POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated half-year report PS 2010

(In accordance with § 82, section 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 consolidated 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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www.kghm.pl
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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	7 811 777	5 611 914	1 950 896	1 242 014
II. Operating profit	2 797 396	1 458 571	698 615	322 807
III. Profit before income tax	2 928 428	1 577 321	731 339	349 088
IV. Profit for the period	2 403 278	1 291 059	600 189	285 734
V. Profit for the period attributable to shareholders of the Parent Entity	2 399 850	1 291 159	599 333	285 756
VI. Profit for the period attributable to non-controlling interest	3 428	(100)	856	(22)
VII. Other comprehensive income	172 916	(513 454)	43 184	(113 637)
VIII. Total comprehensive income	2 576 194	777 605	643 373	172 097
IX. Total comprehensive income attributable to the shareholders of the Parent Entity	2 572 766	777 705	642 517	172 119
X. Total comprehensive income attributable to non-controlling interest	3 428	(100)	856	(22)
XI. Number of shares issued	200 000 000	200 000 000	200 000 000	200 000 000
XII. Earnings per ordinary share (in PLN/EUR) attributable to the shareholders of the Parent Entity	12.00	6.46	3.00	1.43
XIII. Net cash generated from operating activities	2 185 229	1 210 565	545 734	267 919
XIV. Net cash used in investing activities	(961 904)	(780 721)	(240 224)	(172 787)
XV. Net cash used in financing activities	(87 502)	(16 846)	(21 853)	(3 728)
XVI. Total net cash flow	1 135 823	412 998	283 657	91 404
	At 30 June 2010	**At 31 December 2009**	**At 30 June 2010**	**At 31 December 2009**
XVII. Non-current assets	11 070 725	9 777 030	2 670 347	2 379 882
XVIII. Current assets	6 879 554	5 089 786	1 659 403	1 238 934
XIX. Total assets	17 950 279	14 866 816	4 329 750	3 618 816
XX. Non-current liabilities	2 406 236	1 970 994	580 403	479 771
XXI. Current liabilities	2 974 631	2 302 604	717 505	560 490
XXII. Equity	12 569 412	10 593 218	3 031 842	2 578 555
XXIII. Non-controlling interest	71 303	67 875	17 199	16 522

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. GROUP

CONSOLIDATED HALF-YEAR REPORT PS 2010 COMPRISES:

1. AUDITOR'S REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

3. DECLARATION BY THE MANAGEMENT BOARD ON THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

4. INTERIM CONSOLIDATED FINANCIAL STATEMENTS

5. REPORT ON THE ACTIVITIES OF THE GROUP

Lubin, August 2010

KGHM POLSKA MIEDŹ S.A.
GROUP

AUDITOR'S REVIEW REPORT
ON THE INTERIM
CONSOLIDATED 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 consolidated 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 consolidated financial statements of KGHM Polska Miedź Spółka Akcyjna Group (hereinafter called *the Group*), of which KGHM Polska Miedź Spółka Akcyjna is the parent company (hereinafter called *the Parent Company*), with its registered office in Lubin, 48 M. Skłodowskiej-Curie Street, comprising:

(a) the interim consolidated statement of financial position as at 30 June 2010, showing total assets and total liabilities and equity of PLN 17.950.279 thousand;

(b) the interim consolidated statement of comprehensive income for the period from 1 January to 30 June 2010, showing a total comprehensive income of PLN 2.576.194 thousand;

(c) the interim consolidated statement of changes in equity for the period from 1 January to 30 June 2010, showing an increase in equity of PLN 1.976.194 thousand;

(d) the interim consolidated 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 1.135.823 thousand;

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

The Parent Company's Management Board is responsible for preparing interim consolidated 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 consolidated 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 consolidated financial statements are free of material misstatements. We conducted the review by analyzing the interim consolidated financial statements, inspecting the accounting records, and making use of information obtained from the Group's Management Board and the employees.

TRANSLATION ONLY

The scope of the work performed was significantly narrower than the scope of an audit of the consolidated financial statements, because the review was not aimed at expressing an opinion on the truth and fairness of the interim consolidated 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 consolidated financial statements to ensure that they give a true, fair and clear view of the Group'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.
GROUP

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

Lubin, August 2010

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. ON THE ACCURACY OF THE PREPARED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

According to our best judgement the interim consolidated 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 the KGHM Polska Miedź S.A. Group and the profit for the period of the Group. The half-year report on the activities of the Group presents a true picture of the development and achievements, as well as the condition, of the KGHM Polska Miedź S.A. Group, 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.

GROUP

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

Lubin, August 2010

DECLARATION BY THE MANAGEMENT BOARD OF KGHM POLSKA MIEDŹ S.A. REGARDING THE ENTITY ENTITLED TO AUDIT FINANCIAL STATEMENTS

The entity entitled to audit financial statements, and which has reviewed the consolidated 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. GROUP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE FIRST HALF OF 2010

Lubin, August 2010

Table of contents to the interim consolidated financial statements

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

Interim consolidated statement of financial position	**Note**	**At 30 June 2010**	**At 31 December 2009**
Assets			
Non-current assets			
Property, plant and equipment	6	7 788 666	7 673 437
Intangible assets	7	280 460	268 195
Investment property	8	17 164	17 164
Investments in associates	9	1 437 608	1 315 663
Deferred tax assets	23	365 999	347 395
Available-for-sale financial assets	10	433 028	19 412
Held-to-maturity investments	11	86 277	67 144
Derivative financial instruments	12	649 925	58 034
Trade and other receivables	13	11 598	10 586
		11 070 725	**9 777 030**
Current assets			
Inventories	14	2 277 481	2 072 434
Trade and other receivables	13	1 805 571	1 531 341
Current corporate tax receivables		4 754	9 329
Available-for-sale financial assets	10	8 778	8 976
Held-to-maturity investments	11	460	580
Derivative financial instruments	12	431 698	263 375
Cash and cash equivalents	15	2 343 916	1 197 077
Non-current assets held for sale	16	6 896	6 674
		6 879 554	**5 089 786**
TOTAL ASSETS		**17 950 279**	**14 866 816**
Equity and liabilities			
EQUITY			
Equity attributable to shareholders of the Parent Entity			
Share capital	17	2 000 000	2 000 000
Accumulated other comprehensive income	18	299 217	126 301
Retained earnings		10 198 892	8 399 042
		12 498 109	**10 525 343**
Non-controlling interest		**71 303**	**67 875**
TOTAL EQUITY		**12 569 412**	**10 593 218**
LIABILITIES			
Non-current liabilities			
Trade and other payables	20	33 628	36 230
Borrowings and finance lease liabilities	21	166 881	120 854
Derivative financial instruments	12	352 385	61 354
Deferred tax liabilities	23	44 277	41 785
Liabilities due to employee benefits	24	1 235 434	1 183 350
Provisions for other liabilities and charges	25	573 631	527 421
		2 406 236	**1 970 994**
Current liabilities			
Trade and other payables	20	2 191 504	1 575 896
Borrowings and finance lease liabilities	21	100 981	219 816
Current corporate tax liabilities		297 545	79 104
Derivative financial instruments	12	234 878	273 717
Liabilities due to employee benefits	24	111 344	106 704
Provisions for other liabilities and charges	25	38 379	47 367
		2 974 631	**2 302 604**
TOTAL LIABILITIES		**5 380 867**	**4 273 598**
TOTAL EQUITY AND LIABILITIES		**17 950 279**	**14 866 816**

The accounting policies and other explanatory information presented on pages 7 to 111 represent an integral part of these financial statements

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

Interim consolidated statement of comprehensive income

	Note	For the period	
		from 1 January 2010 to 30 June 2010	from 1 January 2009 to 30 June 2009
Sales	27	7 811 777	5 611 914
Cost of sales	28	(4 543 210)	(3 673 282)
Gross profit		**3 268 567**	**1 938 632**
Selling costs	28	(123 231)	(114 177)
Administrative expenses	28	(351 960)	(358 148)
Other operating income	30	532 901	283 819
Other operating costs	31	(528 881)	(291 555)
Operating profit		**2 797 396**	**1 458 571**
Finance costs	32	(24 187)	(25 837)
Share of profits of associates accounted for using the equity method	35	155 219	144 587
Profit before income tax		**2 928 428**	**1 577 321**
Income tax expense	36	(525 150)	(286 262)
Profit for the period		**2 403 278**	**1 291 059**
Other comprehensive income due to:			
Available-for-sale financial assets		(13 484)	(8 699)
Cash flow hedging instruments		226 961	(625 195)
Income tax related to items presented in other comprehensive income		(40 561)	120 440
Other comprehensive net income for the financial period		**172 916**	**(513 454)**
TOTAL COMPREHENSIVE INCOME		**2 576 194**	**777 605**
Profit for the period attributable to:			
shareholders of the Parent Entity		2 399 850	1 291 159
non-controlling interest		3 428	(100)
Total comprehensive income attributable to:			
shareholders of the Parent Entity		2 572 766	777 705
non-controlling interest		3 428	(100)
Earnings per share attributable to the shareholders of the Parent Entity during the period (in PLN per share)	37		
- basic		12.00	6.46
- diluted		12.00	6.46

The accounting policies and other explanatory information presented on pages 7 to 111 represent an integral part of these financial statements

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

Interim consolidated statement of changes in equity

	Note	Attributable to shareholders of the Parent Entity					Attributable to non-controlling interest	Total equity
		Share capital	Retained earnings	Accumulated other comprehensive income due to:		Total		
				Available-for-sale financial assets	Cash flow hedging instruments			
At 1 January 2010 as previously stated		**2 000 000**	**8 429 651**	**561**	**125 740**	**10 555 952**	**67 875**	**10 623 827**
Prior-period errors		-	(30 609)	-	-	(30 609)	-	(30 609)*
At 1 January 2010		**2 000 000**	**8 399 042**	**561**	**125 740**	**10 525 343**	**67 875**	**10 593 218**
Dividends for 2009 resolved but unpaid		-	(600 000)	-	-	(600 000)	-	(600 000)
Total comprehensive income	18	-	2 399 850	(10 922)	183 838	2 572 766	3 428	2 576 194
At 30 June 2010		**2 000 000**	**10 198 892**	**(10 361)**	**309 578**	**12 498 109**	**71 303**	**12 569 412**
At 1 January 2009		**2 000 000**	**8 407 049**	**8 972**	**508 484**	**10 924 505**	**58 360**	**10 982 865**
Dividends for 2008 resolved but unpaid		-	(2 336 000)	-	-	(2 336 000)	-	(2 336 000)
Total comprehensive income	18	-	1 291 159	(7 046)	(506 408)	777 705	(100)	777 605
Other changes in equity attributable to non-controlling interest	19	-	-	-	-	-	(8 670)	(8 670)
At 30 June 2009		**2 000 000**	**7 362 208**	**1 926**	**2 076**	**9 366 210**	**49 590**	**9 415 800**

* explanation in note 2.1

The accounting policies and other explanatory information presented on pages 7 to 111 represent an integral part of these financial statements

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

Interim consolidated statement of cash flows

	Note	For the period from 1 January 2010 to 30 June 2010	from 1 January 2009 to 30 June 2009
Cash flow from operating activities			
Profit for the period		2 403 278	1 291 059
Adjustments to profit for the period	39	140 757	226 100
Income tax paid		(358 806)	(306 594)
Net cash generated from operating activities		**2 185 229**	**1 210 565**
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents		(29)	(14 128)
Purchase of property, plant and equipment and intangible assets		(532 136)	(756 234)
Proceeds from sale of property, plant and equipment and intangible assets	39	7 182	8 934
Purchase of available-for-sale financial assets		(433 747)	-
Proceeds from sale of available-for-sale financial assets		6 779	20 000
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(19 013)	(8 984)
Establishment of deposits		-	(400 500)
Termination of deposits		-	300 500
Proceeds from repayments of loans granted		-	610
Interest received		1 481	4 433
Dividends received		24 116	76 455
Advances granted for purchase of property, plant and equipment and intangible assets		(14 608)	(4 470)
Other investment expenses		(1 929)	(7 337)
Net cash used in investing activities		**(961 904)**	**(780 721)**
Cash flow from financing activities			
Proceeds from non-controlling interest transactions		-	57
Proceeds from loans and borrowings		86 660	46 164
Repayments of loans and borrowings		(158 856)	(53 735)
Payments of liabilities due to finance leases		(7 158)	(1 558)
Interest paid		(8 586)	(7 765)
Other financial proceeds/(expenses)		438	(9)
Net cash used in financing activities		**(87 502)**	**(16 846)**
Total net cash flow		**1 135 823**	**412 998**
Exchange gains/(losses) on cash and cash equivalents		11 016	(12 576)
Movements in cash and cash equivalents		**1 146 839**	**400 422**
Cash and cash equivalents at beginning of the period	15	**1 197 077**	**2 065 763**
Cash and cash equivalents at end of the period	15	**2 343 916**	**2 466 185**
including restricted cash and cash equivalents		64 024	4 208

The accounting policies and other explanatory information presented on pages 7 to 111 represent an integral part of these financial statements

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

Accounting policies and other explanatory information

1. General information

Company name, registered office, business activities

KGHM Polska Miedź S.A. (the "Parent Entity") with its registered office in Lubin at M.Skłodowskiej-Curie Street 48 is a stock company registered at the Wrocław Fabryczna Regional Court, Section IX (Economic) in the National Court Register, entry no. KRS 23302, operating on the territory of the Republic of Poland. The Parent Entity was issued with tax identification number (NIP) 692-000-00-13 and statistical REGON number 390021764.
KGHM Polska Miedź S.A. has a multi-divisional organisational structure, which comprises its Head Office and 10 Divisions: 3 mines (Lubin Mine, Polkowice-Sieroszowice Mine, Rudna Mine), 3 smelters (Głogów Smelter, Legnica Smelter, the Cedynia Wire Rod Plant), Ore Enrichment Plant (OEP), Tailings Plant, Mine-Smelter Emergency Rescue Unit and Data Center. The composition of the Group was presented in Note 4.
The shares of KGHM Polska Miedź S.A. are listed on the Stock Exchange in Warsaw.

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

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

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

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

Period of operation of the Group

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

Composition of the Management Board of the Parent Entity

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

1. General information (continuation)

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

Authorisation of the interim financial statements

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

Going concern assumption

These financial statements were prepared under the assumption that the Group companies will continue as a going concern in the foreseeable future. At the date of authorisation of the financial statements there are no circumstances that may cast doubt upon the Group companies' ability to continue as going concern.

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

Seasonal or cyclical activities
The Group is not affected by seasonal or cyclical activities.

2. Main accounting policies

2.1 Basis of preparing financial statements

The following financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". Based on IAS 34 point 9, the Parent Entity prepares complete set of financial statements for the period of 6 months ended 30 June 2010. The financial statements are prepared, applying these same principles to the current and comparable periods, restating the comparable period to reflect the changes in accounting and presentation principles to those applied in the statements in the current period. Changes were with respect to revaluation of the shares of Polkomtel S.A. using the equity method due to an adjustment of the financial statements of Polkomtel S.A. for the year 2009 following an audit of its accounts. Due to a prior period error, retained earnings were decreased at 1 January 2010 by the amount of PLN 30 609 thousand with a respective decrease in the value of investments in associates at 31 December 2009. The adjustment did not affect profit or loss for the six months ended 30 June 2009 or the statement of financial position as at 1 January 2009.

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.

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

<u>IFRIC 15 Agreements for the Construction of Real Estate</u>

<u>IFRIC 17 Distributions of Non-cash Assets to Owners</u>

<u>IFRIC 18 Transfers of Assets from Customers</u>

<u>Eligible Hedged Items. An amendment to IAS 39 Financial Instruments: Recognition and Measurement (recognition criteria for a hedged position)</u>

<u>Amendments to IFRS 2 Share-based Payment</u>

<u>IFRS 3 Business Combinations</u>

<u>IAS 27 Consolidated and Separate Financial Statements</u>

<u>Amended IFRS 1 First-time Adoption of IFRS (standard given a new structure)</u>

<u>Amended IFRS 1 First-time Adoption of IFRS (amendment concerns entities active in the oil and natural gas sectors)</u>

<u>Improvements to International Financial Reporting Standards 2009</u>

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

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

As at 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 adopted for use by the European Union.

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

Amendment to IAS 32 *Financial instruments: Presentation*

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

Amended IFRS 1 *First-time Adoption of IFRS*

On 28 January 2010 the International Accounting Standards Board published *Limited Exemption from Comparative IFRS 7 Disclosures for first-time adopters of IFRS* as an amendment to IFRS 1 *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 Group.

Amended IAS 24 *Related Party Disclosures*

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

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

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

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*

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

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

IFRS *for Small and Medium-sized Entities*

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

2. Main accounting policies (continuation)

2.1 Basis of preparing financial statements (continuation)

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

Changes in International Financial Reporting Standards 2010

On 6 May 2010, as part of the annual review of standards, the International Accounting Standards Board issued its Improvements to IFRSs for 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, or will be effective for the Group for annual periods beginning on or after 1 January 2011. The Group considers the impact of these amendments on its financial statements as immaterial.

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

2.2 Accounting policies

2.2.1 Property, plant and equipment

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

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

Borrowing costs incurred for the purchase or construction of a qualifying item of property, plant and equipment are recognised in the cost. Principles for the capitalisation of borrowing costs are presented in point 2.2.24.

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.1 Property, plant and equipment (continuation)

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

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

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

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

Items of property, plant and equipment (excluding land) are depreciated using the straight-line method over their anticipated useful life. The residual value and useful life of an asset and the method of depreciation applied to items of property, plant and equipment are reviewed at least at the end of each financial year.
The useful lives, and therefore the depreciation rates of items of property, plant and equipment used in the production of copper, are adapted to the plans for the closure of operations.

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

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

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

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

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

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

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.2 Intangible assets

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

Goodwill

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

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

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

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

Development costs

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

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

a) the technical feasibility of completing the intangible asset so that it will be available for use or sale,

b) the intention to complete the intangible asset and use or sell it,

c) its ability to use or sell the intangible asset,

d) the manner in which the intangible asset will generate probable future economic benefits,

e) the availability of adequate technical, financial and other resources to complete the development and use or sell the intangible asset, and

f) its ability to measure reliably the expenditures attributable to the intangible asset that have been incurred during its development.

Internally generated costs of development projects recognised as an item of intangible assets is the sum of expenditure incurred from the date when the intangible asset arising from development first meets the criteria for recognition.
Capitalised development costs are recognised as an intangible asset not available for use and are not amortised until the moment when the given intangible asset is completed and the decision has been taken to implement it. Such intangible assets are, however, tested annually for impairment. The amount of the impairment is recognised in profit or loss.

Internally generated intangible assets are amortised using the straight-line method over the period of their anticipated use.
Research expenditure is recognised as an expense as incurred.

Other intangible assets

Other intangible assets are measured at cost at initial recognition.

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.2 Intangible assets (continuation)

If payment for an intangible asset is deferred for a period which is longer than standard for ordinary buyer's credit (in practice a period of over 1 year is assumed), its purchase price should reflect the amount which would be paid in cash.

The difference between this amount and the total payment is recognised in profit or loss as interest cost (a discount of liabilities) in financial costs in the period of repayment (settlement) of liabilities. Exchange differences which arise from liabilities in a foreign currency which are related to the acquisition or construction of an item of intangible assets are recognised in profit or loss in the period in which they are incurred.

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

Intangible assets (excluding goodwill and intangible assets not yet available for use) are amortised using the straight-line method over their anticipated useful lives, which are as follows for the specific types of intangible assets:

- Development costs – 5 – 15 years,
- Software – 2 – 8 years,
- Concessions, licenses and patents – 2 - 5 years,
- Other intangible assets, including rights to geological information – 50 years.

The amortisation method and the amortisation rate of intangible assets are subject to review at the end of each reporting period.
As in the case of goodwill, intangible assets not yet available for use (under construction) are not amortised, but are tested annually for impairment. Any potential impairment loss is recognised in profit or loss.

There are no intangible assets in the Group with an indefinite useful life.
The principles of impairment losses recognition are presented in detail in point 2.2.10.

2.2.3 Investment property

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

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

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

2.2.4 Investments in subsidiaries and associates

a) Subsidiaries

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.4 Investments in subsidiaries and associates

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

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

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

Inter–company transactions, balances, income, expenses and unrealised gains recognised in assets are eliminated. Unrealised losses are also eliminated, unless the transaction provides evidence of the impairment of the asset transferred.
Non-controlling interest in the net assets of consolidated subsidiaries are recognised as a separate item of equity.

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

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

b) Associates

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

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

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

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

2.2.5 Financial Instruments

2.2.5.1 Classification of financial instruments

Financial instruments are classified into one of the following categories:

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Financial Instruments (continuation)

2.2.5.1 Classification of financial instruments (continuation)

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

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

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

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

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

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

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

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

Assets and liabilities in this category are classified as current 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 Group has the positive intention and ability to hold to maturity, except for assets classified as measured at fair value through profit or loss or available for sale, as well as financial assets meeting the definition of loans and receivables.

Available-for-sale financial assets (AfS)

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

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Financial Instruments (continuation)

2.2.5.1 Classification of financial instruments (continuation)

Other financial liabilities

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

Hedging instruments (HI)

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

2.2.5.2 Initial measurement and derecognition of financial instruments

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

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

2.2.5.3 Measurement of financial instruments at the end of the reporting period

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

Available-for-sale financial assets, financial assets and financial liabilities measured at fair value through profit or loss and hedging instruments are subsequently measured at fair value. Available-for-sale financial assets, 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 as reclassification adjustment.

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

Loans and receivables, held-to-maturity investments

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

Other financial liabilities

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Financial Instruments (continuation)

2.2.5.3. Measurement of financial instruments at the end of the reporting period (continuation)

- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition.
  If the transfer of financial assets does not qualify them for derecognition because the Group retained virtually all of the risks and rewards associated with ownership of the transferred asset, then the Group continues to fully recognise the transferred asset and simultaneously recognises a financial liability in the amount of the payment received. In subsequent periods, the Group recognises all revenues received from the transferred asset and all expenditures incurred in respect of the financial liability;
- financial guarantee agreements, measured at the higher of:
  - the amount determined in accordance with point 2.2.15 Provisions, or
  - the amount initially recognised less cumulative amortisation recognised according to IAS 18 *Revenue*.

2.2.5.4 Fair value

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

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

Estimated fair value reflects the amount recoverable or payable to close out an outstanding position at the end of the reporting period. Where possible, transactions are fair valued based on market prices. In the case of purchase or sale of commodity forwards, fair value was estimated based on forwards prices for the maturity dates of specific transactions. In case of copper, the official London Metal Exchange closing prices and volatility estimates as at the end of the reporting period are obtained from the Reuters news service. For silver and gold, the London Bullion Market Association fixing price at the end of the reporting period is used, and in the case of volatility of prices and forward prices, quotations given by Banks/Brokers are used.

Currency interest rates and currency volatility ratios 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 German-Kohlhagen model is used for European options pricing on currency markets.

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

The fair value of participation units held in open-end cash investment funds is determined based on the valuations quoted by those funds. The fair value of 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 Group are determined based on market prices or on valuation techniques which use as input data only observable market variables from active markets.

2.2.5.5 Impairment of financial assets

At the end of each reporting period an assessment is made of whether there is objective evidence that a financial asset or a group of financial assets is impaired. The following are considered significant objective indicators (evidence of impairment): significant financial difficulty of the debtor, legal action being taken against the debtor, the occurrence of significant unfavourable changes in the economic, legal or market environment of the issuer of a financial instrument, and the prolonged significant decrease of the fair value of a equity instrument below it's cost.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Financial Instruments (continuation)

2.2.5.5. Impairment of financial assets (continuation)

If any such evidence exists for available-for-sale financial assets, the cumulative loss that had been recognised directly in other comprehensive income – calculated as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and reclassified to profit or loss as a reclassification adjustment. Impairment losses on equity instruments recognised in profit or loss are reversed through other comprehensive income. The reversal of impairment losses on debt financial instruments is recognised in profit or loss if, in a period subsequent to the period of the recognition of the impairment loss, the fair value of these instruments increased due to events occurring after the recognition of the impairment loss.

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

Loans and receivables, as well as held–to-maturity investments which are measured at amortised cost, are individually tested for impairment at the end of each reporting period. Receivables, against which no impairment allowance was made, but for which the possibility of impairment exists due to their specific credit risk (related for example to the type of activity or structure of the clients) are tested for impairment as a group (assets portfolio).

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

2.2.5.6 Embedded derivatives

Initial recognition of derivatives

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

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

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

These criteria in particular are deemed as being met for contracts involving metals sales or the purchase of copper-bearing materials, in which prices are set after the date of sale or purchase. In such cases the Group accounts for the embedded derivative 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. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.5 Financial Instruments (continuation)

2.2.5.7 Hedge accounting

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

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

Derivatives used in cash flow hedges

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

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

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

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

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

The Group hedges forecasted cash flows. The designated hedges relate to the future transactions forecasted as assumed in the Sales Plan for a given year. These plans are prepared based on the production capacities for a given period. The Group estimates that the probability of these transactions occurring is very high, as from a historical point of view, sales were always realised at the levels assumed in Sales Plans.

When entering into hedging transactions, the Group documents the relationship between hedging instruments and the hedged items, as well as the objective of entering into a particular transaction. The Group also documents its assessment, both at the date of inception of the hedge as well as on an 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 Group ceases to account for derivative instruments as hedging instruments when they expire, are sold, terminated or settled, or when the Group revokes its designation of a given instrument as a hedging instrument. The Group may designate a new hedging relationship for a given derivative, change the intended use of the derivative, or designate it to hedge another type of risk. In such a case, for cash flow hedges, gains or losses which arose in the periods in which the hedge was effective are retained in 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.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.6 Inventories

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

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

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

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

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

2.2.7 Trade and other receivables

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

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

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

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

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

The category trade and other receivables includes:

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.8 Cash and cash equivalents

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

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

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

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

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

2.2.10 Impairment of non-financial assets

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

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

For the purpose of impairment assessment, assets are grouped at the lowest level at which they generate cash inflows that are largely independent of those from other assets (cash-generating units). Cash-generating units are determined separately each time an impairment test is to be performed.

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

Impairment losses are recognised in profit or loss.

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.11 Equity

Equity consists of:

1. Share capital,
2. Accumulated other comprehensive income, which consists of:
   - accumulated income/costs from re-measurement, set at the fair value of the cash flow hedging instruments in the portion reflecting an effective hedge,
   - accumulated income/costs from 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,
   - reserve capital created in accordance with the Commercial Partnerships and Companies Code,
   - reserve capital created and used in accordance with the Statutes,
   - profit or loss for the period.

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

2.2.12 Liabilities

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

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

Liabilities not classified as financial liabilities are measured at the amount due.

2.2.13 Accrued expenses

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

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

2.2.14 Deferred income

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

The value of fixed assets, fixed assets under construction and intangible assets acquired for free as grants, is accounted for in accordance with this Policy, note 2, point 2.2.26 *Government grants*.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.15 Provisions

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

Provisions are recognised, in particular, in respect of the following:

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

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

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

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

Revaluations of the provision reflect:

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

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

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

2.2.16 Employee benefits

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

The amount of the liability due to these benefits is equal to the present value of the defined benefit obligation at the end of the reporting period, and reflect actuarial gains and losses and the costs of past employment. The value of defined benefit obligations is estimated at the end of the reporting period by independent actuaries using the Projected Unit Credit Method. The present value of the defined benefit obligation is determined by discounting estimated future cash outflow using the interest rates on treasury bonds expressed in the currency of future benefit payment, with maturities similar to those of the liabilities due to be paid. According to IAS 19, the discount rate should be based on the market yields of highly liquid commercial bonds with low risk. Should there be no developed market for such bonds, and such a situation does exist in Poland, the interest rate on government bonds at the end of the reporting period should be applied.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.16 Employee benefits (continuation)

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

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

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

2.2.17 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 gains on a bargain purchase.

Deferred tax assets and deferred tax liabilities are offset if the Group entities 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.

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

Contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity, or

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

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

b) a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, or
- the amount of the obligation (liability) cannot be measured with sufficient reliability.

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

2.2.19 Statement of comprehensive income

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

2.2.20 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.

2.2.21 Revenues

Revenues from sales are recognised at the fair value of the consideration received or receivable, less VAT, rebates and discounts. In the case of sales for which the price is set after the date of recognition of a given sale, revenues are accounted for based on the forward prices from the date of sale. Revenues from sales which are recognised at such an amount are adjusted at the end of each reporting period by any change in the fair value of embedded derivative instruments, which are separated from the host sales contract in accordance with point 2.2.5.6. Sales revenues are adjusted for the gain or loss from the settlement of derivative instruments hedging future cash flows, in accordance with the general principle that the portion of gain or loss on a derivative hedging instrument that is determined to be an effective hedge is recognised in the same item of profit or loss in which the gain or loss on the hedged item is recognised at the moment when the hedged item affects profit or loss.

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

In addition, revenue for the given reporting period which affects the profit or loss of the period includes **other operating income,** which is indirectly related to the activities carried out, in particular:
- income and gains from investments,
- gains from the measurement and realisation of trading 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 Group's activities,
- reversal of impairment losses on held-to–maturity investments, available-for-sale financial assets, and loans,

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.21 Revenues (continuation)

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

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

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

<u>Interest income is recognised on an accruals basis, using the effective interest method.</u>

<u>Income from dividends is recognised when the shareholder's right is set.</u>

2.2.22 Costs

The Group recognises as costs any probable decrease, in the reporting period, of economic benefits of a reliably-determined amount, in the form of a decrease in the value of assets, or an increase of provisions and liabilities, which lead to a decrease in equity or an increase in negative equity in a manner other than the withdrawal of funds by its shareholders or owners.
Costs are recognised in profit or loss based on the direct relation between costs incurred and specific income achieved, i.e. applying the matching principle, through prepayments and accruals. In the case of purchases of copper-bearing materials for which the price is set after the date of recognition of a given purchase, inventories are accounted for at the expected purchase price on the date of recognition of the inventories. Cost of sales at the end of each reporting period is adjusted by any change in the fair value of embedded derivative instruments, which are separated from the host purchase contract in accordance with point 2.2.5.6.

