Consolidated half-year report PS 2011

(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 **2011** comprising the period from **1 January 2011** to **30 June 2011**
containing the interim condensed consolidated financial statements according to IAS 34 in PLN.

publication date: 31 August 2011

KGHM Polska Miedź Spółka Akcyjna
(name of the issuer)

KGHM Polska Miedź S.A.	**Basic materials**
(name of issuer in brief)	(issuer branch title per the Warsaw Stock Exchange)
59 - 301	**LUBIN**
(postal code)	(city)
M. Skłodowskiej – Curie	**48**
(street)	(number)
(48 76) 74 78 200	**(48 76) 74 78 500**
(telephone)	(fax)
IR@BZ.KGHM.pl	**www.kghm.pl**
(e-mail)	(website address)
692–000–00-13	**390021764**
(NIP)	(REGON)

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

SELECTED FINANCIAL ITEMS	in '000 PLN		in '000 EUR	
	half-year 2011 period from 1 January 2011 to 30 June 2011	**half-year 2010** period from 1 January 2010 to 30 June 2010	**half-year 2011** period from 1 January 2011 to 30 June 2011	**half-year 2010** period from 1 January 2010 to 30 June 2010
I. Sales	11 221 172	7 811 777	2 828 415	1 950 896
II. Operating profit	5 101 006	2 794 442	1 285 763	697 878
III. Profit before income tax	5 266 996	2 924 380	1 327 602	730 328
IV. Profit for the period	4 316 320	2 399 791	1 087 974	599 318
V. Profit for the period attributable to shareholders of the Parent Entity	4 315 554	2 396 363	1 087 781	598 462
VI. Profit for the period attributable to non-controlling interests	766	3 428	193	856
VII. Other comprehensive income	186 824	172 916	47 091	43 184
VIII. Total comprehensive income	4 503 144	2 572 707	1 135 065	642 502
IX. Total comprehensive income attributable to the shareholders of the Parent Entity	4 502 378	2 569 279	1 134 872	641 646
X. Total comprehensive income attributable to non-controlling interest	766	3 428	193	856
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	21.58	11.98	5.44	2.99
XIII. Net cash generated from operating activities	4 130 660	2 185 229	1 041 177	545 734
XIV. Net cash used in investing activities	(1 108 897)	(961 904)	(279 509)	(240 224)
XV. Net cash used in financing activities	(64 352)	(87 502)	(16 221)	(21 853)
XVI. Total net cash flow	2 957 411	1 135 823	745 447	283 657
	At 30 June 2011	**At 31 December 2010**	**At 30 June 2011**	**At 31 December 2010**
XVII. Non-current assets	11 602 368	12 414 423	2 910 342	3 134 718
XVIII. Current assets	13 550 225	8 762 900	3 398 942	2 212 686
XIX. Total assets	25 152 593	21 177 323	6 309 284	5 347 404
XX. Non-current liabilities	2 490 859	2 882 705	624 808	727 901
XXI. Current liabilities	6 233 727	3 402 839	1 563 670	859 238
XXII. Equity	16 428 007	14 891 779	4 120 806	3 760 265
XXIII. Non-controlling interest	249 703	241 106	62 636	60 881

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 2011 COMPRISES:

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

Lubin, August 2011

KGHM POLSKA MIEDŹ S.A.
GROUP

AUDITOR'S REVIEW REPORT
ON THE INTERIM CONDESED
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FIRST HALF OF 2011

Lubin, August 2011

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Sp. z o.o.
Al. Armii Ludowej 14
00-638 Warszawa
Polska
Telephone +48 (22) 523 4000
Facsimile +48 (22) 523 4040
http://www.pwc.com/pl

Independent registered auditor's report
on the review of the condensed interim consolidated financial statements
for the period from 1 January to 30 June 2011
to the Shareholders and the Supervisory Board
of KGHM Polska Miedź Spółka Akcyjna

We have reviewed the attached condensed 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 2011, showing total assets and total liabilities and equity of PLN 25.152.593 thousand;

(b) the interim consolidated statement of comprehensive income for the period from 1 January to 30 June 2011, showing a total comprehensive income of PLN 4.503.144 thousand;

(c) the interim consolidated statement of changes in equity for the period from 1 January to 30 June 2011, showing an increase in equity of PLN 1.536.228 thousand;

(d) the interim consolidated statement of cash flows for the period from 1 January to 30 June 2011, showing a net increase in cash and cash equivalents of PLN 2.957.411 thousand;

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

The Parent Company's Management Board is responsible for preparing condensed 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 condensed 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 condensed interim consolidated financial statements are free of material misstatements. We conducted the review by analyzing the condensed 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

Independent registered auditor's report
on the review of the condensed interim consolidated financial statements
for the period from 1 January to 30 June 2011
to the Shareholders and the Supervisory Board
of KGHM Polska Miedź Spółka Akcyjna (cont.)

The scope of the work performed was significantly narrower than the scope of an audit of the consolidated financial statements, because the review was not aimed at expressing an opinion on the compliance with the required accounting principles (policy) and the truth and fairness of the condensed 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 condensed interim consolidated financial statements to ensure that they have been prepared, in all material aspects, 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

Registered Auditor of the Group, Key Registered Auditor
No. 11393

Wrocław, 26 August 2011

KGHM POLSKA MIEDŹ S.A.
GROUP

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

Lubin, August 2011

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

According to our best judgement the interim condensed 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**
26 August 2011	Herbert Wirth	President of the Management Board	
26 August 2011	Maciej Tybura	I Vice President of the Management Board	
26 August 2011	Wojciech Kędzia	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
26 August 2011	Ludmiła Mordylak	Chief Accountant of KGHM Executive 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 2011

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 interim condensed consolidated 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 professional standards.

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD			
Date	**First, Last name**	**Position/Function**	**Signature**
26 August 2011	Herbert Wirth	President of the Management Board	
26 August 2011	Maciej Tybura	I Vice President of the Management Board	
26 August 2011	Wojciech Kędzia	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
Date	**First, Last name**	**Position/Function**	**Signature**
26 August 2011	Ludmiła Mordylak	Chief Accountant of KGHM Executive Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.
GROUP

INTERIM
CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE FIRST HALF OF 2011

Lubin, August 2011

Table of contents to the interim condensed consolidated financial statements

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

Interim consolidated statement of financial position

	Note	At 30 June 2011	At 31 December 2010
Assets			
Non-current assets			
Property, plant and equipment	6	8 659 926	8 553 634
Intangible assets	7	607 315	523 874
Investment property	8	62 239	59 760
Investments in associates	9	498	1 431 099
Deferred tax assets	23	499 009	592 947
Available-for-sale financial assets	10	1 217 267	751 605
Held-to-maturity investments	11	110 350	84 157
Derivatives	12	430 144	403 839
Trade and other receivables	13	15 620	13 508
		11 602 368	**12 414 423**
Current assets			
Inventories	14	2 825 650	2 222 321
Trade and other receivables	13	2 352 635	2 730 658
Current corporate tax receivables		2 346	4 511
Available-for-sale financial assets	10	547 022	415 662
Held-to-maturity investments	11	1 435	4 129
Derivatives	12	364 287	297 584
Cash and cash equivalents	15	6 096 204	3 086 957
Non-current assets held for sale	16	1 360 646	1 078
		13 550 225	**8 762 900**
TOTAL ASSETS		**25 152 593**	**21 177 323**
EQUITY AND LIABILITIES			
Equity attributable to shareholders of the Parent Entity			
Share capital	17	2 000 000	2 000 000
Accumulated other comprehensive income	18	396 645	209 821
Retained earnings	19	13 781 209	12 440 852
Exchange differences from translation		450	-
		16 178 304	**14 650 673**
Non-controlling interest	20	**249 703**	**241 106**
TOTAL EQUITY		**16 428 007**	**14 891 779**
LIABILITIES			
Non-current liabilities			
Trade and other payables	21	122 655	121 560
Borrowings and finance lease liabilities	22	129 384	173 652
Derivatives	12	411 884	711 580
Deferred tax liabilities	23	120 162	133 392
Employee benefits liabilities	24	1 239 385	1 221 794
Provisions for other liabilities and charges	25	467 389	520 727
		2 490 859	**2 882 705**
Current liabilities			
Trade and other payables	21	4 954 438	1 994 579
Borrowings and finance lease liabilities	22	87 682	96 162
Current corporate tax liabilities		665 820	672 152
Derivatives	12	366 906	482 118
Employee benefits liabilities	24	119 474	110 912
Provisions for other liabilities and charges	25	39 407	46 916
		6 233 727	**3 402 839**
TOTAL LIABILITIES		**8 724 586**	**6 285 544**
TOTAL EQUITY AND LIABILITIES		**25 152 593**	**21 177 323**

The explanatory information presented on pages 7 to 62 represent an integral part of the interim condensed financial statements

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

Interim consolidated statement of comprehensive income

	Note	For the period	
		from 1 January 2011 to 30 June 2011	**from 1 January 2010 to 30 June 2010 restated**
Sales	27	11 221 172	7 811 777
Cost of sales	28	(5 690 644)	(4 546 164)
Gross profit		**5 530 528**	**3 265 613**
Selling costs	28	(141 554)	(123 231)
Administrative expenses	28	(423 022)	(351 960)
Other operating income	30	701 399	532 901
Other operating costs	31	(566 345)	(528 881)
Operating profit		**5 101 006**	**2 794 442**
Finance costs	32	(21 765)	(25 281)
Share of profits of associates accounted for using the equity method		187 755	155 219
Profit before income tax		**5 266 996**	**2 924 380**
Income tax expense	35	(950 676)	(524 589)
Profit for the period		**4 316 320**	**2 399 791**
Other comprehensive income due to:			
Available-for-sale financial assets		25 124	(13 484)
Cash flow hedging instruments		205 523	226 961
Income tax related to items presented in other comprehensive income		(43 823)	(40 561)
Other comprehensive net income for the financial period	18	**186 824**	**172 916**
TOTAL COMPREHENSIVE INCOME		**4 503 144**	**2 572 707**
Profit for the period attributable to:		4 315 554	2 396 363
shareholders of the Parent Entity		766	3 428
non-controlling interest			
Total comprehensive income attributable to:			
shareholders of the Parent Entity		4 502 378	2 569 279
non-controlling interest		766	3 428
Earnings per share attributable to the shareholders of the Parent Entity during the period (in PLN per share)	36		
- basic		21.58	11.98
- diluted		21.58	11.98

The explanatory information presented on pages 7 to 62 represent an integral part of the interim condensed financial statements

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

Interim consolidated statement of changes in equity

		Equity attributable to shareholders of the Parent Entity							
			Accumulated other comprehensive income due to:						
	Note	Share capital	Available-for-sale financial assets	Cash flow hedging instruments	Retained earnings	Exchange differences from translation	Total	Equity attributable to non-controlling interest	Total equity
At 1 January 2011		**2 000 000**	**120 046**	**89 775**	**12 440 852**	**-**	**14 650 673**	**241 106**	**14 891 779**
Dividends for 2010 resolved and unpaid		-	-	-	(2 980 000)	-	(2 980 000)	-	(2 980 000)
Total comprehensive income	18	-	20 350	166 474	4 315 554	-	4 502 378	766	4 503 144
Exchange differences from the translation of foreign operations		-	-	-	-	450	450	432	882
Other changes in equity attributable to non-controlling interest	20	-	-	-	4 803	-	4 803	7 399	12 202
At 30 June 2011		**2 000 000**	**140 396**	**256 249**	**13 781 209**	**450**	**16 178 304**	**249 703**	**16 428 007**
At 1 January 2010		**2 000 000**	**561**	**125 740**	**8 371 956**	**-**	**10 498 257**	**77 082**	**10 575 339**
Dividends for 2009 resolved and unpaid		-	-	-	(600 000)	-	(600 000)	-	(600 000)
Total comprehensive income **restated***	18	-	(10 922)	183 838	2 396 363	-	2 569 279	3 428	2 572 707
At 30 June 2010 restated*		**2 000 000**	**(10 361)**	**309 578**	**10 168 319**	**-**	**12 467 536**	**80 510**	**12 548 046**

* explanation in note 2.1

The explanatory information presented on pages 7 to 62 represent an integral part of the interim condensed financial statements

