Half-year report P 2010

(In accordance with § 82, section 1 point 2 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 first half of financial year 2010 comprising the period from **1 January 2010** to **30 June 2010** containing the financial statements in accordance with IAS 34 in PLN

publication date: 31 August 2010

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.
(name of issuer in brief)

Metals industry
(issuer branch title per the Warsaw Stock Exchange)

59 301
(postal code)

LUBIN
(city)

M. Skłodowskiej – Curie
(street)

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(number)

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692–000–00-13
(NIP)

390021764
(REGON)

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

SELECTED FINANCIAL ITEMS	in '000 PLN		in '000 EUR	
	half-year 2010 period from 1 January 2010 to 30 June 2010	**half-year 2009** period from 1 January 2009 to 30 June 2009	**half-year 2010** period from 1 January 2010 to 30 June 2010	**half-year 2009** 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	599 300	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

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

KGHM POLSKA MIEDŹ S.A.

HALF-YEAR REPORT P 2010 COMPRISES:

1. **AUDITOR'S REVIEW REPORT ON THE INTERIM FINANCIAL STATEMENTS**
2. **DECLARATION BY THE MANAGEMENT BOARD ON THE ACCURACY OF THE PREPARED INTERIM FINANCIAL STATEMENTS**
3. **DECLARATION BY THE MANAGEMENT BOARD ON THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS**
4. **INTERIM FINANCIAL STATEMENTS**
5. **REPORT OF THE MANAGEMENT BOARD ON THE COMPANY'S ACTIVITIES**

Lubin, August 2010

KGHM POLSKA MIEDŹ S.A.

AUDITOR'S REVIEW REPORT ON THE INTERIM FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2010

Lubin, August 2010

PricewaterhouseCoopers Sp. z o.o.
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Independent registered auditor's report on the review of the interim financial statements for the period from 1 January to 30 June 2010 to the Shareholders and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna

We have reviewed the attached interim financial statements of KGHM Polska Miedź Spółka Akcyjna (hereinafter called *the Company*), with its registered office in Lubin, 48 M. Skłodowskiej-Curie Street, comprising:

(a) the interim statement of financial position as at 30 June 2010, showing total assets and total liabilities and equity of PLN 16.976.883 thousand;

(b) the interim statement of comprehensive income for the period from 1 January to 30 June 2010, showing a total comprehensive income of PLN 2.399.714 thousand;

(c) the interim statement of changes in equity for the period from 1 January to 30 June 2010, showing an increase in equity of PLN 1.799.714 thousand;

(d) the interim statement of cash flows for the period from 1 January to 30 June 2010, showing a net increase in cash and cash equivalents of PLN 1.045.793 thousand;

(e) additional information on adopted accounting policies and other explanatory notes.

The Company's Management Board is responsible for preparing interim financial statements which comply with the International Financial Reporting Standards as adopted by European Union adequate for interim reporting (IAS 34). Our responsibility was to present a report on these interim financial statements based on our review.

We conducted the review in accordance with national standards of auditing issued by the National Chamber of Registered Auditors. We planned and performed the review to obtain reasonable assurance that the interim financial statements are free of material misstatements. We conducted the review by analyzing the interim financial statements, inspecting the accounting records, and making use of information obtained from the Company's Management Board and the employees.

TRANSLATION ONLY

PRICEWATERHOUSECOOPERS

Independent registered auditor's report on the review of the interim financial statements for the period from 1 January to 30 June 2010 to the Shareholders and the Supervisory Board of KGHM Polska Miedź Spółka Akcyjna (cont.)

The scope of the work performed was significantly narrower than the scope of an audit of the financial statements, because the review was not aimed at expressing an opinion on the truth and fairness of the interim financial statements. This report does not constitute an audit opinion within the meaning of the Accounting Act of 29 September 1994 (uniform text, *Journal of Laws* of 2009, No. 152, item 1223 with further amendments).

Our review did not indicate the need for any significant changes to the attached interim financial statements to ensure that they give a true, fair and clear view of the Company's financial position as at 30 June 2010 and of the results of its operations for the period from 1 January to 30 June 2010, in accordance with the International Financial Reporting Standard 34: Interim Financial Reporting.

Conducting the review on behalf of PricewaterhouseCoopers Sp. z o.o., Registered Audit Company No. 144:

Marcin Sawicki

Key Registered Auditor
No. 11393

Wrocław, 28 August 2010

KGHM POLSKA MIEDŹ S.A.

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

Lubin, August 2010

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

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

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
28 August 2010	Herbert Wirth	President of the Management Board	
28 August 2010	Maciej Tybura	I Vice President of the Management Board	
28 August 2010	Ryszard Janeczek	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR COMPANY ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
28 August 2010	Ludmiła Mordylak	Chief Accountant of KGHM General Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.

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

Lubin, August 2010

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

The entity entitled to audit financial statements, and which has reviewed the half-year financial statements, was selected in compliance with legal provisions. This entity, as well as the certified auditors who have carried out this review, have met the conditions for issuing an impartial and independent report on their review, in compliance with appropriate legal provisions and auditing standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
28 August 2010	Herbert Wirth	President of the Management Board	
28 August 2010	Maciej Tybura	I Vice President of the Management Board	
28 August 2010	Ryszard Janeczek	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR COMPANY ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
28 August 2010	Ludmiła Mordylak	Chief Accountant of KGHM General Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.

INTERIM
FINANCIAL STATEMENTS
FOR THE FIRST HALF OF 2010

Lubin, August 2010

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

Table of contents to the interim financial statements

Note	Page
Interim statement of financial position	3
Interim statement of comprehensive income	4
Interim statement of changes in equity	5
Interim statement of cash flows	6
Accounting policies and other explanatory information	
1. General information	7
2. Main accounting policies	8
2.1 Basis of preparing financial statements	8
2.2 Accounting policies	10
3. Important estimates and assumptions	28
3.1 Economic useful life of property, plant and equipment	28
3.2 Financial instruments	28
3.3 Impairment of shares in subsidiaries and associates	28
3.4 Provisions	29
3.5 Deferred tax assets/liabilities	29
4. Business segments	29
5. Property, plant and equipment	32
6. Intangible assets	36
7. Investments in subsidiaries and associates	38
8. Available-for-sale financial assets	41
9. Held-to-maturity investments	41
10. Derivative financial instruments	42
11. Trade and other receivables	45
12. Inventories	46
13. Cash and cash equivalents	46
14. Non-current assets held for sale	46
15. Share capital	47
16. Accumulated other comprehensive income	48
17. Retained earnings	49
18. Trade and other payables	50
19. Borrowings and finance lease liabilities	51
19.1 Loans	51
19.2 Finance lease liabilities	51
20. Deferred tax - changes	52
21. Employee benefits	55
22. Provisions for other liabilities and charges	57
23. Sales	60
24. Expenses by nature	61
25. Employee benefits expenses	61
26. Other operating income	62
27. Other operating costs	63
28. Finance costs	63
29. Financial instruments	64
29.1 Carrying amount	64
29.2 Fair value	66
29.3 Items of income, costs, gains and losses recognised in profit or loss by category of financial instruments	67
29.4 Transfers not qualified for de-recognition	68
29.5 Situations concerning financial instruments which did not occur in the Company	68
29.6 Financial instruments recognised at fair value in the interim statement of financial position	69
30. Financial risk management	71
30.1 Market risk	71
30.2. Liquidity risk and capital management	83
30.3. Credit risk	84
31. Income tax	88
32. Earnings per share	88
33. Dividend paid and proposed for payment	88
34. Notes to the interim statement of cash flows	89
35. Related party transactions	90
36. Liabilities not recognised in the interim statement of financial position due to operating leases	93
37. Contingent and other items not recognised in the interim statement of financial position	94
38. Government grants	94
39. Social Fund assets and liabilities	94
40. Employment structure	95
41. Subsequent events	95

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

Interim statement of financial position

	Note	At 30 June 2010	At 31 December 2009
Assets			
Non-current assets			
Property, plant and equipment	5	6 081 778	5 937 513
Intangible assets	6	80 531	76 147
Shares and investment certificates in subsidiaries	7	1 974 183	1 915 224
Investments in associates	7	1 159 947	1 159 947
Deferred tax assets	20	180 353	167 062
Available-for-sale financial assets	8	431 317	17 700
Held-to-maturity investments	9	86 230	67 097
Derivative financial instruments	10	649 925	58 034
Trade and other receivables	11	107 646	110 173
		10 751 910	**9 508 897**
Current assets			
Inventories	12	2 118 742	1 890 286
Trade and other receivables	11	1 641 124	1 314 598
Held-to-maturity investments	9	460	580
Derivative financial instruments	10	431 668	263 247
Cash and cash equivalents	13	2 032 484	975 198
Non-current assets held for sale	14	495	224
		6 224 973	**4 444 133**
TOTAL ASSETS		**16 976 883**	**13 953 030**
Equity and liabilities			
EQUITY			
Share capital	15	2 000 000	2 000 000
Accumulated other comprehensive income	16	300 304	127 228
Retained earnings	17	9 903 367	8 276 729
TOTAL EQUITY		**12 203 671**	**10 403 957**
LIABILITIES			
Non-current liabilities			
Trade and other payables	18	15 359	17 472
Borrowings and finance lease liabilities	19	8 881	11 576
Derivative financial instruments	10	352 385	61 354
Liabilities due to employee benefits	21	1 150 323	1 098 399
Provisions for other liabilities and charges	22	569 570	515 619
		2 096 518	**1 704 420**
Current liabilities			
Trade and other payables	18	2 030 118	1 376 049
Borrowings and finance lease liabilities	19	4 086	6 109
Current corporate tax liabilities		294 918	78 183
Derivative financial instruments	10	234 264	273 503
Liabilities due to employee benefits	21	97 861	93 122
Provisions for other liabilities and charges	22	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**

Accounting policies and other explanatory information presented on pages 7 to 95 represent an integral part of these financial statements

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

Interim statement of comprehensive income

		For the period	
	Note	from 1 January 2010 to 30 June 2010	from 1 January 2009 to 30 June 2009
Sales	23	7 199 551	5 099 260
Cost of sales	24	(4 116 755)	(3 316 230)
Gross profit		**3 082 796**	**1 783 030**
Selling costs	24	(48 808)	(46 973)
Administrative expenses	24	(269 265)	(278 704)
Other operating income	26	512 916	585 394
Other operating costs	27	(513 161)	(276 587)
Operating profit		**2 764 478**	**1 766 160**
Finance costs	28	(16 621)	(18 896)
Profit before income tax		**2 747 857**	**1 747 264**
Income tax expense	31	(521 219)	(274 630)
Profit for the period		**2 226 638**	**1 472 634**
OTHER COMPREHENSIVE INCOME DUE TO:			
Available-for-sale financial assets		(13 287)	(8 088)
Cash flow hedging instruments		226 961	(625 195)
Income tax related to items presented in other comprehensive income		(40 598)	120 324
Other comprehensive net income for the financial period		**173 076**	**(512 959)**
TOTAL COMPREHENSIVE INCOME		**2 399 714**	**959 675**
Earnings per share for the half-year period (in PLN per share)	32		
- basic		11.13	7.36
- diluted		11.13	7.36

Accounting policies and other explanatory information presented on pages 7 to 95 represent an integral part of these financial statements

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

Interim statement of changes in equity

	Note	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	33	-	(600 000)	-	-	(600 000)
Total comprehensive income	16,17	-	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	33	-	(2 336 000)	-	-	(2 336 000)
Total comprehensive income	16,17	-	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**

Accounting policies and other explanatory information presented on pages 7 to 95 represent an integral part of these financial statements

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

Interim statement of cash flows

	Note	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Cash flow from operating activities			
Profit for the period		2 226 638	1 472 634
Adjustments to profit for the period	34	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	34	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)	-
Repayments of loans granted		9 515	606
Interest received		2 228	4 436
Dividends received		24 051	90 719
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	13	**975 198**	**1 793 580**
Cash and cash equivalents at end of the period	13	**2 032 484**	**2 321 832**
including restricted cash and cash equivalents		63 820	4 197

Accounting policies and other explanatory information presented on pages 7 to 95 represent an integral part of these financial statements

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

Accounting policies and other explanatory information

1. General information

Company name, registered office, business activities

KGHM Polska Miedź S.A. (the "Company") with its registered office in Lubin at M.Skłodowskiej-Curie Street 48 is a stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, operating on the territory of the Republic of Poland. The Company was issued with tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764. KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 Divisions: 3 mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 smelters (Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant), Ore Enrichment Plant (OEP), Tailings Plant, Mine-Smelter Emergency Rescue Unit and Data Center.
The shares of KGHM Polska Miedź S.A. are listed on the Stock Exchange in Warsaw.
According to the classification of the Stock Exchange in Warsaw, KGHM Polska Miedź S.A. is classified under the "metals industry" sector.

The principal activities of the Company comprise:
- mining of copper and non-ferrous metals ore,
- excavation of gravel and sand,
- production of copper, precious and non-ferrous metals,
- production of salt,
- casting of light and non-ferrous metals,
- forging, pressing, stamping and roll forming of metal - powder metallurgy,
- waste management,
- wholesale based on direct or contractual payments,
- warehousing and storage of 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.

Period of operation

KGHM Polska Miedź S.A. has been conducting its business since 12 September 1991. The Company has an unlimited period of operation.
The legal antecedent of KGHM Polska Miedź S.A. was the State-owned enterprise Kombinat Górniczo-Hutniczy Miedzi in Lubin transformed into a State-owned joint stock company in accordance with principles set forth in the law dated 13 July 1990 on the privatisation of State-owned enterprises.

Composition of the Management Board

During the period from 1 January 2010 to 30 June 2010, the Management Board consisted of (including segregation of duties):

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

Up to the date of preparation of these financial statements, there were no changes within the Management Board (including segregation of duties).

1. General information (continuation)

Authorisation of the interim financial statements (financial statements)

These financial statements were authorised for issue and signed by the Management Board of the Company on 28 August 2010.

Going concern assumption

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

In order to fully understand the financial position and the results of the activities of KGHM Polska Miedź S.A. as the parent entity of the Group, these financial statements should be read jointly with the interim consolidated financial statements for the period ended 30 June 2010. These financial statements will be available on the website of the Company www.kghm.pl on dates consistent with the current report concerning dates of publication of the half-year report of the Company and the consolidated half-year report of the Group for the first half of 2010.

Seasonal or cyclical activities

The Company is not affected by seasonal or cyclical activities.

2. Main accounting policies

2.1 Basis of preparing financial statements

These financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Based on IAS 34 point 9, the Company prepares complete set of financial statements for the period of 6 months ended 30 June 2010. These financial statements have been prepared on the historical cost basis (adjusted for the effects of hyperinflation in respect of property, plant and equipment and equity), except for available-for-sale financial assets and derivative instruments.

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

The accounting policies were continuously applied and are consistent with these described in the financial statements as at 31 December 2009.

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

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

All of the above changes to the standards and interpretations have been approved by the European Union as at the date of publication of these financial statements. In the Company's opinion, their application will not have a significant impact on the Company's financial statements.

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

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

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

Amendment to IAS 32 *Financial instruments: Presentation*

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

Amended IFRS 1 *First-time Adoption of IFRS*

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

Amended IAS 24 *Related Party Disclosures*

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

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

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

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

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

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

IFRS *for Small and Medium-sized Entities*

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

IFRS 9 *Financial instruments*

On 12 November 2009 the International Accounting Standards Board published IFRS 9 *Financial instruments*. This standard is the result of the initial stage of work by the Board aimed at withdrawal IAS 39 *Financial Instruments: Recognition and Measurement*. This standard essentially simplifies the principles for classifying financial assets, introducing only two categories for their classification: (1) measurement at fair value, and (2) measurement at amortised cost. This classification, made at the time the financial asset is initially recognised, should result from the business model adopted by the entity for managing the assets

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

and from the contractual cash flows appropriate for the given asset. This standard also provides guidance with respect to the measurement of financial assets at the moment of initial recognition, in subsequent financial periods and with respect to the reclassification of these assets and the recognition of profits and losses arising from these assets. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will affect the financial statements of the Company, in particular with respect to presentation. Potential changes in value which could impact the financial statements of the Company could arise due to changes in the measurement of equity instruments, which due to the lack of an active market the Company measures at cost less any impairment. It is however expected that they will not have a significant impact on the financial statements of the Company.

Changes in International Financial Reporting Standards 2010
On 6 May 2010, as part of the annual review of standards, the International Accounting Standards Board issued its Improvements to IFRSs 2010. This document is a compendium of amendments which are necessary but not so urgent or significant as to require separate projects. The changes involve six standards and one interpretation. Each change introduced has either an individual effective date, but all will be effective for the Company for annual periods beginning on or after 1 January 2011. The Company considers the impact of these amendments on its financial statements as immaterial.

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

2.2 Accounting policies

2.2.1 Property, plant and equipment

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

Upon initial recognition, items of property, plant and equipment are measured at cost.

Borrowing costs incurred for the purchase or construction of a qualifying item of property, plant and equipment are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.23.

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

Upon initial recognition, in the costs of property, plant and equipment are included the anticipated costs of future assets' dismantling and removal and cost of restoring the sites on which they are located, the obligation for which an entity incurs either when the item is installed or as a consequence of having used the item for purposes other than to produce inventories. In particular, in the initial cost of items of property, plant and equipment are included discounted decommissioning costs of assets relating to underground mining, as well as of other facilities which, in accordance with binding laws, must be liquidated upon the conclusion of activities.
Mine decommissioning costs recognised in the initial cost of an item of property, plant and equipment are depreciated in the same manner as the item of property, plant and equipment to which they relate, beginning from the moment an asset is brought into use, throughout the period set out in the asset group decommissioning plan within the schedule of mines decommissioning.
The decommissioning costs of other facilities recognised in their initial cost are amortised beginning from the moment an item of property, plant and equipment is brought into use, throughout the period of use and in accordance with the method used for the depreciation of those items of property, plant and equipment to which they have been assigned.

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.1 Property, plant and equipment (continuation)

As at the end of the reporting period, items of property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Principles for impairment losses are presented in detail in point 2.2.9.

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

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

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

For individual groups of assets, the following useful lives have been adopted:
- Buildings and civil engineering objects: 25 - 60 years,
- Technical equipment and machines: 4 - 15 years,
- Motor vehicles: 3 - 14 years,
- Other property, plant and equipment, including tools and instruments: 5 – 10 years.

Depreciation begins when an item of property, plant and equipment is available for use. Depreciation ceases at the earlier of the date that the asset is classified as held for sale (or included as part of a disposal group which is classified as held for sale) in accordance with IFRS 5 *"Non-current assets held for sale and discontinued operations"* or when it is derecognised upon disposal or retirement.

The basis for the calculation of depreciation is the cost of an item of property, plant and equipment less its estimated residual value.

The individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the given asset as a whole and whose cost is significant in comparison to the cost of the item of property, plant and equipment as a whole, are depreciated separately, applying depreciation rates reflecting their anticipated useful lives.

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

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

Specialised spare parts with a significant initial cost and an anticipated useful life of more than 1 year are recognised as an item of property, plant and equipment. Spare parts and servicing-related equipment whose use is restricted to only certain items of property, plant and equipment are recognised in a similar manner. Other spare parts and servicing-related equipment with an insignificant cost are recognised as inventories and accounted for in profit or loss at the moment they are used.

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

2.2.2 Intangible assets

Intangible assets include:
- development costs,
- software,
- acquired concessions, patents, licenses,
- other intangible assets, and
- intangible assets not yet available for use (under construction).

On initial recognition, intangible assets are measured at cost.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.2 Intangible assets (continuation)

Any borrowing costs incurred for the purchase or construction of a qualifying item of intangible assets are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.23.

If payment for an intangible asset is deferred for a period which is longer than standard for ordinary buyer's credit (in practice a period of over 1 year is assumed), its purchase price should reflect the amount which would be paid in cash. The difference between this amount and the total payment is recognised in profit or loss as interest cost (a discount of liabilities) in financial costs in the period of repayment (settlement) of liabilities. Exchange differences which arise from liabilities in a foreign currency which are related to the acquisition or construction of an item of intangible assets are recognised in profit or loss in the period in which they are incurred.

At the end of the reporting period intangible assets are measured at cost less accumulated amortisation and impairment losses.

Intangible assets are amortised using the straight-line method over their anticipated useful lives, which for individual groups of intangible assets are as follows:
- Development costs – 5 – 15 years,
- Software – 2 – 5 years,
- Concessions, licenses and patents – 5 years,
- Other intangible assets, including rights to geological information – 50 years.

KGHM Polska Miedź S.A. does not report other intangible assets with indefinite useful lives, however it has reported intangible assets not yet available for use (under construction). The Company does not amortise such items of intangible assets, however they are tested for impairment annually. Any potential impairment loss is recognised in profit or loss.
The amortisation method and the amortisation rate of intangible assets are subject to review at least at the end of each financial year.

Development costs

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

An intangible asset arising from development is recognised if the entity can demonstrate:
- the technical feasibility of completing the intangible asset so that it will be available for use or sale,
- the intention to complete the intangible asset and use or sell it,
- its ability to use or sell the intangible asset,
- the manner in which the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset, and
- its ability to measure reliably the expenditures attributable to the intangible asset that have been incurred during its development.

The cost of internally-generated development work recognised as an item of intangible assets is the sum of expenditure incurred from the date when the intangible asset arising from development first meets the criteria for recognition.

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

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

Research expenditure is recognised as an expense as incurred.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.3 Equity investments

Subsidiaries

In the financial statements, investments in subsidiaries which are not classified as held for sale in accordance with IFRS 5 are recognised at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*, less any impairment losses, in accordance with IAS 36, *Impairment of Assets*, where impairment losses are measured by comparing their carrying amount with the higher of the following amounts:
- fair value, and
- value in use.

Combinations of business entities under common control are accounted for by applying the pooling of interests method.

Associates

Associated entities are those entities over which the Company has significant influence but not control, and in which it participates in setting both the financial and operational policy of a given entity, which is commonly associated with the ownership of from 20% to 50% of the total number of votes in the entity's governing bodies or the possibility of affecting its operations in another manner.

In the financial statements of the Company, shares in associates which are not classified as held for sale in accordance with IFRS 5 are recognised at cost, in accordance with IAS 27, *Consolidated and Separate Financial Statements*, less any impairment losses, in accordance with IAS 36, *Impairment of Assets*, where impairment is measured by a comparison of the carrying amount with the higher of two amounts:
- fair value and
- value in use.

2.2.4. Financial Instruments

2.2.4.1 Classification of financial instruments

Financial instruments are classified into one of the following categories:
- financial assets measured at fair value through profit or loss,
- loans and receivables,
- held-to-maturity investments,
- available-for-sale financial assets,
- financial liabilities measured at fair value through profit or loss,
- other financial liabilities,
- derivative hedging instruments.

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

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

2.2.4.1 Classification of financial instruments (continuation)

a) such classification eliminates or significantly reduces any inconsistency in respect of measurement or recognition (also defined as "an accounting mismatch"), that would otherwise arise from measuring assets or liabilities or recognising gains or losses using different basis; or
b) a group of financial instruments is managed properly and the performance of the group is evaluated on the fair value basis, in accordance with a documented risk management or investment strategy.

Available-for-sale financial assets and liabilities include derivative instruments, unless they have been designated as hedging instruments.

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

Loans and receivables (L&R)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

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

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

Held-to-maturity investments (HtM)

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

Available-for-sale financial assets (AfS)

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

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

Other financial liabilities

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

Hedging instruments (HI)

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

2.2.4.2. Initial measurement and derecognition of financial instruments

Transactions respecting the purchase and sale of investments, including regular way purchases or sales, are recognised at the trade date, initially at fair value plus transaction costs, with the exception of financial assets and liabilities measured at fair value through profit or loss, which are initially recognised at fair value.

Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all of the risks and rewards of their ownership. Where substantially all of the risks and rewards of ownership have not been transferred, investments are derecognised when the Company loses control over a given asset.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

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

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

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

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

Gains and losses on financial assets which are classified as available-for-sale are recognised in other comprehensive income, except for impairment losses and exchange gains or losses on monetary assets and gains or losses on interest calculated using the effective interest rate method. When available-for-sale financial assets are derecognised, the total cumulative gains and losses which had been recognised in other comprehensive income are reclassified to profit or loss.
The disposal of investments of the same type but with a different cost basis is accounted for using the FIFO method, i.e. the assets disposed of are valued successively at the prices of those assets which were acquired earlier.

Loans and receivables, held-to-maturity investments

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

Other financial liabilities

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

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition.

  If the transfer of financial assets does not qualify them for derecognition because the entity retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the entity continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received.

  In subsequent periods, the entity recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability;

- financial guarantee agreements, measured at the higher of:
  - the amount determined in accordance with note 2.2.14 Provisions, or
  - the amount initially recognised less cumulative amortisation recognised according to International Accounting Standard 18 *Revenue*.

2.2.4.4. Fair value

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

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

Estimated fair value reflects the amount recoverable or payable to close out an outstanding position at the end of the reporting period. Where possible, transactions are fair valued based on market prices. In the case of purchase or sale of commodity forwards, fair value was estimated based on forwards prices for the maturity dates of specific transactions. In case of copper, the official London Metal Exchange closing prices and volatility estimates as at the end of the reporting period are obtained from the Reuters news service.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

2.2.4.4. Fair value (continuation)

For silver and gold, the London Bullion Market Association fixing price at the end of the reporting period is used, and in the case of volatility of exchange rates and forward prices, quotations given by Banks/Brokers are used. Currency interest rates and currency volatility ratios are obtained from Reuters are used. Forwards and swaps on copper market are priced based on forward market curve. Silver and currency forward prices are calculated based on fixing and respective interest rates. Levy approximation to the Black-Scholes model is used for Asian options pricing on commodity markets, whereas the standard Garman-Kohlhagen model is used for European options pricing on currency markets.

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

The fair value of participation units held in open-end cash investment funds is determined based on the valuations quoted by those funds. The fair value of share in close-end investment funds qualified as available-for-sale financial assets is measured based on the analysis of information included in the financial statements of the funds. The fair values of other financial instruments held by the Company are determined based on market prices or on valuation techniques which use as input data only observable market variables from active markets.

2.2.4.5. Impairment of financial assets

At the end of each reporting period an assessment is made of whether there is objective evidence that a financial asset or a group of financial assets is impaired. The following are considered significant objective indicators (evidence of impairment): significant financial difficulty of the debtor, legal action being taken against the debtor, the disappearance of an active market for a given financial instrument, the occurrence of significant unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the prolonged significant decrease of the fair value of a equity instrument below it's cost.
If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and reclassified to profit or loss as a reclassification adjustment.

Impairment losses on equity instruments recognised in profit or loss are reversed through other comprehensive income. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

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

Loans and receivables, as well as held–to-maturity investments which are measured at amortised cost, are individually tested for impairment at the end of each reporting period. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets' portfolio). However, due to the nature of the sales of KGHM Polska Miedź S.A. and a restrictive policy towards credit risk, the Company analyses receivables primarily on an individual basis (regardless of their significance) in terms of the existence and recognition of impairment allowances.
An impairment loss is reversed, if in subsequent periods the impairment is reduced, and this reduction may be attributed to events occurring after recognition of the impairment loss. The reversal of an impairment loss is recognised in profit or loss.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

2.2.4.6. Embedded derivatives

Initial recognition of derivatives

Embedded derivatives are separated from host contracts and accounted for separately as at the date of transaction, if all of the following conditions are met:

- the hybrid (combined) instrument is not measured at fair value, with changes in fair value recognised in profit or loss,
- the characteristics and risks of the embedded derivative are not closely related to the characteristics and risks of the host contract, and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

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

These criteria in particular are deemed as being met for contracts involving metals sales or the purchase of copper-bearing materials, in which prices are set after the date of sale or purchase.

In such cases the Company accounts for the embedded derivative instrument separately from the host sale/purchase contract. From the moment of separation, the embedded derivative instrument is measured at fair value at the end of each reporting period. From the date of separation, the embedded derivative instrument is classified as a financial asset or liability measured at fair value through profit or loss. Any change in the balance of the embedded derivative instrument is accounted for as an adjustment respectively of revenues from sales or costs of sales.

2.2.4.7 Hedge accounting

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

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

<u>Derivatives used in cash flow hedges</u>

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

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

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

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

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

The Company hedges forecasted cash flows. The designated hedges relate to the future transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Financial instruments (continuation)

2.2.4.7 Hedge accounting (continuation)

production capacities for a given period. The Company estimates that the probability of these transactions occurring is very high, as from a historical point of view, sales were always realised at the levels assumed in Sales Plans.

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

Discontinuation of hedge accounting

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

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

2.2.5 Inventories

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

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

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

Inventories are measured in accordance with the following principles:
- materials and merchandise – at average cost as set for inventory disposal,
- finished goods, half-finished products and work in progress – based on cumulative actual manufacturing costs and giving due regard to the balance at the beginning of the reporting period.