Costs are accounted for both by 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,

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.22 Costs (continuation)

- foreign exchange losses, with the exception of exchange differences arising on liabilities representing sources of finance for the Group's activities,
- impairment losses on held-to–maturity investments, available-for-sale financial assets, loans and other investments,
- 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, and

finance costs related to financing of the activities of the Group, including in particular:

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

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

Functional and presentation currency

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

Transactions and balances

At the moment of initial recognition, foreign currency transactions are translated into the functional currency:

- at the actual exchange rate applied, i.e. at the buy or sell exchange rate applied by the bank in which the transaction occurs, in the case of the sale or purchase of currencies and the payment of receivables or liabilities,
- at the average exchange rate set for a given currency by the NBP (National Bank of Poland) prevailing on the date of the transaction. The exchange rate prevailing on the date of the transaction is the average NBP rate announced on the last working day proceeding the transaction day.

At the end of each reporting period:

- foreign currency monetary items are translated at the closing rate prevailing on that date, i.e. the average exchange rate set for a given currency by the NBP,
- non-monetary items measured at historical cost in a foreign currency are translated using the exchange rate (i.e. 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. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.24 Borrowing costs

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

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

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

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

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

2.2.25 Leases

A lease is classified as a finance lease if it transfers to the lessee substantially all of the risks and rewards incidental to ownership of assets. The leased asset is capitalised at the inception of the lease at an amount equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments.

A depreciable asset acquired in a finance lease is depreciated over the shorter of its useful life and the lease term.
Where the substantial part of the risks and rewards incidental to ownership of an asset is retained by the lessor, a lease contract is classified as an operating lease.

2.2.26 Government grants

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

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

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

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

Non-monetary grants are accounted for at their fair value.
The principles of utilisation of CO_2 are presented in note 2, point 2.2.28.

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.27 Segment reporting

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

The Management Board of KGHM Polska Miedź S.A. is the main body responsible for making decisions as to the allocation of resources and for assessing segment results (the chief operating decision maker, or CDM). Management information provided to the CDM is prepared at the Parent Entity and entities of the Group level. Each of the identified operating segments in the Group represents a specific company and has a segment manager who is directly accountable to and maintains regular contact with the CDM to discuss the financial results, forecasts and plans related to the segment.

As a result of analysis of aggregation criteria and quantitative thresholds the following reporting segments have been identified: „The production of copper, precious metals and other smelter products" and a segment aggregating all of the remaining operating segments under the name „All other segments".

2.2.28 Emission rights

The entities of the Group participate in a program to limit emissions of carbon dioxide based on the Kyoto protocols of 11 December 1997, which commit government bodies, including those in Poland, to control and reduce emissions of greenhouse gases. Based on signed agreements the goal was established to reduce the emissions of carbon dioxide to a specified level. As a result, the Polish government allocates emission allowances in an amount covering the permitted carbon dioxide emission limit. Emission rights are granted in accordance with the National Plan for Allocating Proprietary Rights for the emission of carbon dioxide, which is developed for each subsequent settlement period.

At inception, proprietary emission rights received from the government and any associated non-monetary government subsidies (accounted for as deferred income) are measured at fair value. Purchased proprietary rights are measured at cost. Proprietary rights represent an intangible asset. At the end of the reporting period, these rights are measured at cost less any impairment. Proprietary rights received without cost are accounted for in the amount of the difference between the fair value of the rights received and the amount of the associated deferred income.

Subsidies are settled simultaneously with the redemption* of proprietary emission rights. The Group applies the principle of net liabilities to granted proprietary emission rights. In accordance with this principle a provision is recognised when actual emissions exceed the amount of rights allotted and actually held. Such liabilities are accounted for at the fair value of the proprietary emission rights which the given entity is to redeem, plus any eventual costs or penalties due to a deficit of the proprietary emission rights necessary to resolve this deficit. A provision is recognised in the product manufacturing cost. This provision is settled at the moment of redemption of the proprietary emission rights purchased by the entity for the purpose of meeting its obligations. Proprietary emission rights are settled based on the principle „first in-first out" (FIFO).

* redemption means the decision to redeem the proprietary emission rights issued by the President of the Energy Regulatory Office based on information on emissions provided by an installation's owner.

2.2.29 Earnings per share

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

2.2.30 Statement of cash flows

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

2. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.31 Capital management

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

In accordance with market practice, the effective use of capital is monitored among others on the basis of the following ratios:

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

2.2.32 Customer Loyalty Programmes

Loyalty award credits which are granted to customers who participate in a Partnership Programme are accounted for as a separate component of the sales transaction in which they were granted. The fair value of the proceeds is allocated between the said loyalty award credits and the remaining elements of the sale. The amount allocated to the award credits is measured by reference to their fair value, and is accounted for as deferred income until the said credits are redeemed by the customer.

The fair value of a loyalty credit in respect of which income is deferred is determined based on the fair value of the award in terms of its redemption structure.

The value of a loyalty award credit is reviewed at the end of each calendar year.
Income is recognised at the moment an award credit is redeemed. The amount of income recognised in a given period is based on the number of credits awarded in relation to the total anticipated number of redeemed loyalty award credits, and reflects changes in the value of such award credits in subsequent years. The anticipated number of redeemed loyalty award credits is an estimate.

2.2.33 Exploration for and evaluation of mineral resources

Only those expenditures which meet the general criteria for capitalisation as described below are classified as assets due to the exploration for and evaluation of mineral resources:

- it is probable that the entity will achieve future economic benefits related to a given asset, and
- this item has a purchase or manufacturing price which can be measured reliably.

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

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

Property, plant and equipment (as fixed assets under construction) and intangible assets (as intangible assets not 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 valuation of mineral resources.

Assets due to the exploration for and evaluation of mineral resources are measured at the moment of initial recognition at cost. At the end of the reporting period these assets, recognised as intangible assets not 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. Main accounting policies (continuation)

2.2 Accounting policies (continuation)

2.2.34 Property rights resulting from certificates of origin for 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 of origin in the total annual sale of electricity to end users conforms to the limits set forth in decrees of the Minister of the Economy.

Property rights of distributor of energy and of power company not generating energy from renewable sources and cogeneration (KGHM Polska Miedź S.A.)

The acquired property rights in the statement of financial position are recognised as merchandise.
Property rights at the date of acquisition are measured at cost, equivalent to:
- the value of a given certificate of origin based on current market price, or
- the amount of the negotiated contractual price in the case of such rights in off-session market transactions.

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 provision is recognised for costs of purchase of property rights. Energy distributor recognises provision in the costs of merchandise sold. Energy producer recognises provision in costs of energy 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 for energy from renewable resources or cogeneration, or to make substitute fees, is recognised in other operating costs.

Property rights of power company generating energy from renewable sources and cogeneration (subsidiary – Energetyka Sp. z o.o.)

Property rights obtained free of charge from the government to green, red and yellow energy is treated as a non-monetary subsidy. These rights are recognised in the statement of financial position as a merchandise, and are measured at initial recognition at fair value. These rights are also recognised in profit or loss as revenues from the sale of energy.

A provision is recognised for costs of property rights. This provision is recognised at the moment of generation of this energy and is recognised at the end of each month. The provision is taken to profit or loss as a cost of energy sold. The amount of the provision is set as the multiple of the amount of electricity generated from cogeneration (or from renewable sources), confirmed by operators of transmission systems, calculated for the respective amount of certificates, and the market price of the property right from the date of confirmation that the energy was generated from renewable energy sources and from cogeneration.

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

The allocation of property rights due to their redemption is taken to profit or loss and recognised in the cost of energy sold as the difference between the provision created and the amount of property rights redeemed. The allocation of property rights due to their sale is taken to profit or loss and recognised as a decrease in revenues from energy sold (revenues - debit side).

Revenues from the sale of property rights to energy is recognised in profit or loss as revenues from the sale of energy.

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

3. Important estimates and assumption

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

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

3.1 Period of economic utility of property, plant and equipment

The Management Boards of the Group companies annually reviews the residual value, depreciation methods and economic utility periods of property, plant and equipment subject to depreciation. At 30 June 2010 its assumed that the utility periods of assets applied by the Group companies for purposes of depreciation reflect the expected period of future economic benefits from these assets.

3.2 Financial instruments

In accordance with the guidelines of IAS 39 relating to the classification of non-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 Parent Entity 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 Parent Entity analyses significance of the impact of separated embedded derivative instruments on the financial statements. Following this analysis, the Parent Entity determined that separation of these instruments at 30 June 2010 will not have a significant impact on the financial statements.

3.3 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 24).

3. Important estimates and assumption (continuation)

3.4 Deferred tax assets/liabilities

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

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

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

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

KGHM Polska Miedź S.A., as a Parent Entity of the Group, fully consolidated in the interim consolidated financial statements 35 subsidiaries in the current period.

Entity	Head office	Scope of activities	% of share capital held	% of voting rights held
AVISTA MEDIA Sp. z o. o.	Wrocław	design, implementation and servicing of IPTV systems (interactive television)	100	100
"BIOWIND" sp. z o.o.	Lubin	generation, transfer and distribution of electricity	100	100
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100
DFM ZANAM - LEGMET Sp. z o.o.	Polkowice	repair and manufacture of machinery	100	100
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100
Ecoren DKE spółka z o.o.	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	100	100
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100
FADROMA S.R. SP. Z O. O.	Wrocław	production, servicing and maintenance with respect to construction and mining machinery	98.05	98.05
Fundusz Hotele 01 Sp. z o.o.	Warsaw	financial activities, trade in real estate, management consulting	100	100
Fundusz Hotele 01 Sp. z o.o. S.K.A.	Warsaw	diverse scope of activities	100	100
INOVA Spółka z o.o.	Lubin	inspections and control of machinery, R&D work	100	100
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	65.67	65.67
INTERFERIE Medical SPA Sp. z o.o.	Lubin	tourism, recreation, rehabilitation, health and wellness	65.67	65.67
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100
KGHM HMS Bergbau AG	Berlin	exploration and development of deposits of copper and other metals in Europe	74.9	74.9
KGHM I FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM II FIZAN	Wrocław	capital investing within the Portfolio of Private Assets and the Portfolio of Public Assets	100	100
KGHM Kupferhandelsges. m.b.H.	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation	85.45	85.45
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
"PETROTEL" sp. z o.o.	Płock	telecommunication services in fixed-line telephony, internet services, technical services, equipment sales	99.99	99.99
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
PMT Linie Kolejowe Sp. z o.o.	Polkowice	management over railway infrastructure	100	100
POL-MIEDŹ-TRANS Sp. z o.o.	Lubin	transportation services	100	100
Walcownia Metali Nieżelaznych spółka z o.o.	Gliwice	production of sheeting	84.37	84.37
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics, finished goods and half-finished products and services	98	98
WM "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	88.92	88.92
WPEC w Legnicy SA	Legnica	generation, transfer and distribution of heat	85	85
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100

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

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

Composition of the Group as at 31 December 2009 was following:

Entity	Head office	Scope of activities	% of share capital held	% of voting rights held
AVISTA MEDIA Sp. z o. o.	Wrocław	design, implementation and servicing of IPTV systems (interactive television)	100	100
"BIOWIND" sp. z o.o.	Lubin	generation, transfer and distribution of electricity	100	100
CBJ sp. z o.o.	Lubin	technical research and analyses	100	100
DFM ZANAM - LEGMET Sp. z o.o.	Polkowice	repair and manufacture of machinery	100	100
DIALOG S.A.	Wrocław	telecommunications services, telecommunications, IT and information services	100	100
Ecoren DKE spółka z o.o.	Polkowice	collection of municipal and industrial waste, processing, storage and utilisation of waste	100	100
"Energetyka" sp. z o.o.	Lubin	generation, distribution and sale of electricity and heat	100	100
FADROMA S.R. SP. Z O. O.	Wrocław	production, servicing and maintenance with respect to construction and mining machinery	98.05	98.05
INOVA Spółka z o.o.	Lubin	inspections and control of machinery, R&D work	100	100
INTERFERIE S.A.	Lubin	tourism, hotel and spa services	65.67	65.67
KGHM CUPRUM sp. z o.o. – CBR	Wrocław	R&D activities	100	100
KGHM Ecoren S.A.	Lubin	production of other goods from non-metallic mineral resources	100	100
KGHM HMS Bergbau AG	Berlin	exploration and development of deposits of copper and other metals in Europe	74.9	74.9
KGHM Kupferhandelsges. m.b.H.	Vienna	copper trading	100	100
KGHM LETIA S.A.	Legnica	promotion of innovation	85.45	85.45
KGHM Metraco S.A.	Legnica	trade, agency and representative services	100	100
KGHM Polish Copper Ltd. in liquidation	London	copper trading	100	100
KGHM TFI S.A.	Wrocław	creation and management of funds and management of financial instruments portfolios	100	100
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
"PETROTEL" sp. z o.o.	Płock	telecommunication services in fixed-line telephony, internet services, technical services, equipment sales	99.99	99.99
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
PMT Linie Kolejowe Sp. z o.o.	Polkowice	management over railway infrastructure	100	100
POL-MIEDŹ-TRANS Sp. z o.o.	Lubin	transportation services	100	100
Walcownia Metali Nieżelaznych spółka z o.o.	Gliwice	production of sheeting	84.37	84.37
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics, finished goods and half-finished products and services	98	98
WM "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	88.92	88.92
WPEC w Legnicy SA	Legnica	generation, transfer and distribution of heat	85	85
Zagłębie Lubin S.A.	Lubin	participation in and organisation of professional sporting events	100	100

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

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

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

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

The reason for founding this company is to engage in the hotel, recreation, rehabilitation, health tourism and wellness sectors. INTERFERIE Medical SPA Sp. z o.o. was registered on 18 February 2010 at the Regional Court for Wrocław Fabryczna in Wrocław, Section IX Economic of the National Court Register.
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 KGHM I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM I FIZAN) at a price of PLN 10 thousand per certificate. The Management Body of the KGHM I FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The indirect share of KGHM Polska Miedź S.A. in the share capital of KGHM I FIZAN is 100%. The subject of activities of KGHM I FIZAN is cash investing in securities, money market instruments and other property rights, as defined by the Act on investment funds and the Statutes.
KGHM I FIZAN was entered into the register of the Regional Court in Warsaw, Section VII Civil Registration on 9 February 2010.
During the financial period, the Fund 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.
On 12 March 2010 the founder's act was signed for the company Fundusz Uzdrowiska Sp. z o.o. Its founder is KGHM I FIZAN (100 % owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares.
The share capital of Fundusz Uzdrowiska Sp. z o.o. amounts to PLN 15 thousand, and is divided into 150 equal and indivisible shares of PLN 100 per share. Cost of acquisition of the shares is PLN 15 thousand. The subject of activities of Fundusz Uzdrowiska Sp. z o.o. is financial activities, real estate business, activities related to servicing of the real estate market and management-related advice.
By a notary act dated 20 May 2010, the name was changed to **Fundusz Hotele 01 Sp. z o.o.,** and the share capital was increased by PLN 201 to the amount of PLN 216 thousand.
During the financial period, the company earned revenues from sales of PLN 15 thousand.

Founding of Fundusz Uzdrowiska Sp. z o.o. S.K.A.
On 17 May 2010, the founding Act was signed of the company Fundusz Uzdrowiska Sp. z o.o. S.K.A. Its founder is KGHM I FIZAN (an entity 100 percent owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares, and Fundusz Uzdrowiska Sp. z o.o. as a complementary company.
The share capital of Fundusz Uzdrowiska Sp. z o.o. S.K.A. is PLN 50 thousand, divided into 500 shares with a nominal value of PLN 100 per share. The cost of acquiring the shares is PLN 50 thousand. Fundusz Uzdrowiska Sp. z o.o. S.K.A. has a diverse scope of activities. By a notary act dated 22 June 2010 the name was changed to **Fundusz Hotele 01 Sp. z o.o. S.K.A.** At 30 June 2010 the company had not begun operations.

Founding of Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.
On 17 May 2010, the founding Act was signed of the company Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. Its founder is KGHM I FIZAN (an entity 100 percent owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares, and Fundusz Hotele 01 Sp. z o.o. as a complementary company.
The share capital of Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. is PLN 50 thousand, divided into 500 shares with a nominal value of PLN 100 per share. The cost of acquiring the shares is PLN 50 thousand. Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A. has a diverse scope of activities. At 30 June 2010 the company had not begun operations.

Founding of Fundusz Uzdrowiska 01 Sp. z o.o.
On 19 May 2010, the founding Act was signed of the company Fundusz Uzdrowiska 01 Sp. z o.o. Its founder is KGHM I FIZAN (an entity 100 percent owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares.
The share capital of Fundusz Uzdrowiska 01 Sp. z o.o. is PLN 15 thousand, divided into 150 equal and indivisible shares of PLN 100 per share. The cost of acquiring the shares is PLN 15 thousand. The subject of activities of Fundusz Uzdrowiska 01 Sp. z o.o. is financial activities, trade in real estate, activities related to servicing the real estate market, management consulting. During the financial period the company had not begun operations.

Founding of Fundusz Uzdrowiska 02 Sp. z o.o.
On 19 May 2010, the founding Act was signed of the company Fundusz Uzdrowiska 02 Sp. z o.o. Its founder is KGHM I FIZAN (an entity 100 percent owned by KGHM Polska Miedź S.A.), which acquired 100 percent of the shares.
The share capital of Fundusz Uzdrowiska 02 Sp. z o.o. is PLN 15 thousand, divided into 150 equal and indivisible shares of PLN 100 per share. The cost of acquiring the shares is PLN 15 thousand. The subject of activities of Fundusz Uzdrowiska 02 Sp. z o.o. is financial activities, trade in real estate, activities related to

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

servicing the real estate market, management consulting. During the financial period the company had not begun operations.

Acquisition of Investment Certificates of KGHM II FIZAN
On 23 June 2010, KGHM Polska Miedź S.A acquired 700 Investment Certificates, series A, of the fund KGHM II Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (KGHM II FIZAN) at the price of PLN 10 thousand per certificate. The Managing Body of KGHM II FIZAN is KGHM TFI S.A. – a subsidiary of KGHM Polska Miedź S.A. The indirect share of KGHM Polska Miedź S.A. in the capital of KGHM II FIZAN is 100%. The subject of activities of KGHM II FIZAN is the investment of monetary resources in – as defined by the Act on Investment Funds and in the Statutes – securities, money market instruments and other property rights.
During the financial period, the Fund earned income in the amount of PLN 21 thousand and incurred costs of PLN 14 thousand.

Subsequent changes in the Group structure are described in note 46.

Changes in the structure of the KGHM Polska Miedź S.A. Group during period from 1 January 2009 to 31 December 2009

Acquisition of shares of „BIOWIND" Sp. z o.o.

On 5 January 2009 an agreement for the acquisition of the shares of the company „BIOWIND" sp. z o.o. with its registered head office in Gdańsk was entered into between „Energetyka" sp. z o.o. (a subsidiary of KGHM Polska Miedź S.A.) and two physical persons.
Based on this agreement, „Energetyka" sp. z o.o. acquired 1000 shares with a nominal value of PLN 50 each, having a total nominal value of PLN 50 thousand, representing 100% of the shares of „BIOWIND" sp. z o.o. and granting 100% of the votes at the General Shareholders' Meeting of „BIOWIND" Sp. z o.o.
The purchase price for the shares amounts to PLN 450 thousand. The shares were paid for in cash. The share capital of „BIOWIND" sp. z o.o. amounts to PLN 50 thousand and is divided into 1000 shares with a nominal value of PLN 50 per share.
The total cost of acquisition of these shares was PLN 455 thousand. The acquisition of these assets was financed using the internal funds of „Energetyka" sp. z o.o. The net asset value of the company „BIOWIND" sp. z o.o. is PLN 50 thousand. As the purchase price was considered immaterial, it was not allocated, and goodwill was set at PLN 405 thousand. No assets were identified which were not accounted for in the statement of financial position.
The purchase of shares of „BIOWIND" sp. z o.o., holding a lease on property (around 300 hectares) in the Warmińsko-Mazurskie Voivodeship, enables the commencement of formal procedures aimed at realising an investment related to the construction of a wind farm.
From the date of purchase to the end of the reporting period, „BIOWIND" sp. z o.o. had not earned revenues, and had incurred a loss of PLN 15 thousand.

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

On 12 January 2009 DIALOG S.A. (a subsidiary of KGHM Polska Miedź S.A.) acquired from non-controlling shareholders 2 009 shares of "PETROTEL" sp. z o.o. with a nominal value of PLN 1 000 per share, as a result of which the share of DIALOG S.A. in the share capital of "PETROTEL" sp. z o.o. increased to 99.56%. On 20 March 2009 DIALOG S.A. purchased a further 35 shares, and its share in the share capital of "PETROTEL" sp. z o.o. currently amounts to 99.99%. The total cost of acquisition of 24.93% of the shares of "PETROTEL" sp. z o.o. amounts to PLN 10 895 thousand.

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

On 14 January 2009 an agreement for the acquisition of non-controlling packet of shares of Dolnośląska Korporacja Ekologiczna Sp. z o.o. (a direct subsidiary of KGHM Ecoren S.A.) was signed between KGHM Ecoren S.A. (a direct subsidiary of KGHM Polska Miedź S.A.) and SITA POLSKA Sp. z o.o. Based on this agreement, KGHM Ecoren S.A. acquired 380 shares of Dolnośląska Korporacja Ekologiczna Sp. z o.o. having a total nominal value of PLN 380 thousand, representing 49.67% of the share capital of Dolnośląska Korporacja Ekologiczna Sp. z o.o. and granting 49.67% of the votes at the General Shareholders' Meeting. Currently KGHM Ecoren S.A. owns 100% of the share capital of Dolnośląska Korporacja Ekologiczna Sp. z o.o. and 100% of the votes at the General Shareholders' Meeting.
The shares were acquired for PLN 2 806 thousand and paid for in cash on the date of signing the agreement. The acquisition of these assets was financed using the internal funds of KGHM Ecoren S.A. The total cost of acquiring these shares amounts to PLN 2 829 thousand. The net assets due the buyer, representing 49.67% of the share capital, amounts to PLN 1 314 thousand.

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

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

On 25 March 2009 the Management Board of the company KGHM CONGO S.P.R.L. departed the territory of the Democratic Republic of Congo due to safety-related threats and the inability to carry out its business operations, abandoning the company's assets without any supervision.
Due to the loss of ability to direct the financial and operational policy of the company for the purpose of achieving benefits from its operations, the Management Board of the Parent Entity resolved to settle the losses recognised in the interim consolidated financial statements from the date of acquisition of KGHM CONGO S.P.R.L. to the date on which the Parent Entity ceased to control this entity as a profit/loss due to loss of control over a subsidiary.
As a result of settlement a gain was set due to loss of control in the amount of PLN 21 457 thousand. In addition, an allowance for impairment of receivables was recognised in the other operating costs in the amount of PLN 21 373 thousand due to unpaid liabilities of KGHM CONGO S.P.R.L. towards the Parent Entity.

Founding of KGHM TFI S.A.

On 10 June 2009 KGHM Polska Miedź S.A. founded the company KGHM TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH SPÓŁKA AKCYJNA (KGHM TFI S.A.), in which it acquired 100 % of the shares with a total nominal value of PLN 2 800 thousand, covered in cash. The issue price of the shares is equal to their nominal value. The company was registered in court on 29 June 2009.
The subject of activities of KGHM TFI S.A. is the creation and management of investment funds and the management of financial instrument portfolios.

Up to 30 June 2009 KGHM TFI S.A. had no revenues from sales.

Founding of KGHM HMS Bergbau AG

On 17 June 2009 an agreement was signed for the foundation of the company KGHM HMS Bergbau AG. Its founders are KGHM CUPRUM Sp. z o.o. – CBR (a 100 % subsidiary of KGHM Polska Miedź S.A.), which acquired 74.9% of the share capital, and HMS Bergbau AG (the remaining 25.1 % of the share capital). This entity was founded under German commercial law, and its registered head office is in Berlin.
KGHM HMS Bergbau AG was founded for the purpose of exploration and evaluation of deposits of copper and other metals in Europe. The first project to be pursued by the company will involve exploration within the territory of Saxony in Germany. The foundation of KGHM HMS Bergbau AG is related to realisation of the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018 which was approved in February 2009. With respect to that part of the Strategy involving development of the resource base, it assumes among others exploring for new deposits in the region.
The share capital of KGHM HMS Bergbau AG amounts to EUR 50 thousand, i.e. PLN 225 thousand. The cost of acquiring these shares was PLN 168 thousand. At the acquisition date non-controlling interest amounted to PLN 57 thousand.
Up to 30 June 2009 KGHM HMS Bergbau AG had no revenues from sales.

Acquisition of FADROMA SR SP. Z O.O.

On 14 July 2009, the indirect subsidiary DFM ZANAM-LEGMET Sp. z o.o. acquired 600 shares of FADROMA S.R. SP. Z O.O. with its registered head office in Wrocław for the amount of PLN 825 thousand, representing 90.09% of the share capital of the acquired company.
On 16 October 2009, DFM ZANAM-LEGMET Sp. z o.o. acquired a further 53 shares of FADROMA S.R. SP. Z O.O. for the amount of PLN 73 thousand, representing 7.95% of the share capital.
The Group owns a total share of 98.05% in FADROMA S.R. SP. Z O.O.
The carrying amount of the net assets of FADROMA S.R. SP. Z O.O. at the date of acquisition totalled PLN 417 thousand. The total cost was PLN 898 thousand. Goodwill provisionally set amounts to PLN 481 thousand. At the date of acquisition non-controlling interest amounted to PLN 11 thousand.
From the date of acquisition to 31 December 2009, FADROMA S.R. SP. Z O.O. generated revenues from sales in the amount of PLN 2 981 thousand and incurred a loss of PLN 92 thousand.

Acquisition of WPEC w Legnicy S.A.

On 29 December 2009, the subsidiary „Energetyka" sp. z o.o. acquired from the State Treasury 10 030 thousand ordinary registered shares of the company WPEC w Legnicy S.A. with a face value of PLN 10 during the process of privatisation, representing 85% of the share capital of this company.
The cost of acquisition was PLN 202 621 thousand. The carrying amount of the net assets of WPEC w Legnicy S.A. amounted to PLN 117 367 thousand, of which the carrying amount of the net assets attributable to the Group amounted to PLN 99 762 thousand. Goodwill provisionally set amounts to PLN 102 859 thousand. At the date of acquisition non-controlling interest amounted to PLN 17 605 thousand.

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

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

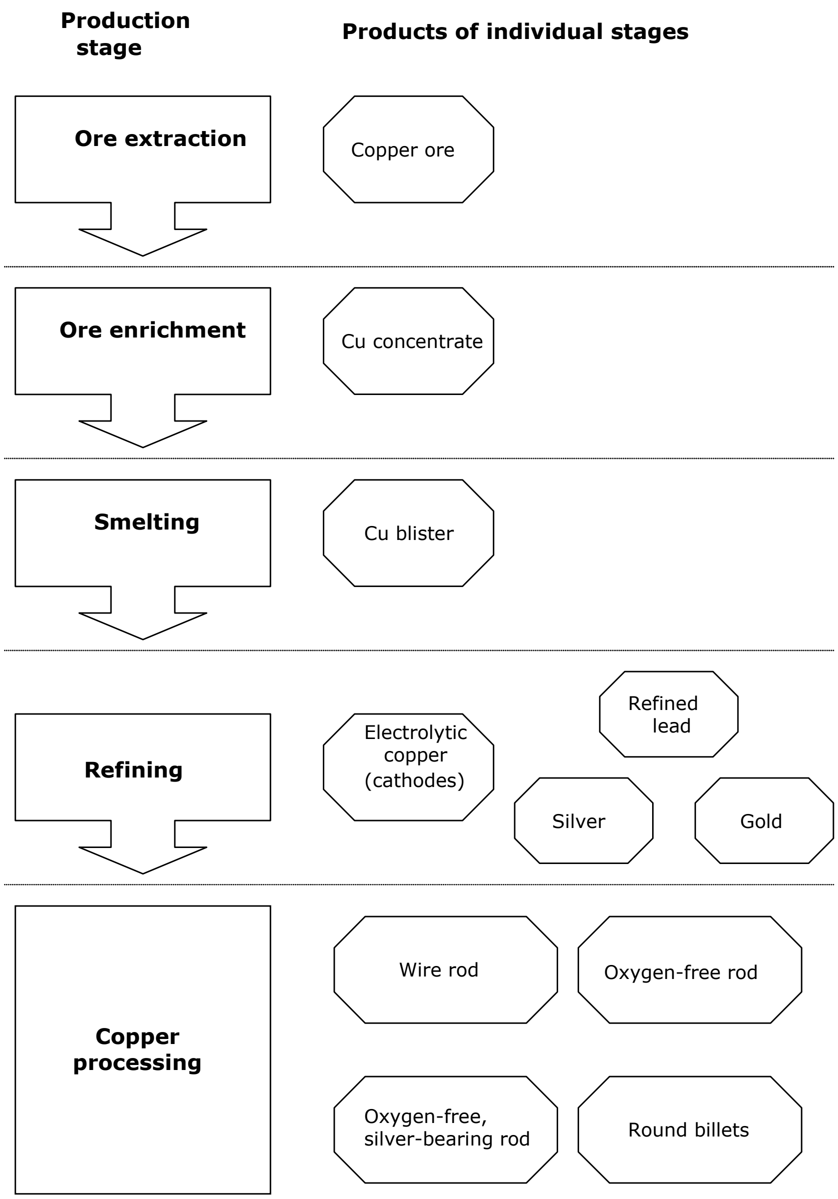
Acquired net assets at the date of acquisition:

Intangible assets	4 893
Property, plant and equipment	71 555
Deferred tax assets	2 653
Non-current trade and other receivables	3 482
Inventories	16 116
Current trade and other receivables	32 089
Cash and cash equivalents	21 233
Total assets	**152 021**
Non-current trade and other payables	2 074
Current trade and other payables	19 674
Current income tax liabilities	861
Employee benefits	4 555
Provisions for other liabilities and charges	7 490
Total liabilities	**34 654**
Net assets	**117 367**

5. Information on business segments

An analysis was performed of the management model of the Group, the system of reporting within the Group and the economic characteristics of its entities. The results of this analysis identified the reporting segment which was defined as „Production of copper, precious metals and other smelter products" and the segment „All other segments", which combined the remaining operating segments, both those which do not meet the criteria for combination as well as those which did not meet the required quantitative thresholds.