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

Interim consolidated statement of cash flows

	Note	For the period from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010 restated
Cash flow from operating activities			
Profit for the period		4 316 320	2 399 791
Adjustments to profit for the period	38	729 236	144 244
Income tax paid		(914 896)	(358 806)
Net cash generated from operating activities		**4 130 660**	**2 185 229**
Cash flow from investing activities			
Purchase of subsidiaries, less acquired cash and cash equivalents	4	(94 644)	(29)
Purchase of property, plant and equipment and intangible assets		(754 095)	(532 136)
Proceeds from sale of property, plant and equipment and intangible assets		10 350	7 182
Purchase of investment property		(44)	-
Purchase of available-for-sale financial assets		(1 585 813)	(433 747)
Proceeds from sale of available-for-sale financial assets		1 028 023	6 779
Purchase of held-to-maturity investments financed from the resources of Mine Closure Fund		(23 500)	(19 013)
Establishment of deposits		(450 000)	-
Termination of deposits		800 000	-
Proceeds from loans granted		(60)	-
Interest received		8 599	1 481
Dividends received		145	24 116
Advances granted for purchase of property, plant and equipment and intangible assets		(46 061)	(14 608)
Other investment expenses		(1 797)	(1 929)
Net cash used in investing activities		**(1 108 897)**	**(961 904)**
Cash flow from financing activities			
Proceeds from loans and borrowings		40 020	86 660
Repayments of loans and borrowings		(91 118)	(158 856)
Payments of finance leases liabilities		(8 152)	(7 158)
Interest paid		(5 311)	(8 586)
Other financial proceeds		209	438
Net cash used in financing activities		**(64 352)**	**(87 502)**
Total net cash flow		**2 957 411**	**1 135 823**
Exchange gains on cash and cash equivalents		51 836	11 016
Movements in cash and cash equivalents		**3 009 247**	**1 146 839**
Cash and cash equivalents at beginning of the period	15	**3 086 957**	**1 197 077**
Cash and cash equivalents at end of the period	15	**6 096 204**	**2 343 916**
including restricted cash and cash equivalents		5 320	64 024

The explanatory information presented on pages 7 to 62 represent an integral part of the interim condensed financial statements

Selected explanatory information

1. General information

Company name, registered office, business activities

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

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

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

Activities involving the exploitation of copper ore, salt deposits and common minerals are carried out on licenses held by KGHM Polska Miedź S.A., which were issued by the Minister of Environmental Protection, Natural Resources and Forestry (currently Minister of Environment) in the years 1993-2004, most of which expire on 31 December 2013. KGHM Polska Miedź S.A. is at the stage of acquiring licenses for subsequent years. In the opinion of the Management Board, the licensing process, which occurs periodically, is of an administrative nature, while the probability of not receiving a license is, in the opinion of the Management Board of the Parent Entity, minimal.

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

Period of operation of the Group

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

1. General information (continuation)

Management Board
During the period from 1 January 2011 to 30 June 2011, the composition and segregation of duties of the Management Board of KGHM Polska Miedź S.A. was as follows:
- Herbert Wirth - President of the Management Board,
- Maciej Tybura - I Vice President of the Management Board (Finance),
- Wojciech Kędzia - Vice President of the Management Board (Production).

Supervisory Board
At 1 January 2011, the composition of the Supervisory Board of KGHM Polska Miedź S.A. was as follows:
- Józef Czyczerski,
- Marcin Dyl,
- Leszek Hajdacki,
- Arkadiusz Kawecki,
- Jacek Kuciński,
- Ryszard Kurek,
- Marek Panfil,
- Jan Rymarczyk,
- Marzenna Weresa.

On 11 - 12 May 2011 the Parent Entity's employees selected 3 employee-elected members of the Supervisory Board: Józef Czyczerski, Leszek Hajdacki and Ryszard Kurek.

On 15 June 2011, the Ordinary General Meeting of KGHM Polska Miedź S.A.:
- dismissed: Józef Czyczerski, Marcin Dyl, Leszek Hajdacki, Arkadiusz Kawecki, Jacek Kuciński, Ryszard Kurek, Marek Panfil, Jan Rymarczyk and Marzenna Weresa from the Supervisory Board of KGHM Polska Miedź S.A.,
- confirmed the validity of the elections carried out in the Parent Entity on 11-12 May 2011, as a result of which the employees of KGHM Polska Miedź S.A. elected three members to the Supervisory Board,
- set the number of members of the Supervisory Board at 10 persons, and
- appointed the following persons to the Supervisory Board of the Parent Entity: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Jan Rymarczyk and Marzenna Weresa.

At 30 June 2011 the composition of the Supervisory Board of KGHM Polska Miedź S.A. was as follows:
- Franciszek Adamczyk,
- Marcin Dyl,
- Arkadiusz Kawecki,
- Jacek Kuciński,
- Marek Panfil,
- Jan Rymarczyk,
- Marzenna Weresa.

Authorisation of the consolidated financial statements

These interim condensed consolidated financial statements (consolidated financial statements) were authorised for issue and signed by the Management Board of the Parent Entity on 26 August 2011.

Going concern assumption

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

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

2. Basis of preparing consolidated financial statements

2.1 Accounting principles

These consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim financial reporting* and, for a full understanding of the financial position and the results of the Group, should be read together with the consolidated financial statements for the financial year ended 31 December 2010 which are an element of the Consolidated Annual Report RS 2010 available at the website www.kghm.pl.

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

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

These financial statements have been prepared using the same principles for the current and comparable periods, restating the comparable period to conform to the changes in accounting and presentation principles to those applied in the statements in the current period.
Changes involved:

- the correction of an error due to the recognition and measurement of liabilities whose discounted value at 31 December 2009 amounted to PLN 27 086 thousand, due to the submission by the company „Energetyka" sp. z o.o., as part of an agreement for the sale by the State Treasury of shares of WPEC w Legnicy S.A., of an irrevocable offer to acquire the shares of this company not acquired by entitled employees, as well as the repurchase of shares already acquired by employees. Due to a prior-period error, the effects of unwinding of the discount were charged to retained earnings at 30 June 2010 in the amount of PLN 1 094 thousand, against trade and other payables which were credited in the amount of PLN 1 094 thousand. The correction of an error caused an increase in financial costs in the amount of PLN 1 094 thousand in the statement of comprehensive income for the period from 1 January to 30 June 2010, and simultaneously decreased profit by the same amount,
- amortisation of the difference between the fair value of the net assets of WPEC w Legnicy S.A. and their carrying amount at the date of acquisition of the shares of WPEC w Legnicy S.A., due to final settlement of the transaction and allocation of the purchase price in accordance with IFRS 3. The effects of amortisation of non-current assets decreased retained earnings at 30 June 2010 in the amount of PLN 2 954 thousand.

Standards and interpretations in force in the Group since 1 January 2011

- Amendment to IAS 32 Financial instruments: Presentation
- Amended IFRS 1 First-time Adoption of IFRS
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- Amended IAS 24 Related Party Disclosures
- 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
- Changes in International Financial Reporting Standards 2010

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

All of the above changes to the standards and interpretations have been approved by the European Union up to the date of publication of these financial statements. In the Group's opinion, their application either does not affect the consolidated financial statements, or the effect is insignificant.
Up to the date of publication of these financial statements, further standards and interpretations have been published by the International Accounting Standards Board which as at this date have not come into force, while some of them have been approved for use by the European Union. The Group decided against early implementation of any of these standards.

2.2 Exchange rates applied for selected financial data

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

- for the calculation of turnover, profit or loss and cash flow for the period from 1 January 2011 to 30 June 2011, the rate of ***3.9673 PLN/EUR****,
- for the calculation of turnover, profit or loss and cash flow for the period from 1 January 2010 to 30 June 2010, the rate of ***4.0042 PLN/EUR****,
- for the calculation of assets, equity and liabilities at 30 June 2011, the rate of ***3.9866 PLN/EUR.***
- for the calculation of assets, equity and liabilities at 31 December 2010, the rate of ***3.9603 PLN/EUR*,**

**the rates represent the arithmetic mean of current average exchange rates announced by the NBP on the last day of each month of the first halves respectively of 2011 and 2010.*

3. Important estimates and assumptions

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

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

3.1 Useful life of property, plant and equipment

The Management Boards of the Group's companies annually reviews the residual value, depreciation methods and useful lives of depreciable property, plant and equipment. At 30 June 2011 is determined that the useful lives of assets applied by the Group's companies for purposes of depreciation reflect the expected period of future economic benefits from these assets.

3.2 Financial instruments

In accordance with the guidelines of IAS 39 relating to the classification of non-derivatives with fixed payments or determinable maturity, these assets are classified as held-to-maturity investments. In making this judgement, the intended use and possibility of holding such investments to maturity are evaluated. Should the Group's companies 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.

Embedded derivatives

At the end of each reporting period the Parent Entity analyses the materiality of the impact of separated embedded derivatives on the financial statements. Following this analysis, KGHM Polska Miedź S.A. determined that separation of these instruments at 30 June 2011 would not have a significant effect on the consolidated financial statements.

KGHM AJAX MINING INC. options

In the reporting period, with respect to measurement of the options on KGHM AJAX MINING INC., there were no changes which would enable the Parent Entity to measure them under IAS 39. In accordance with information published in the Consolidated Annual Report RS 2010 regarding the options on KGHM AJAX MINING INC., the Parent Entity will be able to make a reliable estimation of the fair value of these options based on the confirmed value of the copper ore resources of the Ajax deposit. As a result, the Parent Entity decided not to determine a fair value for these options until determination of the amount of industrial ore reserves, i.e. until preparation of the Bankable Feasibility Study. Work on this document is expected to be completed by the end of 2011.

3.3 Telecom investments

a) Polkomtel S.A.

On 30 June 2011 a preliminary agreement was signed for the sale of 100% of the shares of Polkomtel S.A. The agreement was entered into between KGHM Polska Miedź S.A., Polski Koncern Naftowy ORLEN S.A., PGE Polska Grupa Energetyczna S.A., Vodafone Americas Inc., Vodafone International Holdings B.V. and Węglokoks S.A. as the sellers, and Spartan Capital Holdings Sp. z o.o. as the purchasers. The Parent Entity holds 24.39% of the shares of Polkomtel S.A. KGHM Polska Miedź S.A. foresees proceeds from sale of the shares of Polkomtel S.A. in the amount of PLN 3.7 billion, i.e. 24.39 % of the entire amount of payment from this transaction, i.e. PLN 15.1 billion.

In light of the above, in the opinion of the Management Board of the Parent Entity, criteria were met requiring reclassification of the investment in Polkomtel S.A. to assets held for sale, in accordance with IFRS 5. Just prior to reclassification, these shares were measured using the equity method, in accordance with IAS 28, in the amount of PLN 1 359 568 thousand, and at this same amount, as the lower of their carrying amount and their fair value, less selling costs, the shares of Polkomtel S.A. were recognised under assets held for sale

3. Important estimates and assumptions (continuation)
3.3 Telecom investments (continuation)

b) Dialog S.A.
With respect to the shares of DIALOG S.A., at the end of the reporting period the Management Board of the Parent Entity maintains the position presented in the Consolidated Annual Report RS 2010 regarding accounting for the assets and liabilities of this company in the statement of financial position. In the current period there were no changes in the process of selling the shares of DIALOG S.A. which, in accordance with IFRS 5, would require reclassification of the assets and liabilities of DIALOG S.A. in the consolidated statement of financial position to the category of assets held for sale and relevant liabilities.
In light of the above, there is also no basis for taking a decision on recognising a deferred tax asset on negative temporary differences in accordance with IAS 12.44 (amounting to PLN 1 058 243 thousand) in the amount of PLN 201 066 thousand.

3.4 Provisions

1. Provisions for future employee benefits – retirement or disability benefits, jubilee bonuses, post-mortem benefits and post-employment coal equivalent payments are estimated using actuarial methods. Sensitivity of the carrying amount of provisions to changes in financial ratios representing the basis for estimates is shown below:
- an increase in the discount rate by 1 percentage point would cause a decrease in the provision by PLN 109 090 thousand,
- a decrease in the discount rate by 1 percentage point would cause an increase in the provision by PLN 153 979 thousand,
- an increase in the coal price and salary increase rate by 1 percentage point would cause an increase in the provision by PLN 165 602 thousand,
- a decrease in the coal price and salary increase rate by 1 percentage point would cause a decrease in the provision by PLN 114 038 thousand.

The sensitivity of provisions was set based on Parent Entity data, as the data of the remaining companies is immaterial from the point of view of the consolidated financial statements.