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

2.2.6 Trade and other receivables

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.6 Trade and other receivables (continuation)

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

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

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

The category trade and other receivables includes:

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

2.2.7 Cash and cash equivalents

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

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

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

Before the initial classification of assets (or disposal groups) as held for sale, the carrying amount of the asset is measured in accordance with applicable standards. At the moment of reclassification these assets are measured at the lower of their carrying amount and their fair value less costs to sell.

2.2.9 Impairment of non-financial assets

Intangible assets not yet available for use, are not amortised, but are tested annually for impairment.
A depreciable asset is tested for impairment whenever an event or change in circumstances indicates that its carrying amount may not be recoverable. Amongst the fundamental and most important external indications of possible impairment are the continuation over the long term of a situation in which the carrying amount of Company net assets exceeds their market value, as well as unfavourable technical, market and economic changes to the environment in which the Company operates, including on the destination markets for the Company's products. Another possible indication of impairment may be an increase in market interest rates and premiums for risk reflected in calculations of the discount rates used to calculate the value in use of Company assets.
Internal factors taken into account in determining whether Company assets have been impaired primarily include the substantial decrease in actual net cash flow in relation to the net cash flow from operating activities assumed in the Budget, and, with respect to individual assets, any physical damage, loss of utility and the generation of lower economic benefits from expenditures incurred on their acquisition or construction, if a given asset independently generates cash flow.
An impairment loss is recognised as the amount of the carrying value of the given asset which exceeds its recoverable amount. The recoverable amount is the higher of two amounts: fair value less costs to sell, and value in use.

For the purpose of impairment assessment, assets are grouped at the lowest level at which they generate cash inflows that are largely independent of those from other assets (cash-generating units).

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.9 Impairment of non-financial assets (continuation)

Cash-generating units are determined separately each time an impairment test is to be performed.
If an impairment test indicates that the recoverable amount (i.e. the higher of the asset's fair value less costs to sell and its value in use) of a given asset or cash-generating unit is lower than its carrying amount, an impairment loss is recognised as the difference between the recoverable amount and the carrying amount of a given asset or cash-generating unit. Any impairment loss is initially allocated to goodwill, if any. The remaining amount of the impairment is allocated to assets within the cash-generating units proportionally to their share of the carrying amount of the entire unit. If such allocation is made, the carrying amount of the asset may not be lower than the highest of the following amounts: fair value less costs to sell, value in use and zero.

Impairment losses are recognised in profit or loss.

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

2.2.10 Equity

Equity in the financial statements of the Company consists of:
1. Share capital at nominal value,
2. Accumulated other comprehensive income, which consists of:
   - accumulated income/costs from re-measurement, set at the fair value of the cash flow hedging instruments in the portion reflecting an effective hedge,
   - accumulated income/costs from the fair value measurement of financial assets classified as available-for-sale, and
   - the impact of income tax related to accumulated income/costs presented in accumulated other comprehensive income.
3. Retained earnings, composed of:
   - undistributed profit or unabsorbed losses from previous years (accumulated profit/loss from prior years),
   - reserve capital created in accordance with the Commercial Partnerships and Companies Code,
   - reserve capital created and used in accordance with the Statutes of the Company,
   - profit or loss for the period.

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

2.2.11 Liabilities

Liabilities are present obligations of the Company arising from past events, the settlement of which is expected to result in an outflow of resources embodying economic benefits.
Liabilities comprise:
- liabilities arising from bank loans, other loans (borrowings) and finance lease liabilities,
- trade payables,
- other financial liabilities, and
- other non-financial liabilities.

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

2.2.12 Accrued expenses

Accrued expenses are due and payable liabilities arising from goods received or services performed, for which the payment has not yet been made, an invoice has not been received or a formal agreement reached with the supplier, including amounts due to employees.

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.13 Deferred income

Deferred income includes mainly monetary resources received to finance the acquisition or manufacture of fixed assets under construction or development work, which are recognised as income over the periods necessary to match them with the depreciation of the assets financed by these resources.

2.2.14 Provisions

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

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

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

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

The amount of provisions set at 1 January 2004, i.e. at the transition date for application of IFRS for the purposes of preparing the consolidated financial statements, recognised in the cost of property, plant and equipment, was calculated based on the optional exemption set out in IFRS 1 *First-time Adoption of IFRS*. Beginning from 1 January 2004, all changes arising from changes in the amount of provisions are recognised in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities.*

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

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

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

2.2.15 Employee benefits

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

The amount of the liability due to these benefits is equal to the present value of the defined benefit obligation at the end of the reporting period, and reflect actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the end of the reporting period by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of future benefit payment, with maturities similar to those of the liabilities due to be paid. According to IAS 19 *Employee Benefits*, the discount rate should be based on the market yields of highly liquid commercial bonds with low risk.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.15 Employee benefits (continuation)

Should there be no developed market for such bonds, and such a situation does exist in Poland, the interest rate on government bonds at the end of the reporting period should be applied.

Actuarial gains and losses are recognised in profit or loss in the period in which they arose.

Costs of past employment related to defined benefit plans are accounted for in profit or loss systematically, using the straight-line method, over the period until the benefits become vested.

KGHM Polska Miedź S.A. participates in an Employee Retirement Plan. With respect to this Plan, KGHM Polska Miedź S.A. has no legal or constructive obligation to pay any employee benefits if the related insurance firm does not have sufficient assets to cover its obligations in respect of the Plan participants after their period of employment.

2.2.16 Income taxes (including deferred tax)

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

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

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

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

Deferred tax assets and deferred tax liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction that:
- is not a business combination, and
- at the time of the transaction, affects neither the accounting profit nor taxable profit.

A deferred tax liability is likewise not recognised on temporary differences arising from the initial recognition of goodwill.

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

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

2.2.17 Contingent and other liabilities not recognised in the statement of financial position

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

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

- the amount of the obligation (liability) cannot be measured with sufficient reliability.

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

Other liabilities not recognised in the statement of financial position include, among others:
- liabilities towards the State Treasury from payment due to perpetual usufruct of land,
- liabilities towards local government entities from payment due to perpetual usufruct of land acquired for a fee on a secondary market, expressed in the total amount of future minimum payments arising from contracts,
- liabilities towards other entities due to payments arising from non-cancellable operating lease contracts, expressed in the total amount of future minimum payments arising from the contract.

2.2.18 Statement of comprehensive income

The statement of comprehensive income is comprised of profit or loss and other comprehensive income for the financial period.

2.2.19 Profit or loss

The cost of sales format is applied as the basic costs accounting method in profit or loss. Profit or loss is calculated as the total amount resulting from the subtraction of costs from income, and excluding elements of other comprehensive income.

2.2.20 Revenues

Revenues from sales are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. In the case of sales for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale. Revenues from sales which are recognised at such an amount are adjusted at the end of each reporting period by any change in the fair value of embedded derivative instruments, which are separated from the host sales contract in accordance with point 2.2.4.6.
Sales revenues are adjusted for the gain or loss from the settlement of derivative instruments hedging future cash flows, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same item of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.
Recognised in sales are revenues arising from ordinary operating activities of the Company, i.e. revenues from sales of products, services, merchandise and materials, reflecting any rebates granted and any other decreases in selling prices.

In addition, revenue for the given reporting period which affects the financial result of the period includes **other operating income,** which is indirectly related to the activities carried out, in particular:
- income and gains from investments,
- gains from the measurement and realisation of trading derivative instruments and the ineffective portion of gains from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange gains, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,
- reversal of impairment losses on held-to–maturity investments, available-for-sale financial assets, and loans and shares in subsidiaries and associates,
- reversal of impairment losses on fixed assets under construction and on intangible assets not yet available for use,
- release of unused provisions, previously charged to other operating costs, and
- gains on disposal of property, plant and equipment and intangible assets,

finance income, representing primarily income related to financing of the activities of the Company, including:
- net foreign exchange gains arising exclusively on liabilities from sources of financing of the Company's activities (loans, credits, bonds, finance leases etc.),
- gains on realisation and fair value measurement of derivative hedging instruments used to hedge liabilities financing the Company's activities.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.20 Revenues (continuation)

Moment of recognition of revenues

Revenues from the sale of products, merchandise and materials are recognised when:
- the Company has transferred to the buyer the significant risks and rewards of ownership of the merchandise, finished goods and materials,
- the Company has ceased to have a continued involvement in the management of merchandise, finished goods and materials sold to the extent usually associated with inventory management function, and no longer exercises effective control over those items,
- the amount of revenue can be measured in a reliable manner,
- it is probable that the economic benefits associated with the transaction will flow to the Company, and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenues from the sale of services are recognised when:
- the amount of revenue can be measured reliably,
- it is probable that the economic benefits associated with the transaction will flow to the Company,
- the stage of completion of the transaction at the end of the reporting period can be measured reliably, and
- the costs connected with the transaction and the costs to complete the transaction can be measured reliably.

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

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

2.2.21 Costs

The Company recognises as costs any probable decrease, in the reporting period, of economic benefits of a reliably-determined amount, in the form of a decrease in the value of assets, or an increase of provisions and liabilities, which lead to a decrease in equity or an increase in negative equity in a manner other than the withdrawal of funds by its owners.
Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals. In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the end of each reporting period is adjusted by any change in the fair value of embedded derivative instruments, which are separated from the host purchase contract in accordance with point 2.2.4.6.
Costs are accounted for both by nature and by the cost centres, and are reported in profit or loss using the costs by function (cost of sales) format as the primary cost reporting format.

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

In addition, costs for the given reporting period which affect profit or loss for the period include:
other operating costs, indirectly connected with operating activities, including in particular:
- losses on financial investments,
- losses from the measurement and realisation of traded derivative instruments and the ineffective portion of losses arising from the realisation and fair value measurement of derivative hedging instruments,
- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Company's activities,
- impairment losses on held-to–maturity investments, available-for-sale financial assets, loans and on shares in subsidiaries and associates,
- impairment losses on fixed assets under construction and on intangible assets not yet available for use,
- provisions recognised for disputed issues, penalties, compensation and other costs indirectly related to operating activities,
- donations granted,
- losses on disposal of property, plant and equipment and intangible assets,

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

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

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

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

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

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

2.2.23 Borrowing costs

Borrowing costs are recognised as a cost in profit or loss in the period in which they were incurred.
Borrowing costs, which are directly attributable to the acquisition, construction or production of a qualifying asset, affect its initial value as an element of its cost. Such costs are capitalised when it is probable that they will result in future economic benefits to the entity, and the costs can be measured reliably.

Borrowing costs consist of interest and other borrowing-related costs incurred, and include in particular:
- interest costs calculated using the effective interest method in accordance with IAS 39;
- financial charges due to financial leasing contracts recognised in accordance with IAS 17;
- exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

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

Borrowing costs for loans which were drawn without a specified purpose, but which were allocated to finance the acquisition or production of a qualifying asset, affect the initial value of the qualifying asset by the amount of the capitalisation rate applied to the expenditures on that asset. The capitalisation rate is the weighted average of all borrowing costs of an entity that are outstanding during a given period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

Exchange differences on borrowings drawn in a foreign currency (both specific and general) affect the initial value of the qualifying asset to the extent in which it represents an adjustment of interest costs. The amount of the exchange differences adjusting the interest cost is the difference between the cost of

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.23 Borrowing costs (continuation)

interest on similar financing which an entity would have drawn in its functional currency and the financing cost incurred in the foreign currency.

2.2.24 Leases

A lease is classified as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership of assets. The leased asset is capitalised at the inception of the lease at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments.
A depreciable asset acquired in a finance lease is depreciated over the shorter of its useful life and the lease term.
Where the substantial part of the risks and rewards incidental to ownership of an asset is retained by the lessor, a lease contract is classified as an operating lease.

2.2.25 Government grants

Non-monetary grants are accounted for at fair value.
Monetary grants for assets are presented in the statement of financial position as deferred income.
Grants are not recognised until there is a reasonable assurance that the entity will comply with the conditions attaching to them, and that the grants will be received.

Monetary grants are recognised systematically as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. They are not credited directly to equity.

A grant that becomes receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the entity with no future related costs is recognised as income of the period in which it becomes receivable, together with disclosure of this fact.

Grants related to income are presented as income, separately from the related costs which the grants are intended to compensate. Grants are recognised as income regardless of whether they were received in the form of cash or as a decrease of liabilities.

2.2.26 Segment reporting

Segment reporting involves the grouping of segments by the component parts of an entity:
- that engage in business activities from which the component may earn revenues and incur expenses,
- whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
- for which discrete financial information is available.

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

2.2.27 Capital management

The management of capital in KGHM Polska Miedź S.A. is aimed at maintaining the capacity to continue operations, including the realisation of planned investments, in a manner allowing the Company to generate returns for its shareholders and bring benefits to other stakeholders.
In accordance with market practice, the effective use of capital is monitored among others based on the following ratios:
1. The equity ratio, calculated as the relation of net tangible assets (equity less intangible assets) to total assets,
2. The ratio showing the relationship of borrowings and finance lease liabilities to EBITDA. EBITDA is operating profit plus depreciation/amortisation, and
3. The average weighted cost of capital ratio, calculated as the average weighted cost of equity and borrowed capital. The planned level of this ratio is used to evaluate the planned effectiveness of investment projects.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.28 Earnings per share

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

2.2.29 Statement of cash flows

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

2.2.30 Payments to subsidiaries

Returnable payments to reserve capital of subsidiaries by the Company are accounted for as either a non-current or current financial receivables. Non-returnable payments, including those used to cover losses in the financial statements, are accounted for as an increase in the value of investments.
The entity which receives a non-returnable payment accounts for it in retained earnings as an additional payment to reserve capital.

2.2.31 Acquisition of shares in the increased share capital.

Acquisition of new issued shares is accounted for at the date of signing of the agreement (for stock companies) or notarial act (for limited liability companies). If the deed of a limited liability company formation allow for an increase in its share capital to a specified amount without any change to the deed of company formation, then the acquisition of shares is accounted for at the date of passage of the relevant resolution by the General Shareholders' Meeting.

2.2.32 Exploration for and evaluation of mineral resources

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

Not recognised in assets due to the exploration for and evaluation of mineral resources are expenditures incurred:
a) prior to the commencement of exploration for and evaluation of mineral resources, i.e. expenditures incurred prior to the acquisition of legal rights to carry out exploratory activities within a specified area, and
b) after the technical feasibility and commercial viability of extracting a mineral resource is demonstrable.

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

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

For the purposes of testing for impairment, individual assets used in the exploration for and evaluation of mineral resources are tested separately, and if this is not possible, they are assigned to the cash-generating unit which is the financial unit performing the exploration for and evaluation of mineral resources.
Assets due to the exploration for and evaluation of mineral resources are recognised and presented as a separate group of fixed assets under construction and intangible assets not brought into use, respectively.

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

Based on the Energy Act and on individual decrees of the Minister of the Economy, power generation companies involved in the trade in and sale of electricity to end users are required to purchase and present for redemption property rights resulting from certificates of origin or the making of substitute fees. This obligation is considered as met if, for a given financial year, the share of total volume of electricity resulting from said certificates in the total annual sale of electricity to end users conforms to the limits set forth in decrees of the Minister of the Economy.

The Company recognises the acquired property rights in the statement of financial position as a merchandise.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.33 Property rights resulting from certificates of origin of energy from renewable resources and cogeneration (continuation)

Property rights at the date of acquisition are measured at cost, equivalent to the value of a given certificate of origin based on current market price, or the amount of the renegotiated contractual price in the case of such rights in off-session market transactions are purchased. The property rights allocation is realised at the average weighted cost of a given asset.

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

At the end of the reporting period the Company creates a provision for the costs of acquiring property rights against the value of merchandise sold. The amount of this provision is the lesser of two amounts: the market value of a given certificate of origin or the amount of the substitute fees representing the amount of energy sold. Settlement of the provision and the redemption of property rights is made at the date of redemption of these rights by the President of the Energy Regulation Office.
Penalties for failure to purchase the obligatory amount of property rights resulting from certificates of origin of energy from renewable resources or cogeneration, or to make substitute fees, is recognised in other operating costs.

3. Important estimates and assumptions

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

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

3.1 Economic useful life of property, plant and equipment

The Management Board of the Company annually reviews the residual value, depreciation methods and economic useful lives of property, plant and equipment subject to depreciation. At 30 June 2010 the Management Board determines whether the utility periods of assets applied by the Company for purposes of depreciation reflect the expected period of future economic benefits from these assets.

3.2 Financial instruments

In accordance with the guidelines of IAS 39 relating to the classification of non-derivative financial instruments with fixed payments or determinable maturity, these assets are classified as held-to-maturity investments. In making this judgement, the intended use and possibility of holding such investments to maturity are evaluated. Should the Company fail to hold such instruments to maturity, apart from the situation described in IAS 39, it would have to reclassify all such assets recognised in this group as available-for-sale. In such a situation, the reclassified investments would be measured at fair value, and not at amortised cost.

At the end of each reporting period the Company analyses significance of the impact of separated embedded derivative instruments on the financial statements. Following this analysis, the Company determined that separation of these instruments at 30 June 2010 will not have a significant impact on the financial statements.

3.3 Impairment of shares in subsidiaries and associates

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

3. Important estimates and assumptions (continuation)

3.4 Provisions

1. Provisions for future employee benefits – retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments are estimated using actuarial methods. A change in the financial factors being the basis for estimation, i.e.
   - an increase in the discount rate by 1% would cause a decrease in the provision by PLN 122 835 thousand,
   - a decrease in the discount rate by 1% would cause an increase in the provision by PLN 168 317 thousand,
   - an increase by 1 % in the coal price and salary increase rate would cause an increase in the provision by PLN 178 874 thousand,
   - a decrease by 1 % in the coal price and salary increase rate would cause a decrease in the provision by PLN 127 268 thousand.

2. Provision for decommissioning costs of mines and other facilities.

This provision represents the equivalent of the estimated future decommissioning costs of mines and other facilities, discounted to present value. Revaluation of this provision at the end of the reporting period is affected by the following indicators:

a) the index of changes in prices in the construction-assembly sector published by the Central Statistical Office (GUS),

b) the real discount rate calculated based on the profitability of treasury bonds with the maturities nearest to planned financial outflow (nominal discount rate) and the forecast rate of inflation.

Discount rates (nominal and inflation) are set separately for future periods, i.e. one, two and three years, and jointly for periods from the fourth year.

A 1% increase in the real discount rate used by the Management Board to estimate the amount of the provision for decommissioning costs of mines and other facilities would cause a decrease in the carrying amount of the provision for decommissioning mines and other facilities by PLN 133 276 thousand. However, a 1% decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 178 129 thousand.

3. Other non-current provisions – they are estimated using parameters applied to measurement of provisions for employee benefits (Note 21).

3.5 Deferred tax assets/liabilities

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

The probability of realising the deferred tax asset with future tax income is based on the Company Budget approved by the Supervisory Board. The projected financial results indicate that the Company will achieve taxable income, based on which the probability of settling a deferred tax asset is determined as high and is recognised in its full amount.

4. Business segments

The Company performed an analysis of the organisational structure, the system of internal reporting and the management model. Based on this analysis it was determined that the Company represents a single operating and reporting segment, which may be defined as „Production of copper, precious metals and other smelter products".

The core business of the Company is the production of copper and silver. Production is a fully integrated process, in which the end-product of one stage is the material used in the next stage. Copper ore extracted in the mines is transported to processing plants where it is enriched. As a result of this process, copper concentrate is produced, and then it is smelted and fire refined into copper anodes, which are then subjected to electrolytic refining to produce copper cathodes. In the copper processing process these cathodes are used to produce wire rod and round billets. The anode slime which is generated during the process of electrorefining is treated as a raw material for the production of precious metals.

Settlements between further stages of the production process are based on valuation at the production cost, and as a result the internal organisational units (mines, processing plants, smelters) in the production cycle do not show a profit from sales. The financial data which are prepared for management accounting purposes are based on the same accounting principles which are used to prepare the financial statements. The body

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

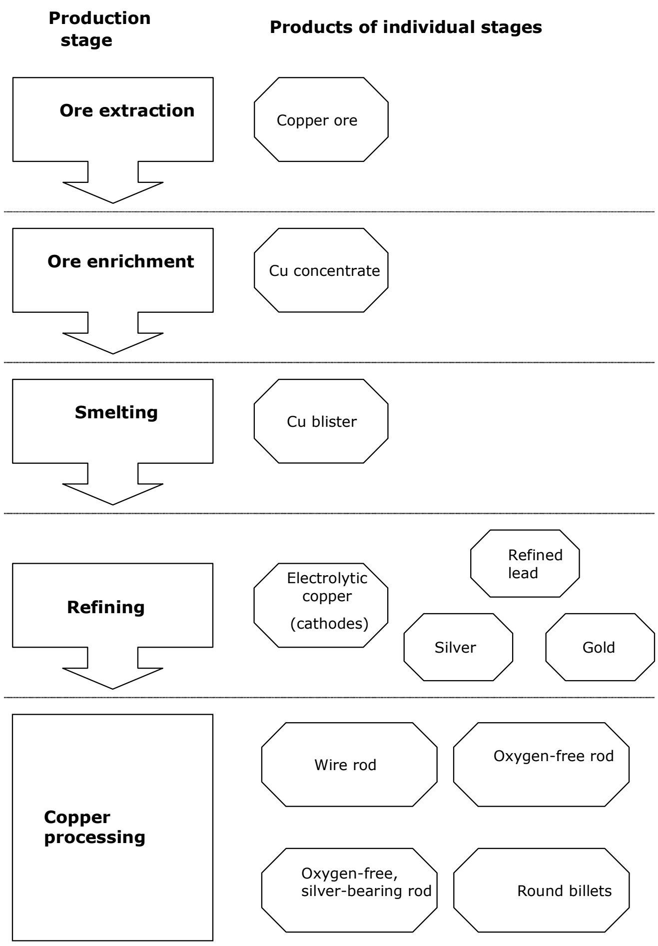
4. Business segments (continuation)

which performs regular reviews of the internal reports for purposes of making major operational decisions is the Management Board of the Company, as the body responsible for allocating resources and for the financial results. The internal reports of the Company on its results are prepared on a monthly basis, and do not contain financial data on the separate stages of the production process.

The organisational structure of KGHM Polska Miedź S.A. includes ten divisions and a Head Office. The Head Office carries out marketing and sales of the Company's basic products - copper cathodes, round billets, wire rod and silver – as well as the management of financial assets.

Production and sale of basic products

In the first half of 2010 the Company produced approx. 268 thousand tonnes of electrolytic copper and 561 tonnes of silver.



Segment assets and liabilities

	At	
	30 June 2010	**31 December 2009**
Assets	**16 976 883**	**13 953 030**
Liabilities	**4 773 212**	**3 549 073**
Debt ratio (%)	28.1	25.4

The main item in the segment's assets is property, plant and equipment, which at 30 June 2010 had a net carrying amount of PLN 6 081 778 thousand (at 31 December 2009, PLN 5 937 513 thousand), amounting to 35.82 % of total assets. Depreciation of property, plant and equipment at 30 June 2010 amounted to PLN 7 285 386 thousand, with impairment of PLN 7 602 thousand (at 31 December 2009, respectively PLN 7 104 333 thousand and PLN 7 602 thousand). The property, plant and equipment and intangible assets of the segment are all located in Poland.

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

4. Business segments (continuation)

Another significant item in the segment's assets is also investments in subsidiaries and associates measured at cost less any impairment. At 30 June 2010 the value of shares in subsidiaries amounted to PLN 1 974 183 thousand (at 31 December 2009, PLN 1 915 224 thousand), while the value of investments in associates at 30 June 2010 amounted to PLN 1 159 947 thousand (at 31 December 2009, PLN 1 159 947 thousand).

Expenditures on the property, plant and equipment and intangible assets of the segment

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Development	**233 926**	**235 789**
in mining	199 733	197 400
in metallurgy	15 972	36 274
in other divisions	18 221	2 115
Replacement	**180 973**	**249 891**
in mining	150 050	181 920
of which mining machinery	102 942	114 127
in metallurgy	23 893	64 906
in other divisions	7 030	3 065
Total	**414 899**	**485 680**

For purposes of making decisions on the allocation of resources, internal reports on expenditures on tangible investments are presented with a breakdown by expenditures on development and replacements. In accordance with the accounting standards in force in the Company, the amount of investment comprises expenditure on the replacement of significant parts of fixed assets and on significant maintenance.

Financial results of the segment

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Sales	**7 199 551**	**5 099 260**
Interest income	23 703	56 405
Interest cost	627	2 340
Amortisation/depreciation	306 126	268 081
Revaluation of provisions for employee benefits	56 664	42 763
Gains on measurement and realisation of derivative instruments	339 770	133 583
Losses on measurement and realisation of derivative instruments	475 242	244 174
Income tax	(521 219)	(274 630)
Profit for the period	**2 226 638**	**1 472 634**
ROA - return on assets (%)	13.1	10.0
ROE - return on equity (%)	18.2	16.0
EBITDA *(EBIT + amortisation/depreciation)*	**3 070 604**	**2 034 241**

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

4. Business segments (continuation)

Geographical areas

The geographical breakdown of revenues from sales reflects the location of end clients.

	Note	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Poland		1 863 228	1 217 155
Germany		1 565 706	1 006 239
France		296 237	477 986
Great Britain		757 511	587 956
The Czech Republic		505 223	244 929
Austria		143 423	47 804
Hungary		213 318	118 106
China		869 045	793 368
Other countries		985 860	605 717
Total	**23**	**7 199 551**	**5 099 260**

Main clients

For the period from 1 January 2010 to 30 June 2010 there were 3 main clients with whom the value of turnover achieved 10% of the Company's revenues**.**

	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Client 1	867 011	566 470
Client 2	756 165	532 084
Client 3	736 763	-

5. Property, plant and equipment

	At 30 June 2010	At 31 December 2009
Land	15 988	15 990
Buildings	2 589 483	2 504 055
Technical equipment and machinery	2 466 886	2 472 024
Motor vehicles	48 969	48 693
Other fixed assets	14 290	15 623
Fixed assets under construction	946 162	881 128
Total	**6 081 778**	**5 937 513**

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

5. Property, plant and equipment (continuation)

Change in property, plant and equipment in the period from 1 January 2010 to 30 June 2010

	Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2010								
Gross carrying amount		15 990	6 136 839	5 801 992	146 557	63 996	884 074	**13 049 448**
Accumulated depreciation		-	(3 631 590)	(3 326 833)	(97 537)	(48 373)	-	**(7 104 333)**
Impairment losses		-	(1 194)	(3 135)	(327)	-	(2 946)	**(7 602)**
Net carrying amount		**15 990**	**2 504 055**	**2 472 024**	**48 693**	**15 623**	**881 128**	**5 937 513**
Changes in the first half of 2010								
Settlement of fixed assets under construction		-	106 151	226 341	4 744	799	(338 035)	**-**
Purchases		-	-	-	-	-	396 469	**396 469**
Self-constructed		-	-	-	-	-	5 935	**5 935**
Depreciation	24	-	(67 579)	(227 467)	(4 337)	(2 051)	-	**(301 434)**
Disposal, scrapping/decommissioning or write-off		-	(1 051)	(4 054)	(15)	(81)	-	**(5 201)**
Property, plant and equipment under finance lease			-	-	(116)	-	-	**(116)**
Change in amount of provision for costs of decommissioning	22	-	47 907	-	-	-	-	**47 907**
Transfer between groups		-	-	-	-	-	-	**-**
Other changes		(2)	-	42	-	-	665	**705**
At 30 June 2010								
Gross carrying amount		15 988	6 281 456	5 916 770	147 892	63 552	949 108	**13 374 766**
Accumulated depreciation			(3 690 779)	(3 446 749)	(98 596)	(49 262)	-	**(7 285 386)**
Impairment losses		-	(1 194)	(3 135)	(327)	-	(2 946)	**(7 602)**
Net carrying amount		**15 988**	**2 589 483**	**2 466 886**	**48 969**	**14 290**	**946 162**	**6 081 778**

Change in property, plant and equipment in the period from 1 January 2009 to 31 December 2009

	Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2009								
Gross carrying amount		14 307	5 902 922	5 291 619	125 274	62 730	984 251	**12 381 103**
Accumulated depreciation		-	(3 543 609)	(3 179 465)	(90 099)	(46 494)	-	**(6 859 667)**
Impairment losses		-	-	(3 135)	(327)	-	(2 946)	**(6 408)**
Net carrying amount		**14 307**	**2 359 313**	**2 109 019**	**34 848**	**16 236**	**981 305**	**5 515 028**
Changes in 2009								
Settlement of fixed assets under construction		1 689	352 530	780 080	21 067	3 975	(1 159 341)	**-**
Purchases		-	-	-	-	-	1 041 441	**1 041 441**
Self-constructed		-	-	-	-	-	14 977	**14 977**
Depreciation			(123 151)	(402 858)	(7 574)	(4 574)	-	**(538 157)**
Disposal, scrapping/decommissioning or write-off		(6)	(6 308)	(14 038)	-	(14)	-	**(20 366)**
Reclassification from non-current assets classified as held for sale to property, plant and equipment		-	-	-	153	-	-	**153**
Change in amount of provision for costs of decommissioning	22	-	(77 221)	-	-	-	-	**(77 221)**
Transfer between groups		-	-	(199)	199	-	-	**-**
Other changes		-	86	20		-	2 746	**2 852**
Impairment losses		-	(1 194)	-		-	-	**(1 194)**
At 31 December 2009								
Gross carrying amount		15 990	6 136 839	5 801 992	146 557	63 996	884 074	**13 049 448**
Accumulated depreciation		-	(3 631 590)	(3 326 833)	(97 537)	(48 373)	-	**(7 104 333)**
Impairment losses		-	(1 194)	(3 135)	(327)	-	(2 946)	**(7 602)**
Net carrying amount		**15 990**	**2 504 055**	**2 472 024**	**48 693**	**15 623**	**881 128**	**5 937 513**

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

5. Property, plant and equipment (continuation)

Change in property, plant and equipment in the period from 1 January 2009 to 30 June 2009

	Note	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2009								
Gross carrying amount		14 307	5 902 922	5 291 619	125 274	62 730	984 251	**12 381 103**
Accumulated depreciation		-	(3 543 609)	(3 179 465)	(90 099)	(46 494)	-	**(6 859 667)**
Impairment losses		-	-	(3 135)	(327)	-	(2 946)	**(6 408)**
Net carrying amount		**14 307**	**2 359 313**	**2 109 019**	**34 848**	**16 236**	**981 305**	**5 515 028**
Changes in the first half of 2009								
Settlement of fixed assets under construction		37	158 659	295 204	4 773	1 601	(460 274)	**-**
Purchases		-	-	-	-	-	473 506	**473 506**
Self-constructed		-	-	-	-	-	8 986	**8 986**
Depreciation	24	-	(60 435)	(196 779)	(3 663)	(2 339)	-	**(263 216)**
Disposal, scrapping/decommissioning or write-off		(7)	(682)	(8 200)	-	(5)	-	**(8 894)**
Reclassification from non-current assets classified as held for sale to property, plant and equipment		-	-	-	303	-	-	**303**
Change in amount of provision for costs of decommissioning		-	(148 292)	-	-	-	-	**(148 292)**
Transfer between groups		-	85	-	-	-	-	**85**
Other changes		-	-	-	-	-	(380)	**(380)**
At 30 June 2009								
Gross carrying amount		14 337	5 900 418	5 437 534	129 316	63 717	1 006 089	**12 551 411**
Accumulated depreciation		-	(3 591 770)	(3 235 155)	(92 728)	(48 224)	-	**(6 967 877)**
Impairment losses		-	-	(3 135)	(327)	-	(2 946)	**(6 408)**
Net carrying amount		**14 337**	**2 308 648**	**2 199 244**	**36 261**	**15 493**	**1 003 143**	**5 577 126**

Depreciation of property, plant and equipment used in production or in providing services was recognised as a cost of sales in the amount of PLN 294 516 thousand (for the period from 1 January to 30 June 2009, PLN 256 255 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 6 918 thousand (for period from 1 January to 30 June 2009, PLN 6 954 thousand). Depreciation was not recognised in selling costs (for period from 1 January to 30 June 2009, PLN 7 thousand).
At 30 June 2010 KGHM Polska Miedź S.A. uses property, plant and equipment (motor vehicles) based on a finance lease agreement in the gross amount of PLN 297 thousand and depreciation of PLN 114 thousand (at 31 December 2009 the gross amount of PLN 464 thousand and depreciation of PLN 131 thousand).

