 341)	5 380 867
Bank and other loans	1 002	337 612	-	(111 503)	227 111
Investments in associates	1 159 947	-	-	277 661	1 437 608
Financial period for the 6 months ended 30 June 2010					
Capital expenditure	414 899	86 401	-	(4 187)	497 113

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

Selected explanatory data to the consolidated financial statements (continuation)

Data for the management reporting purposes are prepared in accordance with the principles applied for the needs of preparing statutory financial statements by the Group entities. Since 2005 the KGHM Polska Miedź S.A. Group has prepared its financial statements in accordance with International Financial Reporting Standards approved by the European Union. Three Group companies, i.e. the Parent Entity, DIALOG S.A., and INTERFERIE S.A. keep their accounts in accordance with IFRS. The remaining companies of the Group consolidated in the segment „All other segments” keep their accounts in accordance with Polish Accounting Standards, restating data to the principles of International Financial Reporting Standards for the preparation of financial statements for the needs of their consolidation.

Details of adjustments restating the amounts shown in the segment „All other segments” to the measurement principles of International Financial Reporting Standards at 30 June 2010:

	Sales	Depreciation /Amortisation	Profit before taxation	Income tax	Segment assets	Segment liabilities
Netting off of Social Fund assets and liabilities	-	-	-	-	(11 384)	(11 384)
Offsetting of deferred tax assets/ deferred tax liabilities	-	-	-	-	(4 532)	(4 532)
Accounting for shares using the equity method	-	-	805	-	(24 636)	-
Separate presentation of assets and liabilities for sales transaction from 2008	10 319	-	33	-	-	-
Receivables due to payments to capital	-	-	(3 214)	-	(3 214)	-
Adjustment to retained earnings in connection with first-time adoption of IFRS	-	-	5 494	-	5 494	-
Other	-	49	(128)	(38)	2 870	1 294
Total adjustment	10 319	49	2 990	(38)	(35 402)	(14 622)

Selected explanatory data to the consolidated financial statements (continuation)

Financial period for the 6 months ended 30 June 2009

	Production of copper, precious metals, and other smelter products	All other segments	Adjustment*	Consolidation eliminations (according to IAS 27)	Consolidated amount
REVENUE	5 099 260	2 038 909	2 877	(1 529 132)	5 611 914
<i>of which:</i>					
- external sales	4 801 455	810 992	2 877	(3 410)	5 611 914
- inter-segment sales	297 805	1 227 917	-	(1 525 722)	-
Interest income	56 405	6 467	-	(229)	62 643
Interest costs	(2 340)	(6 897)	-	294	(8 943)
Depreciation/Amortisation	(268 081)	(99 495)	(738)	5 821	(362 493)
Revaluation of provisions for employee benefits	(42 763)	(262)	-	(17 280)	(60 305)
Balance of impairment losses on property, plant and equipment and intangible assets	-	(3 342)	-	-	(3 342)
Income on measurement and realisation of derivative instruments	133 583	3 771	-	-	137 354
Costs on measurement and realisation of derivative instruments	(244 174)	(2 195)	-	-	(246 369)
Share of profit of associates	-	-	-	144 587	144 587
Profit before income tax	1 747 264	31 240	451	(201 634)	1 577 321
Income tax expense	(274 630)	(16 408)	(186)	4 962	(286 262)
Share of profit (losses) of subordinated entities accounted for using the equity method	-	829	(829)	-	-
Profit for the period	1 472 634	15 660	(564)	(196 671)	1 291 059
At 31 December 2009					
Segment assets	13 953 030	3 589 050	(3 461)	(2 671 803)	14 866 816
Segment liabilities	3 549 073	1 144 325	18 370	(438 170)	4 273 598
Bank and other loans	3 005	374 585	-	(78 305)	299 285
Investments in associates	1 159 947	-	-	155 716	1 315 663

Financial period for the 6 months ended 30 June 2009

Capital expenditure	485 680	134 436	-	(1 126)	618 990
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*Adjustment – adjustment restating the amounts to the measurement principles of International Financial Reporting Standards.

Selected explanatory data to the consolidated financial statements (continuation)

Details of adjustments restating the amounts shown in the segment „All other segments” to the measurement principles of International Financial Reporting Standards at 30 June 2009 and 31 December 2009:

	Sales	Depreciation/ Amortisation	Profit before taxation	Income tax	Segment assets	Segment liabilities
Netting off of Social Fund assets and liabilities	-	-	-	-	(7 357)	(7 357)
Offsetting of deferred tax assets/ deferred tax liabilities	-	-	-	-	(4 860)	(4 860)
Accounting for shares using the equity method	-	-	973	-	(25 436)	-
Separate presentation of assets and liabilities for sales transaction from 2008	2 877	-	(39)	-	30 628	30 597
Capitalisation of major maintenance expenditures	-	(869)	(869)	165	-	-
Receivables due to payment to capital	-	-	-	-	2 000	-
Other	-	131	386	(351)	1 564	(10)
Total adjustment	2 877	(738)	451	(186)	(3 461)	18 370

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

The geographical breakdown reflects the location of end clients.

	Financial period	
	for the 6 months ended 30 June 2010	for the 6 months ended 30 June 2009
Poland	2 326 535	1 590 520
Germany	1 593 185	1 042 344
France	296 913	478 067
Great Britain	785 102	630 863
Czech Republic	541 785	267 184
Austria	159 812	73 427
Hungary	213 784	118 679
China	870 253	793 368
Other countries	1 024 408	617 462
Total	7 811 777	5 611 914

Main customers

During the period from 1 January 2010 to 30 June 2010, the level of 10% of the revenues from sales of the Group was exceeded by one customer – the revenues from this customer amounted to PLN 867 011 thousand in the segment „Production of copper, precious metals and other smelter products”.

During the period from 1 January 2009 to 30 June 2009, in the segment „Production of copper, precious metals and other smelter products” the revenues from sales from one customer amounted to PLN 566 470 thousand.

Selected explanatory data to the consolidated financial statements (continuation)

XII. Effects of changes in the economic structure, including due to the combination of economic entities, to the takeover or sale of entities of the KGHM Polska Miedź S.A. Group, to long-term investments, or to the separation, restructurisation or discontinuation of activities

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

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

The share capital of Fundusz Uzdrowiska Sp. z o.o. S.K.A. is PLN 50 thousand, divided into 500 shares with a nominal value of PLN 100 per share. The cost of acquiring the shares is PLN 50 thousand. Fundusz Uzdrowiska Sp. z o.o. S.K.A. has a diverse scope of activities. By a notary act dated 22 June 2010 the name was changed to Fundusz Hotele 01 Sp. z o.o. S.K.A. At 30 June 2010 the company had not begun operations.

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

On 17 May 2010, the founding Act was signed of the company Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. Its founder is KGHM I FIZAN (an entity 100 percent owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares, and Fundusz Hotele 01 Sp. z o.o. as a complementary company.

The share capital of Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. is PLN 50 thousand, divided into 500 shares with a nominal value of PLN 100 per share. The cost of acquiring the shares is PLN 50 thousand. Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. has a diverse scope of activities. At 30 June 2010 the company had not begun operations.

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

On 19 May 2010, the founding Act was signed of the company Fundusz Uzdrowiska 01 Sp. z o.o. Its founder is KGHM I FIZAN (an entity 100 percent owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares.

The share capital of Fundusz Uzdrowiska 01 Sp. z o.o. is PLN 15 thousand, divided into 150 equal and indivisible shares of PLN 100 per share. The cost of acquiring the shares is PLN 15 thousand. The subject of activities of Fundusz Uzdrowiska 01 Sp. z o.o. is financial activities, trade in real estate, activities related to servicing the real estate market, management consulting. During the financial period the company had not begun operations.

Founding of Fundusz Uzdrowiska 02 Sp. z o.o.

On 19 May 2010, the founding Act was signed of the company Fundusz Uzdrowiska 02 Sp. z o.o. Its founder is KGHM I FIZAN (an entity 100 percent owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares.

The share capital of Fundusz Uzdrowiska 02 Sp. z o.o. is PLN 15 thousand, divided into 150 equal and indivisible shares of PLN 100 per share. The cost of acquiring the shares is PLN 15 thousand. The subject of activities of Fundusz Uzdrowiska 02 Sp. z o.o. is financial activities, trade in real estate, activities related to servicing the real estate market, management consulting. During the financial period the company had not begun operations.