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

These provisions represent the discounted to present value estimated future decommissioning costs of mines and other facilities. 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 maturities nearest to the 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 percentage point increase in the real discount rate used to estimate the amount of the provision for decommissioning costs of mines and other facilities would cause a decrease in the carrying amount of the provision by PLN 108 961 thousand. However, a 1 percentage point decrease in the real discount rate would cause an increase in the carrying amount of the provision by PLN 143 761 thousand.

Sensitivity of provisions was settled based on Parent Entity data.

3.5 Deferred tax assets/liabilities

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

The probability of realising the deferred tax asset from future tax income is based on the budgets of Group companies. 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, consolidated in the consolidated financial statements 47 subsidiaries in the current period.

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

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

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

Entity	Head office	Scope of activities	% of share capital held	% of voting power
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100
NITROERG S.A.	Bieruń	production of explosives and detonation agents used in mining	85	85
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
Przedsiębiorstwo Budowlane Katowice S.A.	Katowice	construction of complete facilities or parts thereof, general and specialty construction	58.08	58.08
"PETROTEL" sp. z o.o.	Płock	telecommunication services in fixed-line telephony, internet services, technical services, equipment sales	99.99	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.	Owczary	management over railway infrastructure	100	100
POL-MIEDŹ-TRANS Sp. z o.o.	Lubin	transportation services	100	100
„Uzdrowisko Cieplice" Sp. z o.o.	Jelenia Góra	spa services	91.67	91.67
Uzdrowisko Połczyn S.A.	Połczyn Zdrój	spa services	90.45	90.45
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics	98.5	98.5
WMN "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	84.96	84.96
WPEC w Legnicy S.A.	Legnica	generation, transfer and distribution of heat	85	85
Zagłębie Lubin S.A.	Lubin	management of football section, organisation of professional sporting events	100	100
ZUK S.A.	Polanica Zdrój	spa services, production and sale of mineral waters	90.09	91.67

In the current period, in the consolidated financial statements, the shares of one associate – BAZALT-NITRON Sp. z o.o. – were accounted for using the equity method for consolidation purposes.

At 30 June 2011, based on para. 8 of IAS 8, which provides for the exclusion from application of IFRS principles where the affect of applying them is immaterial, the subsidiaries „Mercus Software" Sp. z o.o., TUW Cuprum and SERWIS -ERG Sp. z o.o. in liquidation were not consolidated. Altogether, in the presented consolidated financial statements, three subsidiaries were not consolidated and the shares of one associate were not accounted for using the equity method. At the end of the reporting period, they were measured at their cost less any impairment. The exclusion of these entities from consolidation does not affect the accurate presentation of the assets, profit or loss and cash flow of the Group.

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

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

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

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

.

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

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

The guaranteed increase will be allocated to acquiring, manufacturing, rebuilding, developing and modernising property, plant and equipment, and to acquiring or prolonging water exploitation licenses.
In addition, on 4 January 2011 an increase in share capital was registered for the company Zespół Uzdrowisk Kłodzkich S.A. paid in cash in the amount of PLN 8 000 thousand by KGHM I Fundusz Inwestycyjny Aktywów Niepublicznych on 30 November 2010. The percentage held by the Group in the equity following the increase rose by 1.71% and amounts to 91.8%. Under the sales agreement, all funds of the guaranteed increase will be allocated to the purchase of property, plant and equipment and intangible assets related to the production and sale of mineral water and spa activities.
As a result of this transaction with non-controlling interests resulting from the change in the percentage held by the Group in the equity of the above-mentioned companies, equity attributable to shareholders of the Parent Entity was increased in the consolidated financial statements, and equity attributable to non-controlling interests was decreased by PLN 260 thousand.

Acquisition of shares of NITROERG S.A.
On 2 February 2011, an agreement was signed with the Minister of the State Treasury for the acquisition by KGHM Polska Miedź S.A. of 5 260 820 shares of NITROERG S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 052 thousand (i.e. PLN 22.82 per share). The shares were paid for in cash. The shares purchased represent 85% of the share capital of NITROERG S.A. in Bieruń The net asset value of NITROERG S.A. at the date control was obtained was PLN 84 741 thousand, of which PLN 72 030 thousand is attributable to shareholders of the Parent Entity, and PLN 12 711 thousand is attributable to non-controlling interests. Settlement of the purchase price will be made within 12 months from the acquisition date after fair value remeasurement of the assets and liabilities of NITROERG S.A. Goodwill, arising from provisional settlement, amounts to PLN 48 022 thousand.

	NITROERG S.A.
Property, plant and equipment	50 754
Intangible assets	42
Investments in associates	449
Deferred tax assets	3 062
Available-for-sale financial assets	5
Trade and other non-current receivables - gross	161
Trade and other non-current receivables - net	161
Inventories	15 874
Trade and other current receivables – gross	46 885
Trade and other current receivables - net	43 884
Cash and cash equivalents	27 283
Total assets	**141 514**
Trade and other non-current payables	1 609
Borrowings	1 241
Trade and other current payables	33 379
Borrowings	3 154
Employee benefits liabilities	16 445
Provisions for other liabilities and charges	945
Total liabilities	**56 773**
Net assets at the acquisition date	**84 741**
Net assets attributable to the Group	72 030
% in net assets	85.00%
Purchase price	120 052
Acquisition-related cost	1 221
Total cash flow from the acquisition less cash and cash equivalents received	93 990
Goodwill determined provisionally in accordance with IFFS 3.45	**48 022**

Total cash flow from the acquisition less cash received amounted to PLN 93 990 thousand.

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

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

From the date of obtaining control to 30 June 2011, company NITROERG S.A. achieved revenues from sales in the amount of PLN 111 541 thousand and profit of PLN 3 390 thousand.

	Sales	Other operating income	Profit for the period	Sales	Profit for the period
	for the period from 1 January 2011 to 30 June 2011	for the period from 1 January 2011 to 30 June 2011	from 1 January 2011 to 30 June 2011	for the period from the acquisition day to 30 June 2011	from the acquisition day to 30 June 2011
NITROERG S.A.	130 039	2 750	2 942	111 541	3 390
Total for the Group	11 239 670	701 857	4 315 261		

The controlling interest held by KGHM Polska Miedź S.A. in NITROERG S.A. (one of the largest producers of explosive materials) results in greater competitiveness in terms of supply for the core business, and in future to meet the needs of new mining projects (in accordance with realisation of the strategy of increasing the copper ore resource base).

Acquisition of shares of KGHM HMS Bergbau AG, change of company name

On 20 April 2011, a sale and surrender agreement was signed between KGHM Polska Miedź S.A. and HMS Bergbau AG for the acquisition by KGHM Polska Miedź S.A. of 12 551 shares of KGHM HMS Bergbau AG held by HMS Bergbau AG, for the price of EUR 127 895, i.e. PLN 509 thousand. The shares acquired were paid for in cash on 21 April 2011. Following this acquisition the Group holds 100% of the share capital of KGHM HMS Bergbau AG.
As a result of settlement of this transaction with non-controlling interests, the difference between the acquisition price of the non-controlling interests and the value of the share capital attributable to the non-controlling interests at the acquisition date in the amount of PLN (578) thousand was recognised in retained earnings in the consolidated financial statements.

On 27 April 2011, the Ordinary General Meeting of KGHM HMS Bergbau AG resolved to increase the company's share capital from EUR 50 thousand to EUR 800 thousand. The newly-issued shares, with a nominal value of EUR 1 per share and an issue price of EUR 17.71, were acquired by KGHM Polska Miedź S.A.
The shares were paid for in cash in the amount of PLN 52 364 thousand on 27 April 2011.

On 16 May 2011, occurred the court-registered change of name of the company to KGHM Kupfer AG with its registered head office in Weisswasser.
There were no changes in share capital.

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

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

(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 2010 was following:

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

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

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

Entity	Head office	Scope of activities	% of share capital held	% of voting power
"MIEDZIOWE CENTRUM ZDROWIA" S.A.	Lubin	medical services	100	100
PeBeKa S.A.	Lubin	underground and mining construction, construction of tunnels	100	100
Przedsiębiorstwo Budowlane Katowice S.A.	Katowice	construction of complete facilities or parts thereof, general and specialty construction	58.08	58.08
"PETROTEL" sp. z o.o.	Płock	telecommunication services in fixed-line telephony, internet services, technical services, equipment sales	99.99	99.99
PHP "MERCUS" sp. z o.o.	Polkowice	trade, production of bundled electrical cables	100	100
PHU "Lubinpex" Sp. z o.o.	Lubin	retail trade in food items, catering services	100	100
PMT Linie Kolejowe Sp. z o.o.	Polkowice	management over railway infrastructure	100	100
POL-MIEDŹ-TRANS Sp. z o.o.	Lubin	transportation services	100	100
„Uzdrowisko Cieplice" Sp. z o.o.	Jelenia Góra	spa services	89.71	89.71
Uzdrowisko Połczyn S.A.	Połczyn Zdrój	spa services	89.91	89.91
Walcownia Metali Nieżelaznych spółka z o.o.	Gliwice	production of sheeting	84.41	84.41
WFP Hefra SA	Warsaw	production and sale of rust-proof, silver-plated and semi-silver-plated table settings, from man-made materials and ceramics	98.5	98.5
WM "ŁABĘDY" S.A.	Gliwice	production of non-ferrous metals, products from non-ferrous metals, services	88.96	88.96
WPEC w Legnicy S.A.	Legnica	generation, transfer and distribution of heat	85	85
Zagłębie Lubin S.A.	Lubin	management of football section, organisation of professional sporting events	100	100
ZUK S.A.	Polanica Zdrój	spa services, production and sale of mineral waters	90.09	90.09

Information about changes in the structure of the KGHM Polska Miedź S.A. Group during period from 1 January 2010 to 31 December 2010 was described in the Consolidated Annual Report RS 2010 available at the website www.kghm.pl.

5. Information on business segments

In accordance with IFRS 8 one reporting segment was separated in the Group, defined as „Production of copper, precious metals and other smelter products", which involves only KGHM Polska Miedź S.A.

Each of the remaining Group companies, due to their various economic characteristics (the criteria for combination according to IFRS 8.12) and do not meet any of the quantitative thresholds (IFRS 8.13) represents a separate operating segment. They were combined in one segment and presented in the category „All other segments".

Source of Group income	**Entity**
Production of copper, precious metals and other smelter products	KGHM Polska Miedź S.A.
All other segments	
non-ferrous metals processing	WMN "ŁABĘDY" S.A.
trading: copper and copper scrap, non-ferrous metals, coal, chemicals, fuels	KGHM Kupferhandelsges. m.b.H.i.L. KGHM Polish Copper Ltd. in liquidation KGHM Metraco S.A. KGHM (SHANGHAI) COPPER TRADING CO., LTD. CENTROZŁOM WROCŁAW S.A.
exploration and mining of copper and other minerals	KGHM Kupfer AG KGHM AJAX MINING INC.
production: mining machinery, building machinery, road-building materials, rhenium compounds, electrical cables, table settings, explosives	DFM ZANAM - LEGMET Sp. z o.o. PHP "MERCUS" sp. z o.o. KGHM Ecoren S.A. WFP Hefra SA FADROMA S.R. SP. Z O.O. in liquidation NITROERG S.A.
generation, transmission and distribution of electricity and heat, water-sewage management	"Energetyka" sp. z o.o. "BIOWIND" sp. z o.o. WPEC w Legnicy S.A.
sales of services: telecommunication, construction (of which specialised building), transport (railway and road transport, cargo and passenger transport), R&D activities, tourism, multimedia, electrotechnical, attestation, medical, food industry and catering, machinery repairs, rental of property, treatment of waste	KGHM CUPRUM sp. z o.o. – CBR CBJ sp. z o.o. "MIEDZIOWE CENTRUM ZDROWIA" S.A. POL-MIEDŹ TRANS Sp. z o.o. DIALOG S.A. INTERFERIE S.A. PeBeKa S.A. INOVA Spółka z o.o. Ecoren DKE spółka z o.o. PHU "Lubinpex" Sp. z o.o. AVISTA MEDIA Sp. z o.o. PMT Linie Kolejowe Sp. z o.o. „PETROTEL" sp. z o.o. Interferie Medical SPA Sp. z o.o. Fundusz Hotele 01 Sp. z o.o. Fundusz Hotele 01 Sp. z o.o. S.K.A. Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A. Fundusz Uzdrowiska 01 Sp. z o.o. BIPROMET S.A. Przedsiębiorstwo Budowlane Katowice S.A. Bipromet Ecosystem Sp. z o.o. ZUK S.A. Uzdrowisko Połczyn S.A. „Uzdrowisko Cieplice" Sp. z o.o.
creation of investment funds and their management, cash investing	KGHM TFI S.A. KGHM I FIZAN KGHM II FIZAN KGHM III FIZAN
technology transfer, promotion of scientific achievements	KGHM LETIA S.A.
sport activities	Zagłębie Lubin S.A.