The net carrying amount of property, plant and equipment at 30 June 2010 used for mining purposes was PLN 3 145 675 thousand (at 31 December 2009, PLN 3 102 316 thousand). These are in particular: industrial buildings, mining constructions (mine excavations, pipelines), cables and telecom lines, ventilators, pumps, mining machinery, power equipment, mine belt conveyors, air conditioning equipment and railway tracks.

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

	At							
	30 June 2010				**31 December 2009**			
	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount	Cost	Depreciation for the period	Accumulated depreciation	Net carrying amount
Land	3 946	-	-	3 946	3 936	-	-	3 936
Buildings	67 155	831	36 716	30 439	71 267	1 773	38 273	32 994
Technical equipment and machinery	5 206	68	4 555	651	5 386	175	4 665	721
Other property, plant and equipment	891	6	849	42	852	9	827	25
Total	**77 198**	**905**	**42 120**	**35 078**	**81 441**	**1 957**	**43 765**	**37 676**

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

5. Property, plant and equipment (continuation)

Amount of compensation from insurance companies, recognised in profit or loss, with respect to property, plant and equipment for which an impairment loss was recognised

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Amount of compensation recognised in profit or loss	1 877	1 798

Information about value of collateral established on property, plant and equipment for payables payment KGHM Polska Miedź S.A. is presented in note 19.1 Loans.

Perpetual usufruct of land

At 30 June 2010 the Divisions of the Company used land based on perpetual usufruct rights comprising a total area of 5 700 hectares (at 31 December 2009: 5 700 hectares).

	At	
	30 June 2010	**31 December 2009**
	(in hectares)	**(in hectares)**
Lubin Mine	45	45
Polkowice-Sieroszowice Mine	119	119
Rudna Mine	91	92
Ore Enrichment Plants	62	61
Głogów Smelter	2 046	2 046
Legnica Smelter	206	206
Cedynia Wire Rod Plant	48	48
Tailings Plant	3 072	3 072
Mine-smelter Emergency Rescue Unit	2	2
Data Center	3	3
Head Office	6	6

The Company received these rights free of charge based on laws in force. The land subject to perpetual usufruct is industrial area related to the core business of the Company, which also includes protective zones in which environmental quality limits have been exceeded due to the activities carried out by the Company.
Due to the nature of the use of the above-mentioned land, the Company has not determined a fair value for these perpetual usufruct rights at 30 June 2010.

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

Total value of future minimum fees due to perpetual usufruct of land	At	
	30 June 2010	**31 December 2009**
Under one year	7 135	6 047
From one to five years	29 126	26 401
Over five years	365 772	349 598
Total:	**402 033**	**382 046**

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

5. Property, plant and equipment (continuation)

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Fees due to perpetual usufruct of land recognised in profit or loss	**6 533**	**5 498**

Major investment projects recognised at 30 June 2010 under fixed assets under construction

Construction of the SW-4 shaft	352 453
Construction of the Głogów Głęboki – Przemysłowy shaft	153 405
Ventilation and air conditioning equipment in the mines	61 113
Mining regions infrastructural development - mines	44 253
Development of hydrotransport installation, including direct pumping of tailings from the OEPs to the Żelazny Most tailings pond	38 733
Purchase of property, plant and equipment - Divisions (including mining equipment)	35 531
Modernisation of the electrolyte treatment unit at the Głogów smelter	32 360
Total	**717 848**

Major investment projects recognised at 31 December 2009 under fixed assets under construction

Construction of the SW-4 shaft	301 116
Construction of the Głogów Głęboki – Przemysłowy shaft	145 461
Mining region infrastructural development in Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine	83 244
Primary equipment in mines (shafts, machines, pumps)	36 387
Development of hydrotransport installation, including direct pumping of tailings from the OEPs to the Żelazny Most tailings pond	35 798
Power and communications infrastructure - Divisions	34 576
Total	**636 582**

Capital commitments at the end of the reporting period but not recognised in the statement of financial position

	At	
	30 June 2010	**31 December 2009**
For the purchase of property, plant and equipment	852 171	211 596
For the purchase of intangible assets	16 524	11 470
Total capital commitments:	**868 695**	**223 066**

6. Intangible assets

	At	
	30 June 2010	**31 December 2009**
Development costs	837	1 046
Software	1 625	1 842
Acquired concessions, patents, licenses	22 779	24 876
Other intangible assets	33 333	33 672
Assets used in the exploration for and evaluation of mineral resources	9 120	790
Intangible assets not yet available for use	12 837	13 921
Total	**80 531**	**76 147**

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

6. Intangible assets (continuation)

Change in intangible assets in the period from 1 January 2010 to 30 June 2010:

	Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Assets used in the exploration for and evaluation of mineral resources	Intangible assets not yet available for use	Total
At 1 January 2010								
Gross carrying amount		8 654	18 822	67 605	37 825	790	14 714	**148 410**
Accumulated amortisation		(7 608)	(16 980)	(42 729)	(4 153)	-	-	**(71 470)**
Impairment losses		-	-	-	-	-	(793)	**(793)**
Net carrying amount		**1 046**	**1 842**	**24 876**	**33 672**	**790**	**13 921**	**76 147**
Changes in the first half of 2010								
Transfer from intangible assets not yet available for use		-	85	1 696	49	-	(1 830)	**-**
Purchases		-	-	-	-	8 330	3 289	**11 619**
Other changes		-	-	-	-	-	(2 543)	**(2 543)**
Amortisation	24	(209)	(302)	(3 793)	(388)	-	-	**(4 692)**
At 30 June 2010								
Gross carrying amount		8 654	18 894	69 301	37 874	9 120	13 630	**157 473**
Accumulated amortisation		(7 817)	(17 269)	(46 522)	(4 541)	-	-	**(76 149)**
Impairment losses		-	-	-	-	-	(793)	**(793)**
Net carrying amount		**837**	**1 625**	**22 779**	**33 333**	**9 120**	**12 837**	**80 531**

Change in intangible assets in the period from 1 January 2009 to 31 December 2009:

	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Assets used in the exploration for and evaluation of mineral resources	Intangible assets not yet available for use	Total
At 1 January 2009							
Gross carrying amount	8 551	18 734	63 510	37 509	930	15 155	**144 389**
Accumulated amortisation	(7 207)	(16 484)	(35 620)	(3 381)	-	-	**(62 692)**
Impairment losses	-	-	-	-	-	(793)	**(793)**
Net carrying amount	**1 344**	**2 250**	**27 890**	**34 128**	**930**	**14 362**	**80 904**
Changes in 2009							
Transfer from intangible assets not yet available for use	239	324	4 441	316	-	(5 320)	**-**
Purchases	-	-	-	-	35	10 206	**10 241**
Other changes	-	-	-	-	(175)	(5 327)	**(5 502)**
Amortisation	(537)	(732)	(7 455)	(772)	-	-	**(9 496)**
At 31 December 2009							
Gross carrying amount	8 654	18 822	67 605	37 825	790	14 714	**148 410**
Accumulated amortisation	(7 608)	(16 980)	(42 729)	(4 153)	-	-	**(71 470)**
Impairment losses	-	-	-	-	-	(793)	**(793)**
Net carrying amount	**1 046**	**1 842**	**24 876**	**33 672**	**790**	**13 921**	**76 147**

Change in intangible assets in the period from 1 January 2009 to 30 June 2009:

	Note	Development costs	Software	Acquired concessions, patents, licenses	Other intangible assets	Assets used in the exploration for and evaluation of mineral resources	Intangible assets not yet available for use	Total
At 1 January 2009								
Gross carrying amount		8 551	18 734	63 510	37 509	930	15 155	**144 389**
Accumulated amortisation		(7 207)	(16 484)	(35 620)	(3 381)	-	-	**(62 692)**
Impairment losses		-	-	-	-	-	(793)	**(793)**
Net carrying amount		**1 344**	**2 250**	**27 890**	**34 128**	**930**	**14 362**	**80 904**
Changes in the first half of 2009								
Transfer from intangible assets not yet available for use		-	40	330	52	-	(422)	**-**
Purchases		-	-	-	-	35	3 039	**3 074**
Other changes		-	-	-	-	(175)	(2 538)	**(2 713)**
Amortisation	24	(278)	(366)	(3 837)	(384)	-	-	**(4 865)**
At 30 June 2009								
Gross carrying amount		8 415	18 586	63 519	37 561	790	15 234	**144 105**
Accumulated amortisation		(7 349)	(16 662)	(39 136)	(3 765)	-	-	**(66 912)**
Impairment losses		-	-	-	-	-	(793)	**(793)**
Net carrying amount		**1 066**	**1 924**	**24 383**	**33 796**	**790**	**14 441**	**76 400**

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

6. Intangible assets (continuation)

At 30 June 2010, the major item of intangible assets is the documentation relating to geological information on the "Głogów Głęboki" deposit, presented in Other intangible assets, with a carrying amount of PLN 28 412 thousand and the remaining amortisation period of 44 years (at 31 December 2009: PLN 28 735 thousand) and the established mining rights for extracting copper ore from the "Głogów Głęboki Przemysłowy" deposit with a carrying amount of PLN 3 863 thousand and the remaining amortisation period of 45 years (at 31 December 2009: PLN 3 907 thousand).
The amortisation of intangible assets utilised in the production or in the providing of services was recognised in profit or loss as cost of sales in the amount of PLN 4 257 thousand (for the period from 1 January to 30 June 2009: PLN 4 406 thousand). The amortisation of other intangible assets was recognised in administrative expenses in the amount of PLN 435 thousand (for the period from 1 January to 30 June 2009: PLN 459 thousand).

7. Investments in subsidiaries and associates

	Shares and investment certificates in subsidiaries	Investments in associates
At 1 January 2010		
Amount at cost	3 236 002	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 1 January 2010	**1 915 224**	**1 159 947**
Changes in 2010		
- Acquisition of shares	30 959	-
- Acquisition of new issued shares	28 000	-
At 30 June 2010		
Amount at cost	3 294 961	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 30 June 2010	**1 974 183**	**1 159 947**
At 1 January 2009		
Amount at cost	3 065 832	1 163 640
Impairment losses	(1 270 819)	-
Net carrying amount at 1 January 2009	**1 795 013**	**1 163 640**
Changes in 2009		
- Acquisition of shares	2 800	-
- Acquisition of new issued shares	167 370	-
- Impairment losses	(49 959)	-
- Adjustment of cost due to refund of a tax on civil-law transactions	-	(3 693)
At 31 December 2009		
Amount at cost	3 236 002	1 159 947
Impairment losses	(1 320 778)	-
Net carrying amount at 31 December 2009	**1 915 224**	**1 159 947**
At 1 January 2009		
Amount at cost	3 065 832	1 163 640
Impairment losses	(1 270 819)	-
Net carrying amount at 1 January 2009	**1 795 013**	**1 163 640**
Changes in the first half of 2009		
- Acquisition of shares	2 800	-
- Acquisition of new issued shares	1 050	-
- Adjustment of cost due to refund of a tax on civil-law transactions	-	(3 693)
At 30 June 2009		
Amount at cost	3 069 682	1 159 947
Impairment losses	(1 270 819)	-
Net carrying amount at 30 June 2009	**1 798 863**	**1 159 947**

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

7. Investments in subsidiaries and associates (continuation)

Investments in subsidiaries (direct share)
as at 30 June 2010

Entity	Head office	Subject of activities	% of share capital held	% of voting rights held	Indirect share	Carrying amount of shares/ investment certificates
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	-	5 125
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100	-	824 926
„Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	-	402 305
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	2.06	2.06	63.61	1 500
KGHM CUPRUM Sp. z o.o. – CBR	Wrocław	R&D activities	100	100	-	8 506
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100	-	272 055
KGHM HMS Bergbau AG	Berlin	copper and other deposits exploring and mining	74.9	74.9	-	1 612
KGHM I FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	-	21 997
KGHM II FIZAN	Wrocław	cash investing in securities, monetary market instruments and other property rights	100	100	-	7 350
KGHM Kupferhandelsges. m.b.H.	Vienna	copper trading	100	100	-	925
KGHM LETIA S.A	Legnica	promotion of innovation	85.45	85.45	-	23 552
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	-	13 476
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100	-	6 903
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	-	2 800
„MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	-	36 286
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	-	84 122
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	-	32 133
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	-	150 569
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	-	78 041
						1 974 183

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

7. Investments in subsidiaries and associates (continuation)

Investments in subsidiaries (direct share)
as at 31 December 2009

Entity	Head office	Subject of activities	% of share capital held	% of voting rights held	Indirect share	Carrying amount of shares
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100	-	5 125
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100	-	824 926
„Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100	-	402 305
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	2.06	2.06	63.61	1 500
KGHM CUPRUM Sp. z o.o. – CBR	Wrocław	R&D activities	100	100	-	8 506
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100	-	272 055
KGHM Kupferhandelsges. m.b.H.	Vienna	copper trading	100	100	-	925
KGHM LETIA S.A	Legnica	promotion of innovation	85.45	85.45	-	23 552
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100	-	13 476
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100	-	6 903
KGHM TFI S.A.	Wrocław	creation and management of investment funds and management of financial instruments portfolios	100	100	-	2 800
„MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100	-	36 286
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100	-	84 122
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100	-	32 133
POL-MIEDŹ TRANS Sp. z o.o.	Lubin	transport services	100	100	-	150 569
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100	-	50 041
						1 915 224

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

7. Investments in subsidiaries and associates (continuation)

Financial information on an associate

	At		
	30 June 2010	**31 December 2009 ***	**31 December 2009**
	POLKOMTEL S.A.	POLKOMTEL S.A.	POLKOMTEL S.A.
Head office	Warsaw	Warsaw	Warsaw
% of share capital held	24.39	24.39	24.39
% of voting rights held	24.39	24.39	24.39
Total assets	7 854 445	8 425 970	8 410 779
Non-current liabilities	1 002 013	940 432	969 861
Current liabilities	3 111 912	4 282 778	4 112 669

	For the period		
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009 ***	**from 1 January 2009 to 30 June 2009**
Sales	3 765 816	3 962 243	4 057 130
Profit for the period	636 365	592 774	592 774

* the data for 2009 were adjusted in comparison to those presented in the report for 2009, due to changes in the financial statements of Polkomtel S.A. introduced as the result of an audit by a certified auditor.

8. Available-for-sale financial assets

	Note	At	
		30 June 2010	**31 December 2009**
Shares in unlisted companies	29	9 500	9 770
Shares in listed companies, of which:	29	421 817	-
ABACUS MINING & EXPLORATION CORP.		8 608	-
TAURON POLSKA ENERGIA S.A.		413 209	-
Share in the AIG investment fund	29	-	7 930
Non-current available-for-sale financial assets	**29**	**431 317**	**17 700**

9. Held-to-maturity investments

	Note	At	
		30 June 2010	**31 December 2009**
Monetary resources of the Mine Closure Fund		86 230	67 097
Total non-current held-to-maturity investments	**29**	**86 230**	**67 097**
Monetary resources of the Mine Closure Fund		460	580
Total current held-to-maturity investments	**29**	**460**	**580**
Total held-to-maturity investments	**29**	**86 690**	**67 677**

The Company is required by the Law on Geology and Mining, dated 4 February 1994 (Journal of Laws No. 228 item 1947 dated 14 November 2005) and the Decree of the Minister of the Economy of 24 June 2002 regarding the specific principles for the creation and functioning of mine closure funds (Journal of Laws No. 108, item 951) to accumulate monetary resources in a separate bank account called the Mine Closure Fund (MCF) to cover future decommissioning costs of mines and other facilities.

Management of the MCF assets primarily involves their investment in bank deposits or debt securities with a maturity of up to 1 year from the date of acquisition, and interests from these investments increase the value of the Fund. At 30 June 2010 the balance of held-to-maturity investments comprised MCF bank deposits in the amount of PLN 86 685 thousand and cash on MCF bank account in the amount of PLN 5 thousand.
Utilisation of the MCF assets will be carried out in accordance with the approved schedule for closing the mines. A portion of this assets, which the Company plans to make use of within 12 months from the end of the

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

9. Held-to-maturity investments (continuation)

reporting period, is presented in current held-to-maturity investments. The remainder of the assets, which are planned to be utilised in future years, is presented in non-current held-to-maturity investments, due to the restriction placed on their use to settle liabilities for at least twelve months from the end of the reporting period, despite the fact that the resources of this Fund are invested in current financial instruments (IAS 1 para. 57d.).

Information on the fair value of held-to-maturity investments was presented in Note 29.2.

10. Derivative financial instruments

		At	
	Note	**30 June 2010**	**31 December 2009**
Non-current assets			
hedging instruments		620 537	57 636
trade instruments		29 388	398
Non-current assets due to derivative financial instruments, total:		**649 925**	**58 034**
Current assets			
hedging instruments		419 030	244 869
trade instruments		12 638	18 378
Current assets due to derivative financial instruments, total:		**431 668**	**263 247**
Total assets due to derivative financial instruments	**29**	**1 081 593**	**321 281**
Non-current liabilities			
hedging instruments		237 888	54 867
trade instruments		114 497	6 487
Non-current liabilities due to derivative financial instruments, total:		**352 385**	**61 354**
Current liabilities			
hedging instruments		68 704	76 772
trade instruments		165 560	196 731
Current liabilities due to derivative financial instruments, total:		**234 264**	**273 503**
Total liabilities due to derivative financial instruments	**29**	**586 649**	**334 857**

10. Derivative financial instruments (continuation)

TRADE INSTRUMENTS

Type of derivative instrument	Volume/ Notional	Avg. weighted price/ex. rate[2]	At 30 June 2010				At 31 December 2009			
			Financial assets		Financial liabilities		Financial assets		Financial liabilities	
	Cu [t]	Cu [USD/t]								
	Currency ['000 USD]	Currency [USD/PLN]	Current	Non-current	Current	Non-current	Current	Non-current	Current	Non-current
Derivatives – Commodity contracts - Metals - Copper										
Options										
Sold call options	5 448.3	1			(120 124)				(30 514)	(6 089)
Purchased put options	97 500	4 258	4 504	26 490			860	398		
Sold put options	175 500	4 521			(13 581)	(93 694)			(860)	(398)
TOTAL			**4 504**	**26 490**	**(133 705)**	**(93 694)**	**860**	**398**	**(31 374)**	**(6 487)**
Derivatives – Currency contracts										
Options										
Purchased put options	540 000[1]	2.6778	7 191	2 898			17 025			
Sold call options	185 022[1]	4.2502			(17 506)				(28 592)	
Purchased call options	180 000	4.3685	943				493			
Sold put options	810 000	2.6852			(14 349)	(20 803)			(136 765)	
TOTAL			**8 134**	**2 898**	**(31 855)**	**(20 803)**	**17 518**		**(165 357)**	
TOTAL TRADE INSTRUMENTS			**12 638**	**29 388**	**(165 560)**	**(114 497)**	**18 378**	**398**	**(196 731)**	**(6 487)**

[1]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.
[2]The weighted average hedge prices/ exchange rates are aggregate amounts presented for informational purposes only. Their use in financial analysis in certain cases may lead to erroneous results. This relates to hedging levels and to levels of participation in option instruments, in the case of which the simulation of future settlement amounts may generate one set of results when the average weighted exercise price/ exchange rate is assumed and other set of results when the calculation is based on specific exercise prices/ exchange rates of options entered into by the Company.

10. Derivative financial instruments (continuation)

HEDGING INSTRUMENTS							**At 30 June 2010**				**At 31 December 2009**			
	Volume/ Notional	**Avg. weighted price/ ex. rate[2]**	**Maturity/ settlement period**		**Period of profit/loss impact**		**Financial assets**		**Financial liabilities**		**Financial assets**		**Financial liabilities**	
Type of derivative instrument	Cu [t] Ag ['000 troz] Currency ['000 USD]	Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	**From**	**Till**	**From**	**Till**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**	**Current**	**Non-current**
Derivatives – Commodity contracts - Metals - Copper														
Options														
Purchased put options											39 315	5 424		
Corridor	19 500	6 700-8 800	Jan 11	June 11	Feb 11	July 11	46 819	10 474	(10 346)	(2 972)	18 797	48 847	(76 441)	(54 867)
Corridor- seagull	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 put	63 375	7 038.46	July 10	Dec 10	Aug 10	Jan 11	172 626							
TOTAL							**350 128**	**465 517**	**(34 652)**	**(112 213)**	**58 112**	**54 271**	**(76 441)**	**(54 867)**
Derivatives – Commodity contracts - Metals - Silver														
Options														
Purchased put options	3 600	16	July 10	Dec 10	Aug 10	Jan 11	4 918				23 465	3 365		
TOTAL							**4 918**				**23 465**	**3 365**		
Derivatives – Currency contracts - PLN/USD														
Options														
Purchased put options	495 000	2.8470	July 10	June 11	July 10	June 11	25 874				43 552			
Corridor	540 000 [1]	3.3444 – 4.4228	July 10	Dec 12	July 10	Dec 12	26 890	75 389	(3 807)	(37 824)	119 740		(331)	
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 put	60 000	3.000	July 10	Dec 10	July 10	Dec 10	1 452							
TOTAL							**63 984**	**155 020**	**(34 052)**	**(125 675)**	**163 292**		**(331)**	
TOTAL HEDGING INSTRUMENTS							**419 030**	**620 537**	**(68 704)**	**(237 888)**	**244 869**	**57 636**	**(76 772)**	**(54 867)**

[1,2] explanations on the previous page

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

11. Trade and other receivables

	Note	At 30 June 2010	At 31 December 2009
Non-current trade and other receivables			
Payment to subsidiaries		44 512	44 512
Other financial receivables		1 235	1 246
Loans granted		61 887	64 402
Impairment allowances		-	-
Total loans and financial receivables, net	**29**	**107 634**	**110 160**
Other non-financial receivables		11	11
Prepayments		1	2
Impairment allowances		-	-
Total non-financial receivables, net		**12**	**13**
Non-current trade and other receivables, net		**107 646**	**110 173**
Current trade and other receivables			
Trade receivables		1 292 083	1 024 785
Receivables due to unsettled derivative instruments		5 524	-
Loans granted		47 063	13 642
Payment to subsidiaries		10 604	12 104
Other financial receivables		23 246	16 819
Impairment allowances	30.3.6	(32 804)	(25 582)
Total loans and financial receivables, net	**29**	**1 345 716**	**1 041 768**
Other non-financial receivables, including:		239 508	284 121
Taxes, social security and other charge		212 103	268 714
Prepayments		68 730	2 295
Impairment allowances		(12 830)	(13 586)
Total current non-financial receivables, net		**295 408**	**272 830**
Total current trade and other receivables, net		**1 641 124**	**1 314 598**
Total non-current and current trade and other receivables, net		**1 748 770**	**1 424 771**

Receivables due to unsettled derivative instruments represent the amount of derivative instruments, realised by 30 June 2010, whose final settlement was 2 July 2010.
These instruments were measured to fair value at the average settlement price for the month of June 2010. For details see note 30.1.8.
At 31 December 2009 there were no receivables due to unsettled derivative instruments.

Impairment allowances on non-financial receivables

	Note	For the period from 1 January 2010 to 30 June 2010	from 1 January 2009 to 31 December 2009	from 1 January 2009 to 30 June 2009
Impairment allowances at the beginning of the period		**13 586**	**23 859**	**23 859**
Impairment allowances recognised in profit or loss	27	-	389	387
Impairment allowances reversed through profit or loss	26	(743)	(1 559)	(777)
Impairment allowances on costs of legal proceedings		-	3	-
Impairment allowances utilised during the period		(10)	(9 015)	(507)
Reversal of impairment allowances on costs of legal proceedings		(3)	(91)	(91)
Impairment allowances at the end of the period		**12 830**	**13 586**	**22 871**

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

12. Inventories

	At	
	30 June 2010	**31 December 2009**
Materials	79 834	222 307
Half-finished products and work in progress	1 769 243	1 422 229
Finished goods	269 657	243 200
Merchandise	8	2 550
Total carrying amount of inventories	**2 118 742**	**1 890 286**

	Note	**For the period**	
Write-down of inventories in the financial period		**from 1 January 2010 to 30 June 2010**	**from 1 January 2009 to 30 June 2009**
Write-down of inventories recognised in cost of sales	24	364	704
Reversal of write-down recognised in cost of sales	24	277	1 329

At 30 June 2010 the Company did not identify basic products inventories whose net realisable value would be lower than their costs.

13. Cash and cash equivalents

	Note	**At**	
		30 June 2010	**31 December 2009**
Cash in hand		55	63
Cash at bank		63 594	8 622
Other financial assets with a maturity of up to 3 months from the date of acquisition		1 968 835	966 513
Total cash and cash equivalents	**29**	**2 032 484**	**975 198**

Other financial assets with a maturity of up to 3 months from the date of acquisition include deposits in the amount of PLN 1 964 536 thousand (as at 31 December 2009: PLN 965 222 thousand), and deposit interest in the amount of PLN 4 299 thousand (as at 31 December 2009: PLN 1 291 thousand).

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

14. Non-current assets held for sale

	At	
	30 June 2010	**31 December 2009**
Non-current assets held for sale	495	224

At 30 June 2010 in the interim statement of financial position, the item held-for-sale non-current assets includes shares in PCPM sp. z o.o. in the amount of PLN 270 thousand, property, plant and equipment: a helicopter in the amount of PLN 158 thousand and an automobile in the amount of PLN 67 thousand (at 31 December 2009 the item held-for-sale non-current assets in the amount of PLN 224 thousand included property, plant and equipment: a helicopter and an automobile).

15. Share capital

At 30 June 2010, the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares.
Each share gives the right to one vote at the General Meeting. The Company does not have treasury shares. Subsidiaries and associates do not have shares of KGHM Polska Miedź S.A.
In the first half of 2009 and in the first half of 2010 there were no changes in the registered share capital or in the number of shares.