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



5. Information on business segments (continuation)

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

Source of income	Group Entity
Production of copper, precious metals and other smelter products	KGHM Polska Miedź S.A.

All other segments

Source of income	Group Entity
non-ferrous metals processing	WM "ŁABĘDY" S.A. Walcownia Metali Nieżelaznych spółka z o.o.
trading: copper and copper scrap, non-ferrous metals, coal, chemicals, fuels	KGHM Kupferhandelsges m.b.H. KGHM Polish Copper Ltd. in liquidation KGHM Metraco S.A.
production: mining machinery, building machinery, road-building materials, rhenium compounds, electrical cables, table settings	DFM ZANAM - LEGMET Sp. z o.o. PHP "MERCUS" sp. z o.o. KGHM Ecoren S.A. WFP Hefra SA FADROMA S.R. SP. Z O.O.
generation, transmission and distribution of electricity and heat, water-sewage management	"Energetyka" sp. z o.o. "BIOWIND" sp. z o.o. WPEC w Legnicy S.A.
sales of services: telecommunication, construction (of which specialised building), transport (railway and road transport, cargo and passenger transport), R&D activities, tourism, multimedia, electrotechnical, attestation, medical, food industry and catering, machinery repairs, rental of property, treatment of waste	KGHM CUPRUM sp. z o.o. - CBR CBJ sp. z o.o. "MIEDZIOWE CENTRUM ZDROWIA" S.A. POL-MIEDŹ TRANS Sp. z o.o. DIALOG S.A. INTERFERIE S.A. PeBeKaS.A. INOVA Spółka z o.o. Ecoren DKE spółka z o.o. PHU "Lubinpex" Sp. z o.o. AVISTA MEDIA Sp. z o.o. PMT Linie Kolejowe Sp. z o.o. "PETROTEL" sp. z o.o. KGHM HMS Bergbau AG INTERFERIE Medical SPA Sp. z o.o. Fundusz Hotele 01 Sp. z o.o. Fundusz Hotele 01 Sp. z o.o. S.K.A.
creation of investment funds and their management, cash investing	KGHM TFI S.A. KGHM I FIZAN KGHM II FIZAN
technology transfer, promotion of scientific achievements	KGHM LETIA S.A.
management of a football club, organisation of professional sporting	Zagłębie Lubin S.A.

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

5. Information on business segments (continuation)

Internal reports on the results of Group companies are prepared monthly in a condensed form, and quarterly in an expanded scope. The Management Board of the Parent Entity is the body which performs regular reviews of the internal financial reports of the whole Group for purposes of making major investment decisions, as it is the body which is responsible for allocating resources within the Group.
Inter-segment transaction prices are set under arm's length conditions, similarly as in relations with parties external to the Group.

Segments financial results

	Financial period for the 6 months ended 30 June 2010				
	Production of copper, precious metals, and other smelter products	**All other segments**	**Adjustment***	**Eliminations (according to IAS 27)**	**Consolidated amount**
REVENUE	7 199 551	3 190 636	10 319	(2 588 729)	**7 811 777**
of which:					
- external sales	6 694 349	1 112 960	10 319	(5 851)	**7 811 777**
- inter-segment sales	505 202	2 077 676	-	(2 582 878)	**-**
Interest income	23 703	6 063	-	(2 458)	**27 308**
Interest costs	(627)	(9 165)	-	1 747	**(8 045)**
Depreciation/Amortisation	(306 126)	(101 200)	49	(5 244)	**(412 521)**
Revaluation of provisions for employee benefits	(56 664)	(60)	-	-	**(56 724)**
Balance of impairment losses on property, plant and equipment and intangible assets	-	(5 510)	-	-	**(5 510)**
Gains on measurement and realisation of derivative instruments	339 770	3 387	-	-	**343 157**
Losses on measurement and realisation of derivative instruments	(475 242)	(2 490)	-	-	**(477 732)**
Share of profit of associates	-	-	-	155 219	**155 219**
Profit before income tax	2 747 857	60 419	2 990	117 162	**2 928 428**
Income tax expense	(521 219)	(4 737)	(38)	844	**(525 150)**
Share of profit (losses) of subordinated entities accounted for using the equity method	-	1 188	(1 188)	-	**-**
Profit for the period	2 226 638	56 870	1 764	118 006	**2 403 278**
	At 30 June 2010				
Segment assets	16 976 883	3 732 016	(35 402)	(2 723 218)	**17 950 279**
Segment liabilities	4 773 212	1 175 618	(14 622)	(553 341)	**5 380 867**
Bank and other loans	1 002	337 612	-	(111 503)	**227 111**
Investments in associates	1 159 947	-	-	277 661	**1 437 608**
	Financial period for the 6 months ended 30 June 2010				
Capital expenditure	414 899	86 401	-	(4 187)	**497 113**

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

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

5. Information on business segments (continuation)

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

Details of adjustments restating the amounts shown in the segment „All other segments" to the measurement principles of International Financial Reporting Standards at 30 June 2010 and for the period from 1 January 2010 to 30 June 2010:

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

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

5. Information on business segments (continuation)

Segments financial results

	Financial period for the 6 months ended 30 June 2009				
	Production of copper, precious metals, and other smelter products	**All other segments**	**Adjustment***	**Eliminations (according to IAS 27)**	**Consolidated amount**
REVENUE	5 099 260	2 038 909	2 877	(1 529 132)	**5 611 914**
of which:					
- external sales	4 801 455	810 992	2 877	(3 410)	**5 611 914**
- inter-segment sales	297 805	1 227 917	-	(1 525 722)	**-**
Interest income	56 405	6 467	-	(229)	**62 643**
Interest costs	(2 340)	(6 897)	-	294	**(8 943)**
Depreciation/Amortisation	(268 081)	(99 495)	(738)	5 821	**(362 493)**
Revaluation of provisions for employee benefits	(42 763)	(262)	-	(17 280)	**(60 305)**
Balance of impairment losses on property, plant and equipment and intangible assets	-	(3 342)	-	-	**(3 342)**
Gains on measurement and realisation of derivative instruments	133 583	3 771	-	-	**137 354**
Losses on measurement and realisation of derivative instruments	(244 174)	(2 195)	-	-	**(246 369)**
Share of profit of associates	-	-	-	144 587	**144 587**
Profit before income tax	1 747 264	31 240	451	(201 634)	**1 577 321**
Income tax expense	(274 630)	(16 408)	(186)	4 962	**(286 262)**
Share of profit (losses) of subordinated entities accounted for using the equity method	-	829	(829)	-	**-**
Profit for the period	1 472 634	15 661	(564)	(196 672)	**1 291 059**
	At 31 December 2009				
Segment assets	13 953 030	3 589 050	(3 461)	(2 671 803)	**14 866 816**
Segment liabilities	3 549 073	1 144 325	18 370	(438 170)	**4 273 598**
Bank and other loans	3 005	374 585	-	(78 305)	**299 285**
Investments in associates	1 159 947	-	-	155 716	**1 315 663**
	Financial period for the 6 months ended 30 June 2009				
Capital expenditure	485 680	134 436	-	(1 126)	**618 990**

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

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

5. Information on business segments (continuation)

Details of adjustments restating the amounts shown in the segment „All other segments" to the measurement principles of International Financial Reporting Standards at 31 December 2009 and for the period from 1 January 2009 to 30 June 2009:

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

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

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

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

Main customers

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

However, during the period from 1 January 2009 to 30 June 2009, in the segment „Production of copper, precious metals and other smelter products" the revenues from sales from one customer exceeded 10% of the Group revenues and amounted to PLN 566 470 thousand.

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

6. Property, plant and equipment

	At 30 June 2010	At 31 December 2009
Land	22 654	22 447
Buildings	3 531 951	3 463 033
Technical equipment and machinery	2 949 961	2 929 881
Motor vehicles	175 169	174 752
Other fixed assets	62 146	61 766
Fixed assets under construction	1 046 785	1 021 558
Total	**7 788 666**	**7 673 437**

Changes 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		22 447	7 790 226	7 110 951	394 702	168 384	1 070 126	16 556 836
Accumulated depreciation		-	(4 082 209)	(3 982 589)	(219 598)	(106 581)	-	(8 390 977)
Impairment losses		-	(244 984)	(198 481)	(352)	(37)	(48 568)	(492 422)
Net carrying amount		**22 447**	**3 463 033**	**2 929 881**	**174 752**	**61 766**	**1 021 558**	**7 673 437**
Changes in the first half of 2010								
Settlement of fixed assets under construction		-	123 814	299 706	7 431	6 985	(437 936)	-
Purchase		-	2 119	19	939	1 231	457 393	461 701
Self-constructed		-	-	-	-	-	6 667	6 667
Changes due to decommissioning/scrapping, donations and no-cost transfer		-	(10 997)	(4 916)	(151)	(39)	86	(16 017)
Changes due to acquisition/transfer of assets used based on finance lease agreement		-	-	1 181	4 871	-	-	6 052
Change in amount of provisions for costs of decommissioning		-	47 907	-	-	-	-	47 907
Depreciation	28	-	(95 236)	(274 676)	(12 674)	(6 966)	-	(389 552)
Other changes		207	4 741	(54)	1	73	(987)	3 981
Impairment losses	28	-	(3 527)	(1 200)	-	(904)	-	(5 631)
Reversal of impairment losses	28,30	-	97	20	-	-	4	121
At 30 June 2010								
Gross carrying amount		22 654	7 947 777	7 289 859	395 621	172 734	1 095 222	16 923 867
Accumulated depreciation		-	(4 167 754)	(4 140 872)	(220 100)	(109 649)	-	(8 638 375)
Impairment losses		-	(248 072)	(199 026)	(352)	(939)	(48 437)	(496 826)
Net carrying amount		**22 654**	**3 531 951**	**2 949 961**	**175 169**	**62 146**	**1 046 785**	**7 788 666**

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

6. Property, plant and equipment (continuation)

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

	Land	Buildings	Technical equipment and machinery	Motor vehicles	Other fixed assets	Fixed assets under construction	Total
At 1 January 2009							
Gross carrying amount	19 465	7 414 901	6 492 150	353 364	162 900	1 202 236	15 645 016
Accumulated depreciation	-	(3 949 965)	(3 783 833)	(213 097)	(101 930)	-	(8 048 825)
Impairment losses	-	(225 726)	(203 352)	(352)	(46)	(30 408)	(459 884)
Net carrying amount	**19 465**	**3 239 210**	**2 504 965**	**139 915**	**60 924**	**1 171 828**	**7 136 307**
Changes in 2009							
Settlement of fixed assets under construction	1 689	449 424	913 710	52 330	13 050	(1 430 203)	-
Purchase	1 319	300	14 900	2 078	2 862	1 281 722	1 303 181
Self-constructed	-	-	-	-	-	16 579	16 579
Changes due to decommissioning/scrapping, donations and no-cost transfer	(6)	(8 605)	(18 481)	(6 351)	(1 687)	2 915	(32 215)
Changes due to acquisition/transfer of assets used based on finance lease agreement	-	-	6 130	10 099	-	-	16 229
Acquisition of subsidiary	52	51 853	16 857	1 136	371	1 378	71 647
Sale of subsidiary	(72)	(47)	2 359	6 766	2 790	-	11 796
Change in amount of provisions for costs of decommissioning	-	(77 221)	-	-	-	-	(77 221)
Depreciation	-	(173 815)	(506 600)	(23 241)	(13 720)	-	(717 376)
Other changes	-	896	(2 157)	(7 980)	(2 824)	(1 549)	(13 614)
Impairment losses	-	(18 996)	(1 811)	-	-	(21 151)	(41 958)
Reversal of impairment losses	-	34	9	-	-	39	82
At 31 December 2009							
Gross carrying amount	22 447	7 790 226	7 110 951	394 702	168 384	1 070 126	16 556 836
Accumulated depreciation	-	(4 082 209)	(3 982 589)	(219 598)	(106 581)	-	(8 390 977)
Impairment losses	-	(244 984)	(198 481)	(352)	(37)	(48 568)	(492 422)
Net carrying amount	**22 447**	**3 463 033**	**2 929 881**	**174 752**	**61 766**	**1 021 558**	**7 673 437**

Changes 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 2010								
Gross carrying amount		19 465	7 414 901	6 492 150	353 364	162 900	1 202 236	15 645 016
Accumulated depreciation		-	(3 949 965)	(3 783 833)	(213 097)	(101 930)	-	(8 048 825)
Impairment losses		-	(225 726)	(203 352)	(352)	(46)	(30 408)	(459 884)
Net carrying amount		**19 465**	**3 239 210**	**2 504 965**	**139 915**	**60 924**	**1 171 828**	**7 136 307**
Changes in the first half of 2009								
Settlement of fixed assets under construction		37	240 429	386 434	17 462	5 577	(649 939)	-
Purchase		1 319	211	15 566	1 434	1 548	580 177	600 255
Self-constructed		-	-	-	-	-	9 444	9 444
Changes due to decommissioning/scrapping, donations and no-cost transfer		(7)	(1 207)	(9 002)	(312)	(31)	357	(10 202)
Changes due to acquisition/transfer of assets used based on finance lease agreement		-	-	174	124	-	-	298
Sale of subsidiary		(72)	(47)	-	(1 712)	(52)	(2 137)	(4 020)
Change in amount of provisions for costs of decommissioning		-	(148 292)	-	-	-	-	(148 292)
Depreciation	28	-	(85 431)	(247 177)	(11 558)	(6 823)	-	(350 989)
Other changes		-	(146)	167	356	13	(1 229)	(839)
Impairment losses	28,31	-	(325)	-	-	(865)	(2 161)	(3 351)
Reversal of impairment losses	28,30	-	-	-	-	-	9	9
At 30 June 2009								
Gross carrying amount		20 742	7 490 397	6 726 157	357 798	165 633	1 138 412	15 899 139
Accumulated depreciation		-	(4 020 332)	(3 874 275)	(211 737)	(104 440)	-	(8 210 784)
Impairment losses		-	(225 663)	(200 755)	(352)	(902)	(32 063)	(459 735)
Net carrying amount		**20 742**	**3 244 402**	**2 651 127**	**145 709**	**60 291**	**1 106 349**	**7 228 620**

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

6. Property, plant and equipment (continuation)

In accordance with accounting policy, at the end of the reporting period the management boards of Group companies performed an analysis for the existence of impaired assets.

The most important impairment losses in accumulated impairment of property, plant and equipment at 30 June 2010 in the amount of PLN 496 826 thousand represent:

- a loss recognised in 2009 in the amount of PLN 37 593 thousand on the football stadium in the company Zagłębie Lubin S.A.,
- losses from the years 2005-2008 in the subsidiary DIALOG S.A. in the amount of PLN 449 451 thousand. Due to the less than full use of the technology of the existing network and the level of cash flow generated being less than expected, impairment tests were performed. For calculation purposes it was assumed that all of the assets of DIALOG S.A. represent a single cash generating unit. The recoverable value of the cash generating unit was set based on a calculation of value in use. The value in use of the assets was set based on a projection of cash flow, comprising the period 2009-2015, assumed in creating the long-term strategy, adjusted by flows related to future investments.

Depreciation of property, plant and equipment used in production or in the provision of services was recognised as a cost of sales in the amount of PLN 373 598 thousand (for the period from 1 January 2009 to 30 June 2009, PLN 335 677 thousand). Depreciation of other property, plant and equipment was recognised in administrative expenses in the amount of PLN 10 551 thousand (for the period from 1 January 2009 to 30 June 2009, PLN 10 299 thousand) and in selling costs in the amount of PLN 5 403 thousand (for the period from 1 January 2009 to 30 June 2009, PLN 5 013 thousand).

The KGHM Polska Miedź S.A. Group as a lessee uses the following items of property, plant and equipment under finance lease agreements

	At					
	30 June 2010			31 December 2009		
Groups of property, plant and equipment	Initial cost– capitalised finance lease	Accumulated depreciation	Net carrying amount	Initial cost– capitalised finance lease	Accumulated depreciation	Net carrying amount
Technical equipment and machinery	8 034	2 349	5 685	6 811	1 182	5 629
Motor vehicles	31 983	4 183	27 800	27 107	2 911	24 196
Total	**40 017**	**6 532**	**33 485**	**33 918**	**4 093**	**29 825**

KGHM Polska Miedź S.A. Group 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	3 936			3 936	3 926			3 926
Buildings	29 591	357	18 016	11 575	32 312	762	19 468	12 844
Technical equipment and machinery	29 234	917	13 712	15 522	28 415	1 731	13 023	15 392
Other property, plant and equipment	597	5	559	38	558	8	538	20
Total	**63 358**	**1 279**	**32 287**	**31 071**	**65 211**	**2 501**	**33 029**	**32 182**

The amount of collateral for the repayment of liabilities of the KGHM Polska Miedź S.A. Group established on property, plant and equipment was presented in note 22 Collateral for the repayment of liabilities.

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

6. Property, plant and equipment (continuation)

Amount of compensation from insurance companies, recognised in profit or loss, with respect to property, plant and equipment which has been lost or impaired

	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	1 981	1 945

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

Construction of the SW-4 shaft	352 453
Głogów Głęboki – Przemysłowy deposit	153 405
Ventilation and air conditioning equipment in the mines	61 113
Mining region infrastructural development	44 253
Modernisation of a tailings hydrotransport installation including the direct pumping of tailings	38 733
Purchase of property, plant and equipment	38 121
Pyrometallurgy modernisation	33 362
Modernisation of a stadium	32 397
Modernisation of the electrolyte treatment unit	32 360
Modernisation of steam and water boilers	26 762
Primary equipment in mines	26 086
Flotation – Ore Enrichment Plant	23 888
Recycling of electronic waste	21 665
Investments in power and communications infrastructure	20 668
Total	**905 266**

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

Construction of the SW-4 shaft	301 116
Głogów Głęboki – Przemysłowy deposit	145 461
Mining region infrastructural development	83 244
Modernisation of steam and water boilers	48 361
Primary equipment in mines	36 387
Modernisation of a tailings hydrotransport installation including the direct pumping of tailings	35 798
Investments in power and communications infrastructure	34 576
Pyrometallurgy modernisation	29 666
Modernisation of a stadium	24 187
Flotation – Ore Enrichment Plant	17 423
Installation for the production of rhenium in the form of eluates	17 594
Recycling of electronic waste	17 130
Total	**790 943**

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 acquisition of property, plant and equipment	912 194	265 670
For the acquisition of intangible assets	21 931	17 399
Total capital commitments:	**934 125**	**283 069**

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

6. Property, plant and equipment (continuation)

Perpetual usufruct of land

At 30 June 2010, the Group entities used land under perpetual usufruct rights comprising a total area of 6 145 ha (at 31 December 2009: 6 091 ha).

	At	
	30 June 2010	**31 December 2009**
	(ha)	**(ha)**
KGHM Polska Miedź S.A.	5 700	5 700
Subsidiaries of the Group	445	391

The Parent Entity and some Group companies received perpetual usufruct rights free of charge based on laws in force. The land held under perpetual usufruct comprises industrial terrain related to the principal activities of the Group, which also include protective zones in which environmental quality standards have been transgressed due to the activities carried out by the Group.
Due to the nature of the use of the above-mentioned land, the Group has not determined a fair value for these perpetual usufruct rights at 30 June 2010.

Total value of future minimum fees due to perpetual usufruct of land	At	
	30 June 2010	**31 December 2009**
Under one year	9 305	8 069
From one to five years	39 091	35 425
Over five years	539 097	507 218
Total:	**587 493**	**550 712**

Fees due to perpetual usufruct of land recognised in profit or loss	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 30 June 2009**
Value of fees due to perpetual usufruct of land	8 343	8 371

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

7. Intangible assets

	At	
	30 June 2010	**31 December 2009**
Development costs	6 048	3 673
Goodwill	106 168	106 168
Software	35 802	22 086
Acquired concessions, patents, licenses	25 727	27 413
Other intangible assets	71 144	64 279
Assets used in the exploration for and evaluation of mineral resources	9 120	790
Intangible assets not yet available for use	26 451	43 786
Total	**280 460**	**268 195**

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

7. Intangible assets (continuation)

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

	Note	Development costs	Goodwill	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		21 139	108 929	93 377	75 649	74 698	790	44 580	419 162
Accumulated amortisation		(17 466)	-	(68 867)	(47 883)	(10 258)	-	-	(144 474)
Impairment losses		-	(2 761)	(2 424)	(353)	(161)	-	(794)	(6 493)
Net carrying amount		**3 673**	**106 168**	**22 086**	**27 413**	**64 279**	**790**	**43 786**	**268 195**
Changes in the first half of 2010									
Transfer from intangible assets not yet available for use		3 592	-	18 365	1 815	48	-	(23 820)	-
Purchase		-	-	430	103	20	8 330	7 179	16 062
Changes due to decommissioning/ scrapping, donations and no-cost transfer		-	-	-	-	(442)	-	-	(442)
Amortisation	28	(1 217)	-	(5 079)	(4 775)	(2 674)	-	-	(13 745)
Other changes		-	-	-	1 171	9 913	-	(694)	10 390
At 30 June 2010									
Gross carrying amount		24 731	108 929	111 530	78 527	83 532	9 120	27 245	443 614
Accumulated amortisation		(18 683)	-	(73 304)	(52 447)	(12 227)	-	-	(156 661)
Impairment losses		-	(2 761)	(2 424)	(353)	(161)	-	(794)	(6 493)
Net carrying amount		**6 048**	**106 168**	**35 802**	**25 727**	**71 144**	**9 120**	**26 451**	**280 460**

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

	Development costs	Goodwill	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	19 535	11 477	88 702	70 452	58 803	930	29 045	278 944
Accumulated amortisation	(15 643)	-	(62 329)	(39 334)	(5 896)		-	(123 202)
Impairment losses	-	(402)	(2 577)	(388)	-		(794)	(4 161)
Net carrying amount	**3 892**	**11 075**	**23 796**	**30 730**	**52 907**	**930**	**28 251**	**151 581**
Changes in 2009								
Transfer from intangible assets not yet available for use	448	-	5 716	5 280	61	-	(11 505)	-
Purchase	-	-	784	1 481	937	-	32 150	35 352
Changes due to decommissioning/ scrapping, donations and no-cost transfer	-	-	-	(114)	(493)	(140)	140	(607)
Acquisition of subsidiary	-	103 744	129	4	16 153	-	7	120 037
Amortisation	(1 959)	-	(8 529)	(9 987)	(5 939)	-	-	(26 414)
Other changes	1 292	(6 292)	190	19	653	-	(5 257)	(9 395)
Impairment losses	-	(2 359)	-	-	-	-	-	(2 359)
At 31 December 2009								
Gross carrying amount	21 139	108 929	93 377	75 649	74 698	790	44 580	419 162
Accumulated amortisation	(17 466)	-	(68 867)	(47 883)	(10 258)	-	-	(144 474)
Impairment losses	-	(2 761)	(2 424)	(353)	(161)	-	(794)	(6 493)
Net carrying amount	**3 673**	**106 168**	**22 086**	**27 413**	**64 279**	**790**	**43 786**	**268 195**

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

	Note	Development costs	Goodwill	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		19 535	11 477	89 666	72 253	58 803	930	29 045	281 709
Accumulated amortisation		(15 643)	-	(62 293)	(41 135)	(5 896)	-	-	(125 967)
Impairment losses		-	(402)	(2 577)	(388)	-	-	(794)	(4 161)
Net carrying amount		**3 892**	**11 075**	**23 796**	**30 730**	**52 907**	**930**	**28 251**	**151 581**
Changes in the first half of 2009									
Transfer from intangible assets not yet available for use		137	-	1 953	1 064	52	-	(3 206)	-
Purchase		-	-	206	1 311	127	-	7 283	8 927
Changes due to decommissioning/ scrapping, donations and no-cost transfer		-	-	(1)	(112)	(118)	(140)	140	(231)
Acquisition of subsidiary		-	4 860	-	-	-	-	-	4 860
Amortisation	28	(982)	-	(3 994)	(5 174)	(1 354)	-	-	(11 504)
Other changes		119	-	191	18	(51)	-	(2 713)	(2 436)
At 30 June 2009									
Gross carrying amount		19 655	16 337	90 687	73 863	58 719	790	30 549	290 600
Accumulated amortisation		(16 489)	-	(66 055)	(45 644)	(7 156)	-	-	(135 344)
Impairment losses		-	(402)	(2 481)	(382)	-	-	(794)	(4 059)
Net carrying amount		**3 166**	**15 935**	**22 151**	**27 837**	**51 563**	**790**	**29 755**	**151 197**

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

7. Intangible assets (continuation)

At 30 June 2010, the significant items of intangible assets of the KGHM Polska Miedź S.A. Group is the goodwill of WPEC w Legnicy S.A. on provisional settlement of business combination in the amount of PLN 102 859 thousand (at 31 December 2009: PLN 102 859 thousand) and the documentation of geological information on the "Głogów Głęboki" deposit, presented in other intangible assets, with a carrying amount of PLN 28 412 thousand (at 31 December 2009: PLN 28 735 thousand) and the remaining amortisation period of 44 years, and the established mining rights for extracting copper ore from the "Głogów Głęboki Przemysłowy" deposit with a carrying amount of PLN 3 863 thousand (at 31 December 2009: PLN 3 907 thousand) and the remaining amortisation period of 45 years.

According to a Decree of the Council of Ministers dated 27 December 2005 (Journal of Laws no. 264/2005 item 2206) the Group receives greenhouse emission rights.

The amount of greenhouse gases emission allowances allocated in the National Plan for Allocating Proprietary Rights for each calendar year in the settlement period 2008-2012 amounts to 486 196 allowances. In the first half of 2010 the exploitation of installations caused the utilisation of 276 310.4 allowances (in 2009, 492 064.2 allowances). The surplus of used allowances for 2009 in the amount of 1 244.2 remains for final settlement of allowances for the year 2010.

The amortisation of intangible assets utilised in the production or in the providing of services was recognised as a cost of sales in profit or loss in the amount of PLN 10 048 thousand (for the period from 1 January 2009 to 30 June 2009 in the amount of PLN 7 690 thousand). The amortisation of other intangible assets was recognised in administrative expenses: PLN 2 390 thousand (for the period from 1 January 2009 to 30 June 2009: PLN 2 811 thousand) and selling costs: PLN 1 307 thousand (for the period from 1 January 2009 to 30 June 2009: PLN 1 003 thousand).

8. Investment property

	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**
Beginning of financial period	**17 164**	**18 083**	**18 083**
Changes during the financial period	-	(919)	-
- fair value measurement	-	(919)	-
End of financial period	**17 164**	**17 164**	**18 083**

Investment property at 30 June 2010 in the amount of PLN 17 164 thousand is based on the measurement carried out by a valuer at 31 December 2009.

The measurement of investment property (land) located in Lubin and belonging to KGHM Ecoren S.A. was carried out by an independent, professionally-qualified valuer, holding valid authorisation to perform such valuation, and was estimated using a comparative approach, by the method of comparing pairs. Selection of the approach and method was based on principles set forth in the act on property management and the decree of the Council of Ministers regarding the principles of property valuation and the principles and manner of preparing a valuation survey. Market data was used by the valuer to perform this valuation.

9. Investments in associates

		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**
Beginning of financial period		**1 315 663**	**1 498 116**	**1 498 116**
Share of profits of associates	35	155 219	239 463	144 587
Changes in equity due to payment of dividend		(24 050)	(418 222)	(304 967)
Adjustment to purchase cost by returned tax on civil-law transactions		-	(3 694)	(3 693)
Amortisation of relations with customers identified in the process of allocating purchase cost		(9 224)	-	-
End of financial period		**1 437 608**	**1 315 663**	**1 334 043**

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

9. Investments in associates (continuation)

Interests held by the Group in associates

At 30 June 2010 Polkomtel S.A. was an associate of the Group.

Financial data of Polkomtel S.A.

	At		
	30 June 2010	**31 December 2009 ***	**31 December 2009**
% 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

* Data for 2009 were adjusted in relation to those presented in the report for the 2009 with respect to the changes in financial statement of Polkomtel S.A. as a result of the auditing by a certified auditor

10. Available-for-sale financial assets

	Note	At	
		30 June 2010	**31 December 2009**
Non-current available-for-sale financial assets		**433 028**	**19 412**
- shares in unlisted companies		11 204	11 475
- shares in listed companies of which:		421 817	-
ABACUS MINING & EXPLORATION CORP.		8 608	-
TAURON POLSKA ENERGIA S.A.		413 209	-
- share in the AIG investment fund		-	7 930
- other		7	7
Current available-for-sale financial assets		**8 778**	**8 976**
- shares in listed companies		8 778	8 976
Total available-for-sale financial assets:	**33.1**	**441 806**	**28 388**

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

11. Held-to-maturity investments

	Note	At	
		30 June 2010	31 December 2009
Non-current held-to-maturity investments		**86 277**	**67 144**
- monetary resources of Mine Closure Fund		86 230	67 097
- other securities		47	47
Current held-to-maturity investments		**460**	**580**
- monetary resources of Mine Closure Fund		460	580
Total held-to-maturity investments:	**33.1**	**86 737**	**67 724**

The Parent Entity 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 technological 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 Parent Entity plans to make use of within 12 months from the end of the 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 33.2.