(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 profit or loss

	For the period from 1 January 2011 to 30 June 2011				
	Production of copper, precious metals, and other smelter products	**All other segments**	**Adjustment***	**Eliminations (according to IAS 27)**	**Consolidated amount**
REVENUE	10 000 920	3 755 387	80	(2 535 215)	**11 221 172**
of which:					
- external sales	9 637 974	1 584 342	80	(1 224)	**11 221 172**
- inter-segment sales	362 946	2 171 045	-	(2 533 991)	**-**
Interest income	73 721	9 142	-	(1 833)	**81 030**
Interest costs	(532)	(6 679)	-	1 502	**(5 709)**
Depreciation/Amortisation	(331 239)	(118 869)	(2 585)	(9 622)	**(462 315)**
Revaluation of provisions for employee benefits	(9 257)	1 782	-	(2 233)	**(9 708)**
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	-	(1 504)	(4 435)	-	**(5 939)**
Gains on measurement and realisation of derivatives	530 497	7 525	-	-	**538 022**
Losses on measurement and realisation of derivatives	(453 598)	(851)	-	-	**(454 449)**
Share of profit of associates	-	-	-	187 755	**187 755**
Profit before income tax	5 265 396	91 043	(2 097)	(87 346)	**5 266 996**
Income tax expense	(946 392)	(20 371)	1 164	14 923	**(950 676)**
Share of profit (losses) of subordinated entities accounted for using the equity method	-	6 160	(6 160)	-	**-**
Profit for the period	4 319 004	76 832	(7 093)	(72 423)	**4 316 320**
	At 30 June 2011				
Segment assets	23 701 137	5 266 507	4 368	(3 819 419)	**25 152 593**
Segment liabilities	7 718 213	1 380 027	(11 509)	(362 145)	**8 724 586**
Borrowings and finance lease liabilities	8 584	252 009	-	(43 527)	**217 066**
Investments in associates	-	-	-	498	**498**
	For the period from 1 January 2011 to 30 June 2011				
Capital expenditure	450 109	161 385	(94)	(5 150)	**606 250**

*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)

Since 2005 the KGHM Polska Miedź S.A. Group has prepared its financial statements in accordance with International Financial Reporting Standards approved by the European Union. Four Group companies, i.e. the Parent Entity, DIALOG S.A., BIPROMET S.A. and INTERFERIE S.A., keep their accounts in accordance with IFRS. The remaining companies of the Group 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 consolidated financial statements.

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 2011 and for the first six months of 2011.

	Profit or loss					Statement of financial position		
	Sales	Operating costs	Depreciation /Amortisation	Profit before taxation	Income tax	Segment assets	Segment liabilities	Capital expenditure
Netting off of Social Fund assets and liabilities	-	-	-	-	-	(15 496)	(15 496)	-
Offsetting of deferred tax assets/ deferred tax liabilities	-	-	-	-	-	(7 504)	(7 504)	-
Accounting for shares using the equity method	-	-	-	1 796	-	(13 909)	-	-
Perpetual usufruct of land	-	-	-	7	-	(15 641)	-	-
Deferred tax liability	-	-	-	-	745	-	10 597	-
Fair value measurement of assets	-	-	(2 606)	(2 685)	-	56 069	-	-
Other	80	(4 435)	21	(1 215)	419	849	894	(94)
Total adjustment	**80**	**(4 435)**	**(2 585)**	**(2 097)**	**1 164**	**4 368**	**(11 509)**	**(94)**

Information on business segments for the comparable period

Segment assets and liabilities

	Production of copper, precious metals, and other smelter products	All other segments	Adjustment*	Consolidation eliminations (according to IAS 27)	Consolidated amount
	At 31 December 2010				
Segment assets	19 829 296	4 973 955	37 690	(3 663 618)	**21 177 323**
Segment liabilities	5 372 819	1 283 887	(4 644)	(366 518)	**6 285 544**
Borrowings and finance lease liabilities	11 455	304 441	-	(46 082)	**269 814**
Investments in associates	1 159 947	-	-	271 152	**1 431 099**
	Financial period from 1 January to 30 June 2010 - restated				
Capital expenditure	414 899	86 401	-	(4 187)	**497 113**

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

5. Information on business segments (continuation)

Segments profit or loss

	For the period from 1 January 2010 to 30 June 2010 - restated				
	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	(8 198)	**(415 475)**
Revaluation of provisions for employee benefits	(56 664)	(60)	-	-	**(56 724)**
Recognition and reversal of impairment losses on property, plant and equipment and intangible assets	-	(5 510)	-	-	**(5 510)**
Gains on measurement and realisation of derivatives	339 770	3 387	-	-	**343 157**
Losses on measurement and realisation of derivatives	(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	113 114	**2 924 380**
Income tax expense	(521 219)	(4 737)	(38)	1 405	**(524 589)**
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	114 519	**2 399 791**

*Adjustment – adjustment restating the amounts to the measurement bases 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 bases of International Financial Reporting Standards at 31 December 2010 and for the first six months of 2010:

	Profit or loss				Statement of financial position	
	Sales	**Depreciation/ Amortisation**	**Profit before income tax**	**Income tax expense**	**Segment assets**	**Segment liabilities**
Netting off of Social Fund assets and liabilities	-	-	-	-	(9 469)	(9 469)
Offsetting of deferred tax assets/ liabilities	-	-	-	-	(7 295)	(7 295)
Accounting for shares using the equity method	-	-	805	-	(8 082)	-
Separate presentation of assets and liabilities for sales transaction from past years	10 319	-	33	-	-	-
Receivables due to payment to subsidiaries	-	-	(3 214)	-	-	-
Adjustment to retained earnings in connection with first-time adoption of IFRS	-	-	5 494	-	-	-
Deferred tax liability	-	-	-	-	-	11 320
Fair value measurement of assets	-	-	-	-	60 077	-
Other	-	49	(128)	(38)	2 459	800
Total adjustment	**10 319**	**49**	**2 990**	**(38)**	**37 690**	**(4 644)**

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

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

	Financial period	
	from 1 January 2011 to 30 June 2011	**from 1 January 2010 to 30 June 2010 restated**
Poland	2 939 310	2 326 535
Germany	2 405 862	1 593 185
Great Britain	1 238 693	785 102
China	797 975	870 253
The Czech Republic	723 515	541 785
Italy	649 887	264 746
France	327 488	296 913
Austria	303 093	159 812
Hungary	262 563	213 784
Belgium	161 135	183 960
Switzerland	124 800	101 574
Slovakia	44 545	46 454
Finland	24 920	17 165
Other countries	1 217 386	410 509
Total	**11 221 172**	**7 811 777**

Main customers

During the period from 1 January 2011 to 30 June 2011, the revenues from no customer exceeded 10% of the revenues of the Group.

During the period from 1 January 2010 to 30 June 2010, the revenues from one customer exceeded 10% of the revenues of the Group and amounted PLN 867 011 thousand.

98.64% of the non-current assets of the Group are located in the country of origin of the Parent Entity. The remaining 1.36% of them are located in other countries.

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

6. Property, plant and equipment

	At	
	30 June 2011	31 December 2010
Land	37 582	36 546
Buildings	3 700 227	3 777 940
Technical equipment and machinery	3 151 677	3 154 471
Motor vehicles	199 865	198 653
Other fixed assets	69 960	68 061
Fixed assets under construction	1 500 615	1 317 963
Total	**8 659 926**	**8 553 634**

Purchase and sale of property, plant and equipment

	For the period		
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 31 December 2010	from 1 January 2010 to 30 June 2010
Purchase	555 207	1 407 668	461 701
Net sale	1 756	1 878	1 150

Major investment projects recognised under fixed assets under construction

	At	
	30 June 2011	31 December 2010
Construction of the SW-4 shaft	429 078	392 400
Głogów Głęboki – Przemysłowy	265 122	208 329
Ventilation and air conditioning equipment in the mines	223 308	215 643
Construction of a hotel "Medical SPA" in Świnoujście	52 493	26 473
Investments related to mining region infrastructural development in mines	50 797	48 216
Exchange of floatation machinery in the OEPs	42 792	60 872
Renovation of sulphuric acid plant	42 263	34 950
Intensification of lead production – development of the 4th Doerschel furnace at the Głogów smelter	-	37 037
Modernisation of steam and water boilers	36 619	32 234
Investments in power and communications infrastructure	32 958	35 353
Construction of gas-steam blocks in power plants	31 583	9 305
Primary equipment in mines	22 502	24 540
Total	**1 229 515**	**1 125 352**

Capital commitments not recognised in the consolidated statement of financial position

	At	
	30 June 2011	31 December 2010
For the acquisition of property, plant and equipment	731 396	434 801
For the acquisition of intangible assets	23 280	13 888
Total capital commitments:	**754 676**	**448 689**

7. Intangible assets

	At	
	30 June 2011	31 December 2010
Development costs	3 968	4 618
Goodwill	219 131	171 109
Software	38 972	41 630
Acquired concessions, patents, licenses	21 730	23 054
Other intangible assets	110 945	110 218
Assets used in the exploration for and evaluation of mineral resources	189 002	148 801
Intangible assets not yet available for use	23 567	24 444
Total	**607 315**	**523 874**

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

8. Investment property

	For the period		
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 31 December 2010	from 1 January 2010 to 30 June 2010 restated
Beginning of financial period	**59 760**	**17 164**	**17 164**
Changes during the financial period due to:	2 479	42 596	-
- acquisition	43	37 675	-
- settlement of fixed assets under construction	2 608	1 033	-
- fair value measurement	-	4 358	-
- sale of properties	-	(470)	-
- transfer of used property for internal use	(172)	-	-
End of financial period	**62 239**	**59 760**	**17 164**

9. Investments in associates

	For the period		
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 31 December 2010	from 1 January 2010 to 30 June 2010 restated
Beginning of financial period	**1 431 099**	**1 315 663**	**1 315 663**
Acquisition of associate	449	-	-
Share of profits of associates	187 755	280 542	155 219
Changes in equity due to payment of dividend	(250 013)	(146 658)	(24 050)
Amortisation of relations with customers identified in the process of allocating purchase cost	(9 224)	(18 448)	(9 224)
Reclassification of the shares in Polkomtel S.A. to non-current assets held for sale	(1 359 568)	-	-
End of financial period	**498**	**1 431 099**	**1 437 608**

10. Available-for-sale financial assets

	Note	At	
		30 June 2011	31 December 2010
Shares in unlisted companies		11 280	11 274
Shares in listed companies		1 205 981	740 324
Other		6	7
Non-current available-for-sale financial assets		**1 217 267**	**751 605**
Participation units in open-end investment funds		531 395	407 214
Shares in listed companies		7 656	8 448
Debt securities		7 971	-
Current available-for-sale financial assets		**547 022**	**415 662**
Total available-for-sale financial assets:	**33.1**	**1 764 289**	**1 167 267**

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

11. Held-to-maturity investments

	Note	At 30 June 2011	At 31 December 2010
Monetary resources of Mine Closure Fund		110 308	84 115
Other securities		42	42
Non-current held-to-maturity investments		**110 350**	**84 157**
Monetary resources of Mine Closure Fund		1 435	4 129
Current held-to-maturity investments		**1 435**	**4 129**
Total held-to-maturity investments:	**33.1**	**111 785**	**88 286**