Acquisition of Investment Certificates of KGHM II FIZAN

On 23 June 2010, KGHM Polska Miedź S.A. acquired 735 investment certificates, series A, of the fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN) at the price of PLN 10 thousand per certificate. The Managing Body of KGHM II FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The indirect share of KGHM Polska Miedź S.A. in the capital of KGHM II FIZAN is 100%. The subject of activities of KGHM II FIZAN is the investment of monetary resources in – as defined by the Act on Investment Funds and in the Statutes – equities, money market instruments and other property rights.

During the financial period, KGHM II FIZAN earned income in the amount of PLN 21 thousand and incurred costs of PLN 14 thousand.

Subsequent changes in the Group structure are described in note A.IX.

Other information to the consolidated quarterly report

Position of the Management Board with respect to the possibility of achieving previously-published forecasts of results for 2010, in light of the results presented in this consolidated quarterly report relative to forecasted results

The Management Board of KGHM Polska Miedź S.A. has not published a forecast of Group results.

In the current report dated 1 February 2010 KGHM Polska Miedź S.A. published a forecast of Company results for 2010 based on the Budget for 2010 approved by the Supervisory Board. In accordance with the above-mentioned forecast, revenues from sales in 2010 will amount to PLN 11 736 million, and profit for the period PLN 2 898 million.

The revenues from sales achieved in the first quarter of 2010 in the amount of PLN 7 200 million and the profit for the period of PLN 2 227 million represent respectively 61% and 77% of the forecast for 2010.

The high level of achievement of planned sales and the higher-than-assumed level of foreign exchange gains are the main reasons for the achievement after the first six months of 77% of the planned profit for 2010.

KGHM Polska Miedź S.A. is at work on an Adjusted Budget for 2010, reflecting the results of the first half of 2010, and updated macroeconomic, production and investment assumptions.

Shareholders holding at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. as at the date of publication of this consolidated quarterly report, and changes in the ownership structure of significant packets of shares of KGHM Polska Miedź S.A. in the period since publication of the prior consolidated quarterly report

At the date of publication of the consolidated report for the first quarter of 2010, i.e. at 14 May 2010, the only shareholder owning at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. was the State Treasury – which owned 63 589 900 shares of KGHM Polska Miedź S.A., representing 31.79% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A. (based on an announcement dated 12 January 2010).

Following publication of the consolidated report for the first quarter of 2010, KGHM Polska Miedź S.A. was not informed by any shareholder of any change in the ownership structure of significant packets of shares.

At the date of preparation of this report, based on information held by KGHM Polska Miedź S.A., the only shareholder owning at least 5% of the total number of votes at the General Meeting of KGHM Polska Miedź S.A. remains the State Treasury, which holds 63 589 900 shares of KGHM Polska Miedź S.A. representing 31.79% of the share capital and the same number of votes at the General Meeting of KGHM Polska Miedź S.A.

Ownership of shares of KGHM Polska Miedź S.A. or of rights to them by management or supervisory personnel of KGHM Polska Miedź S.A., as at the date of publication of the consolidated quarterly report, based on information held by KGHM Polska Miedź S.A. Changes in ownership during the period following publication of the prior consolidated quarterly report

The Members of the Management Board of KGHM Polska Miedź S.A., at the date of publication of the consolidated report for the first quarter of 2010, i.e. at 14 May 2010, did not own any shares of KGHM Polska Miedź S.A. or rights to them. Based on information held by KGHM Polska Miedź S.A. at the date of publication of this report this did not change.

Among supervisory personnel, at the date of publication of the consolidated report for the first quarter of 2010, only Ryszard Kurek owned 10 shares of KGHM Polska Miedź S.A. Based on information held by KGHM Polska Miedź S.A., at the date of publication of this report this did not change.

Other information to the consolidated quarterly report (continuation)

List of proceedings being pursued in a court, an appropriate body for arbitration, or in a body of public administration

At 30 June 2010, the total value of on-going proceedings before the public courts, bodies appropriate for arbitration proceedings and bodies of public administration respecting liabilities and debtors, of KGHM Polska Miedź S.A. and its subsidiaries, did not represent at least 10% of the equity of KGHM Polska Miedź S.A.

Information on single or multiple transactions entered into by KGHM Polska Miedź S.A. or a subsidiary with related entities, if separately or jointly they are significant and were entered into under other than arm's length conditions

In the period from 1 January 2010 to 30 June 2010, neither KGHM Polska Miedź S.A. nor any of its subsidiaries entered into significant transactions with related entities under other than arm's length conditions.

Information on the granting by KGHM Polska Miedź S.A. or by its subsidiary of collateral on credit or loans, or of guarantees – jointly to a single entity or its subsidiary, if the total value of such collateral or guarantees represents the equivalent of at least 10% of the equity of KGHM Polska Miedź S.A.

During the period from 1 January 2010 to 30 June 2010 neither KGHM Polska Miedź S.A. nor its subsidiaries granted collateral on credit or loans, nor did they grant guarantees to a single entity or its subsidiary whose total value would represent at least 10% of the equity of KGHM Polska Miedź S.A.

Other information which in the opinion of KGHM Polska Miedź S.A. is significant for the assessment of personnel situation, assets, finances and the financial result and any changes thereto, and information which is significant for assessing the ability to perform obligations

In the second quarter of 2010 there were no other significant events, apart from those mentioned in the commentary to the report, which could have a significant impact on the assessment of assets and financial position, the financial result of the Group and any changes thereto, or any events significant for assessing the personnel situation and the ability to perform obligations.

Factors which will impact the financial results of the Group, at least in the following quarter

The largest impact on the results of the Group is from the Parent Entity – KGHM Polska Miedź S.A. – as well as, to a lesser degree, from Polkomtel S.A. and from DIALOG S.A.

As a result, through the Parent Entity, the most significant factors impacting the results of the Group, particularly in the following quarter, will be:

- copper and silver prices on the metals markets,
- the USD/PLN exchange rate,
- electrolytic copper production costs,
- the effects of the hedging policy being realised.

Quarterly financial information of KGHM Polska Miedź S.A.

Statement of financial position	At		
	Note	30 June 2010	31 December 2009
Assets			
Non-current assets			
Property, plant and equipment		6 081 778	5 937 513
Intangible assets		80 531	76 147
Shares and investment certificates in subsidiaries		1 974 183	1 915 224
Investments in associates		1 159 947	1 159 947
Deferred tax assets		180 353	167 062
Available-for-sale financial assets		431 317	17 700
Held-to-maturity investments		86 230	67 097
Derivative financial instruments		649 925	58 034
Trade and other receivables		107 646	110 173
		10 751 910	9 508 897
Current assets			
Inventories		2 118 742	1 890 286
Trade and other receivables		1 641 124	1 314 598
Held-to-maturity investments		460	580
Derivative financial instruments		431 668	263 247
Cash and cash equivalents		2 032 484	975 198
Non-current assets held for sale		495	224
		6 224 973	4 444 133
TOTAL ASSETS		16 976 883	13 953 030
Equity and liabilities			
EQUITY			
Share capital		2 000 000	2 000 000
Accumulated other comprehensive income		300 304	127 228
Retained earnings		9 903 367	8 276 729
TOTAL EQUITY		12 203 671	10 403 957
LIABILITIES			
Non-current liabilities			
Trade and other payables		15 359	17 472
Borrowings and finance lease liabilities		8 881	11 576
Derivative financial instruments		352 385	61 354
Liabilities due to employee benefits		1 150 323	1 098 399
Provisions for other liabilities and charges	C. I. 1	569 570	515 619
		2 096 518	1 704 420
Current liabilities			
Trade and other payables		2 030 118	1 376 049
Borrowings and finance lease liabilities		4 086	6 109
Current corporate tax liabilities		294 918	78 183
Derivative financial instruments		234 264	273 503
Liabilities due to employee benefits		97 861	93 122
Provisions for other liabilities and charges	C. I. 1	15 447	17 687
		2 676 694	1 844 653
TOTAL LIABILITIES		4 773 212	3 549 073
TOTAL EQUITY AND LIABILITIES		16 976 883	13 953 030