12. Derivative financial instruments

	Note	At	
		30 June 2010	31 December 2009
Non-current assets		**649 925**	**58 034**
hedging instruments		620 537	57 636
trade instruments		29 388	398
Current assets		**431 698**	**263 375**
hedging instruments		419 030	244 869
trade instruments		12 668	18 506
Total assets:	**33.1**	**1 081 623**	**321 409**
Non-current liabilities		**352 385**	**61 354**
hedging instruments		237 888	54 867
trade instruments		114 497	6 487
Current liabilities		**234 878**	**273 717**
hedging instruments		68 704	76 772
trade instruments		166 174	196 945
Total liabilities:	**33.1**	**587 263**	**335 071**

12. Derivative financial instruments (continuation)

TRADE INSTRUMENTS

Type of derivative instrument	Volume/ Notional Cu [t] Currency ['000 USD] ['000 EUR]	Avg. weighted price/ex. rate[2] Cu [USD/t] Currency [USD/PLN] [EUR/PLN]	30 June 2010 Financial assets Current	 Non-current	 Financial liabilities Current	 Non-current	31 December 2009 Financial assets Current	 Non-current	 Financial liabilities 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										
Forwards/Swaps										
Forwards/Swaps – sold USD	2 575	3.1375-3.3190	3		(291)					
Forwards/Swaps – purchase EUR	700	4.1358	11		(4)					
Forwards/Swaps – sold EUR	5 450	4.0857	16		(319)		128		(214)	
Options USD										
Purchased call options	540 000[1]	2.6778	7 191	2 898			493			
Sold call options	185 022[1]	4.2502			(17 506)				(28 592)	
Purchased put options	180 000	4.3685	943				17 025			
Sold put options	810 000	2.6852			(14 349)	(20 803)			(136 765)	
TOTAL:			**8 164**	**2 898**	**(32 469)**	**(20 803)**	**17 646**		**(165 571)**	
Total trade instruments			**12 668**	**29 388**	**(166 174)**	**(114 497)**	**18 506**	**398**	**(196 945)**	**(6 487)**

[1]In accordance with the hedge 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 Parent Entity.
[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 Parent Entity.

12. Derivative financial instruments (continuation)

HEDGING INSTRUMENTS							**30 June 2010**				**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 10	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	Jan11	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											119 740		(331)	
Corridor	540 000 [1]	3.3444 – 4.4228	July 10	Dec 12	July 10	Dec 12	26 890	75 389	(3 807)	(37 824)				
Corridor-seagull	630 000	3.0714-4.000	Jan 11	Dec 12	Jan 11	Dec 12	9 768	79 631	(30 245)	(87 851)				
Purchased put options – producer 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)

13. Trade and other receivables

	Note	At 30 June 2010	At 31 December 2009
Non-current trade and other receivables			
Trade receivables		16 716	16 565
Amount retained (collateral) due to long-term construction contracts		1 757	1 587
Deposits		23	23
Loans granted		2 624	2 624
Other financial receivables		1 249	1 261
Impairment allowances	34.3.6	(15 341)	(15 226)
Total loans and financial receivables, net:	**33.1**	**7 028**	**6 834**
Other non-financial receivables		11	11
Prepayments		4 559	3 741
Total non-financial receivables, net		**4 570**	**3 752**
Non-current trade and other receivables, net:		**11 598**	**10 586**
Current trade and other receivables			
Trade receivables		1 482 441	1 266 369
Receivables due to unsettled derivative instruments	34.1.8	5 524	-
Loans granted		2 275	2 033
Deposits of over 3 up to 12 months		51	45
Other financial receivables		40 064	25 463
Impairment allowances	34.3.6	(83 509)	(82 225)
Total loans and financial receivables, net	**33.1**	**1 446 846**	**1 211 685**
Other non-financial receivables, including:		306 411	346 782
- taxes and other charge		243 416	298 818
Prepayments		100 824	18 381
Impairment allowances		(48 510)	(45 507)
Total non-financial receivables, net		**358 725**	**319 656**
Current trade and other receivables, net		**1 805 571**	**1 531 341**
Total non-current and current trade and other receivables, net		**1 817 169**	**1 541 927**

Receivables due to unsettled derivative instruments represent the amount of derivative instruments realised by 30 June 2010 whose date of 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 34.1.8.
At 31 December 2009 there were no receivables due to unsettled derivative instruments.

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

13. Trade and other receivables (continuation)

Impairment allowances on non-financial receivables

	Note	For the period		
		from 1 January 2010 to 30 June 2010	For 1 January 2009 to 31 December 2009	from 1 January 2009 to 30 June 2009
Impairment allowances at the beginning of the period		**45 507**	**56 061**	**56 061**
Impairment allowances at the day of obtaining control over a subsidiary		-	12	-
Impairment allowances recognised in profit or loss	31	3 999	552	522
Impairment allowances reversed through profit or loss	30	(804)	(1 810)	(787)
Impairment allowances utilised during the period		(283)	(9 341)	(813)
Impairment allowances on costs of legal proceedings		94	124	4
Reversal of impairment allowances on costs of legal proceedings		(3)	(91)	(91)
Impairment allowances at the end of the period		**48 510**	**45 507**	**54 896**

14. Inventories

	Note	At	
		30 June 2010	31 December 2009
Materials		130 221	298 288
Half-finished products and work in progress		1 809 741	1 456 411
Finished goods		284 018	270 479
Merchandise		53 501	47 256
Total carrying amount of inventories		**2 277 481**	**2 072 434**

		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	28	(882)	(922)
Reversal of write-down recognised in cost of sales	28	3 219	1 391

In the first half of 2010 Group subsidiaries wrote down inventories in the amount of PLN 518 thousand relating to finished goods and work in progress, whose net realisable value would be lower than their costs. The write-down in the amount of PLN 364 thousand relates to other inventories.

15. Cash and cash equivalents

	Note	At	
		30 June 2010	31 December 2009
Cash in hand		488	450
Cash at bank		137 959	41 582
Other cash		613	632
Other financial assets with a maturity of up to 3 months from the date of acquisition		2 204 856	1 154 413
Total cash and cash equivalents	**33.1**	**2 343 916**	**1 197 077**

Other financial assets with a maturity of up to 3 months from the date of acquisition include mainly deposits in the amount of PLN 2 200 488 thousand (as at 31 December 2009: PLN 1 153 051 thousand), and interest accrued on financial assets in the amount of PLN 4 368 thousand (as at 31 December 2009: PLN 1 362 thousand).
Components of cash and cash equivalents presented in the interim consolidated statement of cash flows are the same as those presented in the interim consolidated statement of financial position.

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

16. Non-current assets held for sale

	At	
	30 June 2010	**31 December 2009**
Property, plant and equipment	5 959	6 007
Intangible assets	667	667
Equity investments	270	-
Non-current assets held for sale	**6 896**	**6 674**

At 30 June 2010 non-current assets held for sale represent:

- two quartz mines, „Stanisław" and „Taczalin", and a quartz powder and crushed aggregate processing plant in the amount of PLN 6 401 thousand, whose activities have been discontinued (property, plant and equipment: PLN 5 734 thousand, intangible assets: PLN 667 thousand) (the activities related to the assets held for sale were discontinued in 2004, as well as the depreciation of these assets),
- an automobile, PLN 67 thousand,
- a helicopter, PLN 158 thousand
- shares in PCPM sp. z o.o. in the amount of PLN 270 thousand.

At 31 December 2009 non-current assets held for sale represented:

- two quartz mines, „Stanisław" and „Taczalin", and a quartz powder and crushed aggregate processing plant in the amount of PLN 6 450 thousand, whose activities have been discontinued (property, plant and equipment: PLN 5 783 thousand, intangible assets: PLN 667 thousand) (the activities related to the assets held for sale were discontinued in 2004, as well as the depreciation of these assets),
- an automobile, PLN 66 thousand,
- a helicopter, PLN 158 thousand.

17. Share capital

At 30 June 2010, the share capital of the Parent Entity, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares, series A, fully paid, having a face value of PLN 10 each. All shares are bearer shares. The Parent Entity has not issued preference shares.
Each share gives the right to one vote at the General Meeting. The Parent Entity does not have treasury shares. Subsidiaries and associates do not have shares of KGHM Polska Miedź S.A.
In the 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 Parent Entity 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 Parent Entity 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 Parent Entity and of the total number of votes.

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

18. 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		**561**	**125 740**	**126 301**
Fair value losses on available-for-sale financial assets		(11 646)	-	(11 646)
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets		(1 838)	-	(1 838)
Impact of effective cash flow hedging transactions	34.1.9	-	309 255	309 255
Amount transferred to profit or loss due to the settlement of hedging instruments	34.1.9	-	(82 294)	(82 294)
Deferred income tax	23	2 562	(43 123)	(40 561)
Other comprehensive income		**(10 922)**	**183 838**	**172 916**
At 30 June 2010		**(10 361)**	**309 578**	**299 217**

	Accumulated other comprehensive income due to:		
	Available-for-sale financial assets	**Cash flow hedging financial instruments**	**Total accumulated other comprehensive income**
At 1 January 2009	**8 972**	**508 484**	**517 456**
Fair value losses on available-for-sale financial assets	(2 884)	-	(2 884)
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets	(7 500)	-	(7 500)
Impact of effective cash flow hedging transactions	-	(39 337)	(39 337)
Amount transferred to profit or loss due to the settlement of hedging instruments	-	(433 187)	(433 187)
Deferred income tax	1 973	89 780	91 753
Other comprehensive income	**(8 411)**	**(382 744)**	**(391 155)**
At 31 December 2009	**561**	**125 740**	**126 301**

	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 2009		**8 972**	**508 484**	**517 456**
Fair value losses on available-for-sale financial assets		(1 199)	-	(1 199)
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets		(7 500)	-	(7 500)
Impact of effective cash flow hedging transactions entered into	34.1.9	-	(137 647)	(137 647)
Amount transferred to profit or loss due to the settlement of hedging instruments	34.1.9	-	(487 548)	(487 548)
Deferred income tax	23	1 653	118 787	120 440
Other comprehensive income		**(7 046)**	**(506 408)**	**(513 454)**
At 30 June 2009		**1 926**	**2 076**	**4 002**

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

18. Accumulated other comprehensive income (continuation)

Accumulated other comprehensive income is not subject to distribution.

Moreover, in the equity item: "Retained earnings", based on the Commercial Partnerships and Companies Code, joint stock companies in the Group are required to create reserve capital against any eventual future or existing losses, to which no less than 8 % of a given financial year's profit is to be transferred until the capital has been built up to no less than one-third of the share capital. The reserve capital created in this manner is not subject to distribution otherwise than in covering the loss reported in the financial statements.
At 30 June 2010, the amount of this statutory reserve capital in the Group is PLN 676 790 thousand, of which PLN 660 000 thousand is in respect of the Parent Entity.

18.1 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	**(12 790)**	**(10 361)**	**694**	**561**	**2 379**	**1 926**
Fair value gains			694	561	4 584	3 714
Fair value losses	(12 790)	(10 361)	-	-	(2 205)	(1 788)
Accumulated other comprehensive income due to cash flow hedging instruments	**382 194**	**309 578**	**155 233**	**125 740**	**2 562**	**2 076**
Gains on measurement	382 194	309 578	155 233	125 740	2 562	2 076
Total accumulated other comprehensive income	**369 404**	**299 217**	**155 927**	**126 301**	**4 941**	**4 002**

19. Other changes in equity attributable to non-controlling interest

In the first half of 2010 there were no other changes in equity attributable to non-controlling assets.

In the first half of 2009 other changes in equity attributable to non-controlling assets were as follows:
- a decrease in the amount of PLN 7 955 thousand due to the additional acquisition of 24.93% of the share capital of "PETROTEL" sp. z o.o.,
- a decrease in the amount of PLN 772 thousand due to the acquisition of 49.67% of the share capital of Ecoren DKE spółka z o.o.,
- an increase in the amount of PLN 57 thousand due to the acquisition of 74.9% of the share capital of a newly-founded company – KGHM HMS Bergbau AG.

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

20. Trade and other payables

	Note	At 30 June 2010	At 31 December 2009
Non-current trade and other payables			
Trade payables		5 769	8 357
Payables due to purchase, construction of property, plant and equipment and intangible assets		1 439	1 866
Other financial liabilities		12 188	12 509
Total non-current financial liabilities (scope of IFRS 7)	**33.1**	**19 396**	**22 732**
Deferred income		13 976	13 250
Other non-financial liabilities		256	248
Total non-current non-financial liabilities		**14 232**	**13 498**
Total non-current trade and other payables		**33 628**	**36 230**
Current trade and other payables			
Trade payables		491 880	462 006
Payables due to purchase, construction of property, plant and equipment and intangible assets		104 945	157 722
Payables due to unsettled derivative instruments		-	30 611
Payables due to unpaid dividend for 2009		600 000	-
Other financial liabilities		42 781	36 476
Total current financial liabilities (scope of IFRS 7)	**33.1**	**1 239 606**	**686 815**
Other financial liabilities (IAS 19 – Employee benefits)		87 306	150 181
Total current financial liabilities		**1 326 912**	**836 996**
Liabilities due to taxes and social security		243 014	258 135
Other non-financial liabilities		44 763	34 256
Special funds		98 111	85 324
Deferred income		72 145	21 134
Accruals		406 559	340 051
Total current non-financial liabilities		**864 592**	**738 900**
Total current trade and other payables		**2 191 504**	**1 575 896**
Total non-current and current trade and other payables		**2 225 132**	**1 612 126**

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.

Accruals consist mainly of one-off salary paid after the approval of the annual financial statements and other benefits resulting from the Collective Labour Agreements for the Employees in the amount of PLN 335 864 thousand (PLN 272 976 thousand at 31 December 2009) and settlement of unused annual leave in the amount of PLN 22 011 thousand (PLN 22 262 thousand at 31 December 2009).

21. Borrowings and finance lease liabilities

	Note	At 30 June 2010	At 31 December 2009
Non-current borrowings and finance lease liabilities			
Bank loans		133 768	86 340
Loans		3 676	3 715
Finance lease liabilities		29 437	30 799
Total non-current borrowings and finance lease liabilities		**166 881**	**120 854**
Current borrowings and finance lease liabilities			
Bank loans		86 882	204 442
Loans		2 785	4 788
Finance lease liabilities		11 314	10 586
Total current borrowings and finance lease liabilities		**100 981**	**219 816**
Total borrowings and finance lease liabilities	**33.1**	**267 862**	**340 670**

21.1 Borrowings

Bank and other loans as at 30 June 2010

Bank loan currency	Interest rate	The value of the bank and other loans at the end of the reporting period (in '000) in foreign currency	in PLN	Of which payable in: 2011 (current)	2011-2012	2013	2014-2016	2017 and beyond
EUR	Variable	1 476	6 118	813	1 627	813	1 627	1 238
PLN	Variable		219 613	87 769	25 761	62 190	18 689	25 204
PLN	Fixed		1 380	1 085	129	83	83	-
Total bank and other loans			**227 111**	**89 667**	**27 517**	**63 086**	**20 399**	**26 442**

Bank and other loans as at 31 December 2009

Bank loan currency	Interest rate	The value of the bank and other loans the end of the reporting period (in '000) in foreign currency	in PLN	Of which payable in: 2010 (current)	2011	2012	2013-2015	2016 and beyond
EUR	Variable	1 638	6 728	1 069	1 612	806	1 612	1 629
PLN	Variable		289 135	205 073	16 367	15 793	20 720	31 182
PLN	Fixed		3 422	3 088	83	84	167	-
Total bank and other loans			**299 285**	**209 230**	**18 062**	**16 683**	**22 499**	**32 811**

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

21. Borrowings and finance lease liabilities (continuation)

21.1 Borrowings (continuation)

Most of the bank loans drawn by Group companies are bank loans with variable interest rates. The majority of bank and other loans denominated in PLN are based on the WIBOR 1M reference rate, plus a bank loan margin, depending on the creditworthiness of the entity being financed, within a range of from 0.35% to 2.5%, with interest payable in monthly periods. Interest on bank loans denominated in EUR is mainly based on the EURIBOR 1M reference rate, plus a bank loan margin to 2%.

The base interest rates applied in bank loan agreements entered into by entities of the Group at end of the reporting period were as follows:

Ratio (%)	30 June 2010	31 December 2009
WIBOR 1W	3.5000	3.5600
WIBOR 1M	3.6400	3.7600
WIBOR 3M	3.8700	4.2700
EURIBOR 1M	0.4850	0.4530
EURIBOR 3M	0.7670	0.7000

The major item in borrowings is the bank loan drawn by the subsidiary DIALOG S.A. in the amount of PLN 50 058 thousand at 30 June 2010 (PLN 100 034 thousand at 31 December 2009 respectively). The bank loan agreement sets out the additional covenants which must be met by the company over the term of the loan, including the following:

- ensuring maintenance of defined financial indicators at set levels during the period of loan term (Financial Debt to EBITDA Ratio not higher than 2.0, a Debt Service Coverage Ratio not lower than 1.1, Equity not lower than PLN 550 000 thousand, a Loan Collateral Ratio not lower than 1.5);
- the requirement to set additional loan security in case the terms of the contract are breached;

Based on the contracts signed, the total value of overdraft facilities granted at 30 June 2010 amounted to PLN 167 300 thousand (at 31 December 2009 PLN 135 100 thousand), of which PLN 73 092 thousand was utilised at 30 June 2010 (at 31 December 2009 PLN 45 579 thousand, respectively).

21.2 Finance lease liabilities

As at 30 June 2010, the carrying amount of the finance lease liabilities amounted to PLN 40 751 thousand (at 31 December 2009: PLN 41 385 thousand, respectively).
The most significant item is the commitment resulting from an agreement with the State Treasury. Based on this agreement the State Treasury provides access to geological information. This information was acquired with the purpose of preparing 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 accounts of the Parent Entity 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 liabilities resulting from this agreement is PLN 11 795 thousand (EUR 2 845 thousand) (at 31 December 2009: PLN 14 368 thousand (EUR 3 700 thousand)), while the carrying amount of the related intangible assets at the end of the reporting period amounts to PLN 28 412 thousand (at 31 December 2009: PLN 28 735 thousand).

Finance lease liabilities as at 30 June 2010

	2011 (current)	2011-2012	2013	2014-2015	Total
Nominal value of minimum lease payments	**12 562**	**11 355**	**10 856**	**9 302**	**44 075**
Future finance costs due to finance leases	(1 248)	(951)	(653)	(472)	(3 324)
Present value of minimum lease payments	**11 314**	**10 404**	**10 203**	**8 830**	**40 751**

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

21. Borrowings and finance lease liabilities (continuation)

21.2 Finance lease liabilities (continuation)

Finance lease liabilities as at 31 December 2009

	2010 (current)	2011	2012	2013-2014	Total
Nominal value of minimum lease payments	**11 703**	**10 570**	**10 302**	**12 364**	**44 939**
Future finance costs due to finance leases	(1 117)	(886)	(659)	(892)	(3 554)
Present value of minimum lease payments	**10 586**	**9 684**	**9 643**	**11 472**	**41 385**

22. Collateral for the repayment of liabilities

In order to guarantee repayment of bank and other loans drawn, the following collateral has been pledged:

- proxy rights to all present and future bank accounts of the borrowers,
- financial registered pledge on present and future bank accounts of the borrower,
- transfer of receivables due to an existing insurance contract and future contracts,
- contractual mortgage on properties up to PLN 30 945 thousand,
- mortgages to the total amount of PLN 107 910 thousand,
- contractual mortgage on investment properties of PLN 30 000 thousand,
- blank promissory notes with a declaration of rights thereunder up to PLN 125 104 thousand,
- statement on submitting to the enforcement regime,
- assignment of rights under insurance policies,
- assignment of receivables up to PLN 113 729 thousand,
- registered pledge on technical equipment and machinery, with assignment of rights under insurance agreement on these machines and equipment up to PLN 12 735 thousand,
- registered pledge and agreements for ownership transfer on inventories of finished goods, half-finished products, merchandise and materials up to PLN 54 500 thousand,
- ownership transfer on tangible assets up to PLN 11 826 thousand,
- assignment of rights under movable assets insurance agreement (assignment of rights under insurance policy against fire and other accidents for PLN 15 600 thousand and an insurance policy against theft with breaking, entering and robbery, PLN 150 thousand).

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

22. Collateral for the repayment of liabilities (continuation)

At the end of the reporting period collateral was established for the following assets to guarantee repayment of liabilities or contingent liabilities:

	At	
	30 June 2010	**31 December 2009**
Property, plant and equipment, including:	136 124	377 898
• Buildings	63 095	268 964
• Motor vehicles[1)]	26 890	24 971
• Technical equipment and machinery[1)]	46 139	83 963
Intangible assets	-	969
Investment property	17 164	17 163
Inventories	38 501	39 213
Trade receivables[2)]	13 335	11 851
Cash and cash equivalents	47 854	473
Total carrying amount of assets for which collateral was established to guarantee repayment of financial liabilities	**252 978**	**447 567**

1) incl. those used based on a finance lease
2) incl. those under a pledge or assignment of receivables

23. Deferred tax

	Note	At		
		30 June 2010	**31 December 2009**	**30 June 2009**
Net deferred tax assets at the beginning of the financial period, of which:		**305 610**	**120 810**	**120 810**
Deferred tax assets at the beginning of the financial period		**347 395**	**188 992**	**188 992**
Deferred tax liabilities at the beginning of the financial period		**41 785**	**68 182**	**68 182**
Credited to profit or loss	36	56 673	92 555	18 380
(Decrease)/increase in other accumulated comprehensive income	18	(40 561)	91 753	120 440
Deferred tax assets at the date of acquisition of shares in a subsidiary		-	492	-
Net deferred tax assets at the end of the financial period, of which:		**321 722**	**305 610**	**259 630**
Deferred tax assets at the end of the financial period		**365 999**	**347 395**	**299 358**
Deferred tax liabilities at the end of the financial period		**44 277**	**41 785**	**39 728**

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

23. Deferred tax (continuation)

Deferred tax assets prior to offsetting

	At 1 January 2010 based on the rate of 19%	Credited/(Charged) to profit 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%
Exchange rate differences	27	64	-	91
Interest	36	21	-	57
Allowances for impairment of receivables	13 358	(221)	-	13 137
Short-term accruals for salaries	53 305	11 976	-	65 281
Employee benefits (holidays)	4 180	(14)	-	4 166
Provision for decommissioning of mines and other facilities	99 545	8 622	-	108 167
Measurement of forward transactions	174 330	82 784	-	257 114
Re-measurement of hedging instruments	41	(20)	-	21
Depreciation and amortisation	130 732	1 314	-	132 046
Liabilities due to future employee benefits	243 540	10 780	-	254 320
Unpaid salaries with surcharges	12 223	(2 762)	-	9 461
Measurement of available-for-sale financial assets	218	-	2 213	2 431
Other	85 951	3 894	-	89 845
Total	**817 486**	**116 438**	**2 213**	**936 137**

	At 1 January 2009 based on the rate of 19%	Increase due to obtaining control of a subsidiary	Credited/(Charged) to profit 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%
Exchange rate differences	94	-	(67)	-	27
Interest	140	-	(104)	-	36
Allowances for impairment of receivables	13 072	402	(116)	-	13 358
Short-term accruals for salaries	54 586	-	(1 281)	-	53 305
Employee benefits (holidays)	4 772	1	(593)	-	4 180
Provision for decommissioning of mines and other facilities	117 381	-	(17 836)	-	99 545
Measurement of forward transactions	38 249	-	136 081	-	174 330
Re-measurement of hedging instruments	1 660	-	(1 619)	-	41
Depreciation and amortisation	137 438	-	(6 706)	-	130 732
Liabilities due to future employee benefits	212 084	867	30 589	-	243 540
Unpaid salaries with surcharges	53 584	-	(41 361)	-	12 223
Measurement of available-for-sale financial assets	303	-	-	(85)	218
Other	87 456	1 791	(3 296)	-	85 951
Total	**720 819**	**3 061**	**93 691**	**(85)**	**817 486**

	At 1 January 2009 based on the rate of 19%	Credited/(Charged) to profit or loss due to a change in the balance of temporary differences and tax loss	Increase/(Decrease) in equity due to change in the accumulated other comprehensive income of temporary differences	At 30 June 2009 based on the rate of 19%
Exchange rate differences	94	(12)	-	82
Interest	140	(123)	-	17
Allowances for impairment of receivables	13 072	(321)	-	12 751
Short-term accruals for salaries	54 586	5 414	-	60 000
Employee benefits (holidays)	4 772	31	-	4 803
Provision for decommissioning of mines and other facilities	117 381	(31 147)	-	86 234
Measurement of forward transactions	38 249	42 948	-	81 197
Re-measurement of hedging instruments	1 660	(1 488)	-	172
Depreciation and amortisation	137 438	(1 487)	-	135 951
Liabilities due to future employee benefits	212 084	12 251	-	224 335
Unpaid salaries with surcharges	53 584	(36 617)	-	16 967
Measurement of available-for-sale financial assets	303	-	116	419
Other	87 456	(3 666)	-	83 790
Total	**720 819**	**(14 217)**	**116**	**706 718**

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

23. Deferred tax (continuation)

The amount of deductible temporary differences and unused tax losses in respect of which the Group did not recognise deferred tax assets (due to the remote possibility of their being settled in future years) amounts to PLN 206 448 thousand (at 31 December 2009: PLN 250 583 thousand).

Tax losses which may be settled in future periods by reducing taxable profit amount to PLN 180 471 thousand (at 31 December 2009: PLN 225 827 thousand). These losses expire as follows:

	At	
Expiration year of tax losses	**30 June 2010**	**31 December 2009**
2010	-	779
2011	-	24 720
2012	60 027	79 483
2013	87 317	87 890
2014	32 758	32 955
2015	369	-
	180 471	**225 827**

The Group created deferred tax assets whose realisation depend on the future generation of taxable profit in the amount exceeding gains arising from the reversal of taxable temporary differences in the amount of PLN 17 188 thousand (at 31 December 2009: PLN 17 000 thousand). The recognition of deferred tax assets was based on current, approved financial plans and on the current activities of the Group.