12. Derivatives

	Note	At 30 June 2011	At 31 December 2010
Non-current assets			
Hedging instruments		425 708	402 234
Trade instruments		4 436	1 605
Non-current assets due to derivatives, total:		**430 144**	**403 839**
Current assets			
Hedging instruments		304 133	211 186
Trade instruments		5 251	9 137
Instruments initially designated as hedging instruments excluded from hedge accounting		54 903	77 261
Current assets due to derivatives, total:		**364 287**	**297 584**
Total assets due to derivatives	**33.1**	**794 431**	**701 423**
Non-current liabilities			
Hedging instruments		330 400	606 154
Trade instruments		77 671	105 426
Instruments initially designated as hedging instruments excluded from hedge accounting		3 813	
Non-current liabilities due to derivatives, total:		**411 884**	**711 580**
Current liabilities			
Hedging instruments		204 006	294 161
Trade instruments		162 131	187 503
Instruments initially designated as hedging instruments excluded from hedge accounting		769	454
Current liabilities due to derivatives, total:		**366 906**	**482 118**
Total liabilities due to derivatives	**33.1**	**778 790**	**1 193 698**

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

13. Trade and other receivables

	Note	At 30 June 2011	At 31 December 2010
Trade and other non-current receivables			
Trade receivables		14 905	14 715
Retentions (collateral) due to long-term construction contracts		2 139	2 474
Deposits		525	1 187
Loans granted		60	-
Other financial receivables		2 277	1 747
Impairment allowances		(13 706)	(13 158)
Total loans and financial receivables, net:	**33.1**	**6 200**	**6 965**
Other non-financial receivables		5 031	1 719
Prepayments		4 389	4 824
Total non-financial receivables, net		**9 420**	**6 543**
Trade and other non-current receivables, net:		**15 620**	**13 508**
Trade and other current receivables			
Trade receivables		1 648 215	2 043 788
Retentions (collateral) due to long-term construction contracts		1 371	837
Loans granted		1 508	1 595
Deposits of over 3 up to 12 months		22 012	351 280
Other financial receivables		336 319	55 918
Impairment allowances		(85 736)	(85 825)
Total loans and financial receivables, net	**33.1**	**1 923 689**	**2 367 593**
Other non-financial receivables, including:		343 036	370 907
- due to taxes and other charges		230 833	258 457
Prepayments		117 958	24 171
Impairment allowances		(32 048)	(32 013)
Total non-financial receivables, net		**428 946**	**363 065**
Trade and other current receivables, net		**2 352 635**	**2 730 658**
Total trade and other non-current and current receivables, net		**2 368 255**	**2 744 166**

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

14. Inventories

	Note	At 30 June 2011	At 31 December 2010
Materials		564 561	247 277
Half-finished products and work in progress		1 749 921	1 683 819
Finished goods		367 004	209 316
Merchandise		144 164	81 909
Total carrying amount of inventories		**2 825 650**	**2 222 321**

		For the period	
Write-down of inventories in the financial period		**from 1 January 2011 to 30 June 2011**	**from 1 January 2010 to 30 June 2010 restated**
Write-down of inventories recognised in cost of sales	28	(1 119)	(882)
Reversal of write-down recognised in cost of sales	28	1 235	3 219

15. Cash and cash equivalents

	Note	At 30 June 2011	At 31 December 2010
Cash in hand		1 287	847
Cash at bank		56 637	103 046
Other cash		1 780	1 361
Other financial assets with a maturity of up to 3 months from the date of acquisition		6 036 500	2 981 703
Total cash and cash equivalents	**33.1**	**6 096 204**	**3 086 957**

Other financial assets with a maturity of up to 3 months from the date of acquisition include mainly deposits in the amount of PLN 5 983 876 thousand (as at 31 December 2010: PLN 2 906 645 thousand), participation units in investment funds in the amount of PLN 46 162 thousand (at 31 December 2010: PLN 68 289 thousand), and interest accrued on financial assets in the amount of PLN 6 462 thousand (as at 31 December 2010: PLN 6 769 thousand).
Components of cash and cash equivalents presented in the statement of cash flows are the same as those presented in the statement of financial position.

16. Non-current assets held for sale

	At 30 June 2011	At 31 December 2010
Property, plant and equipment	689	689
Intangible assets	389	389
Shares of associate	1 359 568	-
Total non-current assets held for sale	**1 360 646**	**1 078**

At 30 June 2011 non-current assets held for sale mainly represent:
- shares of the associate Polkomtel S.A. in the amount of PLN 1 359 568 thousand,
- the quartz mine „Stanisław" in the amount of PLN 1 074 thousand, whose activities have been discontinued (property, plant and equipment: PLN 685 thousand, intangible assets: PLN 389 thousand) (the activities related to the assets held for sale were discontinued in 2004, as well as the depreciation of these assets).

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

17. Share capital

At 30 June 2011, the share capital of the Parent Entity, in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 000 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 2011 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 2011, 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 of KGHM Polska Miedź S.A., 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 of KGHM Polska Miedź S.A., representing 68.21% of the share capital and the same number of votes at the General Meeting.

At 30 June 2011 and at the date of preparation of these financial statements, the shareholder structure of the Parent Entity was as follows:

shareholder	number of shares/votes	total nominal value of shares	% held in share capital/ total number of votes
State Treasury	63 589 900	635 899 000	31.79%
Other shareholders	136 410 100	1 364 101 000	68.21%
Total	200 000 000	2 000 000 000	100.00%

Changes in significant packets of shares
In the first half of 2011 there were no changes in significant packets of shares.
In the first half of 2010 the State Treasury – after a sale on 8 January 2010 on a regulated market of 20 000 000 shares of KGHM Polska Miedź S.A. directed to qualified investors – decreased its share in the share capital of the Parent Entity to 31.79%.

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 2011		**120 046**	**89 775**	**209 821**
Fair value gains on available-for-sale financial assets		29 445	-	29 445
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets		(4 321)	-	(4 321)
Impact of effective cash flow hedging transactions		-	289 100	289 100
Amount transferred to profit or loss due to the settlement of hedging instruments		-	(83 577)	(83 577)
Deferred income tax	23	(4 774)	(39 049)	(43 823)
Other comprehensive income		**20 350**	**166 474**	**186 824**
At 30 June 2011		**140 396**	**256 249**	**396 645**

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

18. Accumulated other comprehensive income (continuation)

	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 gains on available-for-sale financial assets	152 228	-	152 228
Amount transferred to profit or loss due to the settlement of available-for-sale financial assets	(4 716)	-	(4 716)
Impact of effective cash flow hedging transactions	-	97 786	97 786
Amount transferred to profit or loss due to the settlement of hedging instruments	-	(142 187)	(142 187)
Deferred income tax	(28 027)	8 436	(19 591)
Other comprehensive income	**119 485**	**(35 965)**	**83 520**
At 31 December 2010	**120 046**	**89 775**	**209 821**

		Accumulated other comprehensive income 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		-	309 255	309 255
Amount transferred to profit or loss due to the settlement of hedging instruments		-	(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 - restated		**(10 361)**	**309 578**	**299 217**

19. Retained earnings

	At	
	30 June 2011	**31 December 2010**
Undistributed profit/(loss) from prior years	5 627 739	1 441 693
including valuation of the put option for employee shares	(67 382)	(67 382)
Reserve capital created in accordance with the Commercial Partnerships and Companies Code	669 817	682 547
Reserve capital created and utilised in accordance with the Statutes of Group entities	3 168 099	5 607 666
Profit for the current period	4 315 554	4 708 946
Total retained earnings	**13 781 209**	**12 440 852**

At 30 June 2011 this statutory reserve capital in the Group entities amounts to PLN 669 817 thousand, of which PLN 660 000 thousand relates to the Parent Entity.

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

20. Changes in equity attributable to non-controlling interest

	Note	For the period from 1 January 2011 to 30 June 2011	from 1 January 2010 to 31 December 2010	from 1 January 2010 to 30 June 2010 restated
At beginning of the period		**241 106**	**77 082**	**77 082**
Share in profits of subsidiaries attributable to non-controlling interest		766	5 917	3 428
Changes in equity attributable to non-controlling interest due to obtaining control of subsidiaries	20.1	12 711	159 210	-
Changes in equity attributable to non-controlling interest due to change in share capital of subsidiaries	20.1	(5 312)	(1 103)	-
Exchange differences from the translation of foreign operations attributable to non-controlling interest		432	-	-
At end of the period		**249 703**	**241 106**	**80 510**

20.1 Other changes in equity attributable to non-controlling interest

For the period from 1 January 2011 to 30 June 2011	**Note**	**Net assets at the day of obtaining control/ change in % held**	**% of non-controlling interest in respect of the change**	**Equity attributable to non-controlling interest**
Increases due to obtaining control of subsidiary NITROERG S.A.	**20**	**84 741**	**15%**	**12 711**
Transactions with non-controlling interest, of which:	**20**	-	**-**	**(5 312)**
increase of share capital in ZUK S.A.		14 421	1.71%	(247)
increase of share capital in Uzdrowisko Połczyn S.A.		1 667	0.54%	(9)
increase of share capital in "Uzdrowisko Cieplice" Sp. z o.o.		192	1.96%	(4)
settlement of WMN Sp. z o.o. due to combination with WM "ŁABĘDY" S.A.		47 722	15.63%	(7 459)
settlement of WM "ŁABĘDY" S.A. due to combination with WMN Sp. z o.o.		52 292	11.08%	(5 794)
WMN "ŁABĘDY" – new entity founded from the combination of WMN Sp. z o.o. and WM „ŁABĘDY" S.A.		54 076	15.04%	8 133
acquisition of non-controlling interest of KGHM Kupfer AG		(270)	25.10%	68
Total other changes in equity attributable to non-controlling interest		**-**	**-**	**7 399**

The method of percentage share in the net assets of acquired companies was used to measure non-controlling shares.

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

20. Changes in equity attributable to non-controlling interest (continuation)
20.1 Other changes in equity attributable to non-controlling interest (continuation)

For the period from 1 January 2010 to 31 December 2010	Note	Net assets at the day of obtaining control/change in % held	% of non-controlling interest in respect of the change	Equity attributable to non-controlling interest
Increases due to obtaining control of subsidiaries	**20**	**551 098**	**-**	**159 210**
BIPROMET S.A. Group		49 851	34%	17 880
KGHM AJAX MINING INC.		206 946	49%	101 404
CENTROZŁOM WROCŁAW S.A.		209 904	15%	31 486
ZUK S.A.		56 812	9.91%	5 629
Uzdrowisko Połczyn S.A.		21 023	10.09%	2 136
„Uzdrowisko Cieplice" Sp. z o.o.		6 562	10.29%	675
transactions with non-controlling interest	**20**	-	**-**	**(1 103)**
INTERFERIE S.A.		95 913	1.15%	(1 103)
Other changes in equity attributable to non-controlling interest		**-**	**-**	**158 107**

21. Trade and other payables

	Note	At 30 June 2011	At 31 December 2010
Trade and other non-current payables			
Trade payables		9 937	11 732
including payables due to purchase, construction of property, plant and equipment and intangible assets		2 470	2 933
Liabilities due to measurement of employee shares put options		69 387	68 872
Other financial liabilities		10 890	11 562
Total financial liabilities (scope of IFRS 7)	**33.1**	**90 214**	**92 166**
Deferred income		32 218	29 268
Other non-financial liabilities		223	126
Total non-financial liabilities		**32 441**	**29 394**
Total trade and other non-current payables		**122 655**	**121 560**
Trade and other current payables			
Trade payables		770 560	890 150
including payables due to purchase, construction of property, plant and equipment and intangible assets		85 074	230 699
Payables due to unsettled derivatives		10 103	49 690
Payables due to unpaid dividend for 2010		2 980 000	-
Other financial liabilities		27 210	20 956
Total financial liabilities (scope of IFRS 7)	**33.1**	**3 787 873**	**960 796**
Other financial liabilities (IAS 19 – Employee benefits)		95 013	168 419
Total financial liabilities		**3 882 886**	**1 129 215**
Liabilities due to taxes and social security		369 126	307 039
Other non-financial liabilities		42 453	46 006
Special funds		125 209	112 054
Deferred income		55 077	22 284
Accruals		479 687	377 981
Total non-financial liabilities		**1 071 552**	**865 364**
Total trade and other current payables		**4 954 438**	**1 994 579**
Total trade and other non-current and current payables		**5 077 093**	**2 116 139**

21. Trade and other payables (continuation)

Measurement of liabilities due to employee shares options:

Companies whose employees were offered shares of companies free of charge by the State Treasury under the Privatisation Act	Number of employee shares	Share price (PLN)	Amount of liability (PLN '000) at	
			30 June 2011	31 December 2010
WPEC w Legnicy S.A.	1 770 000	20.00	28 869	28 576
"Uzdrowisko Cieplice" Sp. z o.o.	13 110	256.50	2 587	2 573
ZUK S.A.	379 500	40.06	11 696	11 632
Uzdrowisko Połczyn S.A.	179 550	16.51	2 281	2 268
CENTROZŁOM WROCŁAW S.A.	1 650 000	18.87	23 954	23 823
Liabilities due to employee shares options			**69 387**	**68 872**