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

Statement of comprehensive income

	Note	Financial period			
		for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Sales	C. I. 2	3 925 023	7 199 551	2 722 083	5 099 260
Cost of sales	C. I. 3	(2 229 276)	(4 116 755)	(1 867 491)	(3 316 230)
Gross profit		1 695 747	3 082 796	854 592	1 783 030
Selling costs	C. I. 3	(27 607)	(48 808)	(23 280)	(46 973)
Administrative expenses	C. I. 3	(112 896)	(269 265)	(156 425)	(278 704)
Other operating income	C. I. 4	395 756	512 916	422 269	585 394
Other operating costs	C. I. 5	(92 659)	(513 161)	(127 274)	(276 587)
Operating profit		1 858 341	2 764 478	969 882	1 766 160
Finance costs	C. I. 6	(9 293)	(16 621)	(6 233)	(18 896)
Profit before income tax		1 849 048	2 747 857	963 649	1 747 264
Income tax expense		(347 803)	(521 219)	(118 893)	(274 630)
Profit for the period		1 501 245	2 226 638	844 756	1 472 634
OTHER COMPREHENSIVE INCOME DUE TO:					
Available-for-sale financial assets		(11 448)	(13 287)	(2 793)	(8 088)
Cash flow hedging instruments		284 454	226 961	(228 670)	(625 195)
Income tax related to items presented in other comprehensive income		(51 871)	(40 598)	43 979	120 324
Other comprehensive net income for the financial period		221 135	173 076	(187 484)	(512 959)
TOTAL COMPREHENSIVE INCOME		1 722 380	2 399 714	657 272	959 675

Earnings per share during the period
 (in PLN per share)

- basic	7.51	11.13	4.22	7.36
- diluted	7.51	11.13	4.22	7.36

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

Statement of changes in equity

	Share capital	Retained earnings	Accumulated other comprehensive income due to:		Total equity
			Available-for-sale financial assets	Cash flow hedging instruments	
At 1 January 2010	2 000 000	8 276 729	1 489	125 739	10 403 957
Dividends for 2009 resolved but unpaid	-	(600 000)	-	-	(600 000)
Total comprehensive income	-	2 226 638	(10 762)	183 838	2 399 714
At 30 June 2010	2 000 000	9 903 367	(9 273)	309 577	12 203 671
At 1 January 2009	2 000 000	8 072 544	10 265	508 483	10 591 292
Dividends for 2008 resolved but unpaid	-	(2 336 000)	-	-	(2 336 000)
Total comprehensive income	-	1 472 634	(6 551)	(506 408)	959 675
At 30 June 2009	2 000 000	7 209 178	3 714	2 075	9 214 967

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

Statement of cash flows

	Note	Financial period	
		for the 6 months ended 30 June 2010	for the 6 months ended 30 June 2009
Cash flow from operating activities			
Profit for the period		2 226 638	1 472 634
Adjustments to profit for the period	C. I. 7	138 795	(18 196)
Income tax paid		(358 374)	(298 091)
Net cash generated from operating activities		2 007 059	1 156 347
Cash flow from investing activities			
Purchase of shares and investment certificates in subsidiaries		(60 973)	(10 700)
Purchase of property, plant and equipment and intangible assets		(435 571)	(606 121)
Proceeds from sale of property, plant and equipment and intangible assets		2 319	8 458
Purchase of available-for-sale financial assets		(433 746)	-
Proceeds from sale of available-for-sale financial assets		6 779	20 000
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(19 013)	(8 984)
Establishment of deposits		-	(400 500)
Termination of deposits		-	300 500
Loans granted		(40 000)	-
Proceeds from repayments of loans granted		9 515	606
Interest received		2 228	4 436
Dividends received		24 051	90 719
Expenses due to advances granted for the purchase of property, plant and equipment and intangible assets		(9 185)	(4 064)
Other investment expenses		(2 517)	(7 786)
Net cash used in investing activities		(956 113)	(613 436)
Cash flow from financing activities			
Repayments of loans		(2 000)	(2 000)
Payments of liabilities due to finance leases		(3 094)	(30)
Interest paid		(59)	(147)
Net cash used in financing activities		(5 153)	(2 177)
Total net cash flow		1 045 793	540 734
Exchange gains/(losses) on cash and cash equivalents		11 493	(12 482)
Movements in cash and cash equivalents		1 057 286	528 252
Cash and cash equivalents at beginning of the period		975 198	1 793 580
Cash and cash equivalents at end of the period		2 032 484	2 321 832
including restricted cash and cash equivalents		63 820	4 197

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

Selected explanatory data

I. Additional notes

1. Changes in provisions for other liabilities and charges

	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2010	533 306	510 903	5 307	1 507	15 589
Increase	70 224	67 427	-	280	2 517
Decrease	(18 513)	(15 480)	-	(648)	(2 385)
Provisions at 30 June 2010	585 017	562 850	5 307	1 139	15 721
of which:					
Non-current provisions	569 570	555 691	-	-	13 879
Current provisions	15 447	7 159	5 307	1 139	1 842

	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2009	634 790	602 925	5 721	4 832	21 312
Increase	149 673	140 354	2 687	1 507	5 125
Decrease	(251 157)	(232 376)	(3 101)	(4 832)	(10 848)
Provisions at 31 December 2009	533 306	510 903	5 307	1 507	15 589
of which:					
Non-current provisions	515 619	501 850	-	-	13 769
Current provisions	17 687	9 053	5 307	1 507	1 820

	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2009	634 790	602 925	5 721	4 832	21 312
Increase	26 558	22 018	-	1 628	2 912
Decrease	(184 020)	(176 878)	(48)	(4 832)	(2 262)
Provisions at 30 June 2009	477 328	448 065	5 673	1 628	21 962
of which:					
Non-current provisions	442 859	425 027	2 419	-	15 413
Current provisions	34 469	23 038	3 254	1 628	6 549

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

2. Sales

	Financial period			
	for the 3 months ended	for the 6 months ended	for the 3 months ended	for the 6 months ended
	30 June 2010	30 June 2010	30 June 2009	30 June 2009
Copper, precious metals, smelter by-products	3 876 858	7 089 732	2 682 847	5 004 875
Salt	9 278	28 232	5 645	21 061
Services	13 590	28 766	12 429	27 173
Other goods	2 697	5 468	2 824	5 465
Goods for resale	13 196	28 459	9 715	23 290
Wastes and production materials	9 321	18 747	8 560	17 287
Other materials	83	147	63	109
Total	3 925 023	7 199 551	2 722 083	5 099 260

3. Costs by type

	Financial period			
	for the 3 months ended	for the 6 months ended	for the 3 months ended	for the 6 months ended
	30 June 2010	30 June 2010	30 June 2009	30 June 2009
Depreciation of property, plant and equipment and amortisation of intangible assets	151 590	306 126	135 197	268 081
Employee benefit costs	629 909	1 311 770	751 292	1 303 344
Materials and energy consumption	1 270 849	2 541 300	873 856	1 610 492
External services	251 669	473 461	243 958	479 164
Taxes and charges	73 467	148 948	72 110	139 315
Advertising costs and representation expenses	5 914	10 845	6 281	9 758
Property and personal insurance	4 988	8 577	2 465	5 127
Research and development costs not capitalised in intangible assets	1 049	1 340	432	435
Other costs, of which:	2 058	4 413	3 221	2 691
Write-down of inventories	64	364	687	704
Allowance for impairment of receivables	14	14	-	-
Reversal of write-down of inventories	(189)	(277)	-	(1 329)
Reversal of allowance for impairment of receivables	-	-	-	(31)
Losses from the disposal of financial instruments	345	834	70	380
Other operating costs	1 824	3 478	2 464	2 967
Total costs by type	2 391 493	4 806 780	2 088 812	3 818 407
Cost of goods for resale and materials sold (+)	20 503	43 832	16 715	37 918
Change in inventories of finished goods and work in progress (+/-)	(23 222)	(372 814)	(33 500)	(165 829)
Cost of manufacturing products for internal use (-)	(18 995)	(42 970)	(24 831)	(48 589)
Total cost of sales, selling and administrative costs	2 369 779	4 434 828	2 047 196	3 641 907