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

23. Deferred tax (continuation)

Deferred tax liabilities prior to offsetting

	At 1 January 2010 based on the rate of 19%	(Credited)/Charged to profit due to a change in the balance of temporary differences	(Increase)/ Decrease in other accumulated comprehensive income due to change in the balance of temporary differences	At 30 June 2010 based on the rate of 19%
Exchange rate differences	108	2	-	110
Interest	1 014	510	-	1 524
Measurement of forward transactions	37 161	42 709	-	79 870
Re-measurement of hedging instruments	29 494	-	43 123	72 617
Depreciation/amortisation	384 860	17 171	-	402 031
Measurement of available-for-sale financial assets	350	-	(349)	1
Other	58 889	(627)	-	58 262
Total	**511 876**	**59 765**	**42 774**	**614 415**

	At 1 January 2009 based on the rate of 19%	Increase due to obtaining control of a subsidiary	(Credited)/Charged to profit due to a change in the balance of temporary differences	(Increase)/ Decrease in other accumulated comprehensive income due to change in the balance of temporary differences	At 31 December 2009 based on the rate of 19%
Exchange rate differences	320	-	(212)	-	108
Interest	1 388	403	(777)	-	1 014
Measurement of forward transactions	59 498	-	(22 337)	-	37 161
Re-measurement of hedging instruments	119 274	-	-	(89 780)	29 494
Depreciation/amortisation	362 728	-	22 132	-	384 860
Measurement of available-for-sale financial assets	2 408	-	-	(2 058)	350
Other	54 393	2 166	2 330	-	58 889
Total	**600 009**	**2 569**	**1 136**	**(91 838)**	**511 876**

	At 1 January 2009 based on the rate of 19%	(Credited)/Charged to profit due to a change in the balance of temporary differences	(Increase)/ Decrease in other accumulated comprehensive income due to change in the balance of temporary differences	At 30 June 2009 based on the rate of 19%
Exchange rate differences	320	(272)	-	48
Interest	1 388	469	-	1 857
Measurement of forward transactions	59 498	(22 615)	-	36 883
Re-measurement of hedging instruments	119 274	14	(118 787)	501
Depreciation/amortisation	362 728	(11 499)	-	351 229
Measurement of available-for-sale financial assets	2 408	-	(1 537)	871
Other	54 393	1 306	-	55 699
Total	**600 009**	**(32 597)**	**(120 324)**	**447 088**

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

24. Employee benefits

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

Change in liabilities due to future employee benefits

	Note	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
Present value of obligations - at 1 January 2010	**29**	**1 297 643**	**288 191**	**211 414**	**753 305**	**44 733**
Interest costs		33 152	6 475	5 251	20 730	696
Current service cost		18 153	7 131	5 117	5 537	368
Benefits paid		(48 283)	(10 023)	(6 840)	(31 420)	-
Actuarial losses		52 859	9 718	3 019	38 850	1 272
Present value of obligations - at 30 June 2010	**29**	**1 353 524**	**301 492**	**217 961**	**787 002**	**47 069**
Past service cost unrecognised at the end of the reporting period		(6 746)	-	(6 746)	-	-
Carrying amount of liabilities - at 30 June 2010		**1 346 778**	**301 492**	**211 215**	**787 002**	**47 069**
of which:						
Carrying amount of non-current liabilities		1 235 434	258 840	181 238	752 112	43 244
Carrying amount of current liabilities		111 344	42 652	29 977	34 890	3 825

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
Present value of obligations - at 1 January 2009	**1 132 229**	**294 168**	**202 992**	**635 069**	**-**
Interest costs	62 216	15 512	10 743	34 401	1 560
Current service cost	58 989	19 102	11 320	9 166	19 401
Benefits paid	(92 799)	(41 459)	(20 223)	(28 844)	(2 273)
Actuarial losses/(gains)	132 383	(2 965)	5 790	103 513	26 045
Gains due to limitation of the employee benefit plans	(640)	(402)	(238)	-	-
Past service costs	250	164	86	-	-
Liabilities due to business combination	5 015	4 071	944	-	-
Present value of obligations - at 31 December 2009	**1 297 643**	**288 191**	**211 414**	**753 305**	**44 733**
Past service cost unrecognised at the end of the reporting period	(7 589)	-	(7 589)	-	-
Carrying amount of liabilities - at 31 December 2009	**1 290 054**	**288 191**	**203 825**	**753 305**	**44 733**
of which:					
Carrying amount of non-current liabilities	1 183 350	246 051	177 692	718 676	40 931
Carrying amount of current liabilities	106 704	42 140	26 133	34 629	3 802

	Note	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
Present value of obligations - at 1 January 2009	**29**	**1 132 229**	**294 168**	**202 992**	**635 069**	**-**
Interest costs		28 689	6 648	4 875	17 166	-
Current service cost		16 436	6 984	4 867	4 585	-
Benefits paid		(46 444)	(8 101)	(12 103)	(26 240)	-
Actuarial losses/(gains)		60 781	(16 485)	974	33 234	43 058
Present value of obligations - at 30 June 2009	**29**	**1 191 691**	**283 214**	**201 605**	**663 814**	**43 058**
Past service cost unrecognised at the end of the reporting period		(8 432)	-	(8 432)	-	-
Carrying amount of liabilities - at 30 June 2009		**1 183 259**	**283 214**	**193 173**	**663 814**	**43 058**
of which:						
Carrying amount of non-current liabilities		1 086 590	243 155	170 293	632 932	40 210
Carrying amount of current liabilities		96 669	40 059	22 880	30 882	2 848

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

24. Employee benefits (continuation)

At	Present value of employee benefits
30 June 2010	1 353 524
31 December 2009	1 297 643
31 December 2008	1 132 229
31 December 2007	1 008 286
31 December 2006	950 200
31 December 2005	899 148

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

	Note	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Interest costs		33 152	28 689
Current service cost		18 153	16 436
Actuarial losses		52 859	60 781
Past service cost	**29**	843	843
Total costs recognised in profit or loss		**105 007**	**106 749**

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

For purposes of re-measuring the provision at the end of the current period, the Group 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)

25. Provisions for other liabilities and charges

	Note	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2010		**574 788**	**511 384**	**5 307**	**24 124**	**33 973**
Provisions recognised		3 604	250	-	1 089	2 265
Changes in provisions after updating of estimates		49 515	48 794	-	-	721
Changes in provisions arising from the approach of the maturity date of a liability (the so-called unwinding of the discount effect)	32	15 870	15 689	-	-	181
Utilisation of provisions		(9 563)	(1 781)	-	(5 492)	(2 290)
Release of provisions		(10 315)	(101)	-	(6 648)	(3 566)
Transfer to Mine Closure Fund		(10 871)	(10 871)	-	-	-
Other		(1 018)	-	-	(1 513)	495
Provisions at 30 June 2010		**612 010**	**563 364**	**5 307**	**11 560**	**31 779**
of which:						
Non-current provisions		**573 631**	**555 702**	**-**	**493**	**17 436**
Current provisions		**38 379**	**7 662**	**5 307**	**11 067**	**14 343**

	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2009	**663 203**	**603 339**	**6 208**	**24 989**	**28 667**
Provisions recognised	17 246	3 986	-	3 791	9 469
Changes in provisions after updating of estimates	(108 826)	(109 084)	-	-	258
Changes in provisions arising from the approach of the maturity date of a liability (the so-called unwinding of the discount effect)	29 716	29 171	86	-	459
Utilisation of provisions	(10 986)	(2 789)	(7)	(2 243)	(5 947)
Release of provisions	(13 155)	(808)	(980)	(4 023)	(7 344)
Transfer to Mine Closure Fund	(17 508)	(17 508)	-	-	-
Other	15 098	5 077	-	1 610	8 411
Provisions at 31 December 2009	**574 788**	**511 384**	**5 307**	**24 124**	**33 973**
of which:					
Non-current provisions	**527 421**	**501 861**	**-**	**8 239**	**17 321**
Current provisions	**47 367**	**9 523**	**5 307**	**15 885**	**16 652**

	Note	TOTAL	Decommissioning costs of mines and other facilities	Costs of scrapping property, plant and equipment	Disputed issues and court proceedings	Other provisions
Provisions at 1 January 2009		**663 203**	**603 339**	**6 208**	**24 989**	**28 667**
Provisions recognised		3 576	500	-	3 071	5
Changes in provisions after updating of estimates	32	(161 208)	(164 331)	(48)	-	3 171
Changes in provisions arising from the approach of the maturity date of a liability (the so-called unwinding of the discount effect)		16 375	16 125	-	-	250
Utilisation of provisions		(9 965)	(2 665)	-	(2 243)	(5 057)
Release of provisions		(5 692)	(778)	-	(4 143)	(771)
Transfer to Mine Closure Fund		(8 754)	(8 754)	-	-	-
Other		4 930	5 077	-	(466)	319
Provisions at 30 June 2009		**502 465**	**448 513**	**6 160**	**21 208**	**26 584**
of which:						
Non-current provisions		**451 032**	**425 038**	**2 419**	**8 090**	**15 485**
Current provisions		**51 433**	**23 475**	**3 741**	**13 118**	**11 099**

The Group recognises provisions for decommissioning costs of mines and other facilities based on principles described in note 2, point 2.2.15.

25. 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 563 364 thousand (as at 31 December 2009: PLN 511 384 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 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 Central 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 Parent Entity at the end of each quarter by applying in the discounting model the ratios described in Note 3.3.

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

25. Provisions for other liabilities and charges (continuation)

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 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 Parent Entity in secure short-term securities or short-term deposits. Income from these investments increases the Fund's balance, and the Parent Entity 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 24).

Provisions for the facilities with the highest share in the provision for decommissioning costs of mines and other 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 (shafts: PI, PII)	34 356
Ore Enrichment Plant	Lubin OEP	33 021
Lubin Mine	R6 - Central (shafts: LI, LII)	28 549
Rudna Mine	Western part of Rudna Mine (shafts: RIII, RIV, RX)	27 802
Lubin Mine	R1 – Western – Central (shafts: LIV,LV)	25 505

Provisions for the facilities with the highest share in the provision for decommissioning costs of mines and other 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 (shafts: PI, PII)	29 938
Ore Enrichment Plant	Lubin OEP	29 340
Lubin Mine	R6 - Central (shafts: LI, LII)	25 561
Rudna Mine	Western part of Rudna Mine (shafts: RIII, RIV, RX)	24 148
Lubin Mine	R1 – Western – Central (shafts: LIV,LV)	22 800

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

26. Impairment losses

Impairment losses by asset class during the financial period from 1 January to 30 June 2010

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Buildings	6	3 527	97	342
Technical equipment and machinery	6	1 200	20	635
Other fixed assets	6	904	-	2
Fixed assets under construction	6	-	4	127
Total		**5 631**	**121**	**1 106**

Impairment losses by segment during the financial period from 1 January to 30 June 2010

	Production of copper precious metals, and other smelter products	All other segments	Total consolidated amount
Impairment loss recognised	-	5 631	**5 631**
Impairment loss reversed	-	121	**121**
Impairment loss used	-	1 106	**1 106**

Impairment losses by asset class during the financial period from 1 January to 30 June 2009

	Note	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Buildings	6	325	-	388
Technical equipment and machinery	6	-	-	2 597
Other fixed assets	6	865	-	9
Fixed assets under construction	6	2 161	9	497
Software	7	-	-	96
Acquired concessions, patents, licenses	7	-	-	6
Total		**3 351**	**9**	**3 593**

Impairment losses by segment during the financial period from 1 January to 30 June 2009

	Note	Production of copper precious metals, and other smelter products	All other segments	Total consolidated amount
Impairment loss recognised	6, 7	-	3 351	**3 351**
Impairment loss reversed	6, 7	-	9	**9**
Impairment loss used	6, 7	-	3 593	**3 593**

Impairment losses on property, plant and equipment used in the manufacture of goods or in the providing of services were recognised in profit or loss as costs of sales. For other property, plant and equipment impairment losses were recognised in administrative expenses. Details on the principles of accounting for impairment losses applied by the Group are described in point 2.2.10 of note 2.
Impairment losses recognised relate to property, plant and equipment and intangible assets which will not bring expected economic benefits.

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

27. 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	7 121 554	5 037 271
- energy	50 508	18 979
- services, of which:	401 935	342 565
telecommunications services	244 832	243 880
- mining machinery, transport vehicles for mining and other	9 385	3 938
- merchandise	112 121	151 260
- scrap and materials	3 684	4 379
- other finished goods	112 590	53 522
Total	**7 811 777**	**5 611 914**

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	**2 326 535**	**1 590 520**
- copper, precious metals, smelter by-products	1 676 637	1 064 355
- energy	50 508	18 979
- services, of which:	396 467	324 805
telecommunications services	244 832	243 880
- mining machinery, transport vehicles for mining and other	8 071	3 693
- merchandise	93 963	125 894
- wastes and materials	3 684	4 373
- other goods	97 205	48 421
foreign	**5 485 242**	**4 021 394**
- copper, precious metals, smelter by-products	5 444 917	3 972 917
- services	5 468	17 761
- mining machinery, transport vehicles for mining and other	1 314	245
- merchandise	18 158	25 365
- scrap and materials	-	6
- other goods	15 385	5 100
Total	**7 811 777**	**5 611 914**

	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	3.26

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

28. 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	6, 7, 9	412 521	362 493
Employee benefits expenses	29	1 649 221	1 645 601
Materials and energy		2 639 490	1 677 602
External services		612 901	569 339
Taxes and charges		180 068	167 649
Advertising costs and representation expenses		24 963	18 674
Property and personal insurance		13 256	8 073
Research and development costs not capitalised in intangible assets		1 834	542
Other costs, of which:		26 582	44 661
Impairment losses on property, plant and equipment, intangible assets	6, 7	5 631	1 190
Write-down of inventories	14	882	922
Allowance for impairment of trade receivables	34.3.6	7 249	28 542
Reversal of impairment of property, plant and equipment, intangible assets	6, 7	(117)	-
Reversal of write-down of inventories	14	(3 219)	(1 391)
Reversal of allowance for impairment of trade receivables	34.3.6	(6 426)	(3 987)
Losses from the disposal of financial instruments	33.3	834	380
Other operating costs		21 748	19 005
Total expenses by nature		**5 560 836**	**4 494 634**
Cost of merchandise and materials sold (+), of which:		76 137	69 998
Allowance for impairment of receivables	34.3.6	120	1 272
Reversal of allowance for impairment of receivables	34.3.6	(285)	(498)
Change in inventories of finished goods and work in progress (+/-)		(365 133)	(181 801)
Cost of manufacturing products for internal use (-)		(253 439)	(237 224)
Total cost of sales, selling costs and administrative expenses		**5 018 401**	**4 145 607**

29. 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		1 179 758	1 187 902
Costs of social security		412 739	397 394
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which:		56 724	60 305
Present value of obligation	24	55 881	59 462
Past service costs	24	843	843
Employee benefits expenses	**28**	**1 649 221**	**1 645 601**

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

30. Other operating income

	Note	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Income and gains from financial instruments classified under other operating activities, resulting from:	33.3	485 598	217 886
Measurement and realisation of derivative instruments		343 157	137 354
Interest		24 995	61 217
Foreign exchange gains		114 401	11 093
Gains from disposal		896	7 519
Reversal of allowance for impairment of loans and receivables		2 149	703
Gains from the disposal due to loss of control over a subsidiary		-	21 457
Gains from the disposal of intangible assets		1 782	119
Other interest		2 313	1 426
Dividends received		64	251
Reversal of impairment losses on fixed assets under construction	6	4	9
Reversal of allowance for impairment of other non-financial receivables	13	804	787
Government grants and other donations received		538	342
Release of unused provisions due to:		11 278	22 957
Decommissioning of mines		434	16 818
Disputed issues, pending court proceedings		6 648	4 143
Other		4 196	1 996
Surpluses identified in current assets		5 150	-
Penalties and compensation received		10 513	7 054
Gains from foreign exchange losses - non-financial		2 825	783
Other operating income/gains		12 032	10 748
Total other operating income		**532 901**	**283 819**

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

31. 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:	33.3	481 736	252 260
Measurement and realisation of derivative instruments		477 732	246 369
Interest		39	644
Losses on measurement of non-current liabilities		542	1 314
Losses from disposal		-	851
Allowances for impairment of loans and receivables		3 423	3 082
Allowances for impairment of other non-financial receivables	13	3 999	522
Losses on the sale of property, plant and equipment		3 300	9 020
Impairment losses on fixed assets under construction	6	-	2 161
Interest on overdue non-financial liabilities (including towards Budget)		101	1 418
Donations granted		9 948	2 768
Provisions for:		6 175	7 868
Decommissioning of mines		1 470	499
Disputed issues, pending court proceedings		1 089	3 071
Other		3 616	4 298
Penalties and compensation paid		1 313	1 563
Non-culpable shortages in current assets		3 031	916
Contributions to a voluntary organisation		4 802	5 572
Other operating costs/losses		14 476	7 487
Total other operating costs		**528 881**	**291 555**

32. 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:	33.3	7 905	6 881
On bank and other loans		6 611	5 819
Due to finance leases		1 294	1 062
Net foreign exchange losses on borrowings	33.3	89	1 262
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	25	15 870	16 375
Measurement of provisions for decommissioning of mines		15 689	16 125
Measurement of other provisions		181	250
Losses due to measurement of non-current liabilities	33.3	145	209
Other finance costs		178	1 110
Total finance costs		**24 187**	**25 837**

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

33. Financial instruments

33.1 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	10	430 595								**430 594**
Unlisted shares	10	11 204								**11 205**
Trade receivables (net)	13				1 414 580					**1 414 580**
Cash and cash equivalents and deposits	11,13,15		86 690		2 343 990					**2 430 680**
Other financial assets (net)	10,11,13	7	47		39 220					**39 274**
Derivatives - Currency	12			11 062		(53 272)			59 277	**17 067**
Derivatives - Commodity contracts - metals	12			30 994		(227 399)			673 698	**477 293**
Trade payables	20						(604 033)			**(604 033)**
Bank and other loans	21						(227 111)			**(227 111)**
Other financial liabilities	20,21						(654 969)	(40 751)		**(695 720)**
		441 806	**86 737**	**42 056**	**3 797 790**	**(280 671)**	**(1 486 113)**	**(40 751)**	**732 975**	**3 293 829**

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

33. Financial instruments (continuation)

33.1 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**
Listed shares	10	8 976								**8 976**
Unlisted shares	10	11 475								**11 475**
Shares in investment funds	10	7 930								**7 930**
Trade receivables (net)	13				1 199 512					**1 199 512**
Cash and cash equivalents and deposits	11,13,15		67 677		1 197 144					**1 264 821**
Other financial assets (net)	10,11,13	7	47		18 939					**18 993**
Derivatives - Currency	12			17 646		(165 571)			162 961	**15 036**
Derivatives - Commodity contracts - metals	12			1 258		(37 861)			7 905	**(28 698)**
Trade payables	20						(629 951)			**(629 951)**
Bank and other loans	21						(299 285)			**(299 285)**
Other financial liabilities	20,21						(79 596)	(41 385)		**(120 981)**
		28 388	**67 724**	**18 904**	**2 415 595**	**(203 432)**	**(1 008 832)**	**(41 385)**	**170 866**	**1 447 828**

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

33. Financial instruments (continuation)

33.2 Fair value

Classes of financial instruments	Note	At 30 June 2010 Carrying amount 33.1	At 30 June 2010 Fair Value	At 31 December 2009 Carrying amount 33.1	At 31 December 2009 Fair Value
Listed shares	10	430 595	430 594	8 976	8 976
Unlisted shares*	10	11 204	-	11 475	-
Shares in investment funds	10	-	-	7 930	7 930
Trade receivables (net)	13	1 414 580	1 414 580	1 199 512	1 199 512
Cash and cash equivalents and deposits	11, 13,15	2 430 680	2 430 687	1 264 821	1 264 835
Other financial assets (net)	10, 11, 13	39 274	39 274	18 993	18 993
Derivatives - Currency, of which:	12	17 067	17 067	15 036	15 036
Assets		230 066	230 066	180 938	180 938
Liabilities		(212 999)	(212 999)	(165 902)	(165 902)
Derivatives - Commodity contracts - metals, of which:	12	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	20	(604 033)	(604 033)	(629 951)	(629 951)
Bank and other loans	21	(227 111)	(227 111)	(299 285)	(299 285)
Other financial liabilities	20, 21	(695 720)	(695 720)	(120 981)	(120 981)

The methods and assumptions used by the Group for measuring the fair values are presented in notes 2.2.5.4 Fair value and 3 Important estimates and assumption.

*The Group 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, which carrying amount at 30 June 2010 amounted to PLN 11 204 thousand (at 31 December 2009 amounted to PLN 11 475 thousand). As a result, they are disclosed in the statement of financial position at cost less impairment loss.

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

33. Financial instruments (continuation)

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

For the period from 1 January 2010 to 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)	**30, 31, 32**		243	48	24 704	(6 650)	(1 294)		**17 051**
Exchange gains/(losses)	**31, 32**		(691)		137 031	(21 964)	(64)		**114 312**
Losses on measurement of non-current financial liabilities	**31, 32**					(687)			**(687)**
Impairment allowances	**28, 31**				(10 792)				**(10 792)**
Reversal of impairment allowances	**28, 30**				8 860				**8 860**
Adjustment to sales due to hedging transactions	**34.1.9**							82 294	**82 294**
Profit/(losses) from disposal of financial instruments	**28, 30**		896		(834)				**62**
Gains on measurement and realisation of derivative instruments	**30**	343 157							**343 157**
Losses on measurement and realisation of derivative instruments	**31**	(477 732)							**(477 732)**
Total net gain/(loss)		**(134 575)**	**448**	**48**	**158 969**	**(29 301)**	**(1 358)**	**82 294**	**76 525**

For the period from 1 January 2009 to 30 June 2009	**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)	**30, 31, 32**				61 217	(6 463)	(1 062)		**53 692**
Exchange gains/(losses)	**30, 32**			3	57 632	(46 603)	(1 201)		**9 831**
Losses on measurement of non-current financial liabilities	**31, 32**					(1 523)			**(1 523)**
Impairment allowances	**28, 31**				(32 896)				**(32 896)**
Reversal of impairment allowances	**28, 30**				5 188				**5 188**
Adjustment to sales due to hedging transactions	**34.1.9**							487 548	**487 548**
Profit/(losses) from disposal of financial instruments	**28, 30, 31**		7 500		(1 231)				**6 269**
Gains on measurement and realisation of derivative instruments	**30**	137 354							**137 354**
Losses on measurement and realisation of derivative instruments	**31**	(246 369)							**(246 369)**
Total net gain/(loss)		**(109 015)**	**7 500**	**3**	**89 910**	**(54 589)**	**(2 263)**	**487 548**	**419 094**

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

33. Financial instruments (continuation)

33.4 Transfers not qualified for de-recognition

As at 30 June 2010 there were no financial assets whose transfer does not qualify for derecognition.

33.5 Situations concerning financial instruments which did not occur in the Group

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

- as at end of the reporting period, Group companies did not designate a financial instrument to be measured at fair value through profit or loss (IFRS 7, par. 9, 10, 11),
- Group companies did not reclassify a financial asset in a way which would result in a change of the method of measurement (IFRS 7, par. 12),
- Group companies do not hold any collateral established on either category of assets which would improve crediting terms (IFRS 7, par. 15),
- Group companies have not issued an instrument that contains both a liability and an equity component (IFRS 7, par. 17),
- Group companies did not breach any contractual provisions (IFRS 7, par. 18),
- Group companies invest assets accumulated in a separate bank account kept for the Mine Closure Fund, but do not receive any fee due to those fiduciary activities (IFRS 7, par. 20.c.ii),
- Group companies 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),
- Group companies 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),
- Group companies did not use fair value hedges or hedges of net investments in foreign operations (IFRS 7, par. 24 a, 24.c),
- Group companies did not purchase any financial assets at a price different from their fair value (IFRS 7, par. 28),
- the Group companies did not obtain any assets as collateral (IFRS 7, par. 38).

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

33.6.1 Fair value hierarchy

		At					
	Note	**30 June 2010**			**31 December 2009**		
Classes of financial instruments		level 1	level 2	level 3	level 1	level 2	level 3
Listed shares	33.2	430 595	-	-	8 976	-	-
Shares in investment funds	33.2	-		-	-	-	7 930
Other net financial assets		-	5 524	-	-	-	-
Derivative financial instruments - currency, of which:	33.2	-	17 067	-	-	15 036	-
Assets		-	230 066	-	-	180 938	-
Liabilities		-	(212 999)	-	-	(165 902)	-
Derivative financial instruments – metals, of which:	33.2	-	477 293	-	-	(28 698)	-
Assets		-	851 557	-	-	140 471	-
Liabilities		-	(374 264)	-	-	(169 169)	-
Other financial liabilities		-	-	-	-	(30 611)	-

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

33. Financial instruments (continuation)

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

33.6.1 Fair value hierarchy (continuation)

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.

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 measurement date.

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

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

Shares and participation units 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	**33.6.1**	-	**7 930**	**10 676**

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

34. Financial risk management

Group companies are exposed to risk in each area of their activities. Understanding those risks and the principles of their management allows the Group to better meet its objectives.

Financial risk management includes the processes of risk identification, measurement and determination of appropriate methods to deal with those risks.

The Group is predominantly exposed to the following classes of financial risk:

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

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

34.1 Market risk

34.1.1. Principles of market risk management

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

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

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

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

The Parent Entity applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented on derivative instruments market, embracing an increasing share of production and sales revenues as well as an extended time horizon. Consequently, the hedging is possible against unexpected plunges in both silver and copper prices as well as rapid appreciation of the PLN versus the USD. Thanks to this approach, it is also possible to avoid engaging significant volumes or notionals at a single price level. The Parent Entity continuously monitors metal and currency markets, which are the basis for decisions on implementing hedging strategies. The Parent Entity applies hedge accounting to hedge the risk of changes of cash flows due to commodity and currency risk.

34.1.2 Techniques for market risk management

The primary technique for market risk management is the use in the Parent Entity of hedging strategies involving 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 Group companies, the suitability of instruments to be applied and the cost of hedging. In order to mitigate market risk, derivative instruments are primarily used. The Group transacts only those derivative instruments for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and also these which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Group relies on information obtained from particular market leading banks, brokers and information services.

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.2 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).

34.1.3 Hedge effectiveness requirement

Hedging transactions can be entered into by Parent Entity only if there is an appropriate derivative instrument for the base instrument traded in a liquid market with a quoted reference price. Prior to entering a hedge transaction, the Parent Entity confirms and documents whether there exists, between the changes in the fair value of a hedge instrument and the changes in the fair value of the hedged position, a strong negative correlation. Hedge effectiveness is subject to constant evaluation and monitoring.

34.1.4 Measurement of market risk

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

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

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

However, due to the fact that no single risk measure possesses the ability to completely reflect reality, mainly because of underlying assumptions concerning market factors, it is customary to employ quantitative models merely as a tool supporting the decision making process and a source of additional information. Such models are not the only basis for decision making in the market risk management process.

34.1.5 Restrictions on entering into hedging transactions

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

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

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

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

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

The remaining companies of the Group have set the limit of engagement in derivative instruments up to 80% of the planned amounts exposed to market risk, or up to 100% of realised commercial transactions.

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.6 Market risk exposure

34.1.6.1 Commodity risk

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

In a situation where a non-standard formula is used to set the sales price, the Parent Entity may enter into transactions (so-called adjustment hedge transactions) which change the price base agreed with the customer to the average price of the appropriate month. These transactions lead to a harmonisation of the base price applied to physical sales of products, and therefore harmonisation of the exposure to the risk of fluctuations in metals prices.

Due to the fact that the Parent Entity utilises in the production process materials purchased from external sources containing various metals, part of the sales is hedged naturally. Therefore, the analysis of the Parent Entity's exposure to the market risk should be performed on a net basis, i.e. by deducting the volume of metals contained in materials purchased from external sources from the volume of sales.

Exposure of the Group to commodity risk is presented below:

	For the period			
	1 January 2010 to 30 June 2010		1 January 2009 to 30 June 2009	
	Sales	Purchases	Sales	Purchases
Copper [‘000 tonnes]	263	77	245	19
Silver [tonnes]	617	7	628	56

Sensitivity of the Group's financial instruments to commodity risk at the end of the reporting period is presented in note 34.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

34.1.6.2 Currency risk

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

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

Sensitivity of the Group's financial instruments to the currency risk at the end of the reporting period is presented in note 34.1.10 Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk.

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.6 Market risk exposure (continuation)

34.1.6.3 Interest rate risk

Interest rate risk is the danger of the negative impact of changes in interest rates on the financial position.

The Group is exposed to interest rate risk due to:

- changes in the fair value of loans drawn, and bank deposits for which interest is calculated at fixed rates, due to their inflexibility to adaptation to changes in market interest rates,
- changes in cash flow related to bank and other loans drawn, a decrease in expected income from bank deposits, for which interest is calculated at variable rates.

As at 30 June 2010 the Group had liabilities due to bank and other loans in the amount of PLN 225 731 thousand (as at 31 December 2009: PLN 295 863 thousand) based on variable interest rates, and liabilities due to bank and other loans in the amount of PLN 1 380 thousand (as at 31 December 2009: PLN 3 422 thousand) based on fixed interest rates. At 30 June 2010 the Group had bank deposits in the amount of PLN 2 200 562 thousand (as at 31 December 2009: PLN 1 153 118 thousand) based on variable and fixed interest rates.

At the end of the reporting period the Group had no instruments hedging against interest rate risk.

34.1.7 Hedging exposure to market risk in the Parent Entity

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 Parent Entity. 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 Parent Entity. In the first half of 2010 the Parent Entity 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 Parent Entity made use of options (Asian options), including option strategies: producer puts and seagulls. In the reporting period the Parent Entity did not implement adjustment strategies. In addition, the Parent Entity 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 Parent Entity 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 Parent Entity 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 Parent Entity made use of options (European options), including puts and option strategies: corridor and seagulls. During this period no adjustment hedge transactions were implemented on the currency market. In addition, the Parent Entity 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 bought within this structure in the case of any decrease in the USD/PLN exchange rate in 2011.

The Parent Entity 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 Parent Entity 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 the following items is shown: 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 hedging price/exchange rate was changed.

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.7 Hedging exposure to market risk in the Parent Entity (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] explanation on page 89
[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)

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.7 Hedging exposure to market risk in the Parent Entity (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**			

34.1.8 Impact of derivatives on the statement of financial position of the Group

As at 30 June 2010, the fair value of open positions in derivative instruments amounted to PLN 494 360 thousand, of which PLN 1 081 623 thousand relate to financial assets and PLN 587 263 thousand relate to financial liabilities.

Derivative instruments whose 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 (Note 13).

Other information concerning derivatives is presented in Note 12 Derivative financial instruments and in Note 33 Financial instruments.

[1] explanations on page 89
[2,3] explanations on page 90

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.9. Impact of derivatives on the Group's profit or loss and equity

In the first half of 2010, the result on derivative instruments amounted to PLN (52 281) thousand. The effective portion of the change in the fair value of hedging instruments that was transferred from accumulated other comprehensive income to profit or loss in the reporting period, as an adjustment from reclassification, increased revenues from sales by PLN 82 294 thousand. The loss on the measurement of derivative instruments amounted to PLN 112 598 thousand, while the loss on the realisation of derivative instruments amounted to PLN 21 977 thousand. Adjustment to other operating costs arising from the measurement of derivative instruments results mainly from changes of the time value of options, which will be settled in the future periods. In accordance with the applied hedge accounting principles, the change in the time value of options is not recognised in accumulated other comprehensive income.

The impact of derivative instruments on 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 costs	**(134 575)**	**(109 015)**
Losses from realisation of derivative instruments	(21 977)	(17 348)
Losses from measurement of derivative instruments	(112 598)	(91 667)
Total impact of derivative instruments on profit or loss:	**(52 281)**	**378 533**

The amount recognised in profit or loss of the Parent Entity 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 Parent Entity accounts for cash flow hedging instruments according to the principles presented in note 2.2.4.7 of "Main accounting policies". Those principles require recognition in other comprehensive income of the effective portion of the change in the fair value of hedging transactions during the period in which these transactions are designated as a hedge of future cash flows. The amounts accumulated in 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 Parent Entity during the reporting period is evaluated and measured by comparing the changes in the forward prices of hedged items with the changes in the prices of forward contracts or – in the case of options - the changes in the intrinsic value of options.

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

AMOUNTS RECOGNISED IN EQUITY	**At**	
	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**

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

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

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 transferred from accumulated other comprehensive income to revenues from sales	(82 294)	(433 187)	(487 548)
Accumulated other comprehensive income achieved on instruments hedging future cash flows at the end of the reporting period (excluding the deferred tax effects)	**382 194**	**155 233**	**2 562**

34.1.10. Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk

The Group identifies the following major market risks to which it is exposed:

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

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

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

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

Scope of historical data (daily data):
- for copper: 01 January 1978 to 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.

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%

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.10. Sensitivity analysis of KGHM Polska Miedź S.A. Group exposure to market risk (continuation)

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 Parent Entity holds a position in derivative instruments hedging future cash flows from the sale of copper and silver. It should also be noted that the Parent Entity is exposed to risk in respect of the planned volume of copper and silver sales from its own production, adjusted by its position in hedging instruments.