Ownership structure
At 30 June 2010, the only shareholder of the Company holding shares granting the right to at least 5% of the total number of votes at the General Meeting was the Polish State Treasury, which - based on an announcement dated 12 January 2010 - held 63 589 900 shares, representing 31.79% of the share capital and the same number of votes at the General Meeting.
The remaining shareholders held shares representing less than 5% of the total number of votes at the General Meeting – a total of 136 410 100 shares, representing 68.21% of the share capital and the same number of votes at the General Meeting.

Changes in significant packets of shares
On 12 January 2010 the Company received an announcement from the Minister of the State Treasury, stating that on 8 January 2010 the State Treasury carried out a sale on a regulated market of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors.
Prior to this sale, the State Treasury was the owner of 83 589 900 shares, granting the same number of votes and representing 41.79% of the share capital of the Company and of the total number of votes.

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

16. Accumulated other comprehensive income

	Note	Accumulated other comprehensive income due to:		
		Available-for-sale financial assets	**Cash flow hedging financial instruments**	**Total accumulated other comprehensive income**
At 1 January 2010		**1 489**	**125 739**	**127 228**
Fair value losses on available-for-sale financial assets		(11 448)	-	(11 448)
Impact of effective cash flow hedging transactions entered into	30	-	309 255	309 255
Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets		(1 839)	-	(1 839)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	30	-	(82 294)	(82 294)
Deferred income tax	20	2 525	(43 123)	(40 598)
Other comprehensive income		**(10 762)**	**183 838**	**173 076**
At 30 June 2010		**(9 273)**	**309 577**	**300 304**
At 1 January 2009		**10 265**	**508 483**	**518 748**
Fair value losses on available-for-sale financial assets		(3 334)	-	(3 334)
Impact of effective cash flow hedging transactions entered into	30	-	(39 337)	(39 337)
Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets		(7 500)	-	(7 500)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	30	-	(433 187)	(433 187)
Deferred income tax	20	2 058	89 780	91 838
Other comprehensive income		**(8 776)**	**(382 744)**	**(391 520)**
At 31 December 2009		**1 489**	**125 739**	**127 228**
At 1 January 2009		**10 265**	**508 483**	**518 748**
Fair value losses on available-for-sale financial assets		(588)		(588)
Impact of effective cash flow hedging transactions entered into	30	-	(137 647)	(137 647)
Amount transferred to profit or loss – adjustment due to the reclassification of available-for-sale financial assets		(7 500)	-	(7 500)
Amount transferred to profit or loss - adjustment due to the reclassification of hedging instruments	30	-	(487 548)	(487 548)
Deferred income tax	20	1 537	118 787	120 324
Other comprehensive income		**(6 551)**	**(506 408)**	**(512 959)**
At 30 June 2009		**3 714**	**2 075**	**5 789**

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

16. Accumulated other comprehensive income (continuation)

Accumulated other comprehensive income components

	At					
	30 June 2010		**31 December 2009**		**30 June 2009**	
	Gross value	**Net value**	**Gross value**	**Net value**	**Gross value**	**Net value**
Accumulated other comprehensive income due to available-for-sale financial assets	**(11 448)**	**(9 273)**	**1 838**	**1 489**	**4 584**	**3 714**
Fair value gains	-	-	1 838	1 489	4 584	3 714
Fair value losses	(11 448)	(9 273)	-	-	-	-
Accumulated other comprehensive income due to cash flow hedging instruments	**382 194**	**309 577**	**155 233**	**125 739**	**2 562**	**2 075**
Gains on measurement	382 194	309 577	155 233	125 739	2 562	2 075
Total accumulated other comprehensive income	**370 746**	**300 304**	**157 071**	**127 228**	**7 146**	**5 789**

Accumulated other comprehensive income is not subject to distribution.

17. Retained earnings

	Note	Reserve capital created in accordance with the Commercial Partnerships and Companies Code, art. 396	Reserve capital created from profit in accordance with the Statutes	Profit/(loss) from prior years	Retained earnings, total
At 1 January 2010		**660 000**	**5 076 544**	**2 540 185**	**8 276 729**
Profit for the period		-	-	2 226 638	2 226 638
Total recognised income/(expenses)		-	**1 940 185**	**(2 540 185)**	**(600 000)**
Transfer to reserve capital		-	1 940 185	(1 940 185)	**-**
Dividend approved but unpaid	33	-	-	(600 000)	(600 000)
At 30 June 2010		**660 000**	**7 016 729**	**2 226 638**	**9 903 367**
At 1 January 2009		**660 000**	**4 492 166**	**2 920 378**	**8 072 544**
Profit for the period		-	-	2 540 185	2 540 185
Total recognised income/(expenses)		-	**584 378**	**(2 920 378)**	**(2 336 000)**
Transfer to reserve capital		-	584 378	(584 378)	**-**
Dividend approved and paid		-	-	(2 336 000)	(2 336 000)
At 31 December 2009		**660 000**	**5 076 544**	**2 540 185**	**8 276 729**
At 1 January 2009		**660 000**	**4 492 166**	**2 920 378**	**8 072 544**
Profit for the period		-	-	1 472 634	1 472 634
Total recognised income/(expenses)		-	**584 378**	**(2 920 378)**	**(2 336 000)**
Transfer to reserve capital		-	584 378	(584 378)	**-**
Dividend approved but unpaid		-	-	(2 336 000)	(2 336 000)
At 30 June 2009		**660 000**	**5 076 544**	**1 472 634**	**7 209 178**

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

17. Retained earnings (continuation)

Based on the Commercial Partnerships and Companies Code, the Company is required to create reserve capital for any potential (future) or existing losses, to which no less than 8 percent of a given financial year's profit is transferred until the reserve capital has been built up to no less than one-third of the registered share capital. The reserve capital created in this manner may not be employed otherwise than in covering the loss reported in the financial statements.
At 30 June 2010 this statutory reserve capital in the Company amounts to PLN 660 000 thousand, and is recognised in equity under retained earnings.

18. Trade and other payables

		At	
	Note	**30 June 2010**	**31 December 2009**
Non-current trade and other payables			
Trade payables		2 236	3 901
of which payables due to purchase, construction of property, plant and equipment and intangible assets		1 439	1 866
Other financial liabilities		11 980	12 382
Total non-current financial liabilities (scope of IFRS7)	**29**	**14 216**	**16 283**
Deferred income		1 143	1 189
Total non-current non-financial liabilities		**1 143**	**1 189**
Total non-current trade and other payables		**15 359**	**17 472**
Current trade and other payables			
Trade payables		635 981	605 070
of which payables due to purchase, construction of property, plant and equipment and intangible assets		157 410	179 315
Payables due to unsettled derivative instruments		-	30 611
Other financial liabilities		635 563	14 730
of which payables due to unpaid dividends		600 000	-
Total current financial liabilities (scope of IFRS7)	**29**	**1 271 544**	**650 411**
Other financial liabilities (IAS 19 – Employee benefits)		69 162	125 219
Total current financial liabilities		**1 340 706**	**775 630**
Liabilities due to taxes and social security		145 497	176 052
Other non-financial liabilities		40 765	34 542
Special funds		97 587	85 216
Deferred income		55 651	840
Accruals		349 912	303 769
Total current non-financial liabilities		**689 412**	**600 419**
Total current trade and other payables		**2 030 118**	**1 376 049**
Total non-current and current trade and other payables		**2 045 477**	**1 393 521**

At 30 June 2010 there were none payables due to unsettled derivative instruments. At 31 December 2009 payables due to unsettled derivative instruments represented the derivative instruments whose date of settlement fell on 5 January 2010.
These instruments were measured to fair value at the average settlement price for the month of December 2009.

At 30 June 2010 the most significant item in accruals in the amount of PLN 179 938 thousand (at 31 December 2009, PLN 242 978 thousand) is a provision for future payment due to the annual bonus, which is paid after approval of the financial statements in accordance with the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.

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

19. Borrowings and finance lease liabilities

	Note	At	
		30 June 2010	**31 December 2009**
Non-current loans and finance lease liabilities			
Finance lease liabilities		8 881	11 576
Total non-current loans and finance lease liabilities		**8 881**	**11 576**
Current loans and finance lease liabilities			
Loans		1 002	3 005
Finance lease liabilities		3 084	3 104
Total current loans and finance lease liabilities		**4 086**	**6 109**
Total loans and finance lease liabilities	**29**	**12 967**	**17 685**

19.1 Loans

	At	
	30 June 2010	**31 December 2009**
Loan currency	PLN	PLN
Interest rate	Fixed	Fixed
The value of the loan	1 002	3 005
of which payable in 2010 (current)	1 002	3 005

As at 30 June 2010 the Company had liabilities due to loans from the Regional Fund for Environmental Protection and Water Management in the amount of PLN 1 002 thousand payable by 16 September 2010. Interest rate on the above loans is 4%.
The repayment of the loan is guaranteed with a blank promissory note and Borrower’s statement on submission to the enforcement regime.

19.2 Finance lease liabilities

As at 30 June 2010, the most significant item in finance lease liabilities is a liability with a carrying amount of PLN 11 795 thousand (EUR 2 845 thousand), which results from an agreement with the State Treasury. Based on this agreement the State Treasury provides access to geological information for a fee. This information was acquired with the purpose to prepare a licensing application to obtain a license for the extraction of ore from the Głogów Głęboki - Przemysłowy deposit. This license was granted in November 2004. Payments to the State Treasury are being made in 10 equal instalments. The last instalment will be settled on 30 June 2014. Those non interest-bearing liabilities were recognised in the books of the Company at a discounted amount. As the payments are in EUR, the liability is exposed to currency risk due to changes in foreign exchange rates at the date of payment. The carrying amount of the related intangible assets at the end of the reporting period amounts to PLN 28 412 thousand.

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

19. Borrowings and finance lease liabilities (continuation)

19.2 Finance lease liabilities (continuation)

Finance lease liabilities as at 30 June 2010

	2011 (current)	2011	2012	2013-2014	Total
Nominal value of minimum lease payments	**3 132**	**3 132**	**3 132**	**3 073**	**12 469**
Future finance costs due to finance leases	(48)	(91)	(146)	(219)	(504)
Present value of minimum lease payments	**3 084**	**3 041**	**2 986**	**2 854**	**11 965**

Finance lease liabilities as at 31 December 2009

	2010 (current)	2011	2012	2013-2014	Total
Nominal value of minimum lease payments	**3 144**	**3 144**	**3 144**	**6 139**	**15 571**
Future finance costs due to finance leases	(40)	(87)	(166)	(598)	(891)
Present value of minimum lease payments	**3 104**	**3 057**	**2 978**	**5 541**	**14 680**

20. Deferred tax - changes

		For the period	
	Note	**from 1 January 2010 to 30 June 2010**	**from 1 January 2009 to 31 December 2009**
Deferred tax assets at the beginning of the reporting period		601 467	499 221
Deferred tax liabilities at the beginning of the reporting period		434 405	530 737
Net deferred tax (liabilities)/assets at the beginning of the reporting period, of which:		**167 062**	**(31 516)**
Changes during the year			
Charged to profit for the period	31	(227 942)	(246 483)
Credited to profit for the period	31	281 831	353 223
Decrease in accumulated other comprehensive income	16	(88 313)	(155 864)
Increase in accumulated other comprehensive income	16	47 715	247 702
Net deferred tax assets at the end of the reporting period, of which:		**180 353**	**167 062**
Deferred tax assets at the end of the reporting period		715 581	601 467
Deferred tax liabilities at the end of the reporting period		535 228	434 405

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

20. Deferred tax – changes (continuation)

Deferred tax assets prior to offsetting

	At 1 January 2010 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences and tax loss	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	**At 30 June 2010 based on the rate of 19%**
Interest	1	(1)	-	**-**
Allowances for impairment of receivables	8 335	546	-	**8 881**
Short-term accruals for salaries	51 038	8 626	-	**59 664**
Employee benefits (holidays)	3 064	-	-	**3 064**
Provision for decommissioning of mines and other facilities	99 453	8 617	-	**108 070**
Measurement of forward transactions	174 330	82 688	-	**257 018**
Depreciation differences	19 330	(1 535)	-	**17 795**
Liabilities due to future employee benefits	226 387	10 766	-	**237 153**
Unpaid salaries with surcharges	10 986	(2 596)	-	**8 390**
Other	8 543	4 828	2 175	**15 546**
Total	**601 467**	**111 939**	**2 175**	**715 581**

	At 1 January 2009 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences and tax loss	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	**At 31 December 2009 based on the rate of 19%**
Interest	3	(2)	-	**1**
Allowances for impairment of receivables	8 543	(208)	-	**8 335**
Short-term accruals for salaries	49 010	2 028	-	**51 038**
Employee benefits (holidays)	3 509	(445)	-	**3 064**
Provision for decommissioning of mines and other facilities	117 302	(17 849)	-	**99 453**
Measurement of forward transactions	38 150	136 180	-	**174 330**
Re-measurement of hedging instruments	1 540	(1 540)	-	**-**
Depreciation differences	12 607	6 723	-	**19 330**
Liabilities due to future employee benefits	199 306	27 081	-	**226 387**
Unpaid salaries with surcharges	48 230	(37 244)	-	**10 986**
Other	21 021	(12 478)	-	**8 543**
Total	**499 221**	**102 246**	**-**	**601 467**

	At 1 January 2009 based on the rate of 19%	Credited/(Charged) to profit for the period due to a change in the balance of temporary differences and tax loss	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	**At 30 June 2009 based on the rate of 19%**
Interest	3	(3)	-	**-**
Allowances for impairment of receivables	8 543	(163)	-	**8 380**
Short-term accruals for salaries	49 010	6 824	-	**55 834**
Employee benefits (holidays)	3 509	-	-	**3 509**
Provision for decommissioning of mines and other facilities	117 302	(31 153)	-	**86 149**
Measurement of forward transactions	38 150	43 036	-	**81 186**
Re-measurement of hedging instruments	1 540	(1 540)		**-**
Depreciation differences	12 607	7 241	-	**19 848**
Liabilities due to future employee benefits	199 306	8 125	-	**207 431**
Unpaid salaries with surcharges	48 230	(33 603)	-	**14 627**
Other	21 021	(9 356)	-	**11 665**
Total	**499 221**	**(10 592)**	**-**	**488 629**

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

20. Deferred tax – changes (continuation)

Deferred tax liabilities prior to offsetting

	At 1 January 2010 based on the rate of 19%	(Credited)/Charged to profit for the period due to a change in the balance of temporary differences	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	**At 30 June 2010 based on the rate of 19%**
Interest	429	673	-	**1 102**
Measurement of forward transactions	37 138	42 726	-	**79 864**
Re-measurement of hedging instruments	29 494	-	43 123	**72 617**
Depreciation differences	365 977	15 523	-	**381 500**
Measurement of available-for-sale financial assets	350	-	(350)	**-**
Other	1 017	(872)	-	**145**
Total	**434 405**	**58 050**	**42 773**	**535 228**

	At 1 January 2009 based on the rate of 19%	(Credited)/Charged to profit for the period due to a change in the balance of temporary differences	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	**At 31 December 2009 based on the rate of 19%**
Interest	1 207	(778)	-	**429**
Measurement of forward transactions	59 498	(22 360)	-	**37 138**
Re-measurement of hedging instruments	119 274	-	(89 780)	**29 494**
Depreciation differences	348 021	17 956	-	**365 977**
Measurement of available-for-sale financial assets	2 408	-	(2 058)	**350**
Other	329	688	-	**1 017**
Total	**530 737**	**(4 494)**	**(91 838)**	**434 405**

	At 1 January 2009 based on the rate of 19%	(Credited)/Charged to profit for the period due to a change in the balance of temporary differences	Increase/(Decrease) in accumulated other comprehensive income due to change in the balance of temporary differences	**At 30 June 2009 based on the rate of 19%**
Interest	1 207	488	-	**1 695**
Measurement of forward transactions	59 498	(22 614)	-	**36 884**
Re-measurement of hedging instruments	119 274	-	(118 787)	**487**
Depreciation differences	348 021	(13 565)	-	**334 456**
Measurement of available-for-sale financial assets	2 408	-	(1 537)	**871**
Other	329	(183)	-	**146**
Total	**530 737**	**(35 874)**	**(120 324)**	**374 539**

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

21. Employee benefits

A general description of the Employee Retirement Plan was presented in Note 2.2.15

Changes in future employee benefits

	Note	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Post-mortem benefit
Present value of obligations - at 1 January 2010	**25**	**1 199 110**	**232 680**	**188 436**	**753 304**	**24 690**
Interest costs		**33 153**	6 475	5 251	20 730	697
Current service cost		**18 070**	7 132	5 033	5 537	368
Benefits paid		**(48 262)**	(10 008)	(6 834)	(31 420)	-
Actuarial losses		**52 859**	9 717	3 019	38 851	1 272
Present value of obligations - at 30 June 2010	**25**	**1 254 930**	**245 996**	**194 905**	**787 002**	**27 027**
Past service cost unrecognised at the end of the reporting period		**(6 746)**	-	(6 746)	-	-
Carrying amount of liabilities - at 30 June 2010		**1 248 184**	**245 996**	**188 159**	**787 002**	**27 027**
of which:						
Carrying amount of non-current liabilities		**1 150 323**	211 344	162 240	752 112	24 627
Carrying amount of current liabilities		**97 861**	34 652	25 919	34 890	2 400
Present value of obligations - at 1 January 2009		**1 058 261**	**242 300**	**180 891**	**635 070**	**-**
Interest costs		**57 605**	12 793	9 716	34 400	696
Current service cost		**33 135**	13 967	9 629	9 166	373
Benefits paid		**(80 985)**	(33 359)	(17 665)	(28 844)	(1 117)
Actuarial losses/(gains)		**131 094**	(3 021)	5 865	103 512	24 738
Present value of obligations - at 31 December 2009		**1 199 110**	**232 680**	**188 436**	**753 304**	**24 690**
Past service cost unrecognised at the end of the reporting period		**(7 589)**	-	(7 589)	-	-
Carrying amount of liabilities - at 31 December 2009		**1 191 521**	**232 680**	**180 847**	**753 304**	**24 690**
of which:						
Carrying amount of non-current liabilities		**1 098 399**	198 555	158 855	718 675	22 314
Carrying amount of current liabilities		**93 122**	34 125	21 992	34 629	2 376
Present value of obligations - at 1 January 2009	**25**	**1 058 261**	**242 300**	**180 891**	**635 070**	**-**
Interest costs		**28 689**	6 648	4 875	17 166	-
Current service cost		**16 384**	6 984	4 815	4 585	-
Benefits paid		**(46 384)**	(8 097)	(12 047)	(26 240)	-
Actuarial losses/(gains)		**43 231**	(16 485)	974	33 234	25 508
Present value of obligations - at 30 June 2009	**25**	**1 100 181**	**231 350**	**179 508**	**663 815**	**25 508**
Past service cost unrecognised at the end of the reporting period		**(8 432)**	-	(8 432)	-	-
Carrying amount of liabilities - at 30 June 2009		**1 091 749**	**231 350**	**171 076**	**663 815**	**25 508**
of which:						
Carrying amount of non-current liabilities		**1 005 530**	198 408	151 259	632 933	22 930
Carrying amount of current liabilities		**86 219**	32 942	19 817	30 882	2 578

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

21. Employee benefits (continuation)

Present value of future employee benefits

At	Present value
30 June 2010	1 254 930
31 December 2009	1 199 110
31 December 2008	1 058 261
31 December 2007	930 256
31 December 2006	879 756

Total costs recognised in profit or loss due to future employee benefits

	Note	For the period	
Total costs recognised in loss		**from 1 January 2010 to 30 June 2010**	**from 1 January 2009 to 30 June 2009**
Interest costs		33 153	28 689
Current service cost		18 070	16 384
Actuarial losses		52 859	43 231
Past service cost	25	843	843
		104 925	**89 147**

Changes in actuarial gains/losses are caused by a change in assumptions relating to the discount rate, increases in coal prices and increases in salary.

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

Main actuarial assumptions at 30 June 2010:	**2010**	**2011**	**2012**	**2013**	**2014 and beyond**
- discount rate	5.20%	5.20%	5.20%	5.20%	5.20%
- rate of increase in coal prices	0.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	0.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	2.00%	4.00%	4.00%	4.00%	4.00%

Main actuarial assumptions at 30 June 2009:	**2010**	**2011**	**2012**	**2013**	**2014 and beyond**
- discount rate	5.50%	5.50%	5.50%	5.50%	5.50%
- rate of increase in coal prices	3.00%	3.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	4.00%	4.00%	4.00%	4.00%	4.00%
- expected inflation	2.50%	2.50%	2.50%	2.50%	2.50%
- future expected increase in salary	4.00%	4.00%	4.00%	4.00%	4.00%

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

22. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other technological 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**
Provisions recognised		**504**	217	-	280	7
Changes in provisions arising from updating of estimates		**49 516**	48 794	-	-	722
Changes in provisions arising from the approach of the maturity date of a liability (the so-called unwinding of the discount effect)	28	**15 870**	15 689	-	-	181
Utilisation of provisions		**(2 874)**	(1 781)	-	(315)	(778)
Release of provisions		**(434)**	(101)	-	(333)	-
Transfer to Mine Closure Fund		**(10 871)**	(10 871)	-	-	-
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 technological 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**
Provisions recognised	**5 658**	3 919	-	1 507	232
Changes in provisions arising from updating of estimates	**(108 874)**	(109 084)	(48)	-	258
Changes in provisions arising from the approach of the maturity date of a liability (the so-called unwinding of the discount effect)	**29 764**	29 171	134	-	459
Utilisation of provisions	**(6 228)**	(2 790)	-	(1 812)	(1 626)
Release of provisions	**(9 373)**	(807)	(500)	(3 020)	(5 046)
Transfer to Mine Closure Fund	**(17 508)**	(17 508)	-	-	-
Other	**5 077**	5 077		-	-
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**

	Note	TOTAL	Decommissioning costs of mines and other technological 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**
Provisions recognised		**2 094**	466	-	1 628	-
Changes in provisions arising from updating of estimates		**(162 896)**	(164 332)	(48)	-	1 484
Changes in provisions arising from the approach of the maturity date of a liability (the so-called unwinding of the discount effect)	28	**16 375**	16 125	-	-	250
Utilisation of provisions		**(5 325)**	(2 665)	-	(1 812)	(848)
Release of provisions		**(4 034)**	(778)	-	(3 020)	(236)
Transfer to Mine Closure Fund		**(8 754)**	(8 754)	-	-	-
Other		**5 078**	5 078	-	-	-
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**

22. Provisions for other liabilities and charges (continuation)

As at 30 June 2010 the most significant item of provisions for other liabilities is the provision for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying value of PLN 562 850 thousand (as at 31 December 2009: PLN 510 903 thousand), created in accordance with the methodology defined in the International Financial Reporting Standards. The increase in the provision in the first half of 2010 was mainly caused by the change in forecast discount rates, and in particular yield on bonds in long term.
The programme and schedule of decommissioning of technological facilities and estimates of decommissioning costs have been worked on since 2001 by the Company's subsidiary, KGHM Cuprum Sp. z o.o. CBR. Revaluations of the basic decommissioning costs originally calculated in 2001 are made periodically based on the changes of the price index for the construction–assembly industry, which are published by the Main Statistical Office, taking into account movements in tangible fixed assets.

Subsequent updates are made should there occur significant economic events which could affect the amount of the provision, while also utilising experience gained during the decommissioning of individual facilities. The last update was made in 2009. Apart from the changes in the decommissioning schedule resulting from the new, future production plan to the year 2042 developed by KGHM Cuprum Sp. z o.o. CBR in 2008 for KGHM Polska Miedź S.A., the update was in particular with respect to costs arising from the decommissioning of mine shaft regions.

In 2009 the process of decommissioning shafts and surface facilities in the Polkowice Wschodnie region of the Polkowice–Sieroszowice mine was completed. Decommissioning was performed in accordance with the document „*Development of a project for the decommissioning of P-III and P-IV shafts of the Polkowice Wschodnie region and a project for the mining of ore located in the protective pillars of these shafts – stage III. 1. Project for the decommissioning of the P-III shaft, 2. Project for the decommissioning of the P-IV shaft*" prepared by KGHM Cuprum Sp. z o.o. CBR. This documentation was positively assessed by the Committee for Water Hazards, Waste Management and Decommissioning of Mines of the Higher Mining Office – resolution No. 2/2007 dated 6 September 2007. A detailed analysis of the process of decommissioning this region was the justifying basis for preparing a new assessment of the costs of decommissioning of other shafts and shaft towers in the mines of KGHM Polska Miedź S.A. An analogous update was made of the forecast restoration costs for the Polkowice Wschodnie region to current market conditions, and represented the basis for adjusting the estimated restoration costs of the remaining shaft regions in the mines of KGHM Polska Miedź S.A. In addition, a significant adjustment was made in the costs of maintaining the mine during the decommissioning period and to the labour costs incurred as a result of decommissioning underground facilities, reflecting the expanded scope of these activities and the change in pricing conditions which has occurred since the last update in 2007.

The largest facility earmarked for decommissioning (restoration), which at the same time accounts for the largest share in the costs of decommissioning of all technological facilities, is the "Żelazny Most" tailings pond, together with the hydro-transportation network and cubage hydro-technical facilities. The "Żelazny Most" tailings pond is a hydro-technical facility, formed from a raised earthen embankment on lowered terrain. At the same time, it serves as the central water management facility. The area and type of this tailings pond requires (apart from restoration activities carried out on a regular basis in the form of shaping of the slope of the reservoir using a biological coat) several stages of site restoration and development. This is also due to the main underlying assumption that the "Żelazny Most" tailings pond will be operational until the last working day of the mines and enrichment plants. During the final stage of operating this tailings pond, transfer to the method of a centralised waste dump from the currently-used circumferential one would be required in order to fill in the reservoir and create the coarse-grained layer for restoration of the inside of the tailings pond. After the "Żelazny Most" tailings pond has ceased being operational, during the course of mine liquidation, the discharge of mine waters will be carried out excepting this tailings pond. According to the current plan, preparatory works for the tailings pond's liquidation and its partial restoration will commence in 2025 and will last until 2037. In 2038, the main stage of the tailings pond's liquidation will commence and is expected to be completed in 2047. In the meantime, i.e. from the year 2025 to 2040, pipelines and accompanying cubage hydro-technical facilities will be decommissioned. The decommissioning will be carried out by way of dismantling, scrap recovery and utilisation of concrete elements, which, after crumbling, will be used as foundation for hardening. As regards the surface of the "Żelazny Most" tailings pond, application of the non-soil restoration method was adopted as a possible and reasonable solution. It is planned that trees will be planted on the whole area of the waste storage yard as it is done for protective greenery, after prior preparation of the surface of the tailings pond. It is also assumed that selected types of grass and mixes thereof will be used for land restoration purposes, together with mineral additives to improve the ground, as well as special techniques of cultivation and fertilization. The above site restoration method is comparable to those used in EU countries.
The amount of the provision recognised in the statement of financial position is the equivalent of the estimated costs of future decommissioning of individual facilities discounted to their present value. The amount of the provision is revalued by the Company at the end of each quarter by applying in the discounting model the ratios described in Note 3.4.

The balance of the decommissioning provision is adjusted for the amount transferred to the Mine Closure Fund, which has been created based on article 26c of the act dated 27 July 2001 amending the act – Geological and Mining Law, Journal of Laws No. 110, item 1190, and calculated in accordance with principles set forth in the

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

22. Provisions for other liabilities and charges (continuation)

Decree of the Minister of the Economy dated 24 June 2002 concerning detailed principles for creation and functioning of mine closure funds, i.e. 3% of depreciation of the mines' fixed assets for each year which is set in accordance with the Corporate Income Tax Act. Cash transfers made to the Mine Closure Fund are invested by the Company in secure short-term securities or short-term deposits. Income from these investments increases the Fund's balance, and the Company does not charge any fee for this cash management.

It is expected that decommissioning costs will be incurred by the year 2047. The provision was estimated based on the currently-used technology for decommissioning of mining facilities and using the current prices and the discount rate as in the model for provisions for future employee benefits (Note 21).