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

4. Other operating income

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Income and gains on financial instruments, classified under other operating activities, resulting from:	363 358	477 282	62 570	213 572
Measurement and realisation of derivative instruments	234 872	339 770	95 042	133 583
Gains from disposal	-	896	-	7 500
Gains from measurement of non-current liabilities	(572)	-	-	-
Foreign exchange gains/(losses)	113 594	113 594	(57 854)	16 806
Interest	15 401	22 959	24 896	55 195
Reversal of allowance for impairment of loans	-	-	486	486
Reversal of allowance for impairment of other receivables	63	63	-	2
Non-financial interest	723	744	421	1 210
Reversal of allowance for impairment of non-financial receivables	373	743	1	777
Dividends received	24 051	24 051	341 592	341 592
Release of unused provisions due to:	321	1 397	13 754	21 299
Decommissioning of mines	308	434	9 349	16 818
Disputed issues and court proceedings	13	333	2 992	3 020
Liabilities towards municipal authorities (gminas) due to signed donation agreements	-	630	1 178	1 178
Other	-	-	235	283
Penalties and compensation received	2 108	3 244	2 213	3 653
Government grants and other donations received	85	122	36	124
Other operating income/gains	4 737	5 333	1 682	3 167
Total other operating income	395 756	512 916	422 269	585 394

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

5. Other operating costs

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Costs and losses on financial instruments, classified under other operating activities, resulting from:	78 327	478 885	111 273	247 859
Measurement and realisation of derivative instruments	124 903	475 242	112 270	244 174
Interest	2	9	-	158
Foreign exchange losses	(50 209)	-	-	-
Losses/(Gains) on measurement of non-current liabilities	542	542	(992)	1 314
Impairment losses on loans	3	6	-	2 213
Allowances for impairment of other receivables	3 086	3 086	(5)	-
Allowances for impairment of other non-financial receivables	-	-	-	387
Losses on the sale of property, plant and equipment and intangible assets	2 817	4 659	6 489	8 345
Donations granted	-	9 503	2 500	2 500
Interest on overdue non-financial liabilities	56	90	1 041	1 337
Provisions for liabilities due to:	1 426	3 075	913	4 756
Decommissioning of mines	6	1 436	466	466
Disputed issues and court proceedings	66	280	447	1 628
Liabilities towards municipal authorities (gminas) due to signed donation agreements	1 352	1 352	-	2 662
Other	2	7	-	-
Penalties and compensation paid	91	167	77	124
Contributions to a voluntary organisation	1 890	4 803	1 831	5 572
Other operating costs/losses	8 052	11 979	3 150	5 707
Total other operating costs	92 659	513 161	127 274	276 587

6. Finance costs

	Financial period			
	for the 3 months ended 30 June 2010	for the 6 months ended 30 June 2010	for the 3 months ended 30 June 2009	for the 6 months ended 30 June 2009
Interest expense due to:	194	528	207	845
Loans	41	101	121	204
Finance leases	153	427	86	641
Net exchange losses/(gains) on borrowings	989	78	(970)	1 166
Changes in provisions arising from the approach of the time to execute liabilities (the so-called unwinding of discount effect)	8 039	15 870	6 603	16 375
Other financial costs	71	145	393	510
Total finance costs	9 293	16 621	6 233	18 896

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

7. Adjustments to profit or loss in the statement of cash flows

	Financial period	
	for the 6 months ended 30 June 2010	for the 6 months ended 30 June 2009
Income tax expense	521 219	274 630
Depreciation/amortisation	306 126	268 081
Interest and share in profits (dividends)	(25 937)	(346 255)
Foreign exchange losses/(gains)	(9 520)	17 019
Change in provisions	60 467	33 592
Change in derivative instruments	(199 264)	336 031
Realisation of derivative instruments, recognised in accumulated other comprehensive income	(82 294)	(487 548)
Other adjustments	3 769	2 442
Changes in working capital:	(435 771)	(116 188)
Inventories	(228 334)	(210 344)
Trade and other receivables	(284 151)	80 424
Trade and other payables	76 714	13 732
Total adjustments to profit for the period	138 795	(18 196)

II. Items affecting assets, liabilities, equity, profit for the period or cash flows, which are unusual as respects their type, amount or degree of influence

1. Significant achievements or failures during the reported period, together with the most important related events.

Passage of decision regarding „Modernisation of Pyrometallurgy – PMP”

The Management Board of the Company on 7 May 2010 passed the final decision regarding realisation in the years 2010-2014 of the program „Modernisation of Pyrometallurgy – PMP” with a total budget of PLN 1.7 billion.

Modernisation is based on replacing outdated, environmentally harmful and energy-intensive technology, based on the smelting of concentrates in shaft furnaces, with modern flash furnace technology. This will be a modern production line with an annual capacity of 250 thousand tonnes of copper blister.

Realisation of this investment will ensure smelter production for the next 40 years, with minimised environmental impact, substantially reducing greenhouse gas emissions.

Signing of agreement with foreign partner

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

Abacus Mining & Exploration Corporation is a mineral exploration and mining development company. The company is quoted on the TSX Venture Exchange (TSX-V) in Canada.

In accordance with the “Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018” approved by the Supervisory Board of the Company on 23 February 2009, one of the five main strategic areas - development of the resource base - aimed at increasing the production of copper in concentrate to approx. 700 thousand tonnes annually, will be realised among others through investments in foreign mining assets.

The signed Investment Agreement provides for:

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

On 22 June 2010 the General Meeting of Abacus Mining & Exploration expressed consent for the realisation, together with KGHM Polska Miedź S.A., of a joint mining venture, through the creation of a joint venture company. The joint venture contract will be signed by 30 September 2010.

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

In addition, in accordance with the Investment Contract, on 7 May 2010 KGHM purchased 15 million shares of Abacus (at CAD 0.30 per share) as part of a private placement for the total amount of CAD 4.5 million (the equivalent of PLN 13.6 million, based on the average CAD/PLN exchange rate of the National Bank of Poland from 7 May 2010), representing 8.75% of the share capital of this company.

The Investment Agreement also includes a commitment by KGHM Polska Miedź S.A. to arrange financing for the project capex of USD 535 million (the equivalent of PLN 1601.1 million pursuant to the National Bank of Poland exchange rate for USD/PLN of 4 May 2010), estimated in accordance with the Technical report (scoping study) by Wardrop Engineering Inc. dated 29 July 2009. The commitment will arise at the moment of execution by KGHM of the option to acquire a further 29% in the joint venture company.

In accordance with the above-mentioned Technical report, the project assumes annual copper production in concentrate at the level of 50 thousand tonnes, and gold production at the level of 100 thousand troz. A 23-year mine-life is predicted, beginning from 2013. Production costs of one tonne of copper are estimated at the level of approx. USD 2000.

In realising this transaction, KGHM Polska Miedź S.A. cooperated with the financial advisor TD Securities Inc. Legal advisors are Chadbourne & Parke and Stikeman Elliot.

Conclusion of the negotiation process of conditions for purchase of the shares of CENTROZŁOM WROCLAW S.A.

In May 2010 a subsidiary of KGHM Polska Miedź S.A. – KGHM Ecoren S.A. – concluded the process of negotiating conditions for purchase of the shares of CENTROZŁOM WROCLAW S.A., offered for sale by the Minister of the State Treasury of the Republic of Poland in 2009.

After receiving corporate assent, on 14 July 2010 the Company entered into a contingent agreement with the Minister of the State Treasury to acquire 85% of the shares of CENTROZŁOM WROCLAW S.A. A validating condition of the agreement is obtaining by the Company of assent of the Office of Competition and Consumer Protection to the concentration of these entities. Conclusion of this transaction is expected in the third quarter of 2010.

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

Acquisition of investment certificates

In June 2010, KGHM Polska Miedź S.A. acquired 700 Investment Certificates of the fund KGHM II FIZAN with its registered head office in Wrocław, with a total issue price of PLN 7 000 thousand. The total cost of acquisition of the certificates is PLN 7 350 thousand. At the end of June 2010, KGHM Polska Miedź S.A. was the only participant of the fund KGHM II FIZAN.

KGHM II FIZAN is the second fund opened and managed by KGHM TFI S.A. The first fund, KGHM I FIZAN, was opened in the first quarter of 2010. In February 2010, KGHM Polska Miedź S.A. acquired 2 095 Investment Certificates of the fund KGHM I FIZAN with its registered head office in Wrocław, with a total issue price of PLN 20 950 thousand. The total cost of acquisition of these certificates is PLN 21 998 thousand. At the end of June 2010, KGHM Polska Miedź S.A. was the only participant of the fund KGHM I FIZAN.