22. Borrowings and finance lease liabilities

	Note	At	
		30 June 2011	**31 December 2010**
Non-current borrowings and finance lease liabilities			
Bank loans		101 941	141 829
Loans		2 331	2 420
Finance lease liabilities		25 112	29 403
Total non-current borrowings and finance lease liabilities		**129 384**	**173 652**
Current borrowings and finance lease liabilities			
Bank loans		71 802	81 901
Loans		2 465	1 883
Finance lease liabilities		13 415	12 378
Total current borrowings and finance lease liabilities		**87 682**	**96 162**
Total borrowings and finance lease liabilities	**33.1**	**217 066**	**269 814**

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

23. Deferred tax

	Note	At 30 June 2011	31 December 2010	30 June 2010 restated
Net deferred tax assets at the beginning of the period, of which:		**459 555**	**291 213**	**291 213**
Deferred tax assets at the beginning of the period		**592 947**	**347 395**	**347 395**
Deferred tax liabilities at the beginning of the period		**133 392**	**56 182**	**56 182**
Credited / (charged) to profit	35	(39 947)	202 903	57 234
Decrease in other accumulated comprehensive income	18	(43 823)	(19 591)	(40 561)
Deferred tax assets/(liabilities) at the date of acquisition of shares in a subsidiary		3 062	(14 970)	-
Net deferred tax assets at the end of the period, of which:		**378 847**	**459 555**	**307 886**
Deferred tax assets at the end of the period		**499 009**	**592 947**	**365 999**
Deferred tax liabilities at the end of the period		**120 162**	**133 392**	**58 113**

Deferred tax assets prior to offsetting

	At 1 January 2011 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 in accumulated other comprehensive income due to change in the balance of temporary differences	At 30 June 2011 based on the rate of 19%
Exchange rate differences	115	-	143	-	258
Interest	63	-	(6)	-	57
Allowances for impairment of receivables	9 991	-	450	-	10 441
Short-term accruals for salaries	58 062	-	17 008	-	75 070
Employee benefits (holidays)	3 598	-	13	-	3 611
Provision for decommissioning of mines and other facilities	102 058	-	(12 455)	-	89 603
Measurement of forward transactions	429 215	-	1 553	-	430 768
Re-measurement of hedging instruments	30	-	(25)	17 305	17 310
Depreciation and amortisation	137 175	-	9 000	-	146 175
Future employee benefits liabilities	251 174	3 124	1 703	-	256 001
Unpaid salaries with surcharges	13 824	-	4 976	-	18 800
Measurement of available-for-sale financial assets	318	-	-	150	468
Other	134 016	-	(3 370)	-	130 646
Total	**1 139 639**	**3 124**	**18 990**	**17 455**	**1 179 208**

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

23. Deferred tax (continuation)

Deferred tax assets prior to offsetting (continuation)

	At 1 January 2010 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 in accumulated other comprehensive income due to change in the balance of temporary differences	At 31 December 2010 based on the rate of 19%
Exchange rate differences	27	17	71	-	115
Interest	36	5	22	-	63
Allowances for impairment of receivables	13 358	199	(3 566)	-	9 991
Short-term accruals for salaries	53 305	721	4 036	-	58 062
Employee benefits (holidays)	4 180	17	(599)	-	3 598
Provision for decommissioning of mines and other facilities	99 545	-	2 513	-	102 058
Measurement of forward transactions	174 330	478	254 407	-	429 215
Re-measurement of hedging instruments	41	-	(11)	-	30
Depreciation and amortisation	130 732	-	6 443	-	137 175
Future employee benefits liabilities	243 540	959	6 675	-	251 174
Unpaid salaries with surcharges	12 223	229	1 372	-	13 824
Measurement of available-for-sale financial assets	218	-	-	100	318
Other	85 951	2 119	45 946	-	134 016
Total	**817 486**	**4 744**	**317 309**	**100**	**1 139 639**

	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 in accumulated other comprehensive income due to change in the balance of temporary differences	At 30 June 2010 based on the rate of 19% restated
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
Future employee benefits liabilities	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**

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

23. Deferred tax (continuation)

Deferred tax liabilities prior to offsetting

	At 1 January 2011 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	Decrease in other accumulated comprehensive income due to change in the balance of temporary differences	At 30 June 2011 based on the rate of 19%
Exchange rate differences	209	4	248	-	461
Interest	1 892	8	(218)	-	1 682
Measurement of forward transactions	67 077	-	69 581	-	136 658
Re-measurement of hedging instruments	21 674	-	-	56 354	78 028
Depreciation/amortisation	419 728	50	923	-	420 701
Measurement of available-for-sale financial assets	28 477	-	-	4 924	33 401
Other	141 027	-	(11 597)	-	129 430
Total	**680 084**	**62**	**58 937**	**61 278**	**800 361**

	At 1 January 2010 based on the rate of 19%	Increase due to obtaining control of a subsidiary	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 2010 based on the rate of 19%
Exchange rate differences	108	95	6	-	209
Interest	1 014	9	869	-	1 892
Measurement of forward transactions	37 161	340	29 576	-	67 077
Re-measurement of hedging instruments	29 494	-	616	(8 436)	21 674
Depreciation/amortisation	384 860	9 674	25 194	-	419 728
Measurement of available-for-sale financial assets	350	-	-	28 127	28 477
Other	73 286	9 596	58 145	-	141 027
Total	**526 273**	**19 714**	**114 406**	**19 691**	**680 084**

	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% restated
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	16 610	-	401 470
Measurement of available-for-sale financial assets	350	-	(349)	1
Other	73 286	(627)	-	72 659
Total	**526 273**	**59 204**	**42 774**	**628 251**

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

24. Employee benefits

	Note	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
Present value of obligations - at 1 January 2011	**29**	**1 338 609**	**298 001**	**226 203**	**764 060**	**50 345**
Interest costs		33 317	6 500	5 478	20 625	714
Current service cost		19 346	8 207	5 207	5 537	395
Benefits paid		(50 241)	(9 617)	(6 829)	(33 622)	(173)
Actuarial losses/(gains)		6 459	(5 505)	1 972	9 594	398
(Gains) due to limitation of the employee benefit plans		(16)	-	(16)	-	-
Liabilities transferred due to business combination		16 445	11 665	4 780	-	-
Present value of obligations - at 30 June 2011	**29**	**1 363 919**	**309 251**	**236 795**	**766 194**	**51 679**
Past service cost unrecognised at the end of the reporting period		(5 060)	-	(5 060)	-	-
Carrying amount of liabilities - at 30 June 2011		**1 358 859**	**309 251**	**231 735**	**766 194**	**51 679**
of which:						
Carrying amount of non-current liabilities		1 239 385	268 226	197 094	728 574	45 491
Carrying amount of current liabilities		119 474	41 025	34 641	37 620	6 188

	TOTAL liabilities	Jubilee awards	Retirement and disability benefits	Coal equivalent	Other benefits
Present value of obligations - at 1 January 2010	**1 297 643**	**288 191**	**211 414**	**753 305**	**44 733**
Interest costs	70 718	15 083	11 546	41 592	2 497
Current service cost	46 771	20 367	12 043	11 074	3 287
Benefits paid	(91 355)	(42 931)	(13 721)	(32 315)	(2 388)
Actuarial losses/(gains)	9 043	13 390	3 066	(9 596)	2 183
(Gains) due to limitation of the employee benefit plans	(571)	(506)	(59)	-	(6)
Liabilities transferred due to business combination	6 360	4 407	1 914	-	39
Present value of obligations - at 31 December 2010	**1 338 609**	**298 001**	**226 203**	**764 060**	**50 345**
Past service cost unrecognised at the end of the reporting period	(5 903)	-	(5 903)	-	-
Carrying amount of liabilities - at 31 December 2010	**1 332 706**	**298 001**	**220 300**	**764 060**	**50 345**
of which:					
Carrying amount of non-current liabilities	1 221 794	259 954	188 524	729 007	44 309
Carrying amount of current liabilities	110 912	38 047	31 776	35 053	6 036

	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/(gains)		52 859	9 718	3 019	38 850	1 272
Present value of obligations - at 30 June 2010 - restated	**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 - restated		**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

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

24. Employee benefits (continuation)

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

	Note	For the period from 1 January 2011 to 30 June 2011	For the period from 1 January 2010 to 30 June 2010 restated
Interest costs		33 317	33 152
Current service cost		19 346	18 153
Actuarial losses		6 459	52 859
Gains due to limitation of the employee benefit plans		(16)	-
Past service cost	**29**	843	843
Total costs recognised in profit or loss		**59 949**	**105 007**

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 2011

	2011	2012	2013	2014	2015 and beyond
- discount rate	6.00%	6.00%	6.00%	6.00%	6.00%
- rate of increase in coal prices	0.00%	4.00%	3.00%	3.00%	3.00%
- rate of increase in the lowest salary	5.20%	4.00%	4.00%	4.00%	4.00%
- expected inflation	4.00%	3.50%	2.50%	2.50%	2.50%
- future expected increase in salary	4.60%	5.00%	4.00%	4.00%	4.00%

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%

(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 2011		**567 643**	**515 877**	**5 609**	**12 297**	**33 860**
Provisions recognised in other operating costs	31	3 463	-	-	1 659	1 804
Provisions transferred due to business combinations		945	-	-	-	945
Changes in provisions after updating of estimates recognised in other operating (income)/costs	30, 31	(2 548)	(1 123)	(32)	(1 143)	(250)
Changes in provisions arising from updating of estimates recognised in fixed assets		(56 041)	(56 041)	-	-	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	32	15 806	15 515	116	-	175
Utilisation of provisions		(4 830)	(2 110)	(235)	(616)	(1 869)
Release of provisions recognised in other operating income	30	(6 330)	-	(9)	-	(6 321)
Transfer to Mine Closure Fund		(11 435)	(11 435)	-	-	
Other		123	-	620	-	(497)
Provisions at 30 June 2011		**506 796**	**460 683**	**6 069**	**12 197**	**27 847**
of which:						
Non-current provisions		**467 389**	**448 102**	**5 250**	**-**	**14 037**
Current provisions		**39 407**	**12 581**	**819**	**12 197**	**13 810**

	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 in other operating costs	14 799	1 108	302	3 488	9 901
Provisions transferred due to business combinations	4 367	497	-	52	3 818
Changes in provisions after updating of estimates recognised in other operating (income)/costs	(1 067)	(899)	-	-	(168)
Changes in provisions arising from updating of estimates recognised in fixed assets	(624)	(624)	-	-	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) – recognised in finance costs	32 174	31 843	-	-	331
Utilisation of provisions	(15 754)	(4 590)	-	(5 994)	(5 170)
Release of provisions recognised in other operating income	(16 724)	(985)	-	(7 775)	(7 964)
Transfer to Mine Closure Fund	(21 857)	(21 857)	-	-	-
Other	(2 459)	-	-	(1 598)	(861)
Provisions at 31 December 2010	**567 643**	**515 877**	**5 609**	**12 297**	**33 860**
of which:					
Non-current provisions	**520 727**	**501 247**	**4 546**	**-**	**14 934**
Current provisions	**46 916**	**14 630**	**1 063**	**12 297**	**18 926**

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

25. Provisions for other liabilities and charges (continuation)

	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 in other operating costs	31	3 604	251	-	1 089	2 264
Changes in provisions after updating of estimates recognised in other operating (income)/costs	30, 31	1 608	886	-	-	722
Changes in provisions arising from updating of estimates recognised in fixed assets		47 908	47 908	-	-	-
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount) recognised in finance costs	32	15 870	15 689	-	-	181
Utilisation of provisions		(9 564)	(1 782)	-	(5 492)	(2 290)
Release of provisions recognised in other operating income	30	(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 - restated		**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**

As at 30 June 2011, the largest item of provisions for other liabilities is an estimate for the costs of future decommissioning (liquidation) of mines and other technological facilities with the carrying amount of PLN 460 683 thousand (as at 31 December 2010: PLN 515 877 thousand), estimated in accordance with the methodology defined in the International Financial Reporting Standards. The decrease in the provision in the first half of 2011 was caused by the change in long term forecast yield on bonds (increase of the discount rate).