Provisions by the facilities of the highest importance in the amount of provision for decommissioning of mines and other technological facilities at 30 June 2010

Division	Facility	
Tailings Plant	"Żelazny Most" tailings pond	99 085
Tailings Plant	Other waste storage areas	44 960
Rudna Mine	Central part of Rudna Mine (shafts: RI, RII, RV)	44 806
Ore Enrichment Plant	Rudna OEP	43 266
Ore Enrichment Plant	Polkowice OEP	41 055
Polkowice-Sieroszowice Mine	Western part of Polkowice Mine (shafts: P-I, P-II)	34 356
Ore Enrichment Plant	Lubin OEP	33 021
Lubin Mine	Central part of Lubin Mine (shafts: LI, LII)	28 549
Rudna Mine	Western part of Rudna Mine (shafts: RIII, RIV, RX)	27 802
Lubin Mine	Western part of Lubin Mine (shafts: LIV,LV)	25 505

Provisions by the facilities of the highest importance in the amount of provision for decommissioning of mines and other technological facilities at 31 December 2009

Division	Facility	
Tailings Plant	"Żelazny Most" tailings pond	87 252
Tailings Plant	Other waste storage areas	43 003
Rudna Mine	Central part of Rudna Mine (shafts: RI, RII, RV)	38 917
Ore Enrichment Plant	Rudna OEP	37 435
Ore Enrichment Plant	Polkowice OEP	36 479
Polkowice-Sieroszowice Mine	Western part of Polkowice Mine (shafts: P-I, P-II)	29 938
Ore Enrichment Plant	Lubin OEP	29 340
Lubin Mine	Central part of Lubin Mine (shafts: LI, LII)	25 561
Rudna Mine	Western part of Rudna Mine (shafts: RIII, RIV, RX)	24 148
Lubin Mine	Western part of Lubin Mine (shafts: LIV,LV)	22 800

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

23. Sales

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

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Copper, precious metals, smelter by-products	7 089 732	5 004 875
Salt	28 232	21 061
Services	28 766	27 173
Other goods	5 468	5 465
Merchandise	28 459	23 290
Scrap and production materials	18 747	17 287
Other materials	147	109
Total	**7 199 551**	**5 099 260**

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

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
domestic	**1 863 228**	**1 217 155**
Copper, precious metals, smelter by-products	1 754 182	1 122 824
Salt	28 232	21 061
Services	27 993	27 119
Other goods	5 468	5 465
Merchandise	28 459	23 290
Scrap and production materials	18 747	17 287
Other materials	147	109
foreign	**5 336 323**	**3 882 105**
Copper, precious metals, smelter by-products	5 335 550	3 882 051
Services	773	54
Total	**7 199 551**	**5 099 260**

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Average copper price on LME (USD/t)	7 130	4 046
Average exchange rate (USD/PLN) per NBP	3.02	3.36

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

24. Expenses by nature

	Note	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Depreciation of property, plant and equipment and amortisation of intangible assets	5,6	306 126	268 081
Employee benefits expenses	25	1 311 770	1 303 344
Materials and energy		2 541 300	1 610 492
External services		473 461	479 164
Taxes and charges		148 948	139 315
Advertising costs and representation expenses		10 845	9 758
Property and personal insurance		8 577	5 127
Research and development costs not capitalised in intangible assets		1 340	435
Other costs, of which:		**4 413**	**2 691**
Write-down of inventories	12	364	704
Allowance for impairment of receivables	29.3	14	-
Reversal of write-down of inventories	12	(277)	(1 329)
Reversal of allowance for impairment of receivables	29.3	-	(31)
Losses from the disposal of financial instruments	29.3	834	380
Other operating costs		3 478	2 967
Total expenses by nature		**4 806 780**	**3 818 407**
Cost of merchandise and materials sold (+) of which:		43 832	37 918
Allowance for impairment of receivables	29.3	2	-
Change in inventories of finished goods and work in progress (+/-)		(372 814)	(165 829)
Cost of manufacturing products for internal use (-)		(42 970)	(48 589)
Total cost of sales, selling costs and administrative expenses		**4 434 828**	**3 641 907**

25. Employee benefits expenses

	Note	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Remuneration		908 286	924 193
Costs of social security and other benefits		346 821	336 388
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which:		56 663	42 763
Present value of obligation	21	55 820	41 920
Past service cost	21	843	843
Employee benefits expenses		**1 311 770**	**1 303 344**

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

26. Other operating income

	Note	For the period	
		from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Income and gains from financial instruments classified under other operating activities, resulting from:	29.3	477 282	213 572
Measurement and realisation of derivative instruments		339 770	133 583
Interest		22 959	55 195
Foreign exchange gains		113 594	16 806
Gains from disposal		896	7 500
Reversal of allowance for impairment of loans		-	486
Reversal of allowance for impairment of other receivables		63	2
Non-financial interest		744	1 210
Reversal of allowance for impairment of non-financial receivables		743	777
Dividends received		24 051	341 592
Release of unused provisions due to:		1 397	21 299
Decommissioning of mines		434	16 818
Disputed issues and court proceedings		333	3 020
Liabilities towards municipal authorities (gminas) due to signed donation agreements		630	1 178
Other		-	283
Penalties and compensation received		3 244	3 653
Excess payments of property tax		54	358
Government grants and other donations received		122	124
Surpluses identified in current assets		4 140	-
Other operating income/gains		1 139	2 809
Total other operating income		**512 916**	**585 394**

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

27. Other operating costs

	Note	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Costs and losses on financial instruments classified under other operating activities, resulting from:	29.3	478 885	247 859
Measurement and realisation of derivative instruments		475 242	244 174
Interest		9	158
Losses on measurement of non-current liabilities		542	1 314
Allowance for impairment of loans		6	2 213
Allowances for impairment of other receivables		3 086	-
Allowances for impairment of other non-financial receivables		-	387
Losses on the sale of property, plant and equipment and intangible assets		4 659	8 345
Donations granted		9 503	2 500
Interest on overdue non-financial liabilities		90	1 337
Provisions for:		3 075	4 756
Decommissioning of mines		1 436	466
Disputed issues, pending court proceedings		280	1 628
Liabilities towards municipal authorities (gminas) due to signed donation agreements		1 352	2 662
Other		7	-
Penalties and compensation paid		167	124
Non-culpable shortages in current assets		2 887	574
Contributions to a voluntary organisation		4 803	5 572
Other operating costs/losses		9 092	5 133
Total other operating costs		**513 161**	**276 587**

28. Finance costs

	Note	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Interest expense due to:	29.3	528	845
Loans		101	204
Finance leases		427	641
Net foreign exchange losses on borrowings	29.3	78	1 166
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:		15 870	16 375
Measurement of provisions for decommissioning of mines	22	15 689	16 125
Measurement of other provisions	22	181	250
Losses due to measurement of non-current liabilities	29.3	145	209
Other finance costs		-	301
Total finance costs		**16 621**	**18 896**

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

29. Financial instruments

29.1 Carrying amount

At 30 June 2010

Categories of financial instruments

Classes of financial instruments	**Note**	Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	**Total**
Listed shares	8	421 817	-	-	-	-	-	-	-	**421 817**
Unlisted shares	8	9 500	-	-	-	-	-	-	-	**9 500**
Trade receivables (net)	11	-	-	-	1 266 365	-	-	-	-	**1 266 365**
Cash and cash equivalents and deposits	9, 13	-	86 690	-	2 032 484	-	-	-	-	**2 119 174**
Other financial assets (net)	11	-	-	-	186 985	-	-	-	-	**186 985**
Derivatives - Currency	10	-	-	11 032	-	(52 658)	-	-	59 277	**17 651**
Derivatives - Commodity contracts - Metals	10	-	-	30 994	-	(227 399)	-	-	673 698	**477 293**
Trade payables	18	-	-	-	-	-	(638 217)	-	-	**(638 217)**
Bank and other loans	19	-	-	-	-	-	(1 002)	-	-	**(1 002)**
Other financial liabilities	18, 19	-	-	-	-	-	(647 543)	(11 965)	-	**(659 508)**
		431 317	**86 690**	**42 026**	**3 485 834**	**(280 057)**	**(1 286 762)**	**(11 965)**	**732 975**	**3 200 058**

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

29. Financial instruments (continuation)

29.1 Carrying amount (continuation)

At 31 December 2009

Categories of financial instruments

							Other financial liabilities			
Classes of financial instruments	**Note**	Available-for-sale financial assets	Held-to-maturity investments	Financial assets at fair value through profit or loss	Loans and receivables	Financial liabilities at fair value through profit or loss	Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	**Total**
Unlisted shares	8	9 770	-	-	-	-	-	-	-	**9 770**
Shares in investment funds	8	7 930	-	-	-	-	-	-	-	**7 930**
Trade receivables (net)	11	-	-	-	1 003 016	-	-	-	-	**1 003 016**
Cash and cash equivalents and deposits	9,13	-	67 677	-	975 198	-	-	-	-	**1 042 875**
Other financial assets (net)	11	-	-	-	148 912	-	-	-	-	**148 912**
Derivatives - Currency	10	-	-	17 518		(165 357)	-	-	162 961	**15 122**
Derivatives - Commodity contracts - Metals	10	-	-	1 258		(37 861)	-	-	7 905	**(28 698)**
Trade payables	18	-	-	-	-	-	(608 971)	-	-	**(608 971)**
Bank and other loans	19	-	-	-	-	-	(3 005)	-	-	**(3 005)**
Other financial liabilities	18,19	-	-	-	-	-	(57 723)	(14 680)	-	**(72 403)**
		17 700	**67 677**	**18 776**	**2 127 126**	**(203 218)**	**(669 699)**	**(14 680)**	**170 866**	**1 514 548**

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

29. Financial instruments (continuation)

29.2 Fair value

		At			
		30 June 2010		**31 December 2009**	
Classes of financial instruments		**Carrying amount**	**Fair Value**	**Carrying amount**	**Fair Value**
	Note	**29.1**		**29.1**	
Listed shares	8	421 817	421 817	-	-
Unlisted shares*	8	9 500	-	9 770	-
Shares in investment funds	8	-	-	7 930	7 930
Trade receivables (net)	11	1 266 365	1 266 365	1 003 016	1 003 016
Cash and cash equivalents and deposits	9,13	2 119 174	2 119 181	1 042 875	1 042 878
Other financial assets (net)	11	186 985	186 985	148 912	148 912
Derivatives – Currency, of which:	10	17 651	17 651	15 122	15 122
Assets		230 036	230 036	180 810	180 810
Liabilities		(212 385)	(212 385)	(165 688)	(165 688)
Derivatives - Commodity contracts - Metals, of which:	10	477 293	477 293	(28 698)	(28 698)
Assets		851 557	851 557	140 471	140 471
Liabilities		(374 264)	(374 264)	(169 169)	(169 169)
Trade payables	18	(638 217)	(638 217)	(608 971)	(608 971)
Bank and other loans	19	(1 002)	(1 002)	(3 005)	(3 005)
Other financial liabilities	18,19	(659 508)	(659 508)	(72 403)	(72 403)

The methods and assumptions used by the Company for measuring the fair value of specific financial instruments are presented in notes 2.2.4.4 Fair value and 3 Important estimates and assumptions.

*The Company is unable to reliably measure the fair value of shares held in companies which are not listed on active markets, classified as available-for-sale financial assets. In the interim statement of financial position of the Company this group of assets is disclosed at cost less impairment.

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

29. Financial instruments (continuation)

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

For the period from 1 January 2010 to 30 June 2010	**Note**	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	**Total financial instruments**
Interest income/(expense)	**26, 27, 28**		-	-	22 959	(110)	(427)	-	22 422
Exchange gains/(losses)	**26, 28**	-	(691)	-	140 824	(26 539)	(78)	-	113 516
Losses on measurement of non-current liabilities	**27, 28**	-	-	-	-	(687)	-	-	(687)
Impairment allowances	**24, 27**	-	-	-	(3 108)	-	-	-	(3 108)
Reversal of impairment allowances	**26**	-	-	-	63	-	-	-	63
Adjustment to sales due to hedging transactions	**30**	-	-	-	-	-	-	82 294	82 294
Profit/(losses) from disposal of financial instruments	**24, 26**	-	896	-	(834)	-	-	-	62
Gains on measurement and realisation of derivative instruments	**26**	339 770	-	-	-	-	-	-	339 770
Losses on measurement and realisation of derivative instruments	**27**	(475 242)	-	-	-	-	-	-	(475 242)
Total net gain/(loss)		**(135 472)**	**205**	**-**	**159 904**	**(27 336)**	**(505)**	**82 294**	**79 090**

For the period from 1 January 2009 to 30 June 2009	**Note**	Financial assets measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Other financial liabilities: Financial liabilities measured at amortised cost	Other financial liabilities: Financial liabilities due to factoring and liabilities out of the scope of IAS 39	Hedging instruments	**Total financial instruments**
Interest income/(expense)	**26, 27, 28**	-	-	-	55 195	(362)	(641)	-	54 192
Exchange gains/(losses)	**26, 28**	-	-	-	57 899	(41 058)	(1 201)	-	15 640
Losses on measurement of non-current liabilities	**27, 28**	-	-	-	-	(1 523)	-	-	(1 523)
Impairment allowances	**24, 27**	-	-	-	(2 213)	-	-	-	(2 213)
Reversal of impairment allowances	**24, 26**	-	-	-	519	-	-	-	519
Adjustment to sales due to hedging transactions	**30**	-	-	-	-	-	-	487 548	487 548
Profit from disposal of financial instruments	**24,26**	-	7 500	-	(380)	-	-	-	7 120
Gains on measurement and realisation of derivative instruments	**26**	133 583	-	-	-	-	-	-	133 583
Losses on measurement and realisation of derivative instruments	**27**	(244 174)	-	-	-	-	-	-	(244 174)
Total net gain/(loss)		**(110 591)**	**7 500**	**-**	**111 020**	**(42 943)**	**(1 842)**	**487 548**	**450 692**

29. Financial instruments (continuation)

29.4 Transfers not qualified for de-recognition

KGHM Polska Miedź S.A. does not own financial assets whose transfer does not qualify for derecognition from the interim statement of financial position.

29.5 Situations concerning financial instruments which did not occur in the Company

In the reporting period ended 30 June 2010 and ended 31 December 2009, the following business events and situations, which are required to be disclosed, did not occur in the Company:

- at the end of the reporting period, the Company did not designate a financial instrument to be measured at fair value through profit or loss (IFRS 7, par. 9, 10, 11),
- the Company did not reclassify a financial asset in a way which would result in a change of the method of measurement of these assets (IFRS 7, par. 12),
- the Company does not hold any collateral established on either category of assets which would improve crediting terms (IFRS 7, par. 15),
- the Company has not issued an instrument that contains both a liability and an equity component (IFRS 7, par. 17),
- the Company did not breach any contractual provisions (IFRS 7, par. 18),
- the Company invests assets accumulated in a separate bank account kept for the Mine Closure Fund, but does not receive any fee due to those fiduciary activities (IFRS 7, par. 20.c.ii),
- the Company did not identify any forecast transaction for which hedge accounting had previously been used but which is no longer expected to occur (IFRS 7, par. 23.b),
- the Company did not make use of any hedging transactions which would subsequently result in the recognition of a non-financial asset or liability (IFRS 7, par. 23.e),
- the Company did not use fair value hedges or hedges of net investments in foreign operations (IFRS 7, par. 24 a, 24.c),
- the Company did not purchase any financial assets at a price different from their fair value (IFRS 7, par. 28),
- the Company did not obtain any assets as collateral (IFRS 7, par. 38).

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

29. Financial instruments (continuation)

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

29.6.1 Fair value hierarchy

	Note	At 30 June 2010		
Classes of financial instruments	**29.2**	Level 1	Level 2	Level 3
Listed shares		421 817	-	-
Derivative financial instruments - currency, of which:		-	17 651	-
Assets		-	230 036	-
Liabilities		-	(212 385)	-
Derivative financial instruments – metals, of which:		-	477 293	-
Assets		-	851 557	-
Liabilities		-	(374 264)	-
Other financial liabilities		-	5 524	-

	Note	At 31 December 2009	
Classes of financial instruments	**29.2**	Level 2	Level 3
Shares in investment funds		-	7 930
Derivative financial instruments - currency, of which:		15 122	-
Assets		180 810	-
Liabilities		(165 688)	-
Derivative financial instruments – metals, of which:		(28 698)	-
Assets		140 471	-
Liabilities		(169 169)	-
Other financial liabilities		(30 611)	-

Methods and – in the case of use of valuation techniques - assumptions made in assessing fair value for individual categories of financial assets or financial liabilities.

Level 3
In the first half of 2010, no financial instruments were measured at fair value which were classified to level III.

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

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

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

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

29. Financial instruments (continuation)

29.6 Financial instruments recognised at fair value in the statement of financial position (continuation)

29.6.1 Fair value hierarchy (continuation)

Level 1

Listed shares

The shares listed on the Stock Exchange in Warsaw were measured based on the closing price from 30 June 2010.

The shares listed on the TSX Ventures Exchange in Toronto were measured applying a share price and the average National Bank of Poland fixing for the Canadian dollar at the valuation date.

There was no transfer of instruments by the Company between levels 1 and 2 in either the reporting or the comparative periods.

29.6.2 Financial instruments - measure of fair value at level 3 of the fair value hierarchy

Shares in investment funds	**Note**	**At**		
		30 June 2010	**31 December 2009**	**30 June 2009**
Beginning of the period		**7 930**	**11 264**	**11 264**
Gains recognised in other comprehensive income		-	2 205	2 205
Losses recognised in other comprehensive income		1 838	5 539	2 793
Settlement		6 092	-	-
Total	**29.6.1**	**-**	**7 930**	**10 676**

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

30. Financial risk management

The Company is exposed to risk in each area of its activities. Understanding those risks and the principles of their management allows the Company to better meet its objectives.

Financial risk management includes the processes of risk identification, measurement and determination of appropriate methods to deal with those risks.
The Company is predominantly exposed to the following classes of financial risk:

- Market risks
    - Risk of changes in commodity prices (Commodity Risk),
    - Risk of changes in foreign exchange rates (Currency Risk),
    - Risk of changes in interest rates (Interest Rate Risk),
- Liquidity risk,
- Credit risk.

An appropriate policy, organisational structure and procedures support the financial risk management process.

30.1 Market risk

30.1.1. Principles of market risk management

The Company declares an active approach to managing its market risk exposure. The objectives of market risk management are:

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

All the market risk management objectives should be considered as a whole, while their realisation is dependant primarily upon the internal situation of the Company and market conditions.

The Company applies an integrated approach to market risk management at which it is exposed. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. For example, hedging transactions on the commodity market are related to contracts entered into on the currency market, as hedging prices of metals directly impact the probability of achieving planned revenues from sales, which in turn represent a hedged item for strategies on the currency market. As a result, the Company has significantly greater flexibility in building hedging strategies.

The Company applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented, embracing an increasing share of production and sales revenues as well as an extended time horizon. Consequently, hedging is possible against unexpected plunges in both copper and silver prices as well as rapid appreciation of the PLN versus the USD. Thanks to this approach, it is also possible to avoid engaging significant volumes or notionals at a single price level.

The Company continuously monitors metal and currency markets, which are the basis for decisions on implementing hedging strategies. The Company applies hedge accounting to hedge the risk of changes of cash flows due to commodity and currency risk.

30.1.2. Techniques for market risk management

The primary technique for market risk management is the use of hedging strategies involving derivative instruments. Apart from this, natural hedging is also used.

All of the potential hedging strategies and the selection of those preferred reflect the following factors: current and forecasted market conditions, the internal situation of the Company, the suitability of instruments to be applied and the cost of hedging. In order to mitigate market risk, derivative instruments are primarily used. The Company transacts only those derivative instruments for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Company relies on information obtained from particular market leading banks, brokers and information services.

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.2. Techniques for market risk management (continuation)

It is permitted to use the following types of instruments:

- Swaps,
- Forwards and futures,
- Options,
- Structures combining the above instruments.

The instruments applied may be, therefore, either of standardised parameters (publicly traded instruments) or non-standardised parameters (over-the-counter instruments).

30.1.3. Hedge effectiveness requirement

Hedging transactions can be entered into only if there is an appropriate derivative instrument for the base instrument traded in a liquid market with a quoted reference price. Prior to the transaction the Company is required to confirm and document the existence of strong negative correlation between changes in value of the reference instrument and changes in value of actually-hedged exposure. Hedge effectiveness is subject to constant evaluation and monitoring.

30.1.4. Measurement of market risk

The Company quantifies and describes its market risk exposure using a consistent and comprehensive measure.

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

Since 2007 "Earnings at Risk" has been used as one of the risk measures employed in market risk management. This measure indicates the lowest possible level of pre-tax profit for a selected level of confidence (for example, with 95% confidence the pre-tax profit for a given year will be not lower than…). The EaR methodology enables the calculation of pre-tax profit incorporating the impact of changes in market prices of copper, silver and foreign exchange rates in the context of budgeted results.

However, due to the fact that none risk measure possesses the ability to completely reflect the reality, mainly because of underlying assumptions concerning market factors, it is customary to employ quantitative models merely as a tool supporting decision making process and a source of additional information. Such models are not the only basis for decision making in the market risk management process.

30.1.5. Restrictions on entering into hedging transactions

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

- up to 70% of monthly copper volume sales,
- up to 80% of monthly silver volume sales,
- up to 70% of monthly foreign-currency revenues from the sale of products.

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

Additionally, as the Company has an integrated approach to market risk management, it has substantially greater flexibility in constructing its hedging strategy. In order to achieve the defined profile of exposure to market risk, it is possible to define/implement a „comprehensive" hedging strategy, i.e. one which incorporates both the metals and the currency markets.

The maximum time horizon within which the Company makes decisions concerning hedging of market risk is set up in accordance with the technical and economic planning process, and amounts to 5 years. However, it must be emphasised that regardless of the tool used to measure market risks, the results of such measurement for long time horizons (especially above 2 years) may be subject to significant uncertainty, and therefore are treated as estimates.

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.6. Market risk exposure

30.1.6.1. Commodity risk

The Company is exposed to the risk of changes in market prices of copper, silver and gold. The price formulas used in physical delivery contracts are mainly based on average monthly quotations from the London Metal Exchange for copper and from the London Bullion Market for silver and gold. The Company's commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month. As a result the Company is exposed to the risk of decline in metals prices from the moment of entering into a sale contract until the moment of setting the contractual average metal price from the month of dispatch.

In a situation where a non-standard formula is used to set the sales price, the Company may enter into transactions (so-called adjustment hedge transactions) which change the price base agreed with the customer to the average price of the appropriate month. These transactions lead to a harmonisation of the base price applied to physical sales of products, and therefore harmonisation of the exposure to the risk of fluctuations in metals prices.
Due to the fact that the Company utilises in the production process materials purchased from external sources containing various metals, part of the sales is hedged naturally. Therefore, the analysis of the Company's exposure to the market risk should be performed on a net basis, i.e. by deducting the volume of metals contained in materials purchased from external sources, from the volume of sales.
Exposure of the Company to commodity risk in the financial period is presented below:

	For the period			
	from 1 January 2010 to 30 June 2010		**from 1 January 2009 to 30 June 2009**	
	Sales	**Purchases**	**Sales**	**Purchases**
Copper [‘000 tonnes]	263	75	244	47
Silver [tonnes]	617	7	628	57

Sensitivity of the Company's financial instruments to commodity risk at the end of the reporting period is presented in Note 30.1.10 Sensitivity analysis of exposure to market risk.

30.1.6.2. Currency risk

The Company is exposed to the risk of changes in currency rates, as it is generally accepted on commodities markets that physical contracts are either concluded or denominated in USD. However, the base (functional) currency for the Company is the PLN. As a result, the Company receives the equivalent in PLN or exchanges the USD it receives for PLN. Such exchanges lead to the risk associated with fluctuations in the USD/PLN exchange rate during the period from the moment of entering into the trade contract to the moment of determining the exchange rate. In a situation wherein foreign clients pay in local currency for the copper or precious metals which they have imported, the Company is also exposed to fluctuations in the exchange rates of other currencies, e.g.: EUR/PLN, GBP/PLN.

Moreover, the Company is exposed to the risk of changes in currency rates due to the fact of drawing loans and incurring other liabilities (for example from the import of goods and services) which are denominated in currencies other than the USD.

Sensitivity of the Company's financial instruments to the currency at the end of the reporting period is presented in Note 30.1.10 Sensitivity analysis of exposure to market risk.

30.1.6.3. Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the financial position of the Company. From the point of view of risk analysis, this risk may be divided into risk associated with items based on:
- a variable interest rate,
- a fixed interest rate.

In the case of a decrease in market interest rates, KGHM Polska Miedź S.A. is exposed to a decrease in expected revenues due to decreased cash flows due to loans granted by the Company (at 30 June 2010 PLN 107 478 thousand, of which current: PLN 45 591 thousand, non-current: PLN 61 887 thousand).

Items having a fixed interest rate generate the risk of changes in the fair value of financial instruments, due to their lack of flexibility in adapting to changes in market interest rates. However, the exposure of the Company to risk associated with items having a fixed interest rate is immaterial, as during the reporting period this item only represented loan liabilities which at 30 June 2010 amounted to PLN 1 002 thousand (at 31 December 2009 PLN 3 005 thousand).

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.6 Market risk exposure (continuation)

30.1.6.3. Interest rate risk (continuation)

The Company, both during the reporting period as well as the comparable period, did not make use of interest rate risk hedging instruments.

30.1.7. Hedging exposure to market risk

In the first half of 2010 copper price hedging strategies represented approx. 30% (in the first half of 2009 26%) of the sales of this metal realised by the Company. With respect to silver sales this figure amounted to approx. 18% (in the first half of 2009 24%). In the case of currency market, hedged revenues from sales represented approx. 16% (in the first half of 2009 36%) of total revenues from sales realised by the Company.

In the first half of 2010 the Company implemented copper price hedging strategies with a total volume of 180.4 thousand tonnes and a time horizon falling in the second half of 2010 and in years 2011-2012. The Company made use of options (Asian options), including option strategies: producer puts and seagulls. In the reporting period the Company did not implement adjustment strategies. In addition, the Company performed a restructurisation, implemented in the analysed period, of seagull options for 2011 with a total volume of 58.5 thousand tonnes through the buyback of sold puts[1]. 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 first half of 2010 the Company implemented no strategies hedging the price of this metal. In the period, adjustment hedge transactions were not implemented on the silver market either.
In the case of the forward currency market, in the first half of 2010 the Company implemented transactions hedging revenues from sales with a total nominal amount of USD 1 305 million and a time horizon falling in the second to fourth quarters of 2010 and in years 2011-2012. The Company made use of options (European options), including puts and option strategies: corridors and seagulls. During this period no adjustment hedge transactions were implemented on the currency market. In addition, the Company performed a restructurisation, implemented in the reporting period, of options strategies seagull for 2011 with the total nominal amount of USD 360 million through the buyback of sold puts[1]. 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 tonnes), in 2011 (117 thousand tonnes), and in 2012 (39 thousand tonnes), and also for a portion of silver sales planned in the second half of 2010 (3.6 million troz). With respect to revenues from sales (currency market) the Company holds a hedging position in the second half of 2010 (USD 465 million), in 2011 (USD 720 million), and in 2012 (USD 360 million).

Following is a condensed table of 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.

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

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.7. Hedging exposure to market risk (continuation)

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**			
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		
	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**			
		TOTAL 2011	**117 000**			
I half of 2012	Seagull[1]	Sold call option	19 500	9 300	(397)	6 503 restricted to 4 700 participation restricted to 9 300
		Purchased put option		6 900		
		Sold put option		4 700		
		Total	**19 500**			
II half of 2012	Seagull[1]	Sold call option	19 500	9 300	(397)	6 503 restricted to 4 700 participation restricted to 9 300
		Purchased put option		6 900		
		Sold put option		4 700		
		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**			

[1]In tables presenting the condensed list of open hedging positions, restructurisation of items is included: the type of instrument was changed from seagull to corridor, the cost of restructuring (premium for buying back options) was added to the cost of implementation (i.e. the average weighted premium) and the effective hedge price/exchange rate was changed.
[2] Due to current hedge accounting laws, transactions embedded within a producer 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.

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

30. Financial risk management (continuation)
30.1 Market risk (continuation)
30.1.7. Hedging exposure to market risk (continuation)

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	(0.1277)	2.7723 participation restricted to 3.70
		Purchased put option		2.9000		
		Purchased put option	90	3.3500	(0.2390)	3.1110
	Corridor	Sold call option	90	4.4000	(0.1353)	3.2647 participation restricted to 4.40
		Purchased put option		3.4000		
		Total	**360**			
II half of 2011	Corridor	Sold call option	180	3.7000	(0.1028)	2.7972 participation restricted to 3.70
		Purchased put option		2.9000		
	Seagull[1]	Sold call option	90	4.4000	(0.1160)	3.1840 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Corridor	Sold call option	90	4.4000	(0.1386)	3.2614 participation restricted to 4.40
		Purchased put option		3.4000		
		Total	**360**			
TOTAL 2011			**720**			
I half of 2012	Seagull[1]	Sold call option	90	4.4000	(0.0990)	3.2010 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Corridor	Sold call option	90	4.5000	(0.1527)	3.2473 participation restricted to 4.50
		Purchased put option		3.4000		
		Total	**180**			
II half of 2012	Seagull[1]	Sold call option	90	4.4000	(0.0767)	3.2233 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Corridor	Sold call option	90	4.5000	(0.1473)	3.2527 participation restricted to 4.50
		Purchased put option		3.4000		
		Total	**180**			
TOTAL 2012			**360**			

[1] In tables presenting the condensed list of open hedging positions, restructurisation of items is included: the type of instrument was changed from seagull to corridor, the cost of restructuring (premium for buying back options) was added to the cost of implementation (i.e. the average weighted premium) and the effective hedge price/exchange rate was changed.
[2] Due to current hedge accounting laws, transactions embedded within a producer 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.

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.8. Impact of derivatives on the Company's interim statement of financial position

As at 30 June 2010, the fair value of open positions in derivative instruments amounted to PLN 494 944 thousand, PLN 1 081 593 thousand relate to financial assets and PLN 586 649 thousand relate to financial liabilities.