The operating strategy of KGHM TFI S.A. is aimed at the long term increase in the value of the managed assets. The fund KGHM I FIZAN is dedicated to investing in the field of health, while KGHM II FIZAN is aimed at realising projects related to renewable energy sources.

In order to realise its planned investments, in the second quarter of 2010, KGHM I FIZAN created target companies. By the end of June 2010 these companies had not made any investments.

Mediation with the trade unions

On 20 May, 7 June and 15 June 2010, negotiations were held with the participation of a mediator regarding the collective dispute initiated by the trade union Związek Zawodowy Pracowników Przemysłu Miedziowego in August 2009. The parties to the dispute did not reach agreement and signed a protocol of dispute.

On 28 June – 2 July 2010 the trade unions Związek Zawodowy Pracowników Przemysłu Miedziowego and NSZZ Solidarność organised two strike referenda in the Polkowice–Sieroszowice mine. Respectively, 72% and 64.9% of the employees cast ballots, of which over 90% voted for an eventual strike. It should however be mentioned that among the questions voted on were demands to increase the basic wage by PLN 300, which was not a subject of the collective disputes. The trade unions announced that referenda would be held in the remaining Company Divisions.

On 22 July 2010 negotiations were begun with the participation of a mediator regarding the collective dispute initiated by the trade union Związek Zawodowy „Polska Miedź” in August 2009.

Project „Effectiveness”

In order to develop a program for reducing unit costs in KGHM Polska Miedź S.A., in February 2009 Project „Effectiveness” was initiated.

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

Since January 2010, a project team consisting of over 20 Change Leaders in KGHM trained in earlier stages of the project are independently introducing further programs to improve effectiveness.

To date, 18 programs have been realised, within which over 150 sessions have been held with the involvement of 2 500 employees, thanks to which nearly 4 000 ideas have been generated from which over 300 initiatives were successfully selected for further implementation.

Currently, an additional 9 programs are being implemented: 3 TOP (Total Operational Performance) programs for reducing costs and 6 process transformation programs conforming to Lean Management principles. Over 20 Change Leaders involved in the process are supported by local coordinators, cooperating on the development of initiatives for implementation.

It is estimated that until now the programs which have been realised have brought savings of over PLN 100 million. These programs are divided into those for immediate implementation and those requiring testing prior to implementation.

Simultaneously, initiatives are being implemented which arose during programs commenced in 2009.

Actively participating in Project „Effectiveness” are the Management Board of KGHM, the management staff of the divisions, lower and middle management and ordinary workers.

Selection of other significant events covered by current reports

Company bodies

On 17 May 2010 the Ordinary General Meeting approved the Report on the activities of KGHM Polska Miedź S.A. in financial year 2009, Financial Statements of KGHM Polska Miedź S.A. for financial year 2009, the Report on the activities of the KGHM Polska Miedź S.A. Group in financial year 2009, the Consolidated Financial Statements of the KGHM Polska Miedź S.A. Group for financial year 2009. The Ordinary General Meeting appropriated the profit of the Company for financial year 2009 and allocated PLN 600 000 thousand as a shareholders dividend, representing PLN 3.00 per share. The General Meeting set the following dates: right to dividend date: 17 June 2010, and dividend payment date: 8 July 2010.

In addition, the Ordinary General Meeting of KGHM Polska Miedź S.A. approved of the performance of duties in financial year 2009 of all members of the Management Board of KGHM Polska Miedź S.A. and Supervisory Board of the Company, approved the Bylaw of the General Meeting of KGHM Polska Miedź S.A. with its registered head office in Lubin and appointed Jan Rymarczyk to the Supervisory Board of the Company.

Selection of an entity entitled to audit financial statements

On 16 April 2010 the Supervisory Board of KGHM Polska Miedź S.A. selected the firm PricewaterhouseCoopers Sp. z o.o. with its registered head office in Warsaw, al. Armii Ludowej 14, for the review and auditing of the separate and consolidated financial statements of the Company for the years 2010-2012. KGHM Polska Miedź S.A. used the services of PricewaterhouseCoopers Sp. z o.o. for the review and auditing of financial statements for the years 2004-2006 and other services.

Significant contract

On 4 May 2010 contracts were entered into between KGHM Polska Miedź S.A. and nkt cables GmbH (Cologne) and its subsidiaries: nkt cables Warszowie Sp. z o.o., nkt cables s.r.o, nkt cables Velke Mezirici k.s., nkt cables Vrschlabi k.s., nkt cables a/s., for the sale of copper wire rod in 2010 and 2011. The estimated total value of these contracts is from PLN 2 289 941 thousand to PLN 2 613 329 thousand. The contracts were entered into for two years with the possibility of prolonging for another year.

Bond Issuance Program Agreement

On 10 May 2010 a Bond Issuance Program Agreement („Program”) was signed. The parties to the agreement are KGHM Polska Miedź S.A. as Issuer, BANK PEKAO S.A. as Organiser, Issue Agent and Dealer, and PKO BANK POLSKI S.A. and BANK HANDLOWY W WARSZAWIE S.A. as Co-Organisers, Sub-Agents and Dealers.

The Program provides for the possible multiple issuance of bearer bonds, with maturity of from 30 days to 10 years („Bonds”), in dematerialised form. The issuance of the Bonds will be non-public offers and will be issued in Polish zloties, in respect of which the per-bond face value will be PLN 10 thousand, or a multiple of this amount. The issue price will be set during the Bond offer process. The maximum total amount of debt due to bonds from this Program may not exceed PLN 500 000 thousand. The funds obtained from the issuance of Bonds will be allocated to finance the current activities of the Company. The Agreement has an unspecified lifetime.

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

Purchase of shares of Tauron Polska Energia S.A.

On 11 June 2010 the Management Board of KGHM Polska Miedź S.A. signed a purchase declaration for up to 1 583 830 044 ordinary bearer shares of Tauron Polska Energia S.A. ("Tauron"), representing up to 11.32% of the total number of shares of Tauron at the date of the Prospectus of Tauron. The declaration has been submitted by KGHM Polska Miedź S.A. under the bookbuilding process for institutional investors being part of the public offering of Tauron shares.

After completion of the bookbuilding process for institutional investors KGHM Polska Miedź S.A. received an invitation and on the basis of the invitation it submitted an order for the purchase of 700 942 491 shares (prior to consolidation) of Tauron at the price of PLN 0.57 per share.

Due to purchase of the shares of Tauron, at 30 June 2010, KGHM Polska Miedź S.A. owned 81 822 499 shares (following consolidation of the shares by the company), representing 5.15% in the share capital of the company, granting the right to 81 822 499 votes at the general meeting, representing 5.15% in the total number of votes.

2. Measurement of financial assets and property, plant and equipment

Financial assets

Due to the measurement and settlement of future cash flow hedging transactions in an amount reflecting the effective portion of the hedge, after reflecting the results in deferred tax, other comprehensive income was increased in the current quarter by PLN 230 408 thousand.

(an accrued increase in other comprehensive income by PLN 183 838 thousand since the beginning of the financial year)

Due to the measurement and settlement of available-for-sale financial assets to fair value, after reflecting the results in deferred tax, other comprehensive income was decreased in the current quarter by PLN 9 273 thousand.

(an accrued decrease in other comprehensive income by PLN 10 762 thousand since the beginning of the financial year)

Due to the realisation and re-measurement of derivative instruments to the level of fair value there was an increase in the financial result for the current quarter of PLN 150 098 thousand (of which: as an increase in revenues from sales, PLN 40 129 thousand and as an increase in the result on other operating activities, PLN 109 969 thousand). For detailed information on derivative instruments see part C point II 5 Risk management.

(an accrued decrease in profit by PLN 53 178 thousand due to re-measurement and realisation since the beginning of the financial year (of which: as an increase in revenues from sales, PLN 82 294 thousand and as a decrease in the result on other operating activities in the amount of PLN 135 472 thousand).

The measurement of other financial assets did not significantly impact the current period financial result.

Property, plant and equipment and receivables

Due to the depreciation of property, plant and equipment and amortisation of intangible assets, operating costs were increased in the current quarter by PLN 151 590 thousand.

(an accrued increase in costs by PLN 306 126 thousand since the beginning of the financial year)

The measurement of other assets did not significantly impact the current period financial result.