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

FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK Currency structure		
	[‘000 PLN]	[‘000 USD]	[‘000 EUR]
Trade receivables (net)	936 162	91 829	150 620
Cash and cash equivalents and deposits	466 246	83 793	43 852
Other financial assets (net)	20 802	3 013	2 550
Derivatives - Currency	17 067	not applicable	not applicable
Derivatives – Commodity contracts - Metals	477 293	140 604	-
Trade payables	(52 753)	(1 641)	(11 381)
Bank and other loans	(6 118)	-	(1 476)
Other financial liabilities	(17 249)	(1 376)	(3 034)

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)	485 616	82 665	49 959
Cash and cash equivalents and deposits	724 890	134 960	66 364
Other financial assets (net)	40 384	12 083	457
Derivatives - Currency	82 020	not applicable	not applicable
Derivatives – Commodity contracts - Metals	157 224	49 546	-
Trade payables	(77 070)	(9 149)	(10 747)
Bank and other loans	(1 646)	-	(368)
Other financial liabilities	(48 573)	(4 402)	(7 742)

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.10 Sensitivity analysis of the KGHM Polska Miedź S.A. Group 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%	
	[in '000 PLN]	[in '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)	936 162	1 414 580	77 647		(63 760)		90 428		(78 545)									
Cash and cash equivalents and deposits	466 246	2 430 680	70 852		(58 180)		26 328		(22 868)									
Other financial assets (net)	20 802	39 274	2 548		(2 092)		1 531		(1 330)									
Derivatives – Currency	17 067	17 067	(212 974)	(360 451)	5 693	538 113	(2 866)		2 477									
Derivatives – Commodity contracts - Metals	477 293	477 293	37 029	81 860	(30 406)	(67 219)					(558 111)	(364 425)	(352 277)	1 423 183	(3 764)		(2 282)	36 142
Trade payables	(52 753)	(604 033)	(1 387)		1 139		(6 833)		5 935									
Bank and other loans	(6 118)	(227 111)					(886)		770									
Other financial liabilities	(17 249)	(695 720)	(1 163)		955		(1 822)		1 582									
IMPACT ON PROFIT OR LOSS			(27 448)		(146 651)		105 880		(91 979)		(558 111)		(352 277)		(3 764)		(2 282)	
IMPACT ON OTHER COMPREHENSIVE INCOME				(278 591)		470 894						(364 425)		1 423 183				36 142

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.10 Sensitivity analysis of the KGHM Polska Miedź S.A. Group exposure to market risk (continuation)

SENSITIVITY ANALYSIS AS AT 30 June 2009

		30.06.2009	CURRENCY RISK								COMMODITY RISK							
FINANCIAL ASSETS AND LIABILITIES	VALUE AT RISK	CARRYING AMOUNT	USD/PLN				EUR/PLN				COPPER PRICES [USD/t]				SILVER PRICES [USD/troz]			
			4.30		4.30		5.60		3.52		7 869		2 915		21.93		8.50	
			+ 35%		+ 35%		+ 25%		- 21%		+ 59%		- 41%		+ 57%		- 39%	
	[in '000 PLN]	[in '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)	485 616	969 965	75 228		(63 457)		45 642		(38 415)									
Cash and cash equivalents and deposits	724 890	2 651 257	122 818		(103 600)		60 630		(51 030)									
Other financial assets (net)	40 384	289 625	10 996		(9 275)		417		(351)									
Derivatives - Currency	82 020	82 020	(155 287)	(252 708)	(71 551)	572 933	(2 968)		2 543									
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	(77 070)	(549 693)	(8 326)		7 023		(9 819)		8 264									
Bank and other loans	(1 646)	(251 097)					(336)		283									
Other financial liabilities	(48 573)	(24 426 711)	(4 006)		3 379		(7 073)		5 953									
IMPACT ON PROFIT OR LOSS			89 751		(278 247)		86 493		(72 753)		(213 039)		(12 329)		(18 543)		(20 399)	
IMPACT ON OTHER COMPREHENSIVE INCOME				(252 706)		572 931						(220 317)		512 675		(6)		93 392

Translation from the original Polish version

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

34. Financial risk management (continuation)

34.2 Liquidity risk and capital management

The Group is exposed to liquidity risk, understood as the inability to meet obligations associated with financial liabilities.

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

In the first half of 2010, as well as in the comparable period, due to positive operating cash flow and the significant amount of cash and cash equivalents balances, the Group companies barely used external sources of financing.

The procedures for investing free cash resources are contingent on the maturity of liabilities in terms of limiting the maximum liquidity risk.

Should market conditions deteriorate and the necessity arises for additional financing of activities or the refinancing of its debt from external sources (borrowings or buyer's credit), the probability would exist of an increased liquidity risk.

Contractual maturities for financial liabilities as at 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	588 643	8 187	6 753	514	4	**604 101**	**604 033**
Loans, including bank loans	46 833	53 729	98 873	24 571	28 181	**252 187**	**227 111**
Derivatives – Currency contracts	9 153	8 596	-	-	-	**17 749**	**212 999**
Derivatives – Commodity contracts - Metals	35 218	85 286	-	-	-	**120 504**	**374 264**
Other financial liabilities	642 313	13 032	25 513	13 903	7 277	**702 038**	**695 720**
Total financial liabilities by maturity	**1 322 160**	**168 830**	**131 139**	**38 988**	**35 462**	**1 696 579**	

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	614 992	4 737	9 335	1 003	4	**630 071**	**629 951**
Loans, including bank loans	31 278	179 898	63 277	22 580	27 930	**324 963**	**299 285**
Derivatives - Currency	40 559	108 673	-	-	-	**149 232**	**165 902**
Derivatives – Commodity contracts - Metals	-	31 514	6 360	-	-	**37 874**	**169 169**
Other financial liabilities	66 235	12 527	25 873	15 493	6 498	**126 626**	**120 981**
Total financial liabilities by maturity	**753 064**	**337 349**	**104 845**	**39 076**	**34 432**	**1 268 766**	

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

As at 30 June 2010 the Group had overdraft facilities in the amount of PLN 167 300 thousand (as at 31 December 2009: PLN 135 100 thousand).

As at 30 June 2010 unused overdraft facilities amounted to PLN 94 208 thousand (as at 31 December 2009: PLN 88 345 thousand).

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

In accordance with market practice, the Group monitors its capital, among others based on the *equity ratio* and the *ratio of Debt/EBITDA*. The *equity ratio* is calculated as the relation of net assets (equity less intangible assets) to total assets.

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

34. Financial risk management (continuation)

34.2 Liquidity risk and capital management (continuation)

The ratio of *Debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities to EBITDA (operating profit plus depreciation/amortisation).

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

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

	30 June 2010	31 December 2009	30 June 2009
Equity	12 569 412	10 593 218	9 415 800
Less: intangible assets	280 460	268 195	151 197
Net assets	12 288 952	10 325 023	9 264 603
Total assets	17 950 279	14 866 816	15 471 974
Equity ratio	**0.68**	**0.69**	**0.60**
Operating profit	2 797 396	2 679 338	1 458 571
Plus: depreciation/amortisation	412 521	743 790	362 493
EBITDA	3 209 917	3 423 128	1 821 064
Borrowings and finance lease liabilities	267 862	340 670	283 973
Ratio of Debt/EBITDA*	**0.042**	**0.100**	**0.078**

* for half-year periods, EBITDA is statistically annualised

Due to the low level of debt of the Group as at 30 June 2010, the *ratio of Debt/EBITDA* was at a safe level and amounted to 0.042.

Meanwhile the equity ratio was above the assumed minimum level and amounted to 0.68 at 30 June 2010.

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

34.3 Credit risk

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

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

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

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

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

34. Financial risk management (continuation)

34.3 Credit risk (continuation)

34.3.1 Credit risk related to cash and cash equivalents and bank deposits

All entities with which the Group enters into deposit transactions operate in the financial sector. These are solely banks registered in Poland or operating in Poland as branches of foreign banks, which belong to European and American financial institutions with medium[4] credit ratings, appropriate level of equity and strong, stable market position. The maximum exposure of a single bank in respect of cash and cash equivalents deposited by the Group amounted to 33% as at 30 June 2010.

Given the above as well as the short-term nature of those investments, the credit risk associated with cash and cash equivalents and deposits is estimated as low.

34.3.2 Credit risk related to derivative instruments

All entities with which the Group enters into derivative transactions operate in the financial sector. These are financial institutions (mainly banks), with the highest[5] (29.2%), medium - high[6] (54.2%) or medium[4] (16.6%) credit ratings. At 30 June 2010, based on fair value the maximum exposure of the Group to a single entity in respect of derivative instruments amounts to 11.1 %.

Fair value of derivative instruments entered into by the Group at 30 June 2010 amounted to [7]:

PLN 499 884 thousand	(positive balance on the measurement of derivative instruments), of which:
PLN 587 263 thousand	financial liabilities (note 12),
PLN 1 087 147 thousand	financial assets (notes 12,13).

All entities with which the Group entered into derivative transactions in 2009 operated in the financial sector. These are financial institutions (mainly banks), with the highest[5] (39.1%), medium-high[6] (55.2%) or medium[4] (8.7%) credit ratings. The maximum exposure of the Group to a single entity in respect of derivative instruments amounted to 46.1 %.

The fair value of derivative transactions entered into by the Group at 31 December 2009 amounted to[8]:

PLN 13 662 thousand	(negative balance on the measurement of derivative instruments), of which:
PLN 335 071 thousand	financial liabilities (notes 12, 20),
PLN 321 409 thousand	financial assets (note 12).

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

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

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

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

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

[7] The measurement of transactions includes the measurement of both open positions as well as transactions which were settled on 2 July 2010, which were presented in the statement of financial position of the Group under other financial receivables.

[8] The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2010, which were presented in the statement of financial position of the Group under other financial liabilities.

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

34. Financial risk management (continuation)

34.3 Credit risk (continuation)

34.3.3 Credit risk related to trade and other financial receivables

Companies of the Group have been cooperating for many years with a number of geographically diversified clients. The vast majority of sales are with to EU countries.

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

	At					
	30 June 2010			31 December 2009		
	Poland	EU (excl. Poland)	Other Countries	Poland	EU (excl. Poland)	Other Countries
Net receivables from sales of copper and silver	49.55%	35.89%	14.56%	33.41%	56.76%	9.83%

The Parent Entity makes the significant part of its sales transactions based on prepayments. The Parent Entity monitors the creditworthiness of all its customers on an on-going basis, in particular those to whom buyer's credit has been granted. Buyer's credit is only provided to proven, long-term customers, while sales of products to new customers are always secured. The Parent Entity has secured the majority of its receivables by promissory notes[9], frozen funds on bank accounts, registered pledges[10], bank guarantees, mortgages, letters of credit and documentary collection. In addition, the majority of contracts reflecting deferment of the payment period include clauses on the retention of owner rights. To reduce the risk of insolvency by its customers, the Parent Entity has entered into a receivables insurance contract, which covers receivables from entities with buyer's credit which have not provided strong collateral. Taking into account the collateral held and the credit limits received from the insurance company, at 30 June 2010 the Parent Entity had secured 68% of its trade receivables.

The total value of the Group's trade receivables as at 30 June 2010, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 1 414 580 thousand (at 31 December 2009: PLN 1 199 512 thousand).

The concentration of credit risk in the Parent Entity results from the fact that key clients (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 30 June 2010 the balance of receivables of the Group from 7 of the Parent Entity's largest clients, calculated as a percentage of trade receivables at the end of the reporting period, represented 63% of the balance of trade receivables (at 31 December 2009: 66%). Despite the concentration of this type of risk, the Parent Entity believes that due to the availability of historical data and the many years of experience cooperating with its clients, as well as to the hedging used, the level of credit risk is low.

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

The following Group companies have significant trade receivables: DIALOG S.A. PLN 71 136 thousand, KGHM Metraco S.A. PLN 55 132 thousand, KGHM Kupferhandelsges. m.b.H PLN 21 497 thousand, Walcownia Metali Nieżelaznych spółka z o. o. PLN 14 698 thousand, WPEC w Legnicy S.A. PLN 13 940 thousand, POL-MIEDŹ TRANS Sp. z o.o. PLN 12 383 thousand, KGHM Ecoren S.A. PLN 11 526 thousand, "PETROTEL" sp. z o.o. PLN 8 893 thousand.

These Group companies operate in various economic sectors, such as transport, construction, trade, industrial production and telecom services, and consequently there is no concentration of credit risk in any sector. The companies of the Group, with the exception of the Parent Entity, do not enter into framework agreements of a net settlement in order to reduce exposure to credit risk, although in situations where the given entity recognises both receivables and liabilities with the same client, in practice net settlement is applied, as long as both parties accept such settlement. Due to the extensive volatility in the level of net settlement on particular days ending reporting periods, it is difficult in practice to determine a representative amount of such compensation.

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

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

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

34. Financial risk management (continuation)

34.3 Credit risk (continuation)

34.3.3 Credit risk related to trade and other financial receivables (continuation)

The KGHM Polska Miedź S.A. Group believes that the maximum amount of exposure of the Group to credit risk at the end of the reporting period approximates the amount of the balance of trade receivables, without taking into account the fair value of any collateral. Nevertheless, the real risk that there will be no cash inflow to the Group due to trade receivables is low.

34.3.4 Credit risk related to loans granted

At 30 June 2010 the carrying amount of loans granted was PLN 0 (at 31 December 2009, PLN 0 thousand). The balance is composed of loans granted in the gross amount of PLN 4 899 thousand. Due to the arising of a high level of credit risk, these loans were fully covered by an allowance for impairment.

34.3.5. 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 Parent Entity did not invest unallocated monetary resources in debt papers, funds and participation units in open-ended investment funds.

34.3.6. 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	**117 685**	99 160	7 804	8 262	1 780	679
Other financial receivables	**156**	123	5	16	4	8

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	**75 046**	56 450	3 952	2 200	10 648	1 796
Other financial receivables	**394**	215	107	9	6	57

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

The Group analyses receivables primarily on an individual basis in terms of the indication and recognition of any impairment allowance. Significant indicators are described in note 2.2.5.5.

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

34. Financial risk management (continuation)

34.3 Credit risk (continuation)

34.3.6. Other information related to credit risk (continuation)

Changes in allowances for impairment of financial assets by asset classes are presented in the table below:

a) trade receivables (category: loans and financial receivables)

	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 allowance at the beginning of the period	**13**	**83 422**	**54 687**	**54 687**
Increase due to obtaining control of a subsidiary		-	2 168	-
Impairment allowance recognised in profit or loss	28	7 369	45 035	29 814
Impairment allowance reversed through profit or loss	28	(6 711)	(11 985)	(4 485)
Impairment allowance on foreign exchange differences		4 109	(1 047)	2 776
Impairment allowance utilised during the period		(3 631)	(5 107)	(1 968)
Impairment allowance reversed on costs of legal proceedings		19	(118)	6
Decrease due to loss of control of a subsidiary		-	(211)	(211)
Impairment allowance at the end of the period	**13**	**84 577**	**83 422**	**80 619**

b) other financial assets (category: loans and 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 allowance at the beginning of the period	**13**	**14 029**	**10 252**	**10 252**
Impairment allowance recognised in profit or loss	31	3 423	6 471	3 082
Impairment allowance reversed through profit or loss	30	(2 149)	(1 785)	(703)
Impairment allowance on foreign exchange differences		206	(49)	151
Impairment allowance utilised during the period		(1 240)	(863)	(138)
Impairment allowance on costs of legal proceedings		4	3	-
Impairment allowance at the end of the period	**13**	**14 273**	**14 029**	**12 644**

c) debt securities (category: available-for-sale financial assets)

	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 allowance at the beginning of the period	**10**	-	**248**	**248**
Impairment allowance utilised during the period		-	(248)	(248)
Impairment allowance at the end of the period	**10**	-	-	-

35. Share of profits/losses of associates accounted for using the equity method

	For the period from 1 January 2010 to 30 June 2010	For the period from 1 January 2009 to 30 June 2009
Share of profits of associates	155 219	144 587

36. 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		581 639	298 365
Deferred income tax	23	(56 673)	(18 380)
Adjustments to income tax from prior periods		184	6 277
Total		**525 150**	**286 262**

The tax on the Group's profit before tax differs in the following manner from the theoretical amount that would arise if the theoretical tax rate was applied, as a sum of profits before tax, multiplied by the income tax rate of the home country of each company and then divided by profit before tax.

	For the period from 1 January 2010 to 30 June 2010	**For the period from 1 January 2009 to 30 June 2009**
Profit before tax	**2 928 428**	**1 577 321**
Tax calculated using the average weighted rates applicable to incomes in individual countries is 18.99% (first half of 2009: 19.01%)	**556 147**	**299 793**
Non-taxable income	(35 665)	(68 091)
Expenses not deductible for tax purposes	11 349	39 088
Utilisation of previously-unrecognised tax losses	(8 494)	(353)
Tax losses on which deferred tax assets were not recognised	313	2 704
Deductible temporary differences on which deferred tax assets were not recognised	1 316	6 844
Adjustments to income tax from prior periods	184	6 277
Income tax expense the average income tax rate applied was 17.93% (first half of 2009: 18.15%)	**525 150**	**286 262**

37. 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 attributable to shareholders of the Parent Entity	2 399 850	1 291 159
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	12.00	6.46

There are no dilutive potential ordinary shares.

38. Dividend paid and proposed for payment

In accordance with Resolution No. 5/2010 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 17 May 2010 regarding the appropriation of Parent Entity's profit for financial year 2009 and setting of the right to dividend date and dividend payment date, the amount of PLN 600 000 thousand, representing PLN 3.00 per share, was allocated as a shareholders dividend from profit for financial year 2009.
The right to dividend date was set at 17 June 2010, and dividend payment date - at 8 July 2010.
All shares of the Parent Entity are ordinary shares.

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

39. 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	525 150	286 262
Depreciation/amortisation	412 521	362 493
Losses on sales of property, plant and equipment and intangible assets	1 518	8 901
Gains on sale of available-for-sale financial assets	(896)	(7 500)
Gains from loss of control over a subsidiary	-	(21 457)
Impairment losses on property, plant and equipment, intangible assets and loans	5 517	5 065
Share of profits of associates accounted for using the equity method	(155 219)	(144 587)
Interest and share in profits (dividends)	7 287	2 034
Foreign exchange gains/(losses)	(9 001)	18 251
Change in provisions	46 039	30 579
Change in derivative instruments	(198 766)	335 808
Realisation of derivative instruments recognised in accumulated other comprehensive income	(82 294)	(487 548)
Other adjustments	(5 906)	40 538
Changes in working capital:	(405 193)	(202 739)
Inventories	(204 567)	(232 223)
Trade and other receivables	(262 088)	104 556
Trade and other payables	61 462	(75 072)
Adjustments to profit for the period	**140 757**	**226 100**

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	8 991	18 801
Losses on sales of property, plant and equipment and intangible assets	(1 518)	(8 901)
Negative/(positive) change in receivables due to sales	64	(628)
Capitalised gains from the liquidation of property, plant and equipment and intangible assets	(355)	(338)
Proceeds from sales of property, plant and equipment and intangible assets	**7 182**	**8 934**

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

40. Related party transactions

As the Polish State Treasury has control over KGHM Polska Miedź S.A., the State Treasury Companies (in accordance with the list published by the State Treasury) meet the definition of related entities. Turnover and balances with these entities have been reflected in the information presented in this note, in those items respecting other related entities.

	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 associates	1 713	16	10
- to other related entities*	24 206	11 727	1 308
Total sales to related entities	**25 919**	**11 743**	**1 318**

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

*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group earned revenues (5 largest items) during the period from 1 January to 30 June 2010:

1. Fabryka Przewodów Energetycznych S.A.	21 496
2. CENTROZŁOM WROCŁAW S.A.	4 462
3. Zakłady Chemiczne "POLICE" S.A.	3 583
4. Zakłady Górniczo-Hutnicze „BOLESŁAW" S.A.	2 020
5. Huta Cynku "MIASTECZKO ŚLĄSKIE" S.A.	1 999

Sales to the above-mentioned entities represent around 90% of sales to the State Treasury subsidiaries. The remaining 10% represent revenues earned from 98 entities – the remaining clients of the Group related to the State Treasury.

	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 associates	1 981	17	10
- to other related entities*	26 454	8 873	65
Total sales to related entities	**28 435**	**8 890**	**75**

*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group earned revenues (5 largest items) during the period from 1 January to 30 June 2009:

1. Wojewódzkie Przedsiębiorstwo Energetyki Cieplnej w Legnicy S.A.	12 973
2. Fabryka Przewodów Energetycznych S.A.	9 546
3. CENTROZŁOM WROCŁAW S.A.	4 181
4. Zakłady Chemiczne "POLICE" S.A.	2 962
5. Zakłady Górniczo-Hutnicze „BOLESŁAW" S.A.	1 803

Sales to the above-mentioned entities represent around 89% of sales to the State Treasury subsidiaries. The remaining 11% represent revenues earned from 95 entities – the remaining clients of the Group related to the State Treasury.

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

40. Related party transactions (continuation)

Purchases from related entities	For the period from 1 January 2010 to 30 June 2010			
	Purchase of services	Purchase of merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
- from associates	3 145	47	25	-
- from other related entities*	185 157	187 027	2 094	1 321
Total purchases from related entities	**188 302**	**187 074**	**2 119**	**1 321**

*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group made purchases (5 largest items) during the period from 1 January to 30 June 2010:

1. EnergiaPro Gigawat S.A.	196 382
2. EnergiaPro S.A.	73 610
3. Polskie Górnictwo Naftowe i Gazownictwo S.A.	55 284
4. NITROERG S.A.	20 825
5. PPUP Poczta Polska	4 602

Purchases from the above-mentioned entities represent around 96% of purchases from State Treasury subsidiaries. The remaining 4% represent purchases from 62 entities - the remaining clients of the Group related to the State Treasury.

Purchases from related entities	For the period from 1 January 2009 to 30 June 2009			
	Purchase of services	Purchase of merchandise and materials	Purchase of property, plant and equipment, intangible assets, investment property	Other purchase transactions
- from associates	6 995	31	17	-
- from other related entities*	266 945	167 521	3 672	1 259
Total purchases from related entities	**273 940**	**167 552**	**3 689**	**1 259**

*State Treasury subsidiaries from which the KGHM Polska Miedź S.A. Group made purchases (5 largest items) during the period from 1 January to 30 June 2009:

1. EnergiaPro Gigawat S.A.	270 206
2. EnergiaPro S.A.	66 873
3. Polskie Górnictwo Naftowe i Gazownictwo S.A.	51 385
4. NITROERG S.A.	19 830
5. PPUP Poczta Polska	4 501

Purchases from the above-mentioned entities represent around 97% of purchases from State Treasury subsidiaries. The remaining 3% represent purchases from 71 entities - the remaining clients of the Group related to the State Treasury.

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

40. Related party transactions (continuation)

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

Remuneration of the Management Board of the Parent Entity	**For the period from 1 January 2010 to 30 June 2010**	**For the period 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**

Trade receivables from related entities	**At 30 June 2010**	**At 31 December 2009**
- from associates	986	887
- from other related entities*	8 300	8 613
Total receivables from related entities	**9 286**	**9 500**

*State Treasury subsidiaries from whom the KGHM Polska Miedź S.A. Group at 30 June 2010 had receivables balance due to sales (5 largest items):

1. EnergiaPro Gigawat sp. z o.o.	934
2. Fabryka Przewodów Energetycznych S.A.	883
3. Zakłady Górniczo-Hutnicze "BOLESŁAW" S.A.	870
4. Huta Cynku "MIASTECZKO ŚLĄSKIE" S.A.	723
5. Zakłady Chemiczne "POLICE" S.A.	607

Receivables from the above-mentioned entities represent around 75% of receivables from sales to the State Treasury subsidiaries. The remaining 25% represent receivables from sales earned from 92 entities - the remaining clients of the Group related to the State Treasury.

State Treasury subsidiaries from whom the KGHM Polska Miedź S.A. Group at 31 December 2009 had receivables balance due to sales (5 largest items):

1. EnergiaPro Gigawat sp. z o.o.	1 299
2. Huta Cynku "MIASTECZKO ŚLĄSKIE" S.A.	989
3. Polskie Górnictwo Naftowe i Gazownictwo S.A.	921
4. Huta „Będzin" S.A.	913
5. Zakłady Górniczo-Hutnicze "BOLESŁAW" S.A.	844

Receivables from the above-mentioned entities represent around 75% of receivables from sales to the State Treasury subsidiaries. The remaining 25% represent receivables from sales earned from 85 entities - the remaining clients of the Group related to the State Treasury.

The amount of the allowance for impairment of receivables from related entities at the end of the reporting period is PLN 890 thousand (at 31 December 2009, PLN 904 thousand) and the amount of the allowance concerning related entities recognised in profit or loss during the period is PLN 22 thousand (in the period from 1 January 2009 to 31 December 2009, PLN 921 thousand).
The most important amount at 30 June 2010 is the allowance for impairment of receivables from Fabryka Przewodów Energetycznych S.A. in the amount of PLN 882 thousand.
At 31 December 2009 the most important amount is the allowance for impairment of receivables from Huta "Będzin" S.A. in the amount of PLN 879 thousand.

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

40. Related party transactions (continuation)

	At	
Trade payables towards related entities	**30 June 2010**	**31 December 2009**
- towards associates	823	787
- towards other related entities *	111 654	66 765
Total liabilities towards related entities	**112 477**	**67 552**

*State Treasury subsidiaries towards which the KGHM Polska Miedź S.A. Group at 30 June 2010 recognised trade payables (5 largest items):

1. EnergiaPro Gigawat Sp. z o.o.	88 340
2. NITROERG S.A.	4 924
3. EnergiaPro S.A.	4 825
4. Polskie Górnictwo Naftowe i Gazownictwo S.A.	2 404
5. STOMIL-POZNAŃ S.A.	1 117

Liabilities towards the above-mentioned entities represent around 97% of liabilities due to purchases from the State Treasury subsidiaries. The remaining 3% represent liabilities towards 35 entities - the remaining clients of the Group related to the State Treasury.

State Treasury subsidiaries towards which the KGHM Polska Miedź S.A. Group at 31 December 2009 recognised trade payables (5 largest items):

1. EnergiaPro Gigawat Sp. z o.o.	50 864
2. EnergiaPro S.A.	4 599
3. NITROERG S.A.	3 674
4. Polskie Górnictwo Naftowe i Gazownictwo S.A.	1 419
5. PPUP Poczta Polska	932

Liabilities towards the above-mentioned entities represent around 95% of liabilities due to purchases from the State Treasury subsidiaries. The remaining 5% represent liabilities towards 42 entities - the remaining clients of the Group related to the State Treasury.

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

In addition, entities of the KGHM Polska Miedź S.A. Group make with the State Treasury settlements in respect of various types of taxes and charges. These transactions have been described in other notes of the financial statements.

Guarantees with related entities

In the first half of 2010 guarantees were granted to other related entities in the amount of PLN 500 thousand.
Guarantees were not received from other related entities.
In 2009 guarantees were neither granted to nor received from other related entities.

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

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

Entities of the Group have entered into operating leases agreements related to the rental of office space, space serving radio and cable networks, mining machinery, vehicles and medical and IT equipment.

Total value of future minimum payments	At	
	30 June 2010	**31 December 2009**
Up to one year	19 357	19 766
From one to five years	39 516	48 142
Over five years	2 217	6 454
Total:	**61 090**	**74 362**

Lease payments recognised in profit or loss	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 31 December 2009**
Value of minimum lease payments	16 120	33 784

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

The value of contingent assets was determined based on estimates.

	At	
	30 June 2010	**31 December 2009**
Contingent receivables	**211 903**	**131 064**
- disputed State Budget issues	41 907	45 572
- guarantees received	147 842	62 569
- promissory note receivables	22 154	22 923
Other receivables not recognised in the statement of financial position	**32 267**	**31 235**
- inventions, implementation of projects	32 267	31 235
Contingent liabilities	**107 539**	**95 140**
- guarantees	29 439	15 050
- promissory note liabilities	60 695	62 514
- disputed issues, pending court proceedings	14 930	15 062
- contingent penalties	-	23
- preventive measures in respect of mine-related damages	2 475	2 491
Other liabilities not recognised in the statement of financial position	**749 052**	**731 415**
- liabilities due to implementation of projects, inventions and other unrealised contracts	100 469	106 341
- operating leases	61 090	74 362
- future payments due to perpetual usufruct of land	587 493	550 712

Potential liabilities due to offsetting of general service costs

Since 8 May 2006 Telekomunikacja Polska S.A. has been designated by the President of the Electronic Communications Office (UKE) to provide universal service throughout the country (49 numeral zones). The range of the universal services provided comprises:

1) connecting individual network outlets at the main location of the subscriber, excluding integrated services digital networks (ISDN);
2) maintaining the subscriber connection with the network outlet, as described in point 1), in readiness to provide telecommunications services;
3) domestic and international telephone calls, including mobile networks connections, additionally assuring fax and data transmissions and connections to the Internet;
4) providing information on telephone numbers and providing subscriber lists;
5) providing assistance to the handicapped;
6) providing telephone services through the use of public equipment.

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

42. Contingent items and other items not recognised in the interim statement of financial position (continuation)

In accordance with art. 95 of the Telecommunications Act, designated companies are entitled to reimbursement of the costs of providing universal service should they be unprofitable. The President of the UKE will set the amount of this reimbursement at the level of the net cost of providing services included in universal service, and including only those costs which a given company would not incur if it had not been required to provide universal service. The net amount of this cost is calculated in the manner set out in the decree of the Minister of Transportation and Construction dated 15 December 2005 regarding the manner of calculating the net cost of services included in universal telecommunication service (Journal of Laws from 2005, No. 255, item 2141).

Telecommunication companies whose revenues from telecommunications activities exceed PLN 4 million in the calendar year for which reimbursement is due are required to participate in covering the reimbursement of costs for providing universal service. The amount of reimbursement which a given company is required to cover can not exceed 1 % of its revenues. The share of individual companies in covering this reimbursement is determined by the President of the UKE, once the amount of the reimbursement due to a designated company is determined. As at the date of preparation of these financial statements, neither the final amount of the above-mentioned reimbursement nor the share in it of individual telecommunications companies has been determined by the UKE.

43. Employment structure

Average employment in the Group was as follows:

	For the period	
	from 1 January 2010 to 30 June 2010	**from 1 January 2009 to 31 December 2009**
White-collar employees	9 014	8 957
Blue-collar employees	19 928	19 927
Total:	**28 942**	**28 884**

44. Social Fund assets and liabilities

The net balance of the Social Fund at 30 June 2010 amounted to PLN 626 thousand – liability towards Social Fund, and at 31 December 2009 amounted to PLN 2 227 thousand - liability towards Social Fund. The Group has netted the assets of the Fund with the liabilities towards the Fund.