26. Impairment losses

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.

Impairment losses recognised relate to property, plant and equipment and intangible assets which will not bring expected economic benefits.

Impairment losses by asset class during the financial period from 1 January to 30 June 2011

	Impairment loss recognised	Impairment loss reversed	Impairment loss used
Lands	1	54	427
Technical equipment and machinery	1 319	62	563
Other fixed assets	900	-	-
Fixed assets under construction	4 435	600	1
Software	-	-	14
Total	**6 655**	**716**	**1 005**

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

26. Impairment losses (continuation)

Impairment losses by segment during the financial period from 1 January to 30 June 2011

	Production of copper precious metals, and other smelter products	All other segments	Total consolidated amount
Impairment loss recognised	-	6 655	**6 655**
Impairment loss reversed	-	716	**716**
Impairment loss used	-	1 005	**1 005**

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

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

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

	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**

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

27. Sales

	For the period from 1 January 2011 to 30 June 2011	For the period from 1 January 2010 to 30 June 2010 restated
Copper, precious metals, smelter by-products	9 743 585	7 121 554
Salt	39 520	32 564
Energy	54 266	50 508
Services, of which:	465 967	401 935
telecommunications services	254 365	244 832
Mining machinery, transport vehicles for mining and other	9 179	9 385
Merchandise	496 285	112 121
Scrap and materials	11 413	3 684
Other goods	400 957	80 026
Total	**11 221 172**	**7 811 777**
of which:		
Net revenues from the sale of products, merchandise and materials - domestic	2 939 310	2 326 535
Net revenues from the sale of products, merchandise and materials - foreign	8 281 862	5 485 242

Supplementary dates

	For the period from 1 January 2011 to 30 June 2011	For the period from 1 January 2010 to 30 June 2010 restated
Average copper price on LME (USD/t)	9 398	7 130
Average exchange rate (USD/PLN) per NBP	2.82	3.02

28. Expenses by nature

	Note	For the period from 1 January 2011 to 30 June 2011	For the period from 1 January 2010 to 30 June 2010 restated
Depreciation of property, plant and equipment and amortisation of intangible assets		462 315	415 475
Employee benefits expenses	29	1 803 456	1 649 221
Materials and energy		3 174 654	2 639 490
External services		717 599	612 901
Taxes and charges		196 378	180 068
Advertising costs and representation expenses		36 998	24 963
Property and personal insurance		17 046	13 256
Research and development costs not capitalised in intangible assets		2 460	1 834
Other costs, of which:		31 662	26 582
Impairment losses on property, plant and equipment, intangible assets		2 220	5 631
Write-down of inventories	14	1 119	882
Allowance for impairment of receivables		6 175	7 249
Reversal of impairment of property, plant and equipment, intangible assets		(116)	(117)
Reversal of write-down of inventories	14	(1 235)	(3 219)
Reversal of allowance for impairment of receivables		(4 584)	(6 426)
Losses from the disposal of financial instruments	33.2	1 899	834
Other operating costs		26 184	21 748
Total expenses by nature		**6 442 568**	**5 563 790**
Cost of merchandise and materials sold (+), of which:		297 902	76 137
Allowance for impairment of receivables		814	120
Reversal of allowance for impairment of receivables		(360)	(285)
Change in inventories of finished goods and work in progress (+/-)		(220 146)	(365 133)
Cost of manufacturing products for internal use (-)		(265 104)	(253 439)
Total cost of sales, selling costs and administrative expenses		**6 255 220**	**5 021 355**

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

29. Employee benefits expenses

	Note	For the period from 1 January 2011 to 30 June 2011	For the period from 1 January 2010 to 30 June 2010 restated
Remuneration		1 338 034	1 179 758
Costs of social security		455 714	412 739
Costs of future benefits (provisions) due to retirement benefits, jubilee awards and similar employee benefits, of which:		9 708	56 724
Present value of obligation	24	8 865	55 881
Past service costs	24	843	843
Employee benefits expenses	**28**	**1 803 456**	**1 649 221**

30. Other operating income

	Note	For the period from 1 January 2011 to 30 June 2011	For the period from 1 January 2010 to 30 June 2010 restated
Income and gains from financial instruments classified under other operating activities, resulting from:	33.2	630 371	485 598
Measurement and realisation of derivatives		538 022	343 157
Interest		77 323	24 995
Foreign exchange gains		-	114 401
Gains from disposal of available-for-sale financial assets		14 145	896
Gains on measurement of non-current liabilities		204	-
Reversal of allowance for impairment of loans and receivables		677	2 149
Gains from the disposal of intangible assets		155	1 782
Interest on non-financial receivables		3 707	2 313
Dividends received		27 462	64
Reversal of impairment losses on fixed assets under construction		600	4
Reversal of allowance for impairment of other non-financial receivables		754	804
Government grants and other donations received		842	538
Release of unused provisions due to:	25	10 137	11 278
Decommissioning of mines		2 382	434
Disputed issues, pending court proceedings		1 143	6 648
Other		6 612	4 196
Surpluses identified in current assets		109	5 150
Penalties and compensation received		16 805	10 513
Foreign exchange gains - non-financial		338	2 825
Other operating income/gains		10 119	12 032
Total other operating income		**701 399**	**532 901**

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

31. Other operating costs

	Note	For the period from 1 January 2011 to 30 June 2011	For the period from 1 January 2010 to 30 June 2010 restated
Costs and losses on financial instruments classified under other operating activities, resulting from:	33.2	517 879	481 736
Measurement and realisation of derivatives		454 449	477 732
Interest		163	39
Foreign exchange losses		56 949	-
Losses on measurement of non-current liabilities		-	542
Losses from disposal		1 143	-
Allowances for impairment of loans and receivables		5 175	3 423
Allowances for impairment of other non-financial receivables		803	3 999
Losses on the sale of property, plant and equipment		5 965	3 300
Impairment losses on fixed assets under construction		4 435	-
Interest on overdue non-financial liabilities		430	101
Donations granted		13 120	9 948
Provisions for:	25	4 722	6 175
Decommissioning of mines		1 259	1 470
Disputed issues, pending court proceedings		1 659	1 089
Other		1 804	3 616
Penalties and compensation paid		2 491	1 313
Non-culpable shortages in tangible current assets, cash and losses from fortuitous events		410	3 031
Contributions to a voluntary organisation		5 496	4 802
Other operating costs/losses		10 594	14 476
Total other operating costs		**566 345**	**528 881**

32. Finance costs

	Note	For the period from 1 January 2011 to 30 June 2011	For the period from 1 January 2010 to 30 June 2010 restated
Interest expense due to:	33.2	5 116	7 905
Bank and other loans		4 029	6 611
Finance leases		1 057	1 294
Financial liabilities		30	-
Foreign exchange (gains)/losses on borrowings	33.2	(312)	89
Changes in provisions arising from the approach of the maturity date of a liability (unwinding of the discount), due to:	25	15 806	15 870
Measurement of provisions for decommissioning of mines		15 515	15 689
Measurement of other provisions		291	181
Changes in liabilities due to measurement of the put option for employee shares arising from the approach of maturity date of a liability		516	1 094
Losses due to measurement of non-current liabilities	33.2	136	145
Other finance costs		503	178
Total finance costs		**21 765**	**25 281**

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

33. Financial instruments

33.1 Financial instrument classes and categories

At 30 June 2011

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 excluded from the scope of IAS 39	Hedging instruments	**Total**
	10	7 971	-	-	-	-	-	-	-	**7 971**
Debt securities	10	1 213 637	-	-	-	-	-	-	-	**1 213 637**
Listed shares	10	11 280	-	-	-	-	-	-	-	**11 280**
Unlisted shares	10, 15	531 395	-	-	46 162	-	-	-	-	**577 557**
Participation units of investment funds	13	-	-	-	1 578 594	-	-	-	-	**1 578 594**
Trade receivables (net)	11,13,15	-	111 743	-	6 072 579	-	-	-	-	**6 184 322**
Cash and cash equivalents and deposits	10,11,13	6	42	-	328 758	-	-	-	-	**328 806**
Other financial assets (net)	12	-	-	59 273	-	(82 234)	-	-	324 863	**301 902**
Derivatives - Currency	12	-	-	5 317	-	(162 150)	-	-	(129 428)	**(286 261)**
Derivatives - Commodity contracts - metals	21	-	-	-	-	-	(780 497)	-	-	**(780 497)**
Trade payables	22	-	-	-	-	-	(178 539)	-	-	**(178 539)**
Bank and other loans	21,22	-	-	-	-	-	(3 097 590)	(38 527)	-	**(3 136 117)**
Other financial liabilities										
		1 764 289	**111 785**	**64 590**	**8 026 093**	**(244 384)**	**(4 056 626)**	**(38 527)**	**195 435**	**5 822 655**

* Instruments initially designated as hedging instruments, excluded from hedge accounting, were included in the categories of financial assets and liabilities at fair value through profit or loss.

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

33. Financial instruments (continuation)
33.1 Financial instrument classes and categories (continuation)

At 31 December 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 excluded from the scope of IAS 39	Hedging instruments	Total
Listed shares	10	748 772	-	-	-	-	-	-	-	**748 772**
Unlisted shares	10	11 274	-	-	-	-	-	-	-	**11 274**
Participation units of investment funds	10,15	407 214	-	-	68 289	-	-	-	-	**475 503**
Trade receivables (net)	13	-	-	-	1 972 186	-	-	-	-	**1 972 186**
Cash and cash equivalents and deposits	11,13,15	-	88 244	-	3 371 135	-	-	-	-	**3 459 379**
Other financial assets (net)	10,11,13	7	42	-	49 906	-	-	-	-	**49 955**
Derivatives - Currency	12	-	-	85 281	-	(108 979)	-	-	284 462	**260 764**
Derivatives - Commodity contracts - metals	12	-	-	2 722	-	(184 404)	-	-	(571 357)	**(753 039)**
Trade payables	21	-	-	-	-	-	(901 882)	-	-	**(901 882)**
Bank and other loans	22	-	-	-	-	-	(228 033)	-	-	**(228 033)**
Other financial liabilities	21,22	-	-	-	-	-	(151 080)	(41 781)	-	**(192 861)**
		1 167 267	**88 286**	**88 003**	**5 461 516**	**(293 383)**	**(1 280 995)**	**(41 781)**	**(286 895)**	**4 902 018**

* Instruments initially designated as hedging instruments, excluded from hedge accounting, were included in the categories of financial assets and liabilities at fair value through profit or loss.

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

33. Financial instruments (continuation)

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

For the period from 1 January 2011 to 30 June 2011	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 excluded from the scope of IAS 39	Hedging instruments	Total financial instruments
Interest income/(costs) recognised in:	**30,31,32**	-	-	**76**	**77 247**	**(4 222)**	**(1 057)**	-	**72 044**
Other operating income	30	-	-	76	77 247	-	-	-	77 323
Other operating costs	31	-	-	-	-	(163)	-	-	(163)
Finance costs	32	-	-	-	-	(4 059)	(1 057)	-	(5 116)
Exchange gains/(losses) recognised in:	**31, 32**	-	-	**-**	**8 414**	**(64 981)**	**(70)**	-	**(56 637)**
Other operating costs	31	-	-	-	8 414	(65 363)	-	-	(56 949)
Finance costs	32	-	-	-	-	382	(70)	-	312
Gains/(Losses) on measurement of non-current liabilities recognised in:	**30, 32**	-	-	-	-	**340**	-	-	**340**
Other operating income	30	-	-	-	-	204	-	-	204
Finance costs	32	-	-	-	-	136	-	-	136
Impairment allowances recognised in:	**28, 31**	-	-	-	**(12 164)**	-	-	-	**(12 164)**
Expenses by nature	28	-	-	-	(6 989)	-	-	-	(6 989)
Other operating costs	31	-	-	-	(5 175)	-	-	-	(5 175)
Reversal of impairment allowances recognised in:	**28, 30**	-	-	-	**5 621**	-	-	-	**5 621**
Expenses by nature	28	-	-	-	4 944	-	-	-	4 944
Other operating income	30	-	-	-	677	-	-	-	677
Adjustment to sales due to hedging transactions		-	-	-	-	-	-	**83 577**	**83 577**
Gains/(losses) from disposal of financial instruments recognised in:	**28, 30, 31**	**-**	**14 145**	**-**	**(3 042)**	**-**	**-**	**-**	**11 103**
Expenses by nature	28	-	-	-	(1 899)	-	-	-	(1 899)
Other operating income	30	-	14 145	-	-	-	-	-	14 145
Other operating costs	31	-	-	-	(1 143)	-	-	-	(1 143)
Gains on measurement and realisation of derivatives	**30**	**538 022**	-	-	-	-	-	-	**538 022**
Losses on measurement and realisation of derivatives	**31**	**(454 449)**	-	-	-	-	-	-	**(454 449)**
Total net gain/(loss)		**83 573**	**14 145**	**76**	**76 076**	**(68 863)**	**(1 127)**	**83 577**	**187 457**