Derivative instruments whose date of settlement was 2 July 2010 were measured at fair value in the amount of PLN 5 524 thousand, and accounted for in trade and other payables as payables due to unsettled derivative instruments (Note 11).

Other information concerning derivatives is presented in Note 10 Derivative instruments and in Note 29 Financial instrument.

30.1.9. Impact of derivatives on the Company's profit or loss and equity

In the first half of 2010, the result on derivative instruments amounted to PLN (53 178) thousand. The effective portion of the change in the fair value of hedging instruments that was transferred from accumulated other comprehensive income to profit or loss in the reporting period, as an adjustment from reclassification, increased revenues from sales of PLN 82 294 thousand. The loss on the measurement of derivative instruments amounted to PLN 112 227 thousand, while the loss on the realisation of derivative instruments amounted to PLN 23 245 thousand. Adjustment to other operating costs arising from the measurement of derivative instruments results mainly from changes of the time value of options, which will be settled in the future periods. In accordance with the hedge accounting principles applied by the Company, the change in the time value of options is not recognised in accumulated other comprehensive income.

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

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Impact on sales	**82 294**	**487 548**
Impact on other operating activities	**(135 472)**	**(110 591)**
Losses from realisation of derivative instruments	(23 245)	(18 704)
Losses from measurement of derivative instruments	(112 227)	(91 887)
Total impact of derivative instruments on profit or loss:	**(53 178)**	**376 957**

The amount recognised in profit or loss of the Company – in other operating costs for the first half of 2010 due to the ineffective portion of cash flow hedges - amounted to PLN 198 297 thousand (in the first half of 2009: PLN 105 170 thousand), of which PLN 146 230 thousand is a loss on measurement of hedging instruments (in the first half of 2009: PLN 84 678 thousand) and PLN 52 067 thousand is a loss on the realisation of the ineffective portion of hedging instruments (in the first half of 2009: PLN 20 492 thousand).

The Company accounts for cash flow hedging instruments according to the principles presented in note 2.2.4.7 of "Main accounting policies". Those principles require recognition in other comprehensive income of the effective portion of the change in the fair value of hedging transactions during the period in which these transactions are designated as a hedge of future cash flows. The amounts accumulated in accumulated other comprehensive income are subsequently transferred to profit or loss in the period in which the hedged transaction is settled.

The effectiveness of hedging instruments used by the Company during the period is evaluated and measured by comparing the changes in the forward prices of hedged items with the changes in the prices of forward contracts or – in the case of options - the changes in the intrinsic value of options.

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

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

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.9. Impact of derivatives on the Company's profit or loss and equity (continuation)

AMOUNTS RECOGNISED IN EQUITY	**At**	
	30 June 2010	**31 December 2009**
Accumulated other comprehensive income – commodity price risk hedging transactions (copper and silver) – derivatives	313 063	(3 937)
Accumulated other comprehensive income – currency risk hedging transactions – derivatives	69 131	159 170
Total accumulated other comprehensive income **- financial instruments hedging future cash flows (excluding the deferred tax effects)**	**382 194**	**155 233**

Gains or (losses) on derivative instruments hedging future cash flows recognised in other comprehensive income		**For the period**	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 31 December 2009**	**from 1 January 2009 to 30 June 2009**
Accumulated gain or loss achieved on financial instruments hedging future cash flows at the beginning of the reporting period	**155 233**	**627 757**	**627 757**
Amount recognised in the reporting period due to hedging transactions	309 255	(39 337)	(137 647)
Amount reclassified from accumulated other comprehensive income to revenues from sales	(82 294)	(433 187)	(487 548)
Accumulated other comprehensive income due to instruments hedging future cash flows at the end of the reporting period (excluding the deferred tax effects)	**382 194**	**155 233**	**2 562**

30.1.10. Sensitivity analysis of exposure to market risk

In accordance with "Market risk management policy", the Company identifies the following major market risks to which it is exposed:

- Commodity Risk,
- Currency Risk,
- Interest Rate Risk.

Currently the Company is mainly exposed to the risk of changes in copper and silver prices and changes in the USD/PLN and EUR/PLN currency exchange rates.

For sensitivity analysis of commodity risk factors (copper and silver) the mean reverting Schwartz model (the geometrical Ornstein-Uhlenbeck process) is used, while the Black-Scholes model (the geometrical Brownian motion) is used for the USD/PLN and EUR/PLN exchange rates. Quantiles from the model at the levels of 5% and 95% have been used as potential changes in a half-year time horizon. Commodity models have been calibrated to historical prices adjusted for the effects of the PPI inflation index in the USA, while currency models have been calibrated to the current structure of forward interest rates.

Potential changes in prices and currency rates have been presented in terms of percentages of the prices and currency rates used in the fair value measurement of financial instruments at the end of the reporting period. Following is a sensitivity analysis for each significant type of market risk to which the Company was exposed at the end of the reporting period, showing what the impact would be on profit or loss and equity of potential changes in specific risk factors divided by classes of financial assets and financial liabilities.

Scope of historical data (daily data):

- for copper: 01 January 1978 to 30 June 2010 – settlement prices
- for silver: 01 January 1978 to 30 June 2010 – fixing prices
- for USD/PLN and EUR/PLN exchange rates: 01 January 2000 to 30 June 2010 – fixing NBP.

The parameters of the Schwartz model were calibrated by the method of highest reliability to real historical prices (adjusted by the PPI inflation index in the USA for Cu and Ag). The trend in the Black-Scholes model (currencies) was calibrated to the forward market curve for interest rates, while variability is the exponentially weighted historical variability.

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.10. Sensitivity analysis of exposure to market risk (continuation)

Potential price changes at the end of the reporting period:

30 June 2010	Copper	Silver	USD/PLN	EUR/PLN
SPOT / FIX	6 483.50	18.74	3.3946	4.1458
DOWN 95%	4 326	12.32	2.5374	3.5020
	-33%	-34%	-25%	-16%
UP 95%	8 819	26.08	4.4385	4.8870
	36%	39%	31%	18%

30 June 2009	Copper	Silver	USD/PLN	EUR/PLN
SPOT / FIX	4 948.75	13.94	3.1733	4.4696
DOWN 95%	2 915	8.50	2.2256	3.5203
	-41%	-39%	-30%	-21%
UP 95%	7 869	21.93	4.2968	5.5975
	59%	57%	35%	25%

In analysing the sensitivity of the item "Derivatives – Currency" and "Derivatives – Commodity contracts - Metals" it should be noted that the Company holds a position in derivative instruments hedging future cash flows from the sale of copper and silver. It should also be noted that the Company is exposed to risk in respect of the planned volume of copper and silver sales from its own production, adjusted by its position in hedging instruments.

Currency structure of financial instruments exposed to market risk at 30 June 2010

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK Currency structure		
	[‘000 PLN]	[‘000 USD]	[‘000 EUR]
Trade receivables (net)	888 600	87 648	142 571
Cash and cash equivalents and deposits	417 975	82 740	33 071
Other financial assets (net)	18 268	3 013	1 939
Derivatives – Currency contracts	17 651	lack of data	-
Derivatives – Commodity contracts - Metals	477 293	140 604	-
Trade payables	(24 004)	(1 490)	(4 570)
Other financial liabilities	(17 249)	(1 376)	(3 034)

30. Financial risk management (continuation)

30.1 Market risk (continuation)

30.1.10. Sensitivity analysis of exposure to market risk (continuation)

Currency structure of financial instruments exposed to market risk at 30 June 2009

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK Currency structure		
	[‘000 PLN]	[‘000 USD]	[‘000 EUR]
Shares and participation units in investment funds	10 676	3 364	-
Trade receivables (net)	431 615	74 104	43 955
Cash and cash equivalents and deposits	695 390	131 161	62 462
Other financial assets (net)	40 334	12 083	446
Derivatives – Currency contracts	82 925	-	-
Derivatives – Commodity contracts - Metals	157 224	49 546	-
Trade payables	(64 886)	(9 102)	(8 055)
Other financial liabilities	(47 861)	(4 402)	(7 583)

30. Financial risk management (continuation)
30.1 Market risk (continuation)
30.1.10. Sensitivity analysis of exposure to market risk (continuation)

SENSITIVITY ANALYSIS AS AT 30 June 2010

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	30.06.2010 CARRYING AMOUNT	CURRENCY RISK								COMMODITY RISK							
			USD/PLN				EUR/PLN				COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			4.44		2.54		4.89		3.50		8 819		4 326		26.08		12.32	
			+ 31%		- 25%		+ 18%		- 16%		+ 36%		- 33%		+ 39%		- 34%	
	[‘000 PLN]	[‘000 PLN]	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity
Trade receivables (net)	888 600	1 266 365	74 111		(60 857)		85 596		(74 348)									
Cash and cash equivalents and deposits	417 975	2 119 174	69 961		(57 449)		19 855		(17 246)									
Other financial assets (net)	18 268	186 985	2 548		(2 092)		1 164		(1 011)									
Derivatives – Currency contracts	17 651	17 651	(210 788)	(360 451)	3 904	538 113												
Derivatives – Commodity contracts - Metals	477 293	477 293	37 029	81 860	(30 406)	(67 219)					(558 111)	(364 425)	(352 277)	36 142	(3 764)		(2 282)	36 142
Trade payables	(24 004)	(638 217)	(1 260)		1 035		(2 744)		2 383									
Other financial liabilities	(17 249)	(659 508)	(1 163)		955		(1 822)		1 582									
IMPACT ON PROFIT OR LOSS			(29 562)		(144 910)		102 049		(86 640)		(558 111)		(352 277)		(3 764)		(2 282)	
IMPACT ON OTHER COMPREHENSIVE INCOME				(278 591)		470 894						(364 425)		36 142				36 142

30. Financial risk management (continuation)
30.1 Market risk (continuation)
30.1.10. Sensitivity analysis of exposure to market risk (continuation)

SENSITIVITY ANALYSIS AS AT 30 June 2009

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	30.06.2009 CARRYING AMOUNT	CURRENCY RISK								COMMODITY RISK							
			USD/PLN				EUR/PLN				COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			4.30		2.23		5.60		3.52		7 869		2 915		21.93		8.50	
			+35%		- 30%		+25%		- 21%		+59%		- 41%		+57%		-39%	
	[‘000 PLN]	[‘000 PLN]	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity	Profit or loss	Equity
Shares and participation units in investment funds	10 676	10 676	3 062		(2 583)													
Trade receivables (net)	431 615	804 538	67 438		(56 885)		40 157		(33 798)									
Cash and cash equivalents and deposits	695 390	2 491 477	119 361		(100 684)		57 065		(48 029)									
Other financial assets (net)	40 334	368 852	10 996		(9 275)		407		(343)									
Derivatives – Currency contracts	82 925	82 925	(153 530)	(252 708)	(73 134)	572 933												
Derivatives – Commodity contracts - Metals	157 224	157 224	45 266	2	(38 183)	(2)					(213 039)	(220 317)	(12 329)	512 675	(18 543)	(6)	(20 399)	93 392
Trade payables	(64 886)	(590 119)	(8 283)		6 987		(7 359)		6 194									
Other financial liabilities	(47 861)	(2 387 284)	(4 006)		3 379		(6 927)		5 831									
IMPACT ON PROFIT OR LOSS			80 304		(270 378)		83 343		(70 145)		(213 039)		(12 329)		(18 543)		(20 399)	
IMPACT ON OTHER COMPREHENSIVE INCOME				(252 706)		572 931						(220 317)		512 675		(6)		93 392

(amounts in tables in thousand PLN, unless otherwise indicated)

30. Financial risk management (continuation)

30.2. Liquidity risk and capital management

The Company is exposed to financial liquidity risk, where financial liquidity is understood as the ability to settle financial liabilities on time.

The Company manages its financial liquidity in accordance with the Management Board-approved policy „Financial Liquidity Management Policy". This document describes in a comprehensive manner the process of managing financial liquidity in the Company, based on best practice for such procedures and instruments.

In the first half of 2010, as well as in the comparable period, due to positive cash flow and the significant amount of cash balances, the Company made use to a slight extent of external financing in the form of bank and other loans from financial institutions and settled all of its liabilities in a timely manner.

Should the Company find it necessary to take advantage of external financing, the probability would exist of an increased liquidity risk.

Contractual maturities for financial liabilities as at 30 June 2010

	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
Financial liabilities	**Up to 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**		
Trade payables	633 144	2 841	1 798	501	-	**638 284**	**638 217**
Loans, including bank loans	1 008	-	-	-	-	**1 008**	**1 002**
Derivatives – Currency contracts	8 539	8 596	-	-	-	**17 135**	**212 385**
Derivatives – Commodity contracts - metals	35 218	85 286	-	-	-	**120 504**	**374 264**
Other financial liabilities	633 654	5 027	9 505	7 714	7 116	**663 016**	**659 508**
Total financial liabilities by maturity	**1 311 563**	**101 750**	**11 303**	**8 215**	**7 116**	**1 439 947**	

Contractual maturities for financial liabilities as at 31 December 2009

	Contractual maturities from the end of the reporting period					Total (without discounting)	Carrying amount
Financial liabilities	**Up to 3 months**	**3-12 months**	**1-3 years**	**3-5 years**	**Over 5 years**		
Trade payables	600 410	4 660	3 028	992	-	**609 090**	**608 971**
Loans, including bank loans	1 033	2 027	-	-	-	**3 060**	**3 005**
Derivatives – Currency contracts	40 346	108 673	-	-	-	**149 019**	**165 688**
Derivatives – Commodity contracts - metals	-	31 514	6 360	-	-	**37 874**	**169 169**
Other financial liabilities	43 610	4 848	11 166	9 268	6 499	**75 391**	**72 403**
Total financial liabilities by maturity	**685 399**	**151 722**	**20 554**	**10 260**	**6 499**	**874 434**	

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

KGHM Polska Miedź S.A. manages its capital in order to maintain the capacity to continue its operations, including the realisation of planned investments, in a manner enabling it to generate returns for the shareholders and benefits to other stakeholders.

In accordance with market practice, the Company monitors its capital, among others based on the *equity ratio* and the *ratio of Debt/EBITDA*. The *equity ratio* is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of *Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities to EBITDA (EBITDA is operating profit plus depreciation and amortisation).

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

30. Financial risk management (continuation)

30.2. Liquidity risk and capital management (continuation)

In order to maintain financial liquidity and the creditworthiness to acquire external financing at a reasonable cost, the Company assumes that the *equity ratio* shall be maintained at a level of not less than 0.5, and the *ratio of Debt/EBITDA* at a level of up to 2.0.

The above ratios at 30 June 2010, 31 December 2009 and 30 June 2009 are presented below:

	30 June 2010	31 December 2009	30 June 2009
Equity	12 203 671	10 403 957	9 214 967
Less: intangible assets	80 531	76 147	76 400
Net assets	12 123 140	10 327 810	9 138 567
Total assets	16 976 883	13 953 030	14 656 977
Equity ratio	**0.71**	**0.74**	**0.62**
Operating profit	2 764 478	3 098 092	1 766 160
Plus: depreciation/amortisation	306 126	547 653	268 081
EBITDA	3 070 604	3 645 745	2 034 241
Borrowings and finance lease liabilities	12 967	17 685	24 041
Ratio of Debt/EBITDA*	**0.002**	**0.005**	**0.006**

* for half-year periods EBITDA is annualised statistically

Due to the low level of debt of the Company as at 30 June 2010, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.002.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.71 at 30 June 2010.

In the first half of 2010 and in 2009 there were no external equity requirements imposed on the Company.

30.3. Credit risk

Credit risk is defined as the risk that counterparties will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas:

- The creditworthiness of the customers with whom physical sale transactions are undertaken,
- The creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging transactions are undertaken,
- The creditworthiness of the entities in which investments are made, or whose securities are purchased.

Financial instruments for which credit risk exposure with different characteristics from those mentioned above arises, are as follows:

- Cash and cash equivalents and deposits,
- Derivative instruments,
- Trade receivables,
- Loans granted,
- Debt securities and participation units in investment funds,
- Guaranties granted.

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

30. Financial risk management (continuation)

30.3. Credit risk (continuation)

30.3.1. Credit risk related to cash and cash equivalents and bank deposits

All entities with which deposit transactions are entered into by the Company operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with medium-high[4] (23% of deposits) and medium[5] credit ratings (77% of deposit), an appropriate level of equity and a strong, stable market position. The maximum exposure of the Company to a single bank in respect of deposited cash and cash equivalents amounts to 31% as at 30 June 2010.

30.3.2. Credit risk related to derivative transactions

All entities with whom derivative transactions are entered into by the Company operate in the financial sector. These are financial institutions (mainly banks), with the highest[6] (29.2%), medium-high[4] (54.2%) or medium[5] (16.6%) credit 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%.

The fair value of derivative transactions entered into by the Company at 30 June 2010 amounted to[7]:

PLN 500 468 thousand	(positive balance on the measurement of derivative instruments), of which:
PLN 586 649 thousand	financial liabilities (Note 10),
PLN 1 087 117 thousand	financial assets (Notes 10, 11).

All entities with whom derivative transactions were entered into in 2009 by the Company operated in the financial sector. These are financial institutions (mainly banks), with the highest[6] (39.1%), medium-high[4] (52.2%) or medium[5] (8.7%) credit ratings. The maximum share of a single entity with respect to derivative transactions entered into by the Company amounted to 46.1%.

Fair value of derivative transactions entered into by the Company at 31 December 2009 amounted to[8]:

PLN 44 187 thousand	(negative balance on the measurement of derivative instruments), of which:
PLN 365 468 thousand	financial liabilities (Notes 10, 18),
PLN 321 281 thousand	financial assets (Note 10).

Due to diversification of risk in terms both of the nature of individual entities and to their geographical location, as well as to cooperation with highly-rated financial institutions, and also taking into consideration the fair value of liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

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

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

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

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

[7] The measurement of transactions includes the measurement of both open positions as well as transactions which were settled on 2 July 2010, which were presented in the Company's statement of financial position under other financial receivables (Note 11).

[8] The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2010, which were presented in the Company's statement of financial position for the period from 1 January 2009 to 31 December 2009 under other financial liabilities.

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

30. Financial risk management (continuation)

30.3. Credit risk (continuation)

30.3.3. Credit risk related to trade and other financial receivables

The Company has been cooperating for many years with a number of geographically diversified clients. The vast majority of sales goes to EU countries.

Geographical concentration of credit risk for trade receivables arising from sales of copper and silver in the Company:

	At					
	30 June 2010			31 December 2009		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Receivables from sales of copper and silver	49.5%	37.3%	13.2%	33.7%	56.6%	9.7%

The Company makes the majority of its sales transactions based on prepayments. The Company monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom buyer's credit has been granted. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always secured. The Company has secured the majority of its receivables by promissory notes[9], frozen funds on bank accounts, registered pledges[10], bank guarantees, mortgages, letters of credit and documentary collection. In addition, the majority of contracts with deferment of the payment period contain an owner rights reservation clause. To reduce the risk of insolvency by its customers, the Company has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral. Taking into account the collateral held and the credit limits received from the insurance company, at 30 June 2010 the Company had secured 68% of its trade receivables.
The total value of the Company's trade receivables as at 30 June 2010, excluding the fair value of collaterals, in respect of which the Company may be exposed to credit risk, amounts to PLN 1 266 365 thousand (at 31 December 2009: PLN 1 003 016 thousand).

The concentration of credit risk in the Company results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 30 June 2010 the balance of receivables from 7 of the Company's largest clients, calculated as a percentage of trade receivables at the end of the reporting period, represented 70% of the balance of trade receivables (at 31 December 2009: 79%). Despite the concentration of this type of risk, the Company believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

Due to lack of data, the risk related to derivative transactions entered into by customers is not reflected in the assessment of credit risk.

30.3.4. Credit risk related to loans granted

At 30 June 2010 the carrying amount of loans granted by the Company amounted to PLN 107 478 thousand. The loans were granted to the companies: Zagłębie Lubin S.A., Energetyka Sp. z o.o. and KGHM Ecoren S.A.

KGHM Polska Miedź S.A. continuously monitors its debtors in terms of their assets and financial results.

30.3.5. Credit risk related to investments in debt securities and participation units in investment funds

On 3 March 2010 payment was made due to the final investment realised by the investment fund AIG. At 30 June 2010 the Company did not invest unallocated monetary resources in debt securities, funds and participation units in open-ended investment funds.

In the first half of 2010, the Company acquired investment certificates in KGHM TFI S.A. in the amount of PLN 29 348 thousand, including investment certificates in KGHM I FIZAN in the amount of PLN 21 997 thousand and investment certificates in KGHM II FIZAN in the amount of PLN 7 350 thousand. The Company recognises these as shares in subsidiaries and measures them at cost less any impairment.

[9] In order to speed up any potential collection of receivables, a promissory note is usually accompanied by a notarial enforcement declaration.

[10] At the end of the reporting period date the Company held pledges on aggregate tangible assets or rights representing an organisational whole, whose elements (variable) are recognised in a customer's trade accounts.

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

30. Financial risk management (continuation)

30.3. Credit risk (continuation)

30.3.6. Other information related to credit risk

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

	At 30 June 2010					
	Value	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**Over 1 year**
Trade receivables	**26 588**	20 156	258	5 545	627	2
Other receivables	**149**	128	5	14	1	1

	At 31 December 2009					
	Value	**Up to 1 month**	**From 1 to 3 months**	**From 3 to 6 months**	**From 6 to 12 months**	**Over 1 year**
Trade receivables	**41 538**	40 908	627	-	-	3
Other receivables	**378**	218	108	5	-	47

Except for trade receivables and other financial receivables, no other classes of financial instruments were identified as overdue but not impaired at the end of the reporting period.

Allowances for impairment of financial assets, category: loans and financial receivables, by class are presented in the tables below:

Allowances for impairment of loans and financial receivables

a) trade receivables (category: loans and receivables)

		For the period		
	Note	**from 1 January 2010 to 30 June 2010**	**from 1 January 2009 to 31 December 2009**	**from 1 January 2009 to 30 June 2009**
Impairment allowance at the beginning of the period	**11**	**21 769**	**21 890**	**21 890**
Impairment allowance recognised in profit or loss	24	15	909	-
Impairment allowance reversed through profit or loss	24	-	(149)	(31)
Revaluation of impairment allowance on foreign exchange differences		3 934	(800)	1 525
Impairment allowance utilised during the period		-	(81)	(4)
Impairment allowance at the end of the period	**11**	**25 718**	**21 769**	**23 380**

b) other financial assets (category: loans and receivables)

		For the period		
	Note	**from 1 January 2010 to 30 June 2010**	**from 1 January 2009 to 31 December 2009**	**from 1 January 2009 to 30 June 2009**
Impairment allowance at the beginning of the period	**11**	**3 813**	**2 518**	**2 518**
Impairment allowance recognised in profit or loss	27	3 092	2 360	2 213
Impairment allowance reversed through profit or loss	26	(63)	(962)	(488)
Revaluation of impairment allowance on foreign exchange differences		241	(49)	121
Impairment allowance utilised during the period		-	(52)	(11)
Reversal of impairment allowance on costs of legal proceedings		-	(2)	-
Impairment allowance on costs of legal proceedings		3	-	-
Impairment allowance at the end of the period	**11**	**7 086**	**3 813**	**4 353**

c) shares (category: available-for-sale financial assets)

	For the period		
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 31 December 2009**	**from 1 January 2009 to 30 June 2009**
Impairment allowance at the beginning of the period	**58 579**	**-**	**-**
Reclassification of shares in subsidiaries to available-for-sale financial assets	–	58 579	58 579
Impairment allowance at the end of the period	**58 579**	**58 579**	**58 579**

31. Income tax

Income tax	Note	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Current income tax		573 813	293 891
Deferred income tax	20	(53 889)	(25 282)
Adjustments to income tax from prior periods		1 295	6 021
Total		**521 219**	**274 630**

	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Profit before income tax	2 747 857	1 747 264
Tax calculated at tax rates in force	522 093	331 980
Non-taxable income	(4 661)	(65 257)
Expenses not deductible for tax purposes	2 492	1 886
Adjustments to income tax from prior periods	1 295	6 021
Income tax expense	**521 219**	**274 630**

The rate applied to the taxation of income in accordance with tax law in force in corporate income tax amounted to 19 % (in 2009: 19%). The effective interest rate was 18.97% (first half of 2009: 15.72%).

32. Earnings per share

	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Profit (loss) for the period	2 226 638	1 472 634
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	11.13	7.36

There are no dilutive ordinary shares.

33. Dividend paid and proposed for payment

In accordance with Resolution No. 5/2010 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 17 May 2010 regarding the appropriation of 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 shares of the Company are ordinary shares.

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

34. Notes to the interim statement of cash flows

Adjustments to profit for the period

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Income tax recognised in profit or loss	521 219	274 630
Depreciation/amortisation	306 126	268 081
Losses on sales of property, plant and equipment and intangible assets	4 659	8 345
Gains on sales of available-for-sale financial assets and held-to-maturity investments	(896)	(7 500)
Impairment loss on loan	6	1 727
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	-	(130)
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)**

Proceeds from sales of property, plant and equipment and intangible assets

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Net carrying amount of sold property, plant and equipment and intangible assets and costs related to disposal	6 978	16 865
Losses on sales of property, plant and equipment and intangible assets	(4 659)	(8 345)
Negative change in receivables due to sales	-	23
Capitalised gains from the liquidation of property, plant and equipment and intangible assets	-	(85)
Proceeds from sales of property, plant and equipment and intangible assets	**2 319**	**8 458**

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

35. Related party transactions

State Treasury Companies (Companies list as at 31 December 2009) meet the definition of related entities. Turnover and balances with these entities have been reflected in the disclosures presented in this note.

	For the period from 1 January 2010 to 30 June 2010		
Sales to related entities	**Sales of products**	**Sales of merchandise and materials**	**Other transactions**
To subsidiaries	476 408	28 794	2 468
To associates	53	16	10
To State Treasury Companies	21 528	1	1 308
Total sales to related entities	**497 989**	**28 811**	**3 786**

Significant sales to State Treasury Companies during the period from 1 January 2010 to 30 June 2010:

1.	Fabryka Przewodów Energetycznych S.A.	21 491
2.	EnergiaPro Gigawat Sp. z o.o.	1 305

During the period from 1 January 2010 to 30 June 2010, KGHM Polska Miedź S.A. received dividends from an associate in the amount of PLN 24 051 thousand (from 1 January 2009 to 30 June 2009: PLN 304 966 thousand and dividends from subsidiaries in the amount of PLN 36 626 thousand).

During the period from 1 January 2010 to 30 June 2010, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Company were reported.

	For the period from 1 January 2009 to 30 June 2009		
Sales to related entities	**Sales of products**	**Sales of merchandise and materials**	**Other transactions**
To subsidiaries	273 159	24 646	414
To associates	53	17	10
To State Treasury Companies	10 318	1	12
Total sales to related entities	**283 530**	**24 664**	**436**

Significant sales to State Treasury Companies during the period from 1 January 2009 to 30 June 2009:

1.	Fabryka Przewodów Energetycznych S.A.	9 544
2.	Huta Będzin S.A.	706

During the period from 1 January 2009 to 30 June 2009, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Company were reported.

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

35. Related party transactions (continuation)

	For the period from 1 January 2010 to 30 June 2010			
Purchases from related entities	**Purchase of services**	**Purchase of merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other transactions**
From subsidiaries	316 139	1 520 984	221 189	1 994
From associates	569	29	5	-
From State Treasury Companies	163 550	174 620	405	-
Total purchases from related entities	**480 258**	**1 695 633**	**221 599**	**1 994**

Significant purchases from State Treasury Companies during the period from 1 January 2010 to 30 June 2010:

1. EnergiaPro Gigawat Sp. z o.o.	196 382
2. EnergiaPro Koncern Energetyczny S.A.	65 938
3. Polskie Górnictwo Naftowe i Gazownictwo S.A.	53 902

	For the period from 1 January 2009 to 30 June 2009			
Purchases from related entities	**Purchase of services**	**Purchase of merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other transactions**
From subsidiaries	300 108	685 862	224 650	1 413
From associates	711	27	-	-
From State Treasury Companies	251 577	152 925	1 169	-
Total purchases from related entities	**552 396**	**838 814**	**225 819**	**1 413**

Significant purchases from State Treasury Companies during the period from 1 January 2009 to 30 June 2009:

1. EnergiaPro Gigawat Sp. z o.o.	267 648
2. EnergiaPro Koncern Energetyczny S.A.	65 562
3. Polskie Górnictwo Naftowe i Gazownictwo S.A.	49 778

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

35. Related party transactions (continuation)

	For the period	
Remuneration of the Supervisory Board	**from 1 January 2010 to 30 June 2010**	**from 1 January 2009 to 30 June 2009**
Remuneration due to service in the Supervisory Board, salary and other current employee benefits	654	659
Total	**654**	**659**

	For the period	
Remuneration of the Management Board	**from 1 January 2010 to 30 June 2010**	**from 1 January 2009 to 30 June 2009**
Salaries and other current employee benefits	1 522	1 036
Benefits due to termination of the employment relationship	-	410
Post-employment benefits	91	-
Total	**1 613**	**1 446**

* the item „Salaries" includes salaries during the termination period

	At	
Trade receivables from related entities	**30 June 2010**	**31 December 2009**
From subsidiaries	288 073	201 606
From associates	20	26
From State Treasury Companies	1 889	3 038
Total receivables from related entities	**289 982**	**204 670**

Significant receivables due to sales transactions with State Treasury Companies at 30 June 2010:

1. EnergiaPro Gigawat Sp. z o.o.	934
2. Fabryka Przewodów Energetycznych S.A.	882
3. Giełda Papierów Wartościowych S.A.	35

Significant receivables due to sales transactions with State Treasury Companies at 31 December 2009:

1. EnergiaPro Gigawat Sp. z o.o.	1 200
2. Polskie Górnictwo Naftowe	920
3. Huta Będzin S.A.	879

Allowances for impairment of trade receivables from related entities

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Impairment allowance at the beginning of the period	**882**	**21 376**
Reclassification due to loss of control over a subsidiary	-	(21 373)
Impairment allowance at the end of the period	**882**	**3**

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

35. Related party transactions (continuation)

Trade payables towards related entities	At 30 June 2010	At 31 December 2009
Towards subsidiaries	305 417	249 654
Towards associates	216	283
Towards State Treasury Companies	100 910	59 956
Total payables towards related entities	**406 543**	**309 893**

Significant payables due to purchases from State Treasury Companies at 30 June 2010:

1. EnergiaPro Gigawat Sp. z o.o.	88 341
2. NITROERG Spółka Akcyjna	4 924
3. EnergiaPro Koncern Energetyczny S.A.	4 611

Significant payables due to purchases from State Treasury Companies at 31 December 2009:

1. EnergiaPro Gigawat Sp. z o.o. (Grupa Tauron S.A.)	50 431
2. EnergiaPro Koncern Energetyczny S.A.	4 453
3. NITROERG Spółka Akcyjna	3 674

All related party transactions were carried out under arm's length conditions.