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	117 170	111 587
Other receivables	1 717	402
Cash and cash equivalents	59 687	17 263
Liabilities towards Social Fund	(179 200)	(131 479)
Net balance	**(626)**	**(2 227)**

The balance is settled in the following periods after refunding.

Transfers made to the Social Fund during the financial period	110 541	113 327

45. Government grants

The balance of government grants recognised in deferred income at 30 June 2010 is PLN 1 284 thousand (at 31 December 2009: PLN 949 thousand). These are cash grants received for the acquisition of property, plant and equipment, for the performance of development work, which result in capitalised intangible assets and for the subsidising of employee training.
The companies of the Group also receive government grants from the Voivodeship Fund for Environmental Protection and Water Management (Fundusz Ochrony Środowiska i Gospodarki Wodnej) in the form of preferential interest rates on loans, or annulment of loans.

46. Subsequent events

Opening of liquidation proceedings for FADROMA S.R. SP. Z O.O.
On 6 July 2010 an application for the liquidation of FADROMA SR 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 SR 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 SR SP. Z O.O. decided to strengthen its service potential through taking over the employees of FADROMA SR SP. Z O.O. Actions connected with taking over the employees of FADROMA SR 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.

Significant bank loan agreement

On 8 July 2010, INTERFERIE Medical SPA Sp. z o.o. with its registered head office in Lubin – an indirect subsidiary of KGHM Polska Miedź S.A. – entered into an agreement with Bank Polska Kasa Opieki S.A., with its registered head office Warsaw, for an investment loan to be used for the construction and outfitting of a four-star, 308-room hotel in Świnoujście on Uzdrowiskowa street, together with a conference complex totalling 968 m^2 and a recreational section. The loan amounts to the equivalent in EUR of up to PLN 75 000 thousand. The total cost of realisation of the hotel construction project, including the cost of construction, purchase of land, with interest capitalised during the period of construction amounting to PLN 122 019 thousand. Maturity on the bank loan is 31 December 2021. Interest on the bank loan is the sum of a) a margin, b) a reference rate: EURIBOR (1M/3M) and c) obligatory costs, should any occur. INTERFERIE Medical SPA Sp. z o.o. will be required to maintain the following indexes throughout the life of the bank loan:
1) LTV (bank loan amount / value of real estate representing security on the bank loan) no higher than 60 %,
2) DSCR – no lower than 1.2.

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 S.A.

Conclusion of the negotiation process of conditions for purchase of the shares of CENTROZŁOM WROCŁAW S.A.
on 14 July 2010 KGHM Ecoren S.A. - a subsidiary of KGHM Polska Miedź S.A. entered into a contingent agreement with the Minister of the State Treasury to acquire 85% of the shares of CENTROZŁOM WROCŁAW S.A. A validating condition of the agreement is obtaining by the company KGHM Ecoren S.A. of assent of the Office of Competition and Consumer Protection to the concentration of these entities. Conclusion of this transaction is expected in the third quarter of 2010.

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

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.

GROUP

REPORT ON THE ACTIVITIES

OF THE GROUP

IN THE FIRST HALF OF 2010

Lubin, August 2010

Table of Contents of the Report on the activities of the Group in the first half of 2010

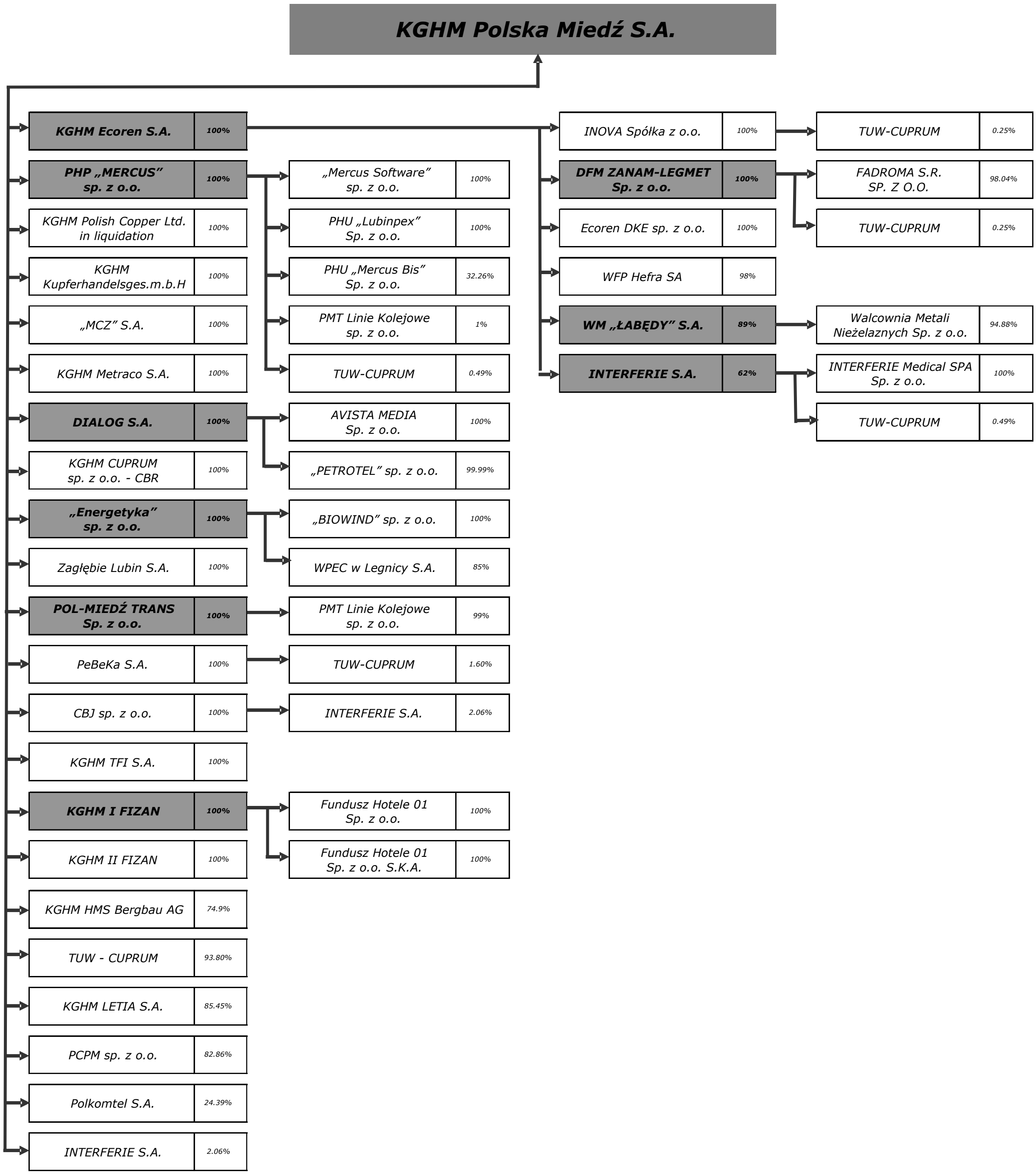
1. Organisation of the KGHM Polska Miedź S.A. Group

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

At 30 June 2010, the Group was composed of 38 subsidiaries, including two closed-end non-public asset investment funds. Nine of these entities formed their own Groups (shown in the diagram): 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., WM „ŁĄBĘDY" S.A., DFM ZANAM-LEGMET Sp. z o.o., INTERFERIE S.A., KGHM I FIZAN. At the end of the reporting period the Group owned a significant share of two associates.

Relations of the KGHM Polska Miedź S.A. Group entities are shown in the diagram below.

Diagram 1. *Group structure at 30 June 2010*



1. Group structure (continued)

In terms of the consolidated financial statements for the first half of 2010, three levels of consolidation may be distinguished within the KGHM Polska Miedź S.A. Group, with respect to which at the end of the first half of 2010 entities at every level were consolidated using the simultaneous method at the level of KGHM Polska Miedź S.A., regardless of whether they are consolidated at lower levels of the Group.

During the analysed period KGHM Polska Miedź S.A., as the Parent Entity of a Group, consolidated 35 subsidiaries and accounted for one associate – Polkomtel S.A. – using the equity method.

The following entities were not consolidated and were not accounted for using the equity method, as their impact is immaterial on the data of the consolidated statement of financial position and the consolidated statement of comprehensive income:
- PCPM sp. z o.o.,
- TUW – CUPRUM,
- „Mercus Software" sp. z o.o.,
- PHU „Mercus Bis" Sp. z o.o.

2. Changes in the structure of the Group

In the first half of 2010 the following changes occurred in the structure of the Group:

- <u>Founding of the company INTERFERIE Medical SPA Sp. z o.o.</u>

  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. earned no revenues, and incurred administrative costs of PLN 49 thousand.

- <u>Acquisition of Investment Certificates of the fund KGHM I FIZAN</u>

  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 issue price of PLN 20 950 thousand. The Managing 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 in the amount of PLN 243 thousand and incurred costs of PLN 894 thousand.

- <u>Founding of the company Fundusz Uzdrowiska Sp. z o.o. (currently Fundusz Hotele 01 Sp. z o.o.)</u>

  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, covering them with cash at their nominal value, i.e. the total amount 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 value, 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 in the amount of PLN 15 thousand

- <u>Founding of the company Fundusz Uzdrowiska Sp. z o.o. S.K.A. (currently Fundusz Hotele 01 Sp. z o.o. S.K.A.)</u>

  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 value, 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.

2. Changes in the structure of the Group (continued)

– 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.

Changes in the Group structure which occurred after the balance sheet date are described in point 19 of this Report.

In addition, in the first half of 2010 there shares of KGHM HMS Bergbau AG were purchased within the Group. On 16 June 2010, KGHM Polska Miedź S.A. purchased from the subsidiary KGHM CUPRUM sp. z o.o. – CBR 37 449 shares of KGHM HMS Bergbau AG with its registered head office in Berlin, with the total nominal value of EUR 37 449, representing 74.9 % of the share capital. The cost of acquiring these shares is PLN 1 612 thousand. As a result of this transaction, KGHM CUPRUM sp. z o.o. – CBR no longer owns shares of KGHM HMS Bergbau AG.

KGHM HMS Bergbau AG was founded by KGHM CUPRUM sp. z o.o. – CBR and by HMS Bergbau AG in June 2009 in order to realise a project to search for and explore deposits of copper and other metals in Europe. The purchase by KGHM Polska Miedź S.A. of the shares of KGHM HMS Bergbau AG conforms to the project assumptions.

3. Share capital and ownership structure of the Parent Entity

At 30 June 2010, the share capital of KGHM Polska Miedź S.A., in accordance with the entry in the National Court Register, amounted to PLN 2 billion 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, based on information held by the Parent Entity, the only shareholder of KGHM Polska Miedź S.A. holding at least 5% of the share capital and simultaneously granting the right to the same number of votes at the General Meeting was the Polish State Treasury, which - based on an announcement dated 12 January 2010 - held 63 589 900 shares, representing 31.79% of the share capital of KGHM Polska Miedź S.A. and the same number of votes at the General Meeting.

The remaining shareholders of KGHM Polska Miedź S.A. held shares amounting to less than 5% of the share capital - altogether 136 410 100 shares, representing 68.21% of the share capital of KGHM Polska Miedź S.A. 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 shares of the Parent Entity.

3. Share capital and ownership structure of the Parent Entity (continued)

At 30 June 2010, based on information held by the Parent Entity, 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 shares of KGHM Polska Miedź S.A. and rights to them by management and supervisory personnel.

4. Scope of activities of Group companies

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

Table 1. Scope of activities of Group companies

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

4. Scope of activities of Group companies (continued)

15.	KGHM TFI S.A.	creation and management of investment funds; management of portfolios comprising one or more financial instruments
16.	Zagłębie Lubin S.A.	management of a football club, organisation of professional sporting events
17.	TUW-CUPRUM	mutual insurance services for its members
18.	PCPM sp. z o.o.	promoting the development and expanding the use of copper and its alloys – market research, advertising; publishing
19.	DFM ZANAM-LEGMET Sp. z o.o.	production of mining machinery and equipment, construction machinery; machinery repairs; steel constructions
20.	FADROMA S.R. SP. Z O.O. in liquidation	production of fittings for construction machinery; servicing of construction and mine loaders; steel constructions
21.	INOVA Spółka z o.o.	design and production of telecommunication systems and automated systems, measurement and control systems; lamphouse servicing; design and production of electrical machinery and equipment
22.	WM „ŁABĘDY" S.A.	coal and fine coal trading, railway scrap, smelter goods and steel grinding mediums
23.	Walcownia Metali Nieżelaznych spółka z o.o.	production of flat goods from copper and its alloys; rolling services
24.	WFP Hefra SA	production and sale of rust-proof, semi-silver-plated and silver-plated table settings
25.	Ecoren DKE sp. z o.o.	utilisation of used batteries and small-scale storage cells; the collection and processing of used electrical and electronic equipment
26.	„PETROTEL" sp. z o.o.	telecom operator
27.	AVISTA MEDIA sp. z o.o.	telephone central activities
28.	INTERFERIE S.A.	tourism services, including holiday resorts, health spas and hotels
29.	PHU „Lubinpex" Sp. z o.o.	food industry, trade, vending and catering services
30.	„Mercus Software" sp. z o.o.	implementation of complex IT systems, management and administration of computer networks, sale and servicing of computer equipment and software
31.	PMT Linie Kolejowe Sp. z o.o.	management of railway lines, maintenance of railway infrastructure, repair services
32.	„BIOWIND" Sp. z o.o.	generation, transmission and distribution of electricity
33.	WPEC w Legnicy S.A.	production of heat from its own sources, transmission and distribution of heat, servicing
34.	KGHM HMS Bergbau AG	exploration for and mining of deposits of copper and other minerals
35.	INTERFERIE Medical SPA Sp. z o.o.	hotel services, recreation, rehabilitation, health and wellness tourism
36.	KGHM I FIZAN	capital investing
37.	KGHM II FIZAN	capital investing
38.	Fundusz Hotele 01 Sp. z o.o.	financial activities, purchase/sale of real estate for its own purposes, management consulting
39.	Fundusz Hotele 01 Sp. z o.o. S.K.A.	diversified activities

5. Employment in the Group and relations with the trade unions

Employment in the Group

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

Table 2. Average employment by period (positions)

Description	I–VI 2009	2009	I–VI 2010	Change 2009=100
White collar employees	8 709	8 957	9 014	100.6
Blue collar employees	19 619	19 927	19 928	100.0
Total	**28 328**	**28 884**	**28 942**	100.2

The highest employment is in the Parent Entity. In the first half of 2010 the average level of employment was 18 400 positions. Among the remaining Group companies the highest average number of employees in the first half of 2010 was recorded by (in positions):

– PeBeKa S.A. 1 562,
– POL – MIEDŹ TRANS Sp. z o.o. 1 312,
– DFM ZANAM – LEGMET Sp. z o.o. 1 218,
– DIALOG S.A. 918.

In the first half of 2010 average employment in the Group increased in comparison to 2009 by 58 positions. This was due to an increase in employment in the Parent Entity by 30 positions, mainly blue collar positions, due to the need to ensure the requisite level of employment to perform planned tasks. Among the remaining Group companies the highest average increase in employment was in DFM ZANAM – LEGMET Sp. z o.o., i.e. by 55 positions, which is related to the development of activities in two of the company's divisions.

Relations with the trade unions

KGHM Polska Miedź S.A.

In the first half of 2010 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 KGHM Polska Miedź S.A., 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 Boards 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, and 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 KGHM Polska Miedź S.A. 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 Polska Miedź S.A. and the trade unions, and 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. 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 Divisions of KGHM Polska Miedź S.A.

5. Employment in the Group and relations with the trade unions (continued)

„MCZ" S.A.

In June 2010 a Protocol was signed regarding an increase in salaries in 2010 and the realisation of other demands of the trade unions operating within „MCZ" S.A., being the subject of collective disputes initiated in the company in prior years.
The parties determined the salary increase index and the coverage of the company's employees with an additional medical package. In addition the Management Board of the company committed to holding negotiations on the payment of a one-off bonus for 2010, to undertake actions aimed at signing an additional protocol to the Collective Labour Agreement with clauses on increasing the basic contribution to the Social Fund, and to undertake actions aimed covering interested employees of the company by an employee retirement program.
The signing of a Protocol of agreement is equivalent to a decision by the trade unions acting within „MCZ" S.A. to refrain from engaging in strikes to the end of 2010, in order to resolve existing collective disputes in the company.

„Energetyka" sp. z o.o.

In May 2010 the trade unions in „Energetyka" sp. z o.o. - NSZZ „Solidarność", Związek Zawodowy Pracowników Przemysłu Miedziowego and Związek Zawodowy „Polska Miedź" - initiated a collective dispute with this employer, the subject of which was the setting of the average monthly salary increase index in 2010. As a result of negotiations held, on 9 June 2010 an agreement was signed concluding the dispute.
An agreement was reached with respect to the average monthly salary increase index and the bonus fund increase index, coverage of employees with an additional medical package and the increase of the overtime payment for work on statutory holidays.

PeBeKa S.A.

Since March 2010, PeBeKa S.A. has been in a collective dispute with the trade union Związek Zawodowy Pracowników Dołowych, which is demanding an increase in the employee remuneration rate, the payment of a one-off bonus and an increase in contributions to the Social Fund. From 28 April to 25 May 2010 negotiations were held with the participation of a mediator from the list of mediators of the Minister of Labour and Social Policy. They concluded with the signing of a protocol of dispute due to the failure of the parties to reach agreement on the disputed questions. From 14 to 16 April 2010 a strike referendum was held in the company, in which the majority of votes were cast for a strike. Until now the trade union has not carried out a strike.

POL-MIEDŹ TRANS Sp. z o.o.

In March 2010 the Interdivisional trade union NSZZ „Solidarność" in POL-MIEDŹ TRANS Sp. z o.o. the Interdivisional Trade Union Organisation Związek Zawodowy Pracowników Przemysłu Miedziowego in the POL-MIEDŹ TRANS Sp. z o.o. Group initiated two separate collective disputes with this employer, making demands mainly in respect of salaries and social issues. In May 2010 the Management Board of the company signed two separate agreements concluding these collective disputes, realising a part of the demands which were modified during negotiations.
The parties reached agreement with respect to salary increases and the payment of a one-off holiday bonus. In addition, it was agreed that there will be no mass layoffs in the company, and that restructurisation in terms of reducing employment will be based on principles for voluntary departure developed mutually by the parties to the collective dispute. The employer committed to consulting with the trade unions employee benefits and employment guarantees if any entities are separated from the company structure.

6. Equity investments

Equity investments within the Group

– Acquisition of shares in the increased share capital of Zagłębie Lubin S.A.

  On 27 April 2010, KGHM Polska Miedź S.A. acquired 28 000 shares of the new issue of Zagłębie Lubin S.A. and covered them by cash at their nominal value in the total amount of PLN 28 000 thousand. The funds obtained from this new issue were used to complete an investment – the construction of a football stadium and the settlement of liabilities.
  The share capital of Zagłębie Lubin S.A. following this increase is PLN 141 689 thousand. KGHM Polska Miedź S.A. owns 100 % of the company's shares.

Equity investments outside the Group

– Purchase of shares of Abacus Mining & Exploration Corporation with its registered head office in Vancouver in Canada

  On 7 May 2010, KGHM Polska Miedź S.A. purchased 15 000 000 registered shares of the new issue of Abacus Mining & Exploration Corporation with its registered head office in Vancouver, representing 8.75% of the share capital of this company, for the total price of CAD 4 500 thousand. The total cost of acquisition of these shares is PLN 13 755 thousand.
  This transaction is related to the intention of KGHM Polska Miedź S.A. and the shareholders of Abacus Mining & Exploration Corporation to realise a joint venture in Canada – a project to mine the Afton–Ajax copper and gold deposit, which will be realised in the Province of British Columbia in Canada.

6. Equity investments (continued)

– Purchase of shares of TAURON Polska Energia S.A.

On 29 June 2010, KGHM Polska Miedź S.A. acquired in a public offering 77 882 499 shares of TAURON Polska Energia S.A., representing 4.9 % of the share capital of the company, for the total price of PLN 399 537 thousand.

On 30 June 2010, KGHM Polska Miedź S.A. acquired on the secondary market 3 940 000 shares of TAURON Polska Energia S.A., for the total price of PLN 19 968 thousand, as a result of which the percentage share in the share capital of this company increased to 5.15%. Settlement of this transaction occurred on 5 July 2010.

The purchase of the shares of TAURON Polska Energia S.A. is due to realisation of the Strategy of KGHM Polska Miedź S.A. for the years 2009 – 2018, which projects a diversification of sources of income and entrance into the power sector. The generation of electricity is, from the point of view of KGHM Polska Miedź S.A., one of the most attractive sectors, unrelated to the situation on the metals markets.

– Conclusion of investment in AIG Emerging Europe Infrastructure Fund

In the first half of 2010, KGHM Polska Miedź S.A. concluded its investment in the AIG Emerging Europe Infrastructure Fund. The inflow of funds from the final investment realised by the fund amounted to PLN 6 779 thousand.

7. Dividends

On 17 May 2010 the General Meeting of KGHM Polska Miedź S.A. resolved to allocate profit for financial year 2009. The amount of PLN 600 000 thousand was allocated as a shareholder dividend, representing PLN 3.00 per share. The dividend was paid on 8 July 2010.

In the first half of 2010, as a result of allocation of profits for 2009, the Parent Entity received a dividend from Pokomtel S.A. in the amount of PLN 24 051 thousand. The total dividend received by KGHM Polska Miedź S.A. from Polkomtel S.A. from allocation of profit for 2009 amounts to PLN 137 307 thousand. An interim payment of PLN 113 256 thousand was made in December 2009.

The subsidiary PHP „MERCUS” sp. z o.o. received in the first half of 2010, from allocation of profit for 2009, dividends from the following related entities:
- PHU „Lubinpex” Sp. z o.o. PLN 727 thousand,
- „Mercus Software” sp. z o.o. PLN 64 thousand.

8. Owner loans, payments to subsidiaries, guarantees granted

Owner loans

At 30 June 2010 the balance of receivables due to loans granted by the Parent Entity to Group companies amounted to PLN 107 478 thousand (an increase versus the end of 2009 by PLN 30 103 thousand). This amount is composed of loans granted to three of the following subsidiaries.

„Energetyka” sp. z o.o.

In December 2009 the Parent Entity granted this company a loan of PLN 50 300 thousand. Interest is based on WIBOR 1M + a margin of 2.77%, with interest payable monthly. Repayment is divided into forty equal capital instalments of PLN 1 257.5 thousand, payable at the end of each quarter beginning on 31 March 2010. At 30 June 2010 the balance of loans granted amounted to PLN 48 020 thousand.

Zagłębie Lubin S.A.

In July 2009, KGHM Polska Miedź S.A. granted this company a loan of PLN 19 132 thousand. Interest is based on WIBOR 3M + a margin of 3%, with interest payable quarterly. Repayment is on 31 December 2011. As at 30 June 2010 the balance of loans granted amounted to PLN 19 451 thousand.

In April 2010, Zagłębie Lubin S.A. repaid to KGHM Polska Miedź S.A. the full amount of a loan of PLN 7 000 thousand, granted to the company in April 2008.

KGHM Ecoren S.A.

In June 2010 the Parent Entity granted this company a loan of PLN 40 000 thousand. Interest is based on WIBOR 1M + a margin of 2.11%, with interest payable on the date of repayment of the loan. Repayment was set as by 30 July 2010. The loan was repaid on time. As at 30 June 2010 the balance of loans granted amounted to PLN 40 007 thousand.

In the first half of 2010 the subsidiaries of the Group granted loans to the following related entities.

„BIOWIND” Sp. z o.o.

In January 2010, „Energetyka” sp. z o.o. granted this company a loan of PLN 100 thousand. Interest is based on WIBOR 12M + a margin of 1.5 %. Repayment is set as by 31 December 2010.

8. Owner loans, payments to subsidiaries, guarantees granted (continued)

INTERFERIE S.A.

In May 2010, Fundusz Hotele 01 Sp. z o.o. granted this company a loan of PLN 2 000 thousand. Interest is based on WIBOR 3M + a margin of 3%. Repayment was set as by 20 August 2010. On 10 August 2010 an appendix to the loan agreement was signed, in accordance with which the repayment date was deferred to 20 November 2010.

Walcownia Metali Nieżelaznych spółka z o.o.

During the period from 15 March to 16 June 2010, WM „ŁABĘDY" S.A. granted this company four loans of PLN 1 000 thousand each, with monthly repayment (repayment of the previous loan was followed by the drawing of the subsequent loan). Interest on the loans was 5% to 6 % on an annual basis. Repayment of the final loan was set for 16 July 2010. All of the loans were repaid on time.

Payments to subsidiaries

In the first half of 2010, KGHM CUPRUM Sp. z o.o. – CBR repaid to KGHM Polska Miedź S.A. a payment to reserve capital in the amount of PLN 1 500 thousand, granted to the company in 2008 to finance exploratory work in the Weisswasser region.

Guarantees granted

In the first half of 2010 the companies of the Group granted no financial guarantees, nor did they grant guarantees to a single entity or subsidiary of such, whose total value would represent at least 10% of the equity of the Parent Entity.

In the first half of 2010, neither the Parent Entity nor its subsidiaries entered into significant transactions with related entities under other than arms length conditions.

9. Basic products, merchandise and services

Amongst the most important products of the Group companies, simultaneously representing the largest share in Group sales, are the basic products of the Parent Entity, i.e. copper and copper products, silver and gold. The value and volume of the sales of the basic products of KGHM Polska Miedź S.A. are presented in the following table.

Table 3. Value of sales of the basic products of KGHM Polska Miedź S.A. ('000 PLN)

Product	2009	I-VI 2009	I-VI 2010	Change I-VI 2009=100
Copper and copper products	8 815 919	3 971 186	5 847 649	147.3
Silver	1 731 718	886 867	1 069 933	120.6
Gold	84 721	48 561	36 305	74.8

Table 4. Volume of sales of the basic products of KGHM Polska Miedź S.A.

Product	Unit	2009	I-VI 2009	I-VI 2010	Change I-VI 2009=100
Copper and copper products	'000 t	509.9	244.4	262.7	107.5
Silver	t	1 198.2	628.3	616.7	98.2
Gold	kg	817.6	459.7	334.1	72.7

In the first half of 2010, versus the comparable prior year period, the Parent Entity recorded an increase in the volume of copper sales by 18.3 thousand t (8%). Due to an improvement in the market situation there was a change in the structure of sales of copper products – an increase in the volume of sales of a highly-processed product, i.e. copper wire rod by 30.0 thousand t (35%) alongside a decrease in the amount of cathodes sold by 11.9 thousand t (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 t and were lower by 2% (11.6 t), while gold sales decreased by 27% (125.6 kg) and amounted to 334.1 kg.

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

9. Basic products, merchandise and services (continued)

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 prior period: PLN 487 548 thousand).

The most important basic products, merchandise and services of Group companies are presented in the table below.

Table 5. Sales of basic products, merchandise and services of Group subsidiaries ('000 PLN)

Company / product, merchandise, service	2009	I-VI 2009	I-VI 2010	Change I-VI 2009=100
KGHM Metraco S.A.				
trade in copper scrap	1 201 883	371 291	1 186 161	319.5
KGHM Kupferhandelsges. m.b.H				
copper trade	288 153	118 175	337 389	285.5
PHP „MERCUS" sp. z o.o.				
sales of merchandise and materials	585 242	293 194	248 785	84.9
DIALOG S.A.				
telecom services	493 778	245 990	247 167	100.5
PeBeKa S.A.				
mining work (excavation of drifts, building of shafts)	271 239	139 142	134 640	96.8
WPEC w Legnicy S.A.*				
generation of heat	127 138	-	80 619	-
POL-MIEDŹ TRANS Sp. z o.o.				
railway cargo transport	135 395	64 506	69 443	107.7
roadway transport of cargo and passengers	65 732	32 538	33 245	102.2
sales of fuels	216 545	107 332	108 095	100.7
„Energetyka" sp. z o.o.				
generation of heat	97 744	52 441	59 437	113.3
generation of electricity	53 332	28 316	30 333	107.1
Walcownia Metali Nieżelaznych spółka z o.o.				
production of products from copper and its alloys	69 708	31 387	45 682	145.5
ZANAM-LEGMET Sp. z o.o.				
production of self-propelled mining machinery	65 441	47 415	45 260	95.5
„MCZ" S.A.				
medical services	87 611	42 147	44 817	106.3
KGHM Ecoren S.A.				
production of ammonium perrhenate	53 356	30 926	20 124	65.1

** - the company entered the Group in December 2009*

Virtually 100 % of the trade in copper scrap is with KGHM Polska Miedź S.A. The share of copper scrap in the total sales of KGHM Metraco S.A. in the first half of 2010 amounted to 83%. The significant increase in revenues from the sale of copper scrap in this period, versus the comparable prior period (by 220 %), was due to increased orders by the Parent Entity and to an increase in prices. KGHM Metraco S.A. is one of the strategic trade entities of KGHM Polska Miedź S.A. It supplies materials and raw materials to guarantee the uninterrupted work of the divisions of KGHM Polska Miedź S.A., and also sells the by-products of the core business of KGHM Polska Miedź S.A. on external markets.
Copper trade – the company KGHM Kupferhandelsges.m.b.H. with its registered head office in Vienna sells the products of KGHM Polska Miedź S.A., i.e. wire rod, cathodes and round billets. This accounts for 100 % of the company's turnover. KGHM Kupferhandelsges.m.b.H. operates on the central- and southern-European market. Its main area of operations is Austria. The increase in sales in the first half of 2010 versus the comparable prior period (by 186 %) is due to the increase in sales volume and to higher copper prices.

9. Basic products, merchandise and services (continued)

85 % of the sales of merchandise and materials by PHP „MERCUS" sp. z o.o. are to KGHM Polska Miedź S.A. This company fulfils a strategic role for KGHM Polska Miedź S.A., as logistical coordinator for the core business in materials and spare parts. The share of sales of merchandise and materials in the total sales of PHP „MERCUS" sp. z o.o. in the first half of 2010 amounted to PLN 91%.