3. Type and amounts of changes in estimates

Provisions

The effects of revaluation or recognition of estimates of future liabilities (provisions) were settled in the financial result of the current quarter, and in particular:

3.1 provisions for future employee benefits due to one-off retirement or disability payments, jubilee awards, post-mortem benefits and the coal equivalent also paid after the period of employment. The result of this change in estimates is a decrease in the provision and an increase in the financial result in the amount of PLN 11 975 thousand (after reflecting the results in deferred tax an increase in profit in the amount of PLN 9 700 thousand),

(an accrued decrease in profit by PLN 56 664 thousand since the beginning of the financial year)

3.2 provision for future costs of decommissioning (restoration) of the Company's mines, comprising the estimated costs of dismantling and removing technological facilities, for which the obligation for restoration upon the conclusion of activities is a result of separate law or standard practice. The result of this change in estimates is an increase in the provision in the amount of PLN 5 322 thousand which was settled as a decrease of the financial result in the amount of PLN 7 649 thousand and as a decrease of property, plant and equipment in the amount of PLN 2 327 thousand. The increase in the provision resulted in an increase in deferred tax assets in the amount of PLN 840 thousand,

(an accrued increase in the provision by PLN 64 598 thousand since the beginning of the financial year, which was settled as a decrease of the financial result in the amount of PLN 16 691 thousand and as an increase of property, plant and equipment in the amount of PLN 47 907 thousand.)

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

3.3 provisions for future employee remuneration costs together with charges in the amount of PLN 166 957 thousand, paid (in accordance with the Collective Labour Agreement) on the occasion of mining and smelting holidays and after approval of the annual financial statements.
(provision at 30 June 2010 amounted to PLN 307 129 thousand)

The revaluation and recognition of other provisions for liabilities did not significantly impact the current period financial result.

Deferred income tax

The result of differences between the carrying amount and the tax base of statement of financial position items is a change in the estimated value of the deferred tax asset and the deferred tax liability.

There was a decrease in the deferred tax asset in the current quarter in the amount of PLN 26 997 thousand, of which the following was settled:

- as a decrease of the financial result, PLN 29 172 thousand,
- as an increase of other comprehensive income due to measurement of available-for-sale financial instruments, PLN 2 175 thousand.

(an accrued increase in the deferred tax asset since the beginning of the financial year in the amount of PLN 114 114 thousand, of which the following was settled:

- *as an increase of the financial result, PLN 111 939 thousand,*
- *as an increase of other comprehensive income due to measurement of available-for-sale financial instruments, PLN 2 175 thousand.)*

There was an increase in the deferred tax liability in the amount of PLN 91 238 thousand, of which the following was settled:

- as a decrease of the financial result, PLN 37 192 thousand
- as a decrease of other comprehensive income due to measurement of hedging financial instruments and available-for-sale financial instruments, PLN 54 046 thousand.

(an accrued increase in the deferred tax liability since the beginning of the financial year in the amount of PLN 100 823 thousand, of which the following was settled:

- *as a decrease of the financial result, PLN 58 050 thousand*
- *as a decrease of other comprehensive income due to measurement of available-for-sale financial instruments, PLN 42 773 thousand.)*

After offsetting the deferred tax asset and deferred tax liability, the deferred tax asset at the end of the reporting period was set at PLN 180 353 thousand.

4. Factors and events, in particular those of an unusual nature, having an impact on the financial results achieved by the Company.

Production and financial results in the second quarter of 2010

In the second quarter of 2010, KGHM Polska Miedź S.A. produced 139 thousand t of electrolytic copper, including 34 thousand t from purchased copper-bearing materials and 295 t of metallic silver.

The most significant factors impacting the value of sales during the period were macroeconomic factors:

- copper prices on the London Metal Exchange (LME) at the average level of 7 013 USD/t,
 - an average exchange rate of 3.16 PLN/USD,
 - average silver prices on the London Bullion Market (LBM) of 18.33 USD/troz,
- and the sales volume: 142 thousand t of copper and copper products, and 289 t of silver.

The revenues from sales achieved of PLN 3 925 023 thousand were higher than those achieved in the second quarter of 2009 by PLN 1 202 940 thousand, i.e. by 44%. The increase in sales was mainly due to higher:

- copper prices (an increase from 4 676 USD/t to 7 013 USD/t) and silver prices (an increase from 13.76 USD/troz to 18.33 USD/troz),
 - volume of copper sale (an increase from 125 thousand t to 142 thousand t)
- along with the following factors which decreased revenues from sales:
- a change in adjustment due to settlement of hedging transactions (a change from PLN 148 465 thousand to PLN 40 129 thousand),
 - strengthening of the PLN from 3.27 PLN/USD to 3.16 PLN/USD,
 - a decrease in volume of silver sales (from 334 t to 289 t).

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

In the second quarter of 2010, revenues from the sale of copper and copper products represented 82%, and silver 14% (in the comparable period of 2009 respectively: 78% and 18%) of total revenues from sales.

Operating costs in the second quarter of 2010 amounted to PLN 2 369 779 thousand and increased versus the comparable prior period by PLN 322 582 thousand, i.e. by 16%.

The following had primary impact on the level of operating costs:

- the higher value of external copper-bearing materials by PLN 374 120 thousand due to an increase in prices (+34% i.e. from 15 673 PLN/t to 20 957 PLN/t) and volume consumed (+53% i.e. from 23 thousand tonnes Cu to 35 thousand tonnes Cu),
- the lower level of labour costs by PLN 121 382 thousand due to the costs of the one-off annual bonus accounted for in May 2009 in the amount of PLN 5 000 per employee together with charges (PLN 110 million) and the lower provision for future employee benefits (PLN 45 million).

The pre-precious metals credit cost of electrolytic copper production (prior to decrease by the value of precious metals – mainly silver and gold) in the second quarter of 2010 amounted to 15 516 PLN/t, and increased versus the second quarter of 2009 by 11% due to the higher share of external copper-bearing materials in production structure. The total unit cost of production amounted to 13 064 PLN/t.

The total unit **cost of copper production from internal concentrates** in the second quarter of 2010 amounted to 10 321 PLN/t and was at a similar level to that achieved during the second quarter of 2009, alongside the increase in the volume of production from internal concentrates by 11% (second quarter of 2009 – 94 thousand tonnes, second quarter of 2010 – 105 thousand tonnes).

Profit on sales (gross profit less administrative expenses and selling costs) in the second quarter of 2010 amounted to PLN 1 555 244 thousand and was higher by PLN 880 357 thousand, i.e. by 2 times than that achieved in the second quarter of 2009.

Other operating activities showed a profit in the second quarter of 2010 in the amount of PLN 303 097 thousand, of which mainly due to foreign exchange gains and effects of the measurement and realisation of derivative instruments.

In comparison to the result achieved in the second quarter of 2009, the result on other operating activities was lower by PLN 8 102 thousand, while lower dividend income was balanced by a higher balance of exchange rate differences and the results of the measurement and realisation of derivative instruments.

As a result, **operating profit** in the second quarter of 2010 amounted to PLN 1 858 341 thousand and increased versus the comparable period of 2009 by PLN 888 459 thousand, i.e. by 92%.

KGHM Polska Miedź S.A. earned a **profit for the second quarter of 2010** of PLN 1 501 245 thousand, which was higher by PLN 656 489 thousand, i.e. by 78%, than that achieved in the second quarter of 2009.

EBITDA in the second quarter of 2010 amounted to PLN 2 009 931 thousand (including depreciation/amortisation of PLN 151 590 thousand) and was higher by PLN 904 852 thousand (82%) than EBITDA in the comparable prior year period.

5. Risk management

In the second quarter of 2010, strategies hedging the copper price represented approx. 28%, and those hedging the silver price approx. 19%, of the sales of these metals realised by the Company. In the case of currency transactions, approx. 18% of total revenues from sales realised by the Company were hedged.

The management of market risk should be considered through analysis of the hedging position together with the item being hedged (hedged position). By hedging position is meant the position of the Company in derivative instruments. A hedged position comprises revenues from the physical sale of goods and products. The cash flow hedge accounting practiced by the Company requires that hedges be highly effective in offsetting changes in cash flow related to the hedged risk.

In the second quarter of 2010, the positive result on derivative instruments amounted to PLN 150 098 thousand, of which revenues from sales were adjusted in the amount of PLN 40 129 thousand (the amount transferred from accumulated other comprehensive income to profit or loss in the reporting period), the amount of PLN 109 969 thousand was recognised in other operating activities, of which PLN (19 799) thousand represented costs due to the realisation of derivative instruments, while PLN 129 768 thousand represented revenues due to the measurement of derivative instruments.