In the first half of 2010 the Company did not grant no-cost guarantees to related entities.

36. Liabilities not recognised in the interim statement of financial position due to operating leases

Total value of future minimum payments due to non-rescindable contractual periods for operating leases and rental contracts

	At 30 June 2010	At 31 December 2009
Up to one year	7 046	5 708
From one to five years	13 337	11 516
Over five years	1 352	2 363
Total:	**21 735**	**19 587**

Lease payments recognised in profit or loss	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Value of minimum lease payments	**3 887**	**3 524**

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

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

	At	
	30 June 2010	**31 December 2009**
Contingent receivables	**139 331**	**71 779**
Disputed State Budget issues	19 328	22 993
Guarantees received	97 642	25 380
Promissory notes receivables	22 154	22 923
Other	207	483
Other receivables not recognised in the statement of financial position	**32 267**	**31 235**
Inventions, implementation of projects	32 267	31 235
Contingent liabilities	**22 408**	**23 128**
Guarantees	5 000	5 000
Disputed issues, pending court proceedings	14 930	15 611
Contingent penalties	-	23
Preventive safety measures in respect of mine-related damages	2 475	2 491
Other	3	3
Other liabilities not recognised in the statement of financial position	**524 237**	**507 425**
Due to implementation of projects and inventions	100 469	105 792
Operating leases	21 735	19 587
Payments due to perpetual usufruct of land	402 033	382 046

38. Government grants

In the first half of 2010 the Company made use of Government assistance in the form of grants for the financing of the target project "Modernisation of the local furnace ventilation system in the Metallurgy Department". The balance of grants recognised in deferred income at 30 June 2010 amounted to PLN 191 thousand (at 31 December 2009: PLN 212 thousand).
On 15 April 2010, as part of the utilisation of regional public assistance funds, the company entered into a contract for financing of the projects „Restriction of waste – construction of the 4th Doerschel furnace" and „Development of technology for mining with the use of the ACT mining unit".

39. Social Fund assets and liabilities

KGHM Polska Miedź S.A., in accordance with the obligation resulting from the Social Fund Act dated 4 March 1994, creates a Social Fund. The Fund's purpose is to subsidise the Company's social activity, housing loans to employees and other social expenditures.

The Company has netted the assets of the Fund with the liabilities towards the Fund, as these assets are not subject to control of the Company and do not meet the definition of an asset. Accordingly, the net balance (liability towards Social Fund) at 30 June 2010 amounts to PLN 3 063 thousand, and the net balance (liability towards Social Fund) at 31 December 2009 amounted to PLN 2 238 thousand.
Details on assets, liabilities and costs related to the Social Fund are presented in the table below.

	At	
Social Fund assets and liabilities	**30 June 2010**	**31 December 2009**
Housing loans granted to employees	110 361	105 089
Other receivables	1 620	267
Cash and cash equivalents	53 410	14 939
Liabilities towards Social Fund	162 328	122 533
Net balance	**3 063**	**(2 238)**
Transfers made to the Social Fund during the financial period	93 577	94 608

40. Employment structure

	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
White-collar employees	4 433	4 449
Blue-collar employees	13 967	13 955
Total:	**18 400**	**18 404**

41. Subsequent events

Opening of liquidation proceedings for FADROMA SERWIS REMONTY Sp. z o.o.
On 6 July 2010 an application for the liquidation of FADROMA S.R. 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. On 5 July 2010 the Extraordinary General Shareholders Meeting of FADROMA S.R. SP. Z O.O. resolved to put the company into liquidation and to choose a liquidator – Krzysztof Brzostek. DFM ZANAM-LEGMET Sp. z o.o. as the owner of 98.05 % of shares of FADROMA S.R. SP. Z O.O. decided to strengthen its service potential through taking over the employees of FADROMA S.R. SP. Z O.O. Actions connected with taking over the employees of FADROMA S.R. 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.

Purchase of shares of BIPROMET S.A.

On 12 July 2010 the shares of BIPROMET S.A. were purchased 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 General Meeting of BIPROMET SA.

Significant contract with PGNiG
On 30 July 2010 a comprehensive contract was entered into for the purchase of fuel gas between KGHM Polska Miedź S.A. and Polskie Górnictwo Naftowe i Gazownictwo SA. 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 m^3 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. 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 billion.

SIGNATURES OF PERSONS REPRESENTING THE COMPANY			
DATE	**FIRST, LAST NAME**	**POSITION**	**SIGNATURE**
28 August 2010	Herbert Wirth	President of the Management Board	
28 August 2010	Maciej Tybura	I Vice President of the Management Board	
28 August 2010	Ryszard Janeczek	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR COMPANY ACCOUNTING			
DATE	**FIRST, LAST NAME**	**POSITION**	**SIGNATURE**
28 August 2010	Ludmiła Mordylak	Chief Accountant of KGHM General Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.

REPORT OF THE MANAGEMENT BOARD
ON THE COMPANY'S ACTIVITIES
IN THE FIRST HALF OF 2010

Lubin, August 2010

CONTENTS

I. Production results 99
II. Sale of products 100
III. Employment 102
IV. Assets 103
V. Equity and Liabilities 104
VI. Financial result 105
VII. Operating costs 107
VIII. Realisation of financial forecasts 108
IX. Risk management 108
X. Disputed issues 110
XI. Organisational structure of the Group 112
XII. Ownership structure of KGHM Polska Miedź S.A. 116

LIST OF TABLES, DIAGRAMS AND CHARTS 117

I. Production results

In the first half of 2010 there was a decrease in ore extraction (dry weight) versus the comparable prior year period due to optimisation of mine operations during weekends and holidays. There was also a decrease in copper content in ore from 1.68% to 1.66%. As a result copper in ore production decreased by nearly 15.2 thousand tonnes (6%).

The production of copper in concentrate decreased by approx. 10.4 thousand tonnes versus the first 6 months of 2009, and was due to lower ore extraction.

Electrolytic copper production increased versus the comparable prior year period by 28.3 thousand tonnes (12%) and was due to the increased share of production from purchased copper-bearing materials in the form of copper scrap and copper blister.

Other significant changes in the amount of smelter production in the first half of 2010 versus the comparable prior year period were due to:

– changes in the volume of copper products: wire rod, round billets, oxygen-free copper wire rod and copper grains, resulting from the market demand;
– an increase in gold production, due to the higher content of this metal in imported concentrates and blister copper processed in the first half of 2010.

Production results are presented in detail in the table below:

Table 1. Production results in mining

	Unit	2009	I-VI 2009	I-VI 2010	Change*
Copper ore (dry weight)	million t	29.7	15.2	**14.5**	95.4
Copper content in ore	%	1.68	1.68	**1.66**	98.8
Amount of copper in ore	'000 t	499.5	255.5	**240.3**	94.1
Amount of copper in concentrate	'000 t	439.0	223.1	**212.7**	95.3

** I-VI 2009 = 100*

Table 2. Production results in smelting

	Unit	2009	I-VI 2009	I-VI 2010	Change *
Copper products:					
Electrolytic copper	'000 t	502.5	239.8	**268.1**	111.8
incl. from purchased copper-bearing materials	'000 t	103.8	40.0	**69.9**	174.8
Wire rod (Contirod)	'000 t	177.5	88.6	**121.1**	136.7
Oxygen-free copper rod (UPCAST)	'000 t	13.8	6.6	**7.6**	115.2
Round billets	'000 t	14.9	8.7	**7.3**	83.9
Granular copper	'000 t	2.5	1.3	**1.3**	100.0
Other production:					
Metallic silver	t	1 203.2	607.5	**560.8**	92.3
Metallic gold	kg	813.5	396.6	**440.7**	111.1
Crude lead	'000 t	24.1	12.1	**12.1**	100.0
Refined lead	'000 t	21.6	10.9	**11.5**	105.5

** I-VI 2009 = 100*

II. Sale of products

In the first half of 2010, in comparison to the first six months of the prior year, the Company recorded an increase in the volume of copper sales of 18.3 thousand tonnes (7%). Due to the improved market situation there was a change in the structure of sales of copper products, with an increase in the volume of sales of higher-processed products, i.e. copper wire rod by 30.0 thousand tonnes (35%) alongside a decrease in copper cathode sales by 11.9 thousand tonnes (8%).

Sales of precious metals were lower versus the comparable prior year period due to the lower level of production in the first half of 2010. Silver sales amounted to 616.7 tonnes, and were lower by 2% (11.6 t), while gold sales fell by 27% (125.6 kg) and amounted to 334.1 kg.

Table 3. Sales volume for basic products

	Unit	2009	I-VI 2009	I-VI 2010	Change*
Copper and copper products	'000 t	509.9	244.4	**262.7**	107.5
- of which export **	'000 t	390.5	184.7	**192.5**	104.2
Silver	t	1 198.2	628.3	**616.7**	98.2
- of which export **	t	1 150.3	604.1	**598.2**	99.0
Gold	kg	817.6	459.7	**334.1**	72.7
- of which export **	kg	755.5	415.6	**252.0**	60.6

** I-VI 2009 = 100*
*** including sales to European Union countries*

Table 4. Revenues from the sale of products (in '000 PLN)

	2009	I-VI 2009	I-VI 2010	Change*
Total	**10 965 336**	**5 058 574**	**7 152 198**	**141.4**
- of which export **	**8 479 444**	**3 882 105**	**5 336 323**	**137.5**
Copper and copper products	8 815 919	3 971 186	**5 847 649**	147.3
- of which export **	6 733 784	2 981 775	**4 266 338**	143.1
Silver	1 731 718	886 867	**1 069 933**	120.6
- of which export **	1 663 074	853 391	**1 038 870**	121.7
Gold	84 721	48 561	**36 305**	74.8
- of which export **	78 563	44 079	**27 363**	62.1
Other products and services	332 978	151 960	**198 311**	130.5
- of which export **	4 023	2 860	**3 754**	131.2

** I-VI 2009 = 100*
*** including sales to European Union countries*

Total revenues from the sale of KGHM Polska Miedź S.A. products in the first half of 2010 amounted to PLN 7 152 198 thousand and were 41% higher than those achieved in the comparable period of 2009, mainly as a result of higher copper and silver prices and an increase in sale of copper (significant increase in orders for wire rod). Revenues from the sale of copper and copper products were higher by 47%. Revenues from silver sales, versus the comparable period of 2009, were higher by 21%, and revenues from gold sales were lower by 25%.

Revenues from sales in the first half of 2010 reflect the positive result from the settlement of hedging instruments in the amount of PLN 82 294 thousand (in the comparable period of 2009, PLN 487 548 thousand).

Geographical structure of product sales

In the first half of 2010 the volume of domestic sales of copper and copper products represented 27% of total copper sales, with export and European Union sales accounting for 73%. During this period, the largest foreign customers for copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and France. In the first half of 2010, domestic sales accounted for 3% of the total volume of silver sales, while export and European Union sales accounted for 97%. The largest foreign customers for silver were the United Kingdom, the USA and Belgium.

Macroeconomic sales conditions

At the beginning of 2010 there was a strong downward correction in the price of copper. The price of this metal fell by 1.5 thousand USD/t to the approximate level of 6 200 USD/t. Since the beginning of February the situation on global markets, including that on the copper market, has visibly improved. The increase in the copper price observed since February 2010 was the result of several factors. The continued historically-low interest rates in the USA, Japan and Europe and the enormous stimulus packets have caused over-liquidity in the financial markets and encouraged investors to seek more attractive rates of return than those provided by government bonds. This money was invested on the stocks and commodities markets.

In the case of copper, a further positive factor was the stimulus packet introduced by China, which caused a quickening in the rate of growth of industrial production in this country and a dynamic increase in copper demand. By mid-April the copper price had exceeded 8 000 USD/t, and since then have been in a downward corrective phase reaching nearly 6 000 USD/t. The decrease in the price of this metal was based on lower-than-expected economic stimulation in developed countries, the financial problems experienced by several European countries and actions taken by the Chinese government to cool down economic growth.

The sovereign debt problems of several European countries caused a significant weakening of the Euro versus the USD, which resulted in increased risk aversion. As a result of these factors there was a downward correction on the prices of shares and commodities and in the currencies of non-Euro zone European countries.

The average price of copper in the first half of 2010 amounted to 7 130 USD/t and was 76% higher than that achieved in the comparable period (4 046 USD/t). The average price of silver in the first half of 2010 amounted to 17.62 USD/troz and was 34% higher than that in the first half of 2009 (13.17 USD/troz).

The stabilisation which began in the third quarter of 2009 in the price of the Polish zloty versus the USD ended at the beginning of May by a strong depreciation in the value of the zloty. At the beginning of June 2010 the highest fixing since March of 2009 by the NBP for the USD/PLN exchange rate was recorded at the level of 3.49. The average USD exchange rate in the first half of 2010 amounted to 3.02 PLN/USD and was 10% lower than the rate in the comparable period of 2009 (3.36 PLN/USD).

III. Employment

Employment at 30 June 2010 was higher by 115 than at the end of the first half of the prior year, and by 44 compared to 31 December 2009.

Employment at the end of the first half of 2010 versus the comparable prior year period is presented in the following table.

Table 5. End-of-period employment

	30.06.2009	31.12.2009	30.06.2010	Change*
Mines	12 312	12 397	**12 500**	100.8
Smelters	3 939	3 931	**3 881**	98.7
Other Divisions	2 091	2 085	**2 076**	99.6
Total	18 342	18 413	**18 457**	100.2

** 31.12.2009 = 100*

There was an increase in employment mainly in respect of underground employees and was due to the need to ensure the requisite level of employment to achieve planned production tasks.

Relations with the trade unions

At the Company and Divisional levels collective disputes initiated in 2009 continued. Negotiations and mediation in these disputes ended with the signing of protocols of dispute. The main subject of the above-mentioned disputes are the demands for the signing of an „employee package" (a social agreement), which would come into force should the State Treasury lose control over the Company, guaranteeing the following for a period of 10 or 20 years:

- employment for all employees,
- the application in unchanged form of the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A.,
- annual valorisation of salary using the index at a level not lower than inflation,
- the maintenance of employee rights and benefits at an unworsened level.

The Management Board of KGHM Polska Miedź S.A. and of individual employers – the Company's Divisions – do not agree to realisation of the demands, arguing that:

- packets of this type were signed by the State Treasury with the investor obtaining control over the given company prior to commencement of the privatisation process. The privatisation of KGHM took place in 1997. At that time the shares were sold and made available, including to the employees of KGHM Polska Miedź S.A.
- at the present time the Management Board of the Company is not authorised to incur liabilities in this regard, whose realisation would occur under future unspecified conditions.
- realisation of this demand would threaten the economic security of the Company, and therefore, contrary to the intentions of the trade unions, the safety of jobs as well.
- this demand is contrary to the principles of social cooperation – those currently employed would effectively obtain control over existing jobs regardless of their attitude to the work performed, which would simultaneously block jobs from professionals necessary to the Company's functioning.
- changes in the wording of the Collective Labour Agreement are solely dependent on the good will of the signing parties – the Management Board of KGHM and the trade unions. Any change in the shareholder structure of the Company has no impact on the Collective Labour Agreement.

The trade unions Związek Zawodowy Pracowników Przemysłu Miedziowego and NSZZ Solidarność organised strike referendums in the Polkowice–Sieroszowice mine. Respectively, 72% and 65% 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 salary by PLN 300, which was not a subject of the collective disputes. The trade unions announced that referendums would be held in the remaining Company Divisions.

IV. Assets

At 30 June 2010 the total assets of KGHM Polska Miedź S.A. amounted to PLN 16 976 883 thousand, which in comparison to the end of 2009 means an increase of PLN 3 023 853 thousand, i.e. by 22%. The significant increase in total assets was mainly due to realisation of the hedging policy (an increase in value of the item derivative instruments), and realisation of the Strategy with respect to diversification (an increase in available-for-sale financial assets, to which were classified the shares purchased in Tauron Polska Energia S.A.). Meanwhile, in the first half of 2010 the Company achieved a relatively high profit, alongside a shareholder dividend significantly lower than in 2009, which increased retained earnings as well as equity.

Table 6. Assets ('000 PLN)

	31.12.2009	30.06.2010	Change*	Structure (%)
Non-current assets	**9 508 897**	**10 751 910**	**113.1**	**63.3**
Property, plant and equipment	5 937 513	**6 081 778**	102.4	35.8
Intangible assets	76 147	**80 531**	105.8	0.5
Shares and investment certificates in subsidiaries	1 915 224	**1 974 183**	103.1	11.6
Investments in associates	1 159 947	**1 159 947**	100.0	6.8
Deferred tax asset	167 062	**180 353**	108.0	1.1
Available-for-sale financial assets	17 700	**431 317**	x 24.4	2.5
Held-to-maturity investments	67 097	**86 230**	128.5	0.5
Derivative financial instruments	58 034	**649 925**	x 11.2	3.8
Trade and other receivables	110 173	**107 646**	97.7	0.6
Current assets	**4 444 133**	**6 224 973**	**140.1**	**36.7**
Inventories	1 890 286	**2 118 742**	112.1	12.5
Trade and other receivables	1 314 598	**1 641 124**	124.8	9.7
Held-to-maturity investments	580	**460**	79.3	x
Derivative financial instruments	263 247	**431 668**	164.0	2.5
Cash and cash equivalents	975 198	**2 032 484**	x 2.1	12.0
Non-current assets held for sale	224	495	x 2.2	x
Total Assets	**13 953 030**	**16 976 883**	**121.7**	**100.0**

** 31.12.2009 = 100*

The largest item of assets was property, plant and equipment. In the first half of 2010 the value of property, plant and equipment increased by PLN 144 265 thousand (2%), mainly due to realisation of the investment program in the amount of PLN 414 899 thousand (expenditures), with depreciation of PLN 301 434 thousand.

In the first half of 2010, the Company purchased investment certificates of the funds KGHM I FIZAN and KGHM II FIZAN in the total amount of PLN 29 347 thousand. Apart from this, a planned increase in the capital of Zagłębie Lubin S.A. was realised in the amount of PLN 28 000 thousand, and shares of KGHM HMS Bergbau AG were acquired from Cuprum sp. zo.o. – CBR in the amount of PLN 1 612 thousand. As a result of these investments the value of shares and investment certificates in subsidiaries increased by PLN 58 959 thousand (3%) and at the end of June 2010 amounted to PLN 1 974 183 thousand. The value of investments in associates remained unchanged.

A significant item in the structure of assets was available-for-sale financial assets, whose value increased from PLN 17 700 thousand at the end of 2009 to PLN 431 317 thousand at the end of the first half of 2010. To this item were mainly classified the shares of Tauron Polska Energia S.A. acquired on the primary and secondary markets, as well as the shares of Abacus Mining & Exploration (Canada).

The largest item of current assets was inventories in the amount of PLN 2 118 742 thousand. Their carrying amount in comparison to the amount at the end of 2009 increased by

PLN 228 456 thousand, mainly with respect to half-finished products and work in progress due to the increase in the volume of anode inventories (+11 thousand tonnes Cu) and the higher cost representing the basis for valuation.

In the first half of 2010 copper prices on the LME were significantly higher than those recorded a year earlier. The Company also benefited from a weakening of the PLN versus the USD, leading to the achievement of high revenues and positive cash flow. As a result the level of cash and cash equivalents also increased to PLN 2 032 484 thousand, a level twice as high as at the end of 2009.

The Company invested the funds obtained mainly in bank deposits of up to 3 months, in order to, among others, ensure funds for payment of the shareholder dividend from 2009 profit, which was paid at the beginning of July. Accumulated funds will also be used to finance planned investment projects.

Current trade and other receivables amounted to PLN 1 641 124 thousand, of which PLN 1 266 365 thousand represented trade receivables. Since the beginning of 2010 receivables have increased by PLN 326 526 thousand (25%), mainly due to trade receivables due among others to the increase in the prices of sold copper and silver products.

At the end of June 2010 non-current and current assets due to derivative financial instruments amounted to PLN 1 081 593 thousand and, in relation to their level at the end of 2009, tripled in value due to the change in copper prices as well as to the settlement of derivative instruments from 31 December 2009 and commencement of new transactions in the first half of 2010.

V. Equity and Liabilities

Equity in the amount of PLN 12 203 671 thousand represented 72% of total equity and liabilities (75% at the end of 2009). In the first half, equity increased by PLN 1 799 714 thousand, mainly due to the profit for the first half of 2010 (PLN 2 226 638 thousand). Equity was also significantly affected by the shareholder dividend, reducing retained earnings in the amount of PLN 600 000 thousand, substantially lower than in 2009 (PLN 2 336 000 thousand).

Table 7. Sources of financing of assets ('000 PLN)

	31.12.2009	30.06.2010	Change*	Structure (%)
Equity	**10 403 957**	**12 203 671**	**117.3**	**71.9**
Share capital	2 000 000	2 000 000	100.0	11.8
Accumulated other comprehensive income	127 228	300 304	x 2.4	1.8
Retained earnings	8 276 729	9 903 367	119.7	58.3
Non-current liabilities	**1 704 420**	**2 096 518**	**123.0**	**12.3**
Trade and other payables	17 472	15 359	87.9	0.1
Borrowings and finance lease liabilities	11 576	8 881	76.7	0.1
Derivative financial instruments	61 354	352 385	x 5.7	2.1
Liabilities due to employee benefits	1 098 399	1 150 323	104.7	6.8
Provisions for other liabilities and charges	515 619	569 570	110.5	3.4
Current liabilities	**1 844 653**	**2 676 694**	**145.1**	**15.8**
Trade and other payables	1 376 049	2 030 118	147.5	12.0
Borrowings and finance lease liabilities	6 109	4 086	66.9	0.0
Current corporate tax liabilities	78 183	294 918	x 3.8	1.7
Derivative financial instruments	273 503	234 264	85.7	1.4
Liabilities due to employee benefits	93 122	97 861	105.1	0.6
Provisions for other liabilities and charges	17 687	15 447	87.3	0.1
Total equity and liabilities	**13 953 030**	**16 976 883**	**121.7**	**100.0**

** 31.12.2009 = 100*

Total non-current and current liabilities amounted to PLN 4 773 212 thousand, of which the largest-value item was liabilities due to employee benefits in the amount of PLN 1 248 184 thousand, mainly due to the coal equivalent (PLN 787 002 thousand) and jubilee awards (PLN 245 996 thousand).

Among remaining liabilities the following are significant in terms of their amounts:

- resolved but unpaid dividend from 2009 profit. These liabilities in the amount of PLN 600 000 thousand were held until the date of payment, 8 July 2010.
- derivative instruments PLN 586 649 thousand,
- trade payables PLN 479 368 thousand
- accruals, PLN 349 912 thousand, including PLN 179 938 thousand due to the provision for future payment of the annual bonus in accordance with the Collective Labour Agreement.

During the first six months of 2010 liabilities increased by PLN 1 224 139 thousand (35%), mainly in respect of the shareholder dividend (at the end of 2009 there were no liabilities in this regard – the dividend was paid in the second half of 2009).

Off-balance sheet liabilities and receivables

At 30 June 2010, contingent receivables of the Company amounted to PLN 139 331 thousand, most of which related to guarantees received (PLN 97 642 thousand). Other receivables not recognised in the statement of financial position (PLN 32 267 thousand) were in respect of implementation of projects and inventions.

Contingent liabilities not recognised in the statement of financial position at the end of the first half of 2010 amounted to PLN 546 645 thousand, and were mainly in respect of:

- future payments due to perpetual usufruct of land in the amount of PLN 402 033 thousand (this is not a due liability, but only represents the basis for making annual payments to the State Treasury),
- liabilities due to implementation of projects and inventions in the amount of PLN 100 469 thousand,
- an operating leases in the amount of PLN 21 735 thousand.

VI. Financial result

In the first half of 2010 the Company generated a profit for the period of PLN 2 226 638 thousand, i.e. 51% more than in the comparable prior year period.

Table 8. Income statement ('000 PLN)

	2009	I-VI 2009	I-VI 2010	Change*
Sales	11 060 540	5 099 260	**7 199 551**	141.2
Operating costs	7 863 635	3 641 907	**4 434 828**	121.8
Profit on sales	3 196 905	1 457 353	**2 764 723**	189.7
Profit/(loss) on other operating activities	(98 813)	308 807	**(245)**	(0.1)
Operating profit (EBIT)	3 098 092	1 766 160	**2 764 478**	156.5
Finance costs	(31 523)	(18 896)	**(16 621)**	88.0
Profit before income tax	3 066 569	1 747 264	**2 747 857**	157.3
Profit for the period	2 540 185	**1 472 634**	**2 226 638**	**151.2**
EBITDA (EBIT + depreciation/amortisation)	*3 645 745*	*2 034 241*	***3 070 604***	*150.9*

** I-VI 2009 = 100*

The higher profit for the period (by PLN 754 004 thousand) is due to changes in the following ('000 PLN):

– copper, silver and gold prices +2 695 571
– the volume of copper, silver and gold sales +231 269
– exchange differences +96 788

alongside changes in the following decreasing the result:

– the total cost of products sold (787 007)
– the exchange rate (474 313)
– the result on hedging transactions (430 135)
  (of which: adjustment of sales PLN (405 254) thousand, and the measurement and settlement of hedging transactions reducing the result of other operating activities in the amount of PLN (24 881) thousand)
– the level of dividends received (317 541)
– income tax expense (246 589)

Table 9. Basic factors affecting the financial result of the Company

	Unit	2009	I-VI 2009	I-VI 2010	Change*
Sale of copper and copper products	'000 t	509.9	244.4	**262.7**	107.5
Silver sales	t	1 198.2	628.3	**616.7**	98.2
Average copper price on the LME	USD/t	5 164	4 046	**7 130**	176.2
Average silver price on the LBM	USD/troz	14.67	13.17	**17.61**	133.7
Average PLN/USD exchange rate per NBP	PLN/USD	3.12	3.36	**3.02**	89.9
Unit cost of electrolytic copper production	USD/t	11 170	3 136	**4 253**	135.6
	PLN/t	3 582	10 547	**12 847**	121.8

** I-VI 2009 = 100*

In the first half of 2010, 96% of sales represented revenues from the sale of copper and silver, which were higher by PLN 2 059 529 thousand, i.e. by 42% versus the comparable prior period.

A loss was recorded on other operating activities of PLN (245) thousand, due to the following (in '000 PLN):

– a loss on the measurement and realisation of derivative instruments (135 472)
– foreign exchange gains 113 594
– dividends received 24 051
– interest income from financial instruments 22 959
– other (25 377)

The loss on financing activities amounted to PLN 16 621 thousand and was mainly due to revaluation of the present value of provisions (PLN 15 870 thousand).

VII. Operating costs

Operating costs in the first half of 2010 versus the comparable prior period increased by PLN 792 921 thousand, i.e. by 22%. The change in operating costs is due to increased use of purchased copper-bearing materials by PLN 933 497 thousand alongside an increase in inventories by PLN 201 367 thousand.

Expenses by nature increased by PLN 988 373 thousand, i.e. by 26%. The structure of expenses by nature is shown in the table below.