The telecom services performed by DIALOG S.A. are mainly in respect of the external market, and account for around 100 % of the revenues of this company.

Mining services are provided mainly on behalf of KGHM Polska Miedź S.A. PeBeKa S.A. specialises in mine construction. On the KGHM market it is the main contractor for mine tunnels and shafts, and also plays a significant role as a contractor in accessing a new deposit (Głogów Głęboki). The sale of mine tunnelling and shaft construction services in the total sales of PeBeKa S.A. in the first half of 2010 amounted to PLN 77%.

Transport services - POL-MIEDŹ TRANS Sp. z o.o. is a leading railway and roadway carrier, and the direct supplier of fuels to the divisions of KGHM Polska Miedź S.A. From 63 % to 70 % of revenues from the sale of these services is from the KGHM Polska Miedź S.A. market. The largest share in total revenues from sales of POL-MIEDŹ TRANS Sp. z o.o. is from the sale of fuels (51%).

Electricity and heat - „Energetyka" sp. z o.o. generates electricity together with heat. Around 97 % of revenues from the sale of electricity and 57 % from the sale of heat are from KGHM Polska Miedź S.A. In the first half of 2010 electricity sales accounted for around 23 % of the total sales of „Energetyka" sp. z o.o., and heat sales around 45 %.

WPEC w Legnicy S.A. is one of the leading suppliers of heat in Lower Silesia. Around 100 % of its sales are on the external market.

The production of products from copper and its alloys accounts for nearly 100% of the revenues of Walcownia Metali Nieżelaznych sp. z o.o., earned on an external market.

Mining machinery - ZANAM-LEGMET Sp. z o.o. is a significant supplier and service provider for the mining machinery and equipment of KGHM Polska Miedź S.A. The company produces machines designed to work in deep, non-methanic, non-ferrous metals ore and salt mines. Amongst the products produced by the company which determine its position are mining machines (loaders, haulers, drilling-bolting rigs and auxiliary machines) and conveyor belts. Around 93 % of revenues of ZANAM-LEGMET Sp. z o.o. from the sale of self-propelled mining machinery is from KGHM Polska Miedź S.A. The share of revenues from the sale of these products in the company's total sales is around 33%.

Medical services account for nearly 100 % of the sales of „MCZ" S.A. Sales to KGHM Polska Miedź S.A. account for approx. 18% of the company's total sales (occupational medicine).

Ammonium perrhenate is the main product of KGHM Ecoren S.A. It is sold by the company beyond the Group. The share of revenues from the sale of ammonium perrhenate in total sales of this company in the first half of 2010 amounted to 49%. This product is used and purchased by companies which process it into metallic rhenium for the producers of alloys, which are used mainly in the aircraft and petrochemical industries. In the first half of 2010 there was a decrease in revenues from the sale of ammonium perrhenate by 35 %, mainly due to a decrease in prices.

10. Sales markets

Geographical structure of sales markets

The largest portion, i.e. 30% of revenues from the sale of products, merchandise and services achieved by the KGHM Polska Miedź S.A. Group in the first half of 2010 came from the domestic market. The largest foreign recipients of the products, merchandise and services offered by the Group companies are Germany - 20 %, China - 11%, the United Kingdom – 10%.

Revenues from sales of the Group to external customers by geographic region are presented in the following table.

10. Sales markets (continued)

Table 6. Group sales by market

	2009	I-VI 2009	I-VI 2010	Structure %	Change I-VI 2009=100
Poland	3 374 311	1 590 520	2 326 535	29.8	146.3
Germany	2 053 935	1 042 344	1 593 185	20.4	152.8
China	1 674 758	793 368	870 253	11.1	109.7
UK	1 298 036	630 863	785 102	10.0	124.4
France	752 682	478 067	296 913	3.8	62.1
Czech Republic	563 983	267 184	541 785	6.9	202.8
Hungary	240 215	118 679	213 784	2.7	180.1
Austria	190 944	73 427	159 812	2.1	217.6
Other countries	1 971 046	617 462	1 024 408	13.1	165.9
Total	**12 119 910**	**5 611 914**	**7 811 777**	**100.0**	**139.2**

During the analysed period, in comparison to the first half of 2009, the largest value increase in sales was on the Polish market (an increase by PLN 736 015 thousand) and the German market (an increase by PLN 550 841 thousand).

The largest increase in sales, i.e. by around 100 %, was on the Austrian and Czech markets.

Export sales and sales to the EU countries

Around 92 % of revenues from Group sales for export and to European Union countries in the first half of 2010 were realised by the Parent Entity.

The sales volume of copper and copper products for export and to European Union countries represented 73%. During the analysed period, the largest foreign recipients of the copper produced by KGHM Polska Miedź S.A. were Germany, China, the Czech Republic and France.

Silver export sales and sales to European Union countries represented 97% of the total volume of silver sales. The largest foreign recipients of silver were the United Kingdom, the USA and Belgium.

Amongst the remaining Group entities, export sales and sales to European Union countries in the first half of 2010 were realised by:

- KGHM Kupferhandelsges.m.b.H. - company share in Group export sales – 5 %, the company sold copper mainly to the Austrian and Czech markets,
- KGHM Metraco S.A. - company share in Group export sales – 2 %, the company mainly sold lead to the Czech Republic, and lead and copper sulphate to Germany,
- KGHM Ecoren S.A. – export sales of ammonium perrhenate to the United Kingdom and the USA accounted for just less than 1 % of Group export sales.

Domestic sales

Revenues from sales of the Parent Entity on the domestic market in the first half of 2010 accounted for around 70 % of revenues from sales of the entire Group to this market. The sales volume of copper and copper products on the domestic market accounted for 27% of total copper sales. Silver sales on the domestic market accounted for 3% of the total volume of silver sold.

Among the remaining companies, the following entities held the largest share in revenues from sales of the entire Group on the domestic market:

- DIALOG S.A. (11 %) – sales of telecom services,
- KGHM Metraco S.A. (5 %) – sales mainly of refined lead and salt,
- WPEC w Legnicy S.A. (3 %) – sales of heat.

11. Assets

At 30 June 2010, in comparison to the end of 2009, total assets increased by PLN 3 083 463 thousand, i.e. by 21%. Decisive impact on this was from the profit earned by the Parent Entity for the first half of 2010 in the amount of PLN 2 226 638 thousand.

Table 7. Assets ('000 PLN)

ASSETS	31.12.2009	30.06.2010	Structure %	Change 31.12.2009=100
Non-current assets	**9 777 030**	**11 070 725**	**61.7**	**113.2**
Property, plant and equipment	7 673 437	7 788 666	43.4	101.5
Intangible assets	268 195	280 460	1.6	104.6
Investment property	17 164	17 164	0.1	100.0
Investments in associates	1 315 663	1 437 608	8.0	109.3
Deferred tax asset	347 395	365 999	2.0	105.4
Available-for-sale financial assets	19 412	433 028	2.4	x 22.3
Held-to-maturity investments	67 144	86 277	0.5	128.5
Derivative financial instruments	58 034	649 925	3.6	x 11.2
Trade and other receivables	10 586	11 598	0.1	109.6
Current assets	**5 089 786**	**6 879 554**	**38.3**	**135.2**
Inventories	2 072 434	2 277 481	12.7	109.9
Trade and other receivables	1 531 341	1 805 571	10.1	117.9
Current corporate tax receivables	9 329	4 754	0.0	51.0
Available-for-sale financial assets	8 976	8 778	0.0	97.8
Held-to-maturity investments	580	460	0.0	79.3
Derivative financial instruments	263 375	431 698	2.4	163.9
Cash and cash equivalents	1 197 077	2 343 916	13.1	195.8
Non-current assets held for sale	6 674	6 896	0.0	103.3
TOTAL ASSETS	**14 866 816**	**17 950 279**	**100.0**	**120.7**

The structure of the assets of the KGHM Polska Miedź S.A. Group is dominated by the assets of the Parent Entity.

Property, plant and equipment was the largest item in assets. At the end of June 2010 they represented 43% of total assets. Their value increased in the first half of 2010 by PLN 115 229 thousand. The largest capital expenditures were incurred by the Parent Entity. They amounted to PLN 414 899 thousand, with depreciation amounting to PLN 301 434 thousand. The most important of these were the construction of the Głogów Głęboki–Przemysłowy SW-4 shaft.

At the end of June 2010 there was a significant increase in available-for-sale financial assets, i.e. by PLN 413 616 thousand. This was related to the acquisition by the Parent Entity of shares of TAURON Polska Energia S.A. on the primary and secondary markets, as well as shares of Abacus Mining & Exploration Corporation with its registered head office in Canada.

During the first half of 2010 there was also a significant increase in assets related to derivative financial instruments, both current and non-current (in the total amount of PLN 760 214 thousand), due to changes in the copper price, and to the settlement of derivative instruments from 31 December 2009 and the commencement of new derivative transactions in the first half of 2010.

The largest item in current assets was cash and cash equivalents (94% of this amount represents bank deposits with a maturity of up to 3 months). The value of cash and cash equivalents at the end of the first half of 2010 was nearly double that at the end of 2009. This was due to the high revenues and positive cash flow of the Parent Entity, caused by the increase in copper prices and the weakening of the PLN versus the USD.

An important item in the structure of current assets is inventories. Their carrying amount versus that recorded at the end of 2009 increased by PLN 205 047 thousand. This mainly involves an increase in the value of half-finished products and work in progress in KGHM Polska Miedź S.A., due to the increase in the volume of anode inventories and the higher cost representing the basis for valuation.

Current receivables since the beginning of 2010 increased by PLN 269 655 thousand, mainly due to trade receivables, due among others to the increase in the prices of sold copper and silver products. Trade receivables at the end of June 2010 amounted to PLN 1 482 441 thousand.

12. Sources of financing assets

The basic source for financing assets was equity. At the end of the first half of 2010 it exceeded 14 % of the value of non-current assets. The share of equity in total assets was 70 % (at the end of 2009 71 %).

Table 8. Equity and Liabilities ('000 PLN)

Equity and liabilities	31.12.2009	30.06.2010	Structure %	Change 31.12.2009=100
EQUITY	**10 593 218**	**12 569 412**	**70.0**	**118.7**
Share capitaly	2 000 000	2 000 000	11.1	100.0
Accumulated other comprehensive income	126 301	299 217	1.7	236.9
Retained earnings	8 399 042	10 198 892	56.8	121.4
Equity attributable to shareholders of the Parent Entity	**10 525 343**	**12 498 109**	**69.6**	**118.7**
Non-controlling interest	**67 875**	**71 303**	**0.4**	**105.1**
Non-current liabilities	**1 970 994**	**2 406 236**	**13.4**	**122.1**
Trade and other payables	36 230	33 628	0.2	92.8
Borrowings and finance lease liabilities	120 854	166 881	0.9	138.1
Derivative financial instruments	61 354	352 385	2.0	574.3
Deferred tax liabilities	41 785	44 277	0.2	106.0
Liabilities due to employee benefits	1 183 350	1 235 434	6.9	104.4
Provisions for other liabilities and charges	527 421	573 631	3.2	108.8
Current liabilities	**2 302 604**	**2 974 631**	**16.6**	**129.2**
Trade and other payables	1 575 896	2 191 504	12.2	139.1
Borrowings and finance lease liabilities	219 816	100 981	0.6	45.9
Current corporate tax liability	79 104	297 545	1.7	376.1
Derivative financial instruments	273 717	234 878	1.3	85.8
Liabilities due to employee benefits	106 704	111 344	0.6	104.3
Provisions for other liabilities and charges	47 367	38 379	0.2	81.0
TOTAL LIABILITIES	**4 273 598**	**5 380 867**	**30.0**	**125.9**
TOTAL EQUITY AND LIABILITIES	**14 866 816**	**17 950 279**	**100.0**	**120.7**

In the first half of 2010 equity increased by PLN 1 976 194 thousand.
Equity was mainly affected by the financial result for the first half of 2010 in the amount of PLN 2 403 278 thousand and by the decision of the Ordinary General Meeting of the Parent Entity on the payment of a dividend for 2009 in the amount of PLN 600 000 thousand, i.e. substantially lower than in 2009 (PLN 2 336 000 thousand).
The largest item among liabilities was liabilities due to employee benefits in the amount of PLN 1 346 778 thousand, mainly due to the coal equivalent (PLN 787 002 thousand) and jubilee awards (PLN 301 492 thousand).
Among remaining liabilities the following are significant in terms of their amounts:

- liabilities due to the resolved but unpaid by the Parent Entity dividend from 2009 profit in the amount of PLN 600 000 thousand (liabilities until the date of payment, i.e. to 8 July 2010),
- liabilities due to derivative instruments in the amount of PLN 587 263 thousand,
- trade payables in the amount of PLN 497 649 thousand,
- accruals in the amount of PLN 406 559 thousand
  (including: the one-off salary payable after approval of the annual financial statements and other benefits resulting from the Collective Labour Agreement in the amount of PLN 335 864 thousand, and the settlement of unused holidays, PLN 22 011 thousand).

At the end of the first half of 2010 liabilities increased versus the end of the prior year by PLN 1 107 269 thousand, mainly in respect of the resolved dividend for shareholders of the Parent Entity in the amount of PLN 600 000 thousand and the increase in liabilities due to derivative financial instruments in the amount of PLN 252 192 thousand.

13. Contingent receivables and liabilities and other items not recognised in the statement of financial position

At 30 June 2010, contingent receivables amounted to PLN 211 903 thousand and related primarily to guarantees received in the amount of PLN 147 842 thousand. Other receivables not recognised in the statement of financial position amounted to PLN 32 267 thousand and related to 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 856 591 thousand, including mainly due to:

- future payments for perpetual usufruct of land, PLN 587 493 thousand,
- due to implementation of projects and inventions and other unrealised contracts, PLN 100 469 thousand.

14. Income statement

Table 9. Consolidated income statement ('000 PLN)

INCOME STATEMENT	2009	I-VI 2009	I-VI 2010	Change I-VI 2009=100
Sales	12 119 910	5 611 914	7 811 777	139.2
Cost of sales	(7 923 233)	(3 673 282)	(4 543 210)	123.7
Gross profit	**4 196 677**	**1 938 632**	**3 268 567**	**168.6**
Selling costs	(230 159)	(114 177)	(123 231)	107.9
Administrative expenses	(783 444)	(358 148)	(351 960)	98.3
Other operating income	495 572	283 819	532 901	187.8
Other operating costs	(999 308)	(291 555)	(528 881)	181.4
Operating profit	**2 679 338**	**1 458 571**	**2 797 396**	**191.8**
Finance costs - net	(45 259)	(25 837)	(24 187)	93.6
Share of profits of associates accounted for using the equity method	270 072	144 587	155 219	107.4
Profit before income tax	**2 904 151**	**1 577 321**	**2 928 428**	**185.7**
Income tax expense	(544 981)	(286 262)	(525 150)	183.5
Profit for the period	**2 359 170**	**1 291 059**	**2 403 278**	**186.1**

The sales revenues of the Group in the first half of 2010 were higher compared to the comparable prior year period by 39% (by PLN 2 199 863 thousand). A significant cause was the increase in revenues of the Parent Entity (by PLN 2 100 291 thousand), achieved due to the higher copper and silver prices and the increase in the copper sales volume.

The costs of sales increased during the analysed period by PLN 869 928 thousand. This change in costs to a significant extent was due to an increase in consumption by KGHM Polska Miedź S.A. of purchased copper-bearing material (by PLN 933 497 thousand), alongside an increase in inventories (by PLN 201 367 thousand).

Profit on sales for the first half of 2010 amounted to PLN 2 793 376 thousand and increased versus profit on sales in the comparable prior period by PLN 1 327 069 thousand.

Other operating activities showed a slight profit of PLN 4 020 thousand.

The share in profit of the associate Polkomtel S.A., accounted for using the equity method, increased profit by PLN 155 219 thousand.

Finally, profit for the period increased versus the comparable prior year period by PLN 1 112 219 thousand, i.e. by 86%.

The results of individual Group entities are presented in the following table.

Table 10. Structure of the profit for the period ('000 PLN)

Details	Profit for H1 2010
KGHM Polska Miedź S.A.	**2 226 638**
Subsidiaries	**58 634**
including the most important:	
DIALOG S.A.	19 428
WPEC w Legnicy S.A.	10 827
INTERFERIE S.A.	5 820
„Energetyka" sp. z o.o.	5 484
Zagłębie Lubin S.A.	5 359
KGHM Metraco S.A.	4 771
PHP „MERCUS" sp. z o.o.	2 873
„PETROTEL" sp. z o.o.	2 809
KGHM Kupferhandelsges m.b.H.	2 038
KGHM Polish Copper Ltd.	1 859
PeBeKa S.A.	1 687
CBJ sp. z o.o.	1 307
POL-MIEDŹ TRANS Sp. z o.o.	(2 593)
KGHM Ecoren S.A.	(3 107)
Total profit of Group entities	**2 285 272**
Consolidation adjustments	114 578
Profit of the Group attributable to shareholders of the Parent Entity	**2 399 850**
Profit attributable to the minority interest	3 428
Total profit for the period	**2 403 278**

15. Results of major Group entities

The largest impact on the results of the Group is from the Parent Entity, followed by companies from the telecommunications sector:

- DIALOG S.A. – a subsidiary, the results of this company have a direct impact on the consolidated financial statements of the Group,
- Polkomtel S.A. – an associate, its impact on the consolidated financial statements of the Group is from using the equity method.

KGHM Polska Miedź S.A.

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 in the amount of PLN 15 870 thousand.

Table 11. Financial data of KGHM Polska Miedź S.A. ('000 PLN)

	I-VI 2009	I-VI 2010	Change I-VI 2009=100
Sales	5 099 260	7 199 551	141.2
Profit on sales	1 457 353	2 764 723	189.7
Operating profit	1 766 160	2 764 478	156.5
EBITDA	2 034 241	3 070 604	150.9
Profit before income tax	1 747 264	2 747 857	157.3
Profit for the period	1 472 634	2 226 638	151.2

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

The increase in profit (by PLN 754 004 thousand) was due to changes in the following ('000 PLN):

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

alongside changes decreasing the result:

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

DIALOG S.A.

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

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

15. Results of major Group entities (continued)

Table 12. Financial data of the DIALOG S.A. Group (‘000 PLN)

	I-VI 2009*	I-VI 2010	Change I-VI 2009=100
Sales	259 587	260 624	100.4
Result on sales	13 096	16 130	123.2
Operating profit	14 523	22 155	152.6
EBITDA	64 078	64 770	101.1
Profit before income tax	10 189	19 393	190.3
Profit for the period	424	21 800	x51.4

** data for the period I-VI 2009 were adjusted in relation to those presented in the financial statements for the first half of 2009, due to final settlement of the purchase of shares of „PETROTEL" sp. z o.o.*

Table 13. Financial data of DIALOG S.A. (‘000 PLN)

	I-VI 2009	I-VI 2010	Change I-VI 2009=100
Sales	245 990	247 167	100.5
Result on sales	13 432	13 320	99.2
Operating profit	13 925	19 172	137.7
EBITDA	58 311	57 371	98.4
Profit before income tax	9 841	16 562	168.3
Profit for the period	588	19 428	x33.0

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

The sales of the DIALOG S.A. Group, in the period from January to June 2010, were higher than those achieved in the first half of 2009 by PLN 1 037 thousand. The increase in sales was primarily with respect to services provided based on external infrastructure (mainly WLR) and sales from IPTV and data transmission services provided on its own network.

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

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

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

In February 2010 a new mobile telephone service called Diallo was introduced, realised on the basis of a mobile virtual network operator (MVNO). At the end of June 2010 there were 12.5 thousand active SIM Diallo cards.

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

Polkomtel S.A.

The carrying amount of the shares of Polkomtel S.A. in the consolidated financial statements of KGHM Polska Miedź S.A. at 30 June 2010 accounted for using the equity method was PLN1 437 608 thousand.

Table 14. Financial data of Polkomtel S.A. (‘000 PLN)

	I-VI 2009	I-VI 2010	Change I-VI 2009=100
Sales	3 962 243	3 765 816	95.0
Result on sales	867 413	828 291	95.5
Operating profit	853 976	849 524	99.5
EBITDA	1 496 267	1 520 414	101.6
Profit before income tax	738 910	785 909	106.4
Profit for the period	592 774	636 365	107.4

15. Results of major Group entities (continued)

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

On 25 May 2010 the Ordinary General Meeting of Polkomtel S.A. adopted a resolution on the allocation of profit for 2009. Based on the decision of the shareholders, the amount of PLN 562 930 thousand was allocated as a dividend, of which the proportional share of KGHM Polska Miedź S.A. was PLN 137 307 thousand.

In December 2009, KGHM Polska Miedź S.A. received an interim payment on the dividend from Polkomtel S.A. for 2009 in the amount of PLN 113 256 thousand. The remainder of the dividend in the amount of PLN 24 051 thousand was paid in June 2010.

16. Risk management

The KGHM Polska Miedź S.A. Group is exposed to the following types of financial risk:

- market risk (metals prices, exchange rates and interest rates),
- liquidity risk,
- credit risk.

The Group actively manages that market risk to which it is exposed. The process of managing market risk is regulated by unified principles applied in the companies of the Group.

The main technique applied in managing market risk (in order to reduce it) is the use of strategies with derivative instruments. In the Group, only the Parent Entity applies the principles of hedge accounting. Natural hedging is also used.

The Group is exposed to the risk of changes in exchange rates and KGHM Polska Miedź S.A. is also exposed to the risk of changes in copper, silver and gold prices.

In addition the Group is exposed to interest rate risk. At 30 June 2010 the Group held borrowings in the amount of PLN 227 111 thousand (at 31 December 2009, PLN 299 285 thousand) with interest based on variable and fixed rates. At the end of the reporting period the Group did not hold instruments hedging against interest rate risk.

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

In the first half of 2010 the Parent Entity implemented copper price hedging strategies of 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 Parent Entity made use of options (Asian options) including producer puts and seagulls. During the reporting period the Parent Entity did not implement adjustment hedge transactions. Additionally, the Parent Entity 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 bought 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 Parent Entity 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 Parent Entity 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 Parent Entity made use of options (European options) including puts, corridors and seagulls. During this period no adjustment hedge transactions were implemented on the currency market. Additionally, the Parent Entity performed a restructurisation, implemented in the analysed period, of seagull options 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 bought within this structure in the case of any decrease in the USD/PLN exchange rate in 2011.

The Parent Entity 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 Parent Entity holds a hedging position for the second half of 2010 (465 million USD), in 2011 (USD 720 million) and 2012 (USD 360 million).

16. Risk management (continued)

A condensed list of hedging positions by type of hedged asset and instruments used at 30 June 2010 may be found in Note 34 of the interim consolidated financial statements for the first half of 2010.

At 30 June 2010, the fair value of open positions in derivative instruments amounted to PLN 494 360 thousand, of which financial assets represented PLN 1 081 623 thousand, and financial liabilities, PLN 587 263 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.

In the first half of 2010, the result on derivative instruments amounted to PLN (52 281) thousand. 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 by PLN 82 294 thousand. The loss due to the measurement of derivative instruments amounted to PLN 112 598 thousand, and due to the realisation of derivative instruments, PLN 21 977 thousand. The adjustment of other operating activities due to the measurement of derivative instruments is mainly due to changes in the time value of options which will be settled in future periods. Due to current hedge accounting principles, changes in the time value of options may not be recognised in accumulated other comprehensive income.

The impact of derivative instruments on the financial result of the current and comparable periods is shown in the following table.

Table 15. Impact of derivative instruments on the financial result (‘000 PLN)

	I-VI 2009	I-VI 2010
Impact on revenues from sales	**487 548**	**82 294**
Impact on other operating costs, of which:	**(109 015)**	**(134 575)**
– loss from realisation of derivative instruments	(17 348)	(21 977)
– loss from measurement of derivative instruments	(91 667)	(112 598)
Total impact of derivative instruments on the results of the period	**378 533**	**(52 281)**

The amount recognised in profit or loss of the Parent Entity – in other operating costs for the first half of 2010 due to the ineffective part of cash flow hedging – amounts to PLN 198 297 thousand (in the first half of 2009, PLN 105 170 thousand), of which PLN 146 230 thousand represents the loss from the measurement of hedging instruments (in the first half of 2009, PLN 84 678 thousand), while PLN 52 067 thousand represents the loss from realisation of the ineffective part of hedging instruments (in the first half of 2009, PLN 20 492 thousand).

The following tables present the balance of and changes in accumulated other comprehensive income caused by recognition of the effective part of the result from the measurement of derivative instruments designated as hedges of future cash flow.

Table 16. Impact of derivative instruments on equity (‘000 PLN)

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

16. Risk management (continued)

Table 17. Gains or (losses) on derivative instruments hedging future cash flow recognised in other comprehensive income (‘000 PLN)

	I-VI 2009	2009	I-VI 2010
Accumulated gain or loss achieved on financial instruments hedging future cash flows at the beginning of the reporting period	**627 757**	**627 757**	**155 233**
Amount recognised in the reporting period due to hedging transactions	(137 647)	(39 337)	309 255
Amount transferred from accumulated other comprehensive income to revenues from sales	(487 548)	(433 187)	(82 294)
Accumulated other comprehensive income on instruments hedging future cash flow at the end of the reporting period (excluding deferred tax effects)	**2 562**	**155 233**	**382 194**

Details of the risk management policy in the Group together with identification of the main types of risk can be found in Notes 12, 33 and 34 of the interim consolidated financial statements for the first half of 2010.

17. Disputed issues

At 30 June 2010, the value of receivables due to ongoing court proceedings, in which KGHM Polska Miedź S.A. and its subsidiaries are parties, amounted to PLN 113 911 thousand, of which PLN 44 568 thousand relates to the issues of the Parent Entity and PLN 69 343 thousand to subsidiaries.

The value of liabilities due to ongoing court proceedings, in which KGHM Polska Miedź S.A. and its subsidiaries are parties, at the end of the first half of 2010 amounted to PLN 124 600 thousand, of which PLN 94 566 thousand relates to the issues of the Parent Entity and PLN 30 034 thousand to subsidiaries.

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

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

  On 21 January 2008 KGHM Polska Miedź S.A. 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 combined this matter with 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 for mutual hearing. Proceedings are in progress.

  In the opinion of the Parent Entity, 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 (per the NBP exchange rate from 30 June 2010, PLN 14 332 thousand). The claim was filed with the Regional Court in Legnica on 2 April 2009 by DFM ZANAM-LEGMET Sp. z o. o. - a subsidiary of KGHM Ecoren 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 Parent Entity 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.

17. Disputed issues (continued)

The appeal involves - what KGHM Polska Miedź S.A. 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 Regional 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 respecting March 2003 were suspended at the mutual request of the parties. The Court suspended the remaining nine claims *ex officio*. 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 decisions, 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.

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

– **payment of royalties for use of 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 nr 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 opinion of the Parent Entity, the royalties being pursued by the Court are 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 opinion of KGHM Polska Miedź S.A., the claim is unfounded and should be dismissed.

– **compensation for failure to adhere to contract**

In January 2010, INTRACOM S.A. filed a claim against a subsidiary of KGHM Polska Miedź S.A. - DIALOG S.A. – for payment of the amount of EUR 2 953 thousand due to compensation for the unjustified failure to adhere to a contract. The value of the amount under dispute, per the NBP exchange rate from 30 June 2010, amounts to PLN 12 158 thousand.

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 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. The Parent Entity 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 opinion of KGHM Polska Miedź S.A., 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.

18. Realisation of projected financial results

Forecasts of the consolidated results of the KGHM Polska Miedz S.A. Group are not prepared. Each company prepares its own projections of the results.

The Parent Entity publishes its projections of results. In a current report dated 1 February 2010, KGHM Polska Miedź S.A. published its Budget assumptions for 2010 as approved by the Supervisory Board on the same day. The Budget assumed the achievement in 2010 of revenues from sales in the amount of PLN 11 736 million and profit of PLN 2 898 million.

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 Parent Entity 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.

The projected results and their realisation are presented in the following table.

Table 18. Realisation of projected results of KGHM Polska Miedź S.A. after the first half of 2010

	Unit	Budget 2010*	Execution I-VI 2010	Advance (%)
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
- of which 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 electrolytic	PLN/t	12 548	**12 843**	102.4
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*

19. Significant subsequent events

Opening of liquidation proceedings for FADROMA S.R. 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.

Significant loan agreement

On 8 July 2010, INTERFERIE Medical SPA Sp. z o.o. with its registered head office in Lubin – an indirect subsidiary of KGHM Polska Miedź S.A. – entered into an agreement with Bank Polska Kasa Opieki S.A., with its registered head office Warsaw, for an investment bank loan to be used for the construction and outfitting of a four-star, 308-room hotel in Świnoujście on Uzdrowiskowa street, together with a conference complex totalling 968 m^2 and a recreational section. The bank loan amounts to the equivalent in EUR of up to PLN 75 000 thousand. The total cost of realisation of the hotel construction project, including the cost of construction, purchase of land, with interest capitalised during the period of construction amounting to PLN 122 019 thousand. Maturity on the bank loan is 31 December 2021. Interest on the bank loan is the sum of a margin, a reference rate: EURIBOR (1M/3M) and obligatory costs, should any occur. INTERFERIE Medical SPA Sp. z o.o. will be required to maintain the following indexes throughout the life of the bank loan:
1) LTV (loan amount / value of real estate representing security on the bank loan) no higher than 60 %,
2) DSCR – no lower than 1.2.

19. Significant subsequent events (continued)

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 S.A.

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

On 14 July 2010, KGHM Ecoren S.A. – a subsidiary of KGHM Polska Miedź S.A. entered into a contingent contract with the Minister of the State Treasury to purchase a block of 85% of the shares of CENTROZŁOM WROCŁAW S.A. A validating condition of the agreement is obtaining by the company KGHM Ecoren S.A. of assent of the Office of Competition and Consumer Protection to the concentration of these entities. Conclusion of this transaction is expected in the third quarter of 2010.

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

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 S.A. 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 4.0 billion.

20. List of tables and diagrams

Tables

Diagrams

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	