Gains on the measurement of derivative transactions recognised in other operating activities result mainly from the change in the time value of options which, in accordance with the hedge accounting policy, are recognised in profit or loss.

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

In the second quarter of 2010, the Company neither implemented copper price hedging strategies, nor adjustment hedge transactions on this market. In the period, the Company performed a restructurisation, implemented in the first quarter of 2010, of seagull options for 2011 with a total volume of 58.5 thousand tonnes through the buyback of sold puts¹. Restructurisation enables the full use of put options purchased within this structure in the case of any decrease in the price of this metal in 2011. In the case of the silver market, in the second quarter of 2010 the Company neither implemented strategies hedging the price of this metal, nor adjustment hedge transactions.

In the case of the forward currency market, in the second quarter of 2010 the Company entered into transactions to hedge revenues with a total nominal amount of USD 765 million and a time horizon falling in the fourth quarter of 2010 and years 2011-2012. The Company made use of options (European options), including puts and option strategies: seagulls and corridor. During this period no adjustment hedge transactions were implemented on the currency market. In addition, the Company performed a restructurisation, implemented in the first quarter of 2010, of options strategies seagull for 2011 with the total nominal amount of USD 360 million through the buyback of sold puts¹. Restructurisation enables the full use of put options purchased within this structure in the case of any decrease in the USD/PLN exchange rate in 2011.

The Company remains hedged for a portion of copper sales planned in the second half of 2010 (102.4 thousand t), in 2011 (117 thousand tonnes), and in 2012 (39 thousand tonnes), and for a portion of silver sales planned in the second half of 2010 (3.6 million troz). The Company holds hedging positions for revenues from sales (currency market) in the second half of 2010 (USD 465 million), in 2011 (USD 720 million) and in 2012 (USD 360 million).

Following is condensed information on hedging positions, by type of hedged asset and instruments used at 30 June 2010. The hedged nominal/volume in the months included in the presented periods is equally balanced.

HEDGING POSITION (condensed information) – COPPER MARKET

Period	Instrument	Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]	
III quarter of 2010	Corridor	Sold call option	19 500	8 000	(447)	5 053 participation restricted to 8 000
		Purchased put option		5 500		
		Producer puts ²	9 750	6 500	8.94% ³	-
		Producer puts ²	9 750	7 000	9.17% ³	-
		Producer puts ²	9 750	7 500	6.46% ³	-
		Total	48 750			

HEDGING POSITION (condensed information) – COPPER MARKET continuation

IV quarter of 2010	Corridor	Sold call option	19 500	8 000	(447)	5 053 participation restricted to 8 000
		Purchased put option		5 500		
		Producer puts ²	9 750	6 500	8.94% ³	-
		Producer puts ²	9 750	7 000	9.17% ³	-
		Producer puts ²	14 625	7 500	8.80% ³	-
		Total	53 625			
TOTAL II half of 2010		102 375				
I half of 2011	Corridor	Sold call option	19 500	8 800	(470)	6 230 participation restricted to 8 800
		Purchased put option		6 700		
	Corridor	Sold call option	19 500	9 500	(463)	6 537 participation restricted to 9 500
		Purchased put option		7 000		
	Seagull ¹	Sold call option	19 500	9 600	(288)	6 812 restricted to 5 000 participation restricted to 9 600
		Purchased put option		7 100		
		Sold put option		5 000		
	Total	58 500				
II half of 2011	Corridor	Sold call option	19 500	9 500	(463)	6 537 participation restricted to 9 500
		Purchased put option		7 000		
	Corridor	Sold call option	19 500	9 300	(521)	6 379 participation restricted to 9 300
		Purchased put option		6 900		

¹ In tables presenting the condensed list of open hedging positions, restructurisation of the items is included: the type of instrument was changed from seagull to corridor, the cost of restructurising (premium for buying back options) was added to the cost of implementation (i.e. the average weighted premium) and the effective hedging price/exchange rate was changed.

² Due to current hedge accounting laws, transactions embedded within a producer put – a purchased put option – are shown in the table containing a detailed list of derivative instrument positions – „Hedging instruments”, while sold call options are shown in the table „Trade instruments”. In addition transactions included in the seagull structure – purchased put options and sold call options – are shown in the table containing a detailed list of derivative instrument positions – „Hedging instruments”, with sold put options in the table „Trade instruments”.

³ Payable at the moment of settlement.

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

	Seagull ¹	Sold call option		9 600		6 812
		Purchased put option	19 500	7 100	(288)	restricted to 5 000
		Sold put option		5 000		participation restricted to 9 600
		Total	58 500			
		TOTAL 2011	117 000			
I half of 2012	Seagull ¹	Sold call option		9 300		6 503
		Purchased put option	19 500	6 900	(397)	restricted to 4 700
		Sold put option		4 700		participation restricted to 9 300
		Total	19 500			
II half of 2012	Seagull ¹	Sold call option		9 300		6 503
		Purchased put option	19 500	6 900	(397)	restricted to 4 700
		Sold put option		4 700		participation restricted to 9 300
		Total	19 500			
		TOTAL 2012	39 000			

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]
II half of 2010	Purchased put option	1.80	14.00	(2.00)	12.00
	Purchased put option	1.80	18.00	(2.00)	16.00
	Total	3.60			
	TOTAL II half of 2010	3.60			

HEDGING POSITION (condensed information) – CURRENCY MARKET

Period	Instrument	Nominal [million USD]	Execution price [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]	
III quarter of 2010	Producer puts ²	30	3.0000	8.37% ³	-	
	Purchased put option	30	2.6000	(0.0692)	2.5308	
	Purchased put option	90	2.5500	(0.0794)	2.4706	
	Purchased put option	60	2.8500	(0.1404)	2.7096	
	Total	210				
IV quarter of 2010	Producer puts ²	30	3.0000	8.37% ³	-	
	Purchased put option	30	2.6000	(0.0692)	2.5308	
	Purchased put option	90	2.5500	(0.0961)	2.4539	
	Purchased put option	60	2.8500	(0.1643)	2.6857	
	Purchased put option	45	3.3500	(0.1846)	3.1654	
	Total	255				
	TOTAL II half of 2010	465				
I half of 2011	Corridor	Sold call option	180	3.7000	(0.1257)	2.7723
		Purchased put option		2.9000		participation restricted to 3.70
		Purchased put option	90	3.3500	(0.2390)	3.1110
	Corridor	Sold call option	90	4.4000	(0.1353)	3.2647
		Purchased put option		3.4000		participation restricted to 4.40
	Total	360				
II half of 2011	Corridor	Sold call option	180	3.7000	(0.1028)	2.7972
		Purchased put option		2.9000		participation restricted to 3.70
	Seagull ¹	Sold call option	90	4.4000	(0.1160)	3.1840
		Purchased put option		3.3000		restricted to 2.70
		Sold put option		2.7000		participation restricted to 4.40
	Corridor	Sold call option	90	4.4000	(0.1386)	3.2614
		Purchased put option		3.4000		participation restricted to 4.40
	Total	360				
	TOTAL 2011	720				
I half of 2012	Seagull ¹	Sold call option	90	4.4000	(0.0990)	3.2010
		Purchased put option		3.3000		restricted to 2.70
		Sold put option		2.7000		participation restricted to 4.40
	Corridor	Sold call option	90	4.5000	(0.1527)	3.2473
		Purchased put option		3.4000		participation restricted to 4.50
	Total	180				
II half of 2012	Seagull ¹	Sold call option	90	4.4000	(0.0767)	3.2233
		Purchased put option		3.3000		restricted to 2.70
		Sold put option		2.7000		participation restricted to 4.40
	Corridor	Sold call option	90	4.5000	(0.1473)	3.2527
		Purchased put option		3.4000		participation restricted to 4.50
	Total	180				
	TOTAL 2012	360				

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

All entities with whom derivative transactions are entered into operate in the financial sector. These are financial institutions (mainly banks), with the highest⁴ (29.2%), medium-high⁵ (54.2%) or medium⁶ (16.6%) ratings. Based on fair value at 30 June 2010, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Company amounted to 11.1%.