Table 10. Structure of expenses by nature (%)

	2009	I-VI 2009	I-VI 2010
Depreciation/Amortisation	7%	7%	6%
Materials and energy	46%	42%	53%
including purchased copper-bearing materials	*23%*	*18%*	*33%*
External services	12%	13%	10%
Labour costs	31%	34%	27%
Taxes and charges	3%	4%	3%
Other	1%	1%	1%

The total pre-precious metals credit unit cost of electrolytic copper production (i.e. prior to subtracting the value of silver and gold) in the first half of 2010 amounted to 15 252 PLN/t and was by 1 927 PLN/t, i.e. 14.5%, higher than in the comparable prior year period. The main reasons for this change in the unit cost are:

– the higher value of purchased copper-bearing materials due to an increase in prices by 53% and volume by 74% - an increase in the cost by 3 195 PLN/t,
– an increase in the volume of electrolytic copper production by 12% - a decrease in the unit cost by 1 027 PLN/t.

Due to the less advantageous valuation of anode slimes, the total unit cost of electrolytic copper production in the first half of 2010 increased versus the first half of 2009 by 22% (i.e. by 2 296 PLN/t) and amounted to 12 843 PLN/t.

Table 11. Unit cost of electrolytic copper production

	Unit	2009	I-VI 2009	I-VI 2010	Change*
Electrolytic copper production	'000 t	502.5	239.8	**268.1**	111.8
- from own concentrates	'000 t	398.6	199.8	**198.3**	99.2
- from purchased copper-bearing materials	'000 t	103.8	40.0	**69.9**	174.8
Pre-precious metals credit unit cost of copper production	PLN/t	13 944	13 325	**15 252**	114.5
- from own concentrates	PLN/t	13 153	13 131	**13 034**	99.3
- from purchased copper-bearing materials	PLN/t	16 980	14 296	**21 546**	150.7
Total unit cost of copper production	PLN/t	11 170	10 547	**12 843**	121.8
- from own concentrates	PLN/t	9 750	9 857	**9 957**	101.0
- from purchased copper-bearing materials	PLN/t	16 620	13 993	**21 029**	150.3

** I-VI 2009 = 100*

The total unit cost of electrolytic copper production from own concentrates in the first half of 2010 was at a similar level as in the comparable prior year period despite the lower volume of production from own concentrates by 0.8%, i.e. by 1.6 thousand tonnes of copper.

VIII. Realisation of financial forecasts

On 1 February 2010 the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2010, which assumed the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit for the period in the amount of PLN 2 898 million.

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

The high advancement on the planned revenues from sales and the higher-than-assumed level of foreign exchange gains are the main reason for the realisation after the first six months of 77% of the planned profit for 2010.

The Company is currently preparing an adjustment to the Budget for 2010, reflecting the results of the first half and the verified macroeconomic, production and investment assumptions.

Table 12. Realisation of projected Company results after the first half of 2010

	Unit	Budget 2010*	Execution I-VI 2010	Advance on plan (%)
Sales	**million PLN**	**11 736**	**7 200**	**61.3**
Profit for the period	**million PLN**	**2 898**	**2 227**	**76.8**
Electrolytic copper production	'000 t	512.0	**268.1**	52.4
- including from purchased copper-bearing materials	'000 t	84.0	**69.9**	83.2
Silver production	t	1 100	**561**	51.0
Total unit cost of	PLN/t	12 548	**12 843**	102.4
electrolytic copper production	USD/t	4 648	**4 253**	91.5
Average annual copper price	USD/t	6 700	**7 130**	106.4
	PLN/t	18 090	**21 857**	120.8
Average annual silver price	USD/troz	17.00	**17.61**	103.6
USD/PLN exchange rate	USD/PLN	2.70	**3.02**	111.9

** Budget for 2010 approved on 1 February 2010 and published in a current report on the same day*

IX. Risk management

In the first half of 2010 copper price hedging strategies represented approx. 30% (in the first half of 2009 26%) of the sales of this metal realised by the Company. With respect to silver sales this figure amounted to approx. 18% (in the first half of 2009 24%). In the case of currency market, hedged revenues from sales represented approx. 16% (in the first half of 2009 36%) of total revenues from sales realised by the Company.

In the first half of 2010 the result on derivative instruments amounted to PLN (53 178) thousand, of which the effective part of the measurement of hedging instruments transferred from accumulated other comprehensive income to profit or loss in the reporting period as a reclassification adjustment caused an increase in revenues from sales in the amount of PLN 82 294 thousand, the loss due to the measurement of derivative instruments amounted to PLN (112 227) thousand, and due to the realisation of derivative instruments, PLN (23 245) thousand. The adjustment of other operating costs due to the measurement of derivative instruments results mainly from changes in the time value of options which are to be settled in future periods. Due to the hedge accounting regulations applied in the Company, changes in the time value of options is not recognised in the equity.

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

	Period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Impact on sales	**82 294**	**487 548**
Impact on other operating costs	**(135 472)**	**(110 591)**
Losses from realisation of derivative instruments	(23 245)	(18 704)
Losses from measurement of derivative instruments	(112 227)	(91 887)
Total impact of derivative instruments on profit or loss:	**(53 178)**	**376 957**

In the first half of 2010 the Company implemented copper price hedging strategies with a total volume of 180.4 thousand tonnes and a time horizon falling in the second half of 2010 and the years 2011-2012. The Company made use of options (Asian options) including option strategies: producer puts and seagulls. During this period the Company did not implement adjustment hedge transactions. Additionally, the Company performed a restructurisation, implemented during the analysed period, of its seagull options strategy for 2011 of a total volume of 58.5 thousand tonnes through the buyback of sold puts. 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 first half of 2010 the Company did not implement any strategy to hedge the price of this metal. Neither during this period were any adjustment hedge transactions implemented on this market.

In the case of the forward currency market, in the first half of 2010 the Company implemented strategies hedging revenues from sales in the total nominal amount of USD 1 305 million and a time horizon falling in the second to fourth quarters of 2010 and the years 2011-2012. The Company made use of options (European options) including puts and option strategies: corridors and seagulls. During this period no adjustment hedge transactions were implemented on the currency market. Additionally, the Company performed a restructurisation, implemented in the analysed period, of seagull option strategies in 2011 in the total nominal amount of USD 360 million, through the buyback of sold puts. 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 tonnes), 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). With respect to revenues from sales (currency market) the Company holds a hedging position for the second half of 2010 (USD 465 million), in 2011 (USD 720 million) and 2012 (USD 360 million).

A condensed list of hedging positions by type of hedged asset and instruments used at 30 June 2010 may be found in Note 30 of the half-year financial statements.

The Company continuously monitors the commodity and currency markets, and these monitoring activities are the basis for taking decisions on implementing hedging strategies.

At 30 June 2010, the fair value of open positions in derivative instruments amounted to PLN 494 944 thousand, financial assets represented PLN 1 081 593 thousand, and financial liabilities, PLN 586 649 thousand. Derivative instruments whose date of settlement was 2 July 2010 were measured at fair value in the amount of PLN 5 524 thousand, and accounted for in trade and other receivables as receivables due to unsettled derivative instruments. The fair value of open positions in derivative instruments varies depending on changes in market conditions, and the final result realised on these transactions may vary significantly from the amounts described above.

At 30 June 2010, accumulated other comprehensive income 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 exchange rate risk.

At the end of 2009, the accumulated other comprehensive income from measurement of the effective portion of the fair value of hedging instruments amounted to PLN 155 233 thousand.

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

AMOUNT RECOGNISED IN EQUITY	**At**	
	30 June 2010	**31 December 2009**
Accumulated other comprehensive income – commodity price risk hedging transactions (copper and silver) – derivatives	313 063	(3 937)
Accumulated other comprehensive income - currency risk hedging transactions – derivatives	69 131	159 170
Total accumulated other comprehensive income **- financial instruments hedging future cash flows (excluding the deferred tax effects)**	**382 194**	**155 233**

Gains or (losses) on derivative instruments hedging future cash flows recognised in other comprehensive income	**For the period** **from 01.01.10 to 30.06.10**	**from 01.01.09 to 31.12.09**	**from 01.01.09 to 30.06.09**
Accumulated gain or loss achieved on financial instruments hedging future cash flows at the beginning of the reporting period	**155 233**	**627 757**	**627 757**
Amount recognised in the reporting period due to hedging transactions	309 255	(39 337)	(137 647)
Amount transferred from accumulated other comprehensive income to revenues from sales	82 294	(433 187)	(487 548)
Accumulated other comprehensive income due to instruments hedging future cash flows at the end of the reporting period (excluding the deferred tax effects)	**382 194**	**155 233**	**2 562**

Details of the risk management policy in the Company together with identification of the main types of risk can be found in Notes 10, 29 and 30 of the half-year financial statements.

X. Disputed issues

At 30 June 2010 the total value of ongoing disputed issues both by and against KGHM Polska Miedź S.A. and in the subsidiaries of the Company amounted to PLN 238 511 thousand, including receivables of PLN 113 911 thousand and liabilities of PLN 124 600 thousand.

With respect to KGHM Polska Miedź S.A. the value of proceedings amounted to PLN 139 134 thousand, including with respect to receivables of PLN 44 568 thousand and liabilities of PLN 94 566 thousand.

The largest proceedings involving KGHM Polska Miedź S.A. and its subsidiaries, with respect to liabilities in the first half of 2010 concern the following:

– royalties for use of a patent from invention project no. 1/97/KGHM.

  Value of amount under dispute: PLN 42 413 thousand. The claim was filed with the Regional Court in Legnica on 26 September 2007 by 14 co-authors of invention project no. 1/97/KGHM. KGHM Polska Miedź S.A. received a summons on 14 January 2008. Each of the plaintiffs in this complaint is demanding royalties equivalent to the given plaintiff's share in the economic effects achieved. The Regional Court in Legnica admitted evidence in this matter – an opinion prepared by a scientific institute to determine whether project no. 1/97/KGHM meets the conditions to be considered an invention project as understood by the internal regulations on innovation in KGHM Polska Miedź S.A. Proceedings are in progress.

In the Company's opinion the royalties being pursued by the Court is undue, with respect to the coverage by KGHM Polska Miedź S.A. of receivables due to the authors of the project due to use of an invention project.

– return of costs of protecting against mining damage

  Value of amount under dispute: PLN 16 409 thousand. A claim was filed against KGHM Polska Miedź S.A. with the Regional Court in Legnica by a company from Polkowice on 4 August 2009 for payment of the amount of PLN 16 409 thousand due to the return of protection costs incurred during construction of the Centrum Handlowo-Usługowe „CUPRUM ARENA" in Lubin. Proceedings are in progress.

  In the Company's opinion the claim is unfounded and should be dismissed.

– compensation for withdrawal from a contract

  The value of the amount under dispute denominated in PLN, according to the National Bank of Poland exchange rate of 30 June 2010, amounts to PLN 12 158 thousand. In January 2010, INTRACOM S.A. filed a claim against a subsidiary of KGHM Polska Miedź S.A. - Telefonia DIALOG S.A. – for payment of the amount of EUR 2 953 thousand as compensation for the unjustified withdrawal from a contract. The court of first instance, in a decision dated 19 May 2010, dismissed the claim. The decision is not binding.

  This claim, in the opinion of Telefonia DIALOG S.A., is unjustified. The plaintiff did not execute the terms of the contract – an IN platform – on time, which resulted in the realisation of security in the form of a bank guarantee and failure to adhere to the contract.

– royalties for use of a patent from invention project no. 2/97/KGHM

  Value of amount under dispute: PLN 11 760 thousand. A claim was filed with the Regional Court in Legnica by eleven co-authors and two heirs of authors of invention project no. 2/97/KGHM. The plaintiffs are demanding additional compensation due to the use by KGHM Polska Miedź S.A. of a patent from the submitted project no. 2/97/KGHM. KGHM Polska Miedź S.A. filed a request to suspend the proceedings until the case can be heard by the Patent Office of the Republic of Poland for the annulment of patent no. 185036. Proceedings are in progress.

  In the Company's opinion the claim does not deserve to be considered due to the lack of patentability of invention project no. 2/97/KGHM, based on failure to meet the unobviousness requirement.

The largest proceedings being pursued by KGHM Polska Miedź S.A. and its subsidiaries in respect of debtors in the first half of 2010 involve the following:

– return of undue royalties for use of invention project no. 1/97/KGHM

  On 21 January 2008 the Company filed a counter claim against 14 project co-authors for payment of undue royalties paid in the amount of PLN 25 195 thousand for use of invention project no. 1/97/KGHM. The court has combined both these matters – the claims of 14 co-authors for the payment of royalties for use of invention project no. 1/97/KGHM in the amount of PLN 42 413 thousand with the claims of the Company for the payment of undue royalties paid for use of invention project no. 1/97/KGHM in the amount of PLN 25 195 thousand, for mutual hearing. Proceedings are in progress. In the Company's opinion the payment of royalties to the project's authors was unfounded.

– return of receivables for unrealised delivery of tubing.

  Value of amount under dispute: USD 4 222 thousand. Denominated in the Polish zloty, according to the National Bank of Poland exchange rate from 30 June 2010, the amount of the dispute is PLN 14 332 thousand. The claim was filed on 2 April 2009 by DFM ZANAM-LEGMET

Sp. z o. o. in Polkowice - a subsidiary of KGHM Ecoren S.A., which is a subsidiary of KGHM Polska Miedź S.A. - against a company with its registered head office in Dniepropietrowsk, Ukraine for failure to uphold the conditions of a contract entered into in May 2007. The amount of the claim includes contractual penalties of USD 1 048 thousand for late deliveries of tubing, USD 2 536 thousand for failure to adhere to the contract by the defendant, and the return of the downpayment of USD 638 thousand. At the hearing the Court obliged the parties to attempt to reach an agreement. The initial meeting of the parties aimed at negotiating an agreement was held on 20-21 July 2010 at the head office of the plaintiff. During this meeting the parties announced the signing of an agreement. Currently the parties are agreeing its wording. Proceedings are in progress.

- setting the amount of corporate income tax liabilities for KGHM Polska Miedź S.A. for the year 2003

  On 10 July 2009 the Company submitted an appeal to the Director of the Tax Chamber in Wrocław of a decision of the Legnica branch of the Director of the Tax Inspection Office in Wrocław dated 30 June 2009, calling for a decrease in the amount of liabilities set by the Director of the Tax Inspection Office by PLN 13 915 thousand.

  The appeal involves - what the Company considers as the unfounded - decision by the tax authority not to recognise as tax deductible costs a portion of expenses incurred by the Company related to a business activity and income earned, as well as refusal of the right to deduct subsidies related to environmental protection, health, etc., for which the tax law (as worded and in force in 2003) allowed deduction. Proceedings are in progress.

- return of excise tax.

  Value of amount under dispute: PLN 12 531 thousand. A claim was filed with the Voivodeship Administrative Court by POL-MIEDŹ TRANS Sp. z o. o. - a subsidiary of KGHM Polska Miedź S.A. - against a decision of the Director of the Customs Office setting excise taxation for the months from March to December 2003.

  The proceedings, involving the return of taxation for the month of March 2003, were suspended at the mutual request of the parties. The Court suspended *ex officio* the remaining nine claims. This suspension due to the question of the conformance of tax law and executory provisions, based on which decisions were issued setting the amount of excise tax for January and February 2003, being forwarded by the Supreme Administrative Court to the Constitutional Tribunal.

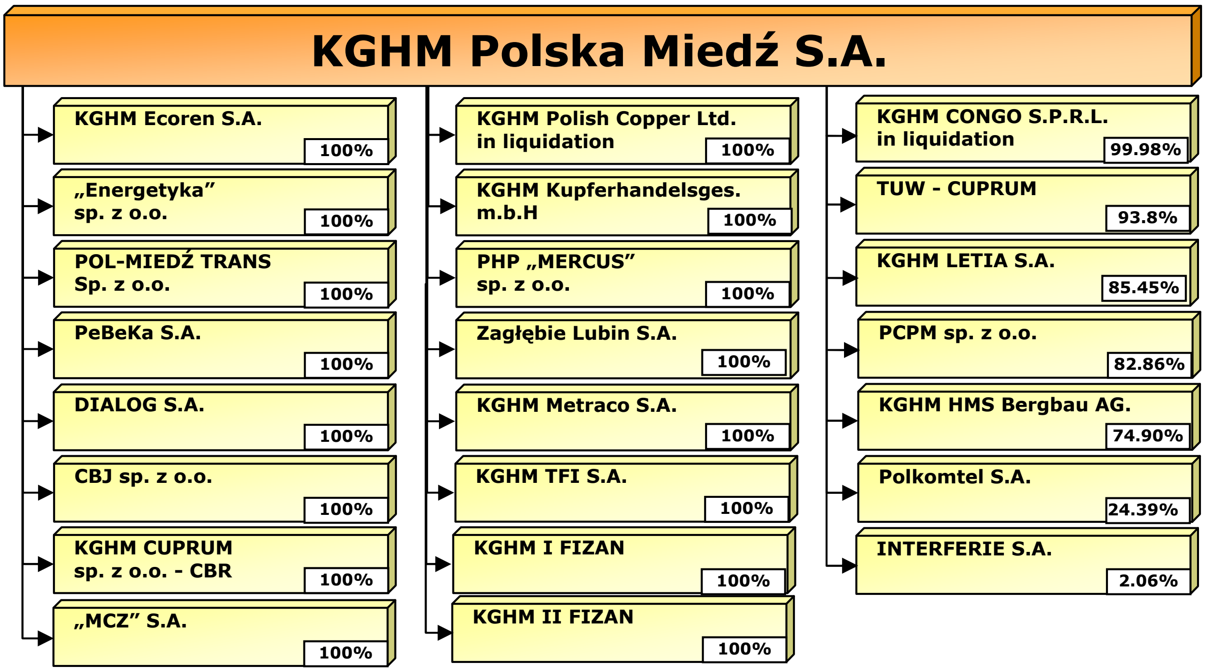
  If the Constitutional Tribunal declares that the legal solutions set forth by the decree are unconstitutional, the amount of excise tax in question, which was paid based on this decision, should be returned to the company in whole or part.

  The Regional Administrative Court in July 2010 issued a ruling to recommence the suspended proceedings to determine the amount of excise tax liabilities for March 2003.

XI. Organisational structure of the Group

At 30 June 2010 KGHM Polska Miedź S.A. owned shares directly in 21 companies and investment certificates in 2 closed-end investment funds of non-public assets. Seven from these entities possess their own group structures: KGHM Ecoren S.A., PHP „MERCUS" sp. z o.o., DIALOG S.A., POL-MIEDŹ TRANS Sp. z o.o., „Energetyka" sp. z o.o., INTERFERIE S.A. and KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The equity investments of KGHM Polska Miedź S.A. in individual entities are shown in the diagram below.

Diagram 1. Entities in which KGHM Polska Miedź S.A. owned shares and investment certificates directly at 30 June 2010



The companies of the Group are entities with varied operating profiles. The products and services they offer include those directly related to the core business of KGHM Polska Miedź S.A. (such as searching for and mining ores of copper and other metals, mine construction, the generation of electricity and heat, mining machines and equipment and research and development) as well as those unrelated to supporting the core business of KGHM Polska Miedź S.A., such as tourism, transportation, telecommunications, medicine and the depositing of cash resources.

Consolidated entities

Direct subsidiaries of KGHM Polska Miedź S.A.:

- KGHM Ecoren S.A.
- DIALOG S.A.
- „Energetyka" sp. z o.o.
- PeBeKa S.A.
- POL-MIEDŹ TRANS Sp. z o.o.
- KGHM Metraco S.A.
- PHP „MERCUS" sp. z o.o.
- CBJ sp. z o.o.
- KGHM CUPRUM sp. z o.o. – CBR
- „MCZ" S.A.
- Zagłębie Lubin S.A.
- KGHM Polish Copper Ltd. in liquidation,
- KGHM Kupferhandelsges. m.b.H.,
- KGHM LETIA S.A.
- KGHM HMS Bergbau AG
- KGHM TFI S.A.
- KGHM I FIZAN
- KGHM II FIZAN

Direct associate of KGHM Polska Miedź S.A.:

- Polkomtel S.A.

Indirect subsidiaries (parent company in parentheses):

- ZANAM-LEGMET Sp. z o.o. (KGHM Ecoren S.A.)
- INOVA Spółka z o.o. (KGHM Ecoren S.A.)
- WFP Hefra S.A. (KGHM Ecoren S.A.)
- WM „ŁABĘDY" S.A. (KGHM Ecoren S.A.)
- INTERFERIE S.A. (KGHM Ecoren S.A.)
- Ecoren DKE Spółka z o.o. (KGHM Ecoren S.A.)
- WMN Sp. z o.o. (WM „ŁABĘDY" S.A.)
- FADROMA S.R. SP. Z O.O. (ZANAM-LEGMET Sp. z o.o.)
- PHU „Lubinpex" Sp. z o.o. (PHP „MERCUS" sp. z o.o.)
- AVISTA MEDIA Sp. z o.o. (DIALOG S.A.)
- PETROTEL Sp. z o.o. (DIALOG S.A.)
- PMT Linie Kolejowe Sp. z o.o. (POL-MIEDŹ TRANS Sp. z o.o.)
- „BIOWIND" sp. z o.o. („Energetyka" sp. z o.o.)
- WPEC w Legnicy S.A. („Energetyka" sp. z o.o.)
- INTERFERIE Medical SPA Sp. z o.o. (INTERFERIE S.A.)
- Fundusz Hotele 01 Sp. z o.o. (KGHM I FIZAN)
- Fundusz Hotele 02 Sp. z o.o. S.K.A. (KGHM I FIZAN)

In the first half of 2010 the following changes occurred in the structure of the Group:

- Foundation of the company INTERFERIE Medical SPA Sp. z o.o.

  On 1 February 2010, INTERFERIE S.A. founded the company INTERFERIE Medical SPA Sp. z o.o. with its registered head office in Lubin, in which it acquired 100% of the shares, covered by cash based on their nominal value, i.e. in the total amount of PLN 50 thousand. The indirect share of KGHM Polska Miedź S.A. in the share capital of INTERFERIE Medical SPA Sp. z o.o. is 65.67 %.

  INTERFERIE Medical SPA Sp. z o.o. was court registered on 18 February 2010.

  The subject of activities of the newly-founded company is services in the hotel industry, recreation, rehabilitation, health tourism and wellness. The company is responsible for the construction of a recreation–rehabilitation complex in Świnoujście.

  During the financial period, INTERFERIE Medical SPA Sp. z o.o. did not earn revenues from sales but incurred administrative expenses in the amount of PLN 49 thousand.

- Acquisition of KGHM I FIZAN Investment Certificates

  On 2 February 2010, KGHM Polska Miedź S.A. acquired 2 095 Investment Certificates, series A, of the fund KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN) with its registered head office in Wrocław, with a total issuance price of PLN 20 950 thousand. The Management Body of KGHM I FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. At the end of June 2010 KGHM Polska Miedź S.A. was the only participant in the fund.

  KGHM I FIZAN was entered into the register of funds on 9 February 2010.

  The subject of activities of KGHM I FIZAN is the investment of monetary resources in – as defined by the Act on Investment Funds and in the Statutes - securities, money market instruments and other property rights.

  During the financial period, KGHM I FIZAN earned revenues from sales of PLN 243 thousand and incurred costs of PLN 894 thousand.

- Foundation of the company Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.)

  On 12 March 2010 KGHM I FIZAN founded the company Fundusz Uzdrowiska Sp. z o.o. with its registered head office in Warsaw, in which it acquired 100 % of the shares and paid for the shares in cash at nominal value, i.e. total of PLN 15 thousand.

  On 20 May 2010, KGHM I FIZAN acquired shares in the increased share capital of Fundusz Uzdrowiska Sp. z o.o., covering them with cash at their nominal amount, i.e. the total amount of PLN 201 thousand. On the same day the name was changed to Fundusz Hotele 01 Sp. z o.o.

At the end of June 2010, the share capital of Fundusz Hotele 01 Sp. z o.o. amounted to PLN 216 thousand. All of the shares were owned by KGHM I FIZAN.

The subject of activities of Fundusz Hotele 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 earned revenues from sales of PLN 15 thousand.

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

  On 17 May 2010, KGHM I FIZAN and Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.) as a complementary company, founded the company Fundusz Uzdrowiska Sp. z o.o. S.K.A. with its registered head office in Warsaw. KGHM I FIZAN acquired 100% of the shares of this entity, covering them with cash at their nominal amount, i.e. the total amount of PLN 50 thousand. The cost of acquiring the shares was PLN 50 thousand.

  By a notary act dated 22 June 2010 the name was changed to Fundusz Hotele 01 Sp. z o.o. S.K.A.

  Fundusz Uzdrowiska Sp. z o.o. S.K.A. has a diverse scope of activities.

  At 30 June 2010 the company had not begun operations.

– Acquisition of Investment Certificates of the fund KGHM II FIZAN

  On 23 June 2010, KGHM Polska Miedź S.A. acquired 700 Investment Certificates, series A, of the fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN) with its registered head office in Wrocław, with a total issue price of PLN 7 000 thousand. The Managing Body of KGHM II FIZAN is KGHM TFI S.A. - a subsidiary of KGHM Polska Miedź S.A. At the end of June 2010, KGHM Polska Miedź S.A. was the only participant in the fund.

  KGHM II FIZAN was entered into the register of funds on 21 June 2010.

  The subject of activities of KGHM II FIZAN is the investment of monetary resources in – as defined by the Act on Investment Funds and in the Statutes - securities, money market instruments and other property rights.

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

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

  On 19 May 2010, KGHM I FIZAN founded the company Fundusz Uzdrowiska 01 Sp. z o.o. with its registered head office in Warsaw, in which it acquired 100% of the shares, covering them with cash at their nominal value, i.e. the total amount of 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, KGHM I FIZAN founded the company Fundusz Uzdrowiska 02 Sp. z o.o. with its registered head office in Warsaw, in which it acquired 100% of the shares, covering them with cash at their nominal value, i.e. the total amount of 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.

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

On 17 May 2010, KGHM I FIZAN and Fundusz Hotele 01 Sp. z o.o. (as a complementary company) founded the company Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. with its registered head office in Warsaw. KGHM I FIZAN acquired 100% of the shares of this entity, covering them with cash at their nominal value, i.e. the total amount of PLN 50 thousand. The cost of acquiring the shares was 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.

In the first half of 2010, neither the Company nor subsidiaries of KGHM Polska Miedź S.A. entered into significant transactions with related entities under other than arms length conditions, nor did they grant any significant pledges or financial guarantees.

XII. Ownership structure of KGHM Polska Miedź S.A.

Shareholders holding at least 5% of the total number of votes at General Meetings of KGHM Polska Miedź S.A.

At 30 June 2010 the share capital of the Company, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 000 and was divided into 200 million shares, series A, having a face value of PLN 10 each. All shares are bearer shares. The Company has not issued preference shares. Each share grants the right to one vote at the General Meeting.

At 30 June 2010 and at the date of preparation of this report, based on information held by the Company, the only shareholder of KGHM Polska Miedź S.A. holding shares granting the right to at least 5% of the total number of votes at the General Meeting was the Polish State Treasury, which - based on an announcement dated 12 January 2010 - held 63 589 900 shares, representing 31.79% of the share capital and the same number of votes at the General Meeting. The State Treasury, as a result of sale on 8 January 2010, on a regulated market, of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors, reduced its ownership of the share capital to 31.79% in the first half of 2010.

The remaining shareholders of the Company, at 30 June 2010 and at the date of preparation of this report, held shares representing less than 5% of the total number of votes at the General Meeting – a total of 136 410 100 shares, representing 68.21% of the share capital and the same number of votes at the General Meeting.

During the period from the publication of the quarterly report for the first quarter of 2010, i.e. from 14 May 2010 to the date of preparation of this report, there were no changes in the ownership structure of significant blocks of the Company's shares.

List of shares of the Company or rights thereto owned by management and supervisory personnel

At 30 June 2010, based on information held by the Company, among management and supervisory personnel only Ryszard Kurek – a member of the Supervisory Board – owned shares of KGHM Polska Miedź S.A. (10 shares with a total nominal value of PLN 100).

During the period from the publication of the quarterly report for the first quarter of 2010, i.e. from 14 May 2010 to the date of preparation of this report, there were no changes in the ownership of the Company's shares and rights to them by management and supervisory personnel. This situation remained unchanged in the first half of 2010.

LIST OF TABLES, DIAGRAMS AND CHARTS

Table 1. Production results in mining 99
Table 2. Production results in smelting 99
Table 3. Sales volume for basic products 100
Table 4. Revenues from the sale of products 100
Table 5. End-of-period employment 102
Table 6. Assets 103
Table 7. Sources of financing of assets 104
Table 8. Income statement 105
Table 9. Basic factors affecting the financial result of the Company 106
Table 10. Structure of expenses by nature 107
Table 11. Unit cost of electrolytic copper production 107
Table 12. Realisation of projected Company results after the first half of 2010 108

Diagram 1. Entities in which KGHM Polska Miedź S.A. owned shares and investment certificates directly at 30 June 2010 113

SIGNATURES OF PERSONS REPRESENTING THE COMPANY			
Date	**First name, surname**	**Position/Function**	**Signature**
28 August 2010	Herbert Wirth	President of the Management Board	
28 August 2010	Maciej Tybura	I Vice President of the Management Board	
28 August 2010	Ryszard Janeczek	Vice President of the Management Board	