Due to institutional and geographical diversification and cooperation with financial institutions having a high rating, as well as taking into account the fair value of receivables due to derivative transactions, the Company is not materially exposed to credit risk due to derivatives transactions entered into.

The Company has entered into framework agreements on the net settlement in order to reduce cash flows and the credit risk to the level of positive fair value of hedging transactions with the given counterparty.

At 30 June 2010, the fair value of open positions in derivative instruments amounted to PLN 494 944 thousand, of which PLN 732 975 thousand related to the fair value of hedging instruments, while PLN (238 031) thousand related to the fair value of trade instruments. The fair value of open positions in derivative instruments varies, depending on changes in market conditions, and the final result on these transactions may vary significantly from the measurements described above.

Detailed information on positions in derivative instruments at 30 June 2010 is presented below in the tables "Trade instruments" and "Hedging instruments".

TRADE INSTRUMENTS	30 June 2010						
	Type of derivative instrument	Volume/ Notional Cu ['000 t] Currency ['000 USD]	Avg. weighted price/ex. rate Cu [USD/t] Currency [USD/PLN]	Financial assets		Financial liabilities	
				Current	Non-current	Current	Non-current
Derivatives - Metals - Copper							
Options							
Sold call options	5 448.3	1			(120 124)		
Purchased put options	97 500	4 258	4 504	26 490			
Sold put options	175 500	4 521			(13 581)	(93 694)	
TOTAL:			4 504	26 490	(133 705)	(93 694)	
Derivatives - Currency contracts - USD/PLN							
Options							
Purchased put options	540 000 ⁷	2,6778	7 191	2 898			
Sold call options	185 022 ⁷	4,2502			(17 506)		
Purchased call options	180 000	4,3685	943				
Sold put options	810 000	2,6852			(14 349)	(20 803)	
TOTAL:			8 134	2 898	(31 855)	(20 803)	
Total trade instruments			12 638	29 388	(165 560)	(114 497)	

⁴ By highest rating is meant a rating from AAA to AA- as determined by Standard & Poor's and Fitch, and from Aaa to Aa3 as determined by Moodys.

⁵ By medium-high rating is meant a rating from A+ to A- as determined by Standard & Poor's and Fitch, and from A1 to A3 as determined by Moodys.

⁶ By medium rating is meant a rating from BBB+ to BBB- as determined by Standard & Poor's and Fitch, and from Baa1 to Baa3 as determined by Moodys.

⁷ In accordance with the accounting principles in force, the fair value of derivative transactions which underwent alteration, i.e. a change from hedging transactions to trade transactions, is divided between hedging transactions and trade transactions, proportionally to the period in which a given transaction functioned as a hedge (designated as a hedge in accordance with hedge accounting) and the period in which it functioned as a trade transaction. There was no change in the presentation of transactions whose status did not change from the date they were entered into.

Consequently, in the table presenting a detailed listing of positions in derivative instruments („Hedging instruments" and „Trade instruments") a portion of the fair value of derivative transactions included in the corridor structure, i.e. purchased put options and sold call options of a nominal USD 360 000 thousand, is presented both in hedging transactions as well as in trade transactions. The transactions described were not shown in the table illustrating the actual hedging position of the Company.

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

HEDGING INSTRUMENTS							30 June 2010			
Type of derivative instrument	Volume/ Notional	Avg. weighted price/ ex. rate	Maturity date		Period of profit/loss impact		Financial assets		Financial liabilities	
			From	Till	From	Till	Current	Non-current	Current	Non-current
Derivatives – Metals- Copper										
Options										
Corridor	19 500	6 700-8 800	Jan 11	June 11	Feb 11	July 11	46 819	10 474	(10 346)	(2 972)
Corridor - seagulls	175 500	6 655.56- 9 122.22	July 10	Dec 12	Aug 10	Jan 13	130 683	455 043	(24 306)	(109 241)
Purchased put options - producer puts	63 375	7 038.46	July 10	Dec 10	Aug 10	Jan 11	172 626			
TOTAL:							350 128	465 517	(34 652)	(112 213)
Derivatives – Metals - Silver										
Options										
Purchased put options	3 600	16	July 10	Dec 10	Aug 10	Jan 11	4 918			
TOTAL:							4 918			
Derivatives – Currency contracts - USD/PLN										
Options										
Purchased put options	495 000	2.8470	July 10	June 11	July 10	June 11	25 874			
Corridor	540 000 ⁷	3.3444- 4.4228	July 10	Dec 12	July 10	Dec 12	26 890	75 389	(3 807)	(37 824)
Corridor - seagull	630 000	3.0714-4.000	Jan 11	Dec 12	Jan 11	Dec 12	9 768	79 631	(30 245)	(87 851)
Purchased put options – producer puts	60 000	3.000	July 10	Dec 10	July 10	Dec 10	1 452			
TOTAL:							63 984	155 020	(34 052)	(125 675)
Total hedging instruments							419 030	620 537	(68 704)	(237 888)

The fair values of derivatives and other receivables due to unsettled derivatives, including these with a settlement date of 2 July 2010, at 30 June 2010 are presented in the table below:

	Total: fair value of derivatives and of other receivables due to unsettled derivatives	Fair value of derivatives	Fair value of other receivables due to unsettled derivatives
Receivables	1 087 117	1 081 593	5 524
Liabilities	(586 649)	(586 649)	-
Net fair value	500 468	494 944	5 524

At 30 June 2010, accumulated other comprehensive income (excluding the deferred tax effect) due to cash flow hedging instruments amounted to PLN 382 194 thousand, of which PLN 313 063 thousand related to the effective portion of the result from the measurement of transactions hedging metals price risk, and PLN 69 131 thousand related to the effective portion of the result from the measurement of transactions hedging currency risk.

At 31 March 2010, accumulated other comprehensive income (excluding the deferred tax effect) due to cash flow hedging instruments amounted to PLN 97 740 thousand, of which PLN (17 284) thousand related to the effective portion of the result from the measurement of transactions hedging metals price risk, and PLN 115 024 thousand related to the effective portion of the result from the measurement of transactions hedging currency risk.

During the second quarter of 2010 there was an increase in other comprehensive income by PLN 284 454 thousand (excluding the deferred tax effect), comprised of changes in fair value during the period recognised in other comprehensive income due to the effective portion of hedging transactions, i.e. an increase in accumulated other comprehensive income by PLN 324 583 thousand, and the amount transferred from accumulated other comprehensive income to profit and loss due to the settlement of the effective portion of hedging transactions, a decrease in accumulated other comprehensive income by PLN 40 129 thousand (an adjustment in plus of revenues from sales for the second quarter of 2010).

Quarterly financial information of KGHM Polska Miedź S.A. (continuation)

Accumulated other comprehensive income	At 30 June 2010
Commodity price risk hedging transactions (copper and silver) – derivatives	313 063
Currency risk hedging transactions – derivatives	69 131
Total accumulated other comprehensive income - financial instruments hedging future cash flows (excluding deferred tax effects)	382 194
<u>Gains or (losses) on derivative instruments hedging future cash flows recognised in other comprehensive income</u>	For the period from 1 April 2010 to 30 June 2010
Accumulated gain or loss arising from financial instruments hedging cash flows at 1 April 2010	97 740
Amounts recognised in the reporting period due to hedging transactions	324 583
Amounts transferred from accumulated other comprehensive income to revenues from sales	(40 129)
Accumulated other comprehensive income arising from financial instruments hedging cash flows at 30 June 2010 (excluding the deferred tax effect)	382 194

III. Contingent and other items not recognised in the statement of financial position

	At 30 June 2010	Increase/(decrease) since the end of the last financial year
Contingent receivables	139 331	67 552
Guarantees received	97 642	72 262
Contested State budget issues	19 328	(3 665)
Promissory notes receivables	22 154	(769)
Other	207	(276)
Other receivables not recognised in the statement of financial position - inventions, implementation of projects	32 267	1 032
Contingent liabilities	22 408	(171)
Guarantees	5 000	-
Disputed issues, pending court proceedings	14 930	(132)
Contingent penalties	-	(23)
Preventive safety measures in respect of mine-related damages	2 475	(16)
Other	3	-
Other liabilities not recognised in the statement of financial position	524 237	16 263
Inventions, implementation of projects	100 469	(5 872)
Operating leases	21 735	2 148
Future payments due to perpetual usufruct of land	402 033	19 987

The value of contingent assets items was determined based on estimates.

Lubin, 12 August 2010