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

33. Financial instruments (continuation)

33.2 Items of income, costs, profit and losses recognised in profit or loss by category of financial instruments (continuation)

						Other financial liabilities			
For the period from 1 January 2010 to 30 June 2010 restated	**Note**	Financial assets/ liabilities measured at fair value through profit or loss	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Financial liabilities measured at amortised cost	Financial liabilities due to factoring and liabilities excluded from the scope of IAS 39	Hedging instruments	**Total financial instruments**
Interest income/(costs) recognised in:	**30,31,32**	-	**243**	**48**	**24 704**	**(6 650)**	**(1 294)**	-	**17 051**
Other operating income	30	-	243	48	24 704	-	-	-	24 995
Other operating costs	31	-	-	-	-	(39)	-	-	(39)
Finance costs	32	-	-	-	-	(6 611)	(1 294)	-	(7 905)
Exchange gains/(losses) recognised in:	**30, 32**	-	**(691)**	**-**	**137 031**	**(21 964)**	**(64)**		**114 312**
Other operating income	30	-	(691)	-	137 031	(21 939)	-	-	114 401
Finance costs	32	-	-	-	-	(25)	(64)	-	(89)
Gains/(losses) on measurement of non-current liabilities recognised in:	**31, 32**	-	-	-	-	**(687)**	-	-	**(687)**
Other operating costs	31	-	-	-	-	(542)	-	-	(542)
Finance costs	32	-	-	-	-	(145)	-	-	(145)
Impairment allowances recognised in:	**28, 31**	-	-	-	**(10 792)**	-	-	-	**(10 792)**
Expenses by nature	28	-	-	-	(7 369)	-	-	-	(7 369)
Other operating costs	31	-	-	-	(3 423)	-	-	-	(3 423)
Reversal of impairment allowances recognised in:	**28, 30**	-	-	-	**8 860**	-	-	-	**8 860**
Expenses by nature	28	-	-	-	6 711	-	-	-	6 711
Other operating income	30	-	-	-	2 149	-	-	-	2 149
Adjustment to sales due to hedging transactions		-	-	-	-	-	-	**82 294**	**82 294**
Profit/(losses) from disposal of financial instruments recognised in:	**28, 30, 31**	-	**896**	**-**	**(834)**	-	-	-	**62**
Expenses by nature	28	-	-	-	(834)	-	-	-	(834)
Other operating income	30	-	896	-	-	-	-	-	896
Gains on measurement and realisation of derivatives	**30**	**343 157**	-	-	-	-	-	-	**343 157**
Losses on measurement and realisation of derivatives	**31**	**(477 732)**	-	-	-	-	-	-	**(477 732)**
Total net gain/(loss)		**(134 575)**	**448**	**48**	**158 969**	**(29 301)**	**(1 358)**	**82 294**	**76 525**

33. Financial instruments (continuation)

33.3 Fair value hierarchy

There was no transfer by the Group of financial instruments by fair value hierarchy between individual levels in either the reporting or the comparative periods, nor was there any change in the classification of instruments as a result of a change in the purpose or use of these assets.

34. Financial risk management

The Group companies are exposed to risk in each area of their activities. Understanding these 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 risks
  - risk of changes in commodity prices,
  - price risk related to investments in debt securities and participation units in investment funds,
  - price risk related to investments in shares of listed companies,
  - risk of changes in 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

Selected principles for managing market risk (including the goal of market risk management, techniques applied, requirements for effective hedging, market risk measurement and restrictions on entering into hedging transactions) are presented in the Consolidated Annual Report RS 2010 and didn’t change.

34.1.1. 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 Parent Entity’s commercial policy is to set the price base for physical delivery contracts as the average price of the appropriate future month. As a result the Parent Entity is exposed to the risk of decline in metals prices from the moment of entering into a sale contract until the moment of setting the contractual average metal price from the month of dispatch.

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

When analysing the Parent Entity’s exposure to market risk, the amount of metals contained in purchased external materials should be deducted from the volume of sales of metals.

Exposure of the Group to commodity risk is presented below:

	For the period			
	from 1 January 2011 to 30 June 2011		from 1 January 2010 to 30 June 2010 restated	
	Sales	Purchases	Sales	Purchases
Copper [‘000 tonnes]	310	83	263	77
Silver [tonnes]	599	12	617	7

34. Financial risk management (continuation)
34.1 Market risk (continuation)

34.1.2 Currency risk

The Group is exposed to the risk of changes in currency rates, as it is generally accepted on commodities markets that physical contracts are either concluded or denominated in USD. However, the base (functional) currency for the Group is the PLN.
As a result, the Group receives the equivalent in PLN or exchanges the USD it receives for PLN. This leads to the arising of 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, GBP/PLN.

34.1.3 Commodity and currency risk management

In the Group, only the Parent Entity uses hedging strategies. In the first half of 2011 strategies hedging the copper price represented approx. 28%, and those hedging the silver price approx. 9%, of the sales of these metals realised by the Parent Entity. In the case of the currency market, hedged revenues from sales represented approx. 18% of total revenues from sales realised by the Parent Entity during this period.

The management of market risk in the context of the risk of changes in metals prices and of currency risk should be considered through analysis of the hedging position together with the item being hedged. By hedging position is meant the position of the Parent Entity in derivatives. A hedged position comprises revenues from the physical sale of goods and products. The cash flow hedge accounting practiced by the Parent Entity requires that hedges be highly effective in offsetting changes in cash flow, related to a hedged position attributable to a particular type of risk, by changes in cash flow related to hedging instruments.

In the first half of 2011, the Parent Entity implemented copper price hedging strategies with a total volume of 40.5 thousand tonnes and a time horizon falling in the second half of 2012 and the full year 2013. The Parent Entity made use of options (Asian options) including the following options strategies: collars and producer puts. Additionally, during the analysed period, the Parent Entity performed a restructure, implemented in the first and third quarters of 2010, of a seagull options strategy for 2012, of a total volume of 58.5 thousand tonnes through the buyback of sold puts[1]. Restructure enables the full use of put options purchased within this structure in the case of any decrease in the copper price in 2012. During the analysed period, the Parent Entity did not implement adjustment hedge transactions on the copper market.

In the case of the silver market, in the first half of 2011 the Parent Entity implemented strategies to hedge the price of this metal of a total volume of 10.8 million troz and a time horizon falling in the years 2012-2013. The Parent Entity made use of options (Asian options) including the use of puts, seagulls and collars. Additionally, the Parent Entity performed a restructure, implemented in the analysed period, of a collar strategy for 2012, through the buyback of sold calls for 3.6 million troz, and simultaneously sold puts of the same nominal amount and with a execution price below the price of the put options held (from the collar structure). A put spread structure was thereby gained. Restructure guarantees greater flexibility in the selection of derivatives implemented for 2012 and enables full participation in any eventual increases in the price of silver in this period for the hedged nominal amount of 3.6 million troz. In addition – in case of a deep fall in prices in this period – it restricts benefits from the put options held to the level of executed put options sold. In the analysed period, the Parent Entity did not implement an adjustment hedge transaction on the silver market.
In the case of the forward currency market, in the first half of 2011 the Parent Entity implemented transactions hedging revenues from sales in the total nominal amount of USD 360 million and a time horizon falling in the first half of 2012. The Company made use of put options (European options).
The Parent Entity remains hedged for a portion of copper sales planned in the period from July to December 2011 (78 thousand tonnes), in 2012 (156 thousand tonnes) and in 2013 (40.5 thousand tonnes), and for a portion of silver sales planned in the period from July to December 2011 (1.8 million troz), in 2012 (7.2 million troz) and in 2013 (3.6 million troz). With respect to revenues from sales (currency market) the Parent Entity holds a hedging position for the second half of 2011 (USD 600 million) and 2012 (USD 720 million).

[1] Tables presenting the condensed list of open hedging positions, include restructured items: the type of instrument was changed from seagull to collar and from collar to put spread, the cost of restructuring (premium for repurchase of options) was added to the cost of implementation (i.e. the average weighted premium) and the effective hedge price/exchange rate was changed.

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.3 Commodity and currency risk management (continuation)

Following is a condensed table of hedging positions, by type of hedged asset and instruments used at 30 June 2011. The hedged nominal/volume in the months included in the presented periods is equally balanced.

HEDGING POSITION (condensed information) – COPPER MARKET

Period	Instrument		Volume [tonnes]	Execution price [USD/t]	Average weighted premium [USD/t]	Effective hedge price [USD/t]
II half of 2011	Collar[1]	Sold call option	19 500	9 500	(463)	6 537 participation restricted to 9 500
		Purchased put option		7 000		
	Collar[1]	Sold call option	19 500	9 300	(521)	6 379 participation restricted to 9 300
		Purchased put option		6 900		
	Collar[1]	Sold call option	19 500	9 600	(348)	6 752 participation restricted to 9 600
		Purchased put option		7 100		
		Producer's puts[2]	19 500	8 000	9.78%[3]	minimal effective hedging price 7 288
		Total	**78 000**			
		TOTAL 2011	**78 000**			
I half of 2012	Collar[1]	Sold call option	19 500	9 300	(447)	6 453 participation restricted to 9 300
		Purchased put option		6 900		
	Collar[1]	Sold call option	19 500	9 000	(478)	6 322 participation restricted to 9 000
		Purchased put option		6 800		
	Collar[1]	Sold call option	19 500	9 500	(440)	6 760 participation restricted to 9 500
		Purchased put option		7 200		
		Producer's puts[2]	19 500	8 000	9.90%[3]	minimal effective hedging price 7 279
		Total	**78 000**			
II half of 2012	Collar[1]	Sold call option	19 500	9 300	(454)	6 446 participation restricted to 9 300
		Purchased put option		6 900		
	Seagull[2]	Sold call option	19 500	9 000	(399)	6 401 restricted to 4 500 participation restricted to 9 000
		Purchased put option		6 800		
		Sold put option		4 500		
	Seagull[2]	Sold call option	19 500	9 500	(383)	6 817 restricted to 4 700 participation restricted to 9 500
		Purchased put option		7 200		
		Sold put option		4 700		
		Producer's puts[2]	19 500	8 500	8.74%[3]	minimal effective hedging price 7 817
		Total	**78 000**			
		TOTAL 2012	**156 000**			
I half of 2013	Seagull[2]	Sold call option	19 500	9 500	(383)	6 817 restricted to 4 700 participation restricted to 9 500
		Purchased put option		7 200		
		Sold put option		4 700		
	Collar	Sold call option	10 500	12 000	(460)	8 040 participation restricted to 12 000
		Purchased put option		8 500		
		Total	**30 000**			
II half of 2013	Collar	Sold call option	10 500	12 000	(460)	8 040 participation restricted to 12 000
		Purchased put option		8 500		
		Total	**10 500**			
		TOTAL 2013	**40 500**			

[2] Due to current hedge accounting laws, transactions embedded within a producer's put – a purchased put option – are shown in the table containing a detailed list of derivatives positions -„Hedging instruments", while call options are shown in the table „Trade instruments", transactions included in the seagull structure – purchased put options and sold call options – are shown in the table "Hedging instruments"; while sold put options are shown in the table "Trade instruments"; sold put options included in the put spread structure, also are shown 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)

34.1.3 Commodity and currency risk management (continuation)

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 2011		Purchased put option	1.80	20.00	(1.27)	18.73
		Total	**1.80**			
		TOTAL 2011	**1.80**			
I half of 2012		Purchased put option	1.80	30.00	(2.89)	27.11
	Put spread[1]	Purchased put option	1.80	40.00	(1.18)	38.82 restricted to 19.80
		Sold put option[2]		19.80		
		Total	**3.60**			
II half of 2012		Purchased put option	1.80	30.00	(2.89)	27.11
	Put spread[1]	Purchased put option	1.80	40.00	(1.18)	38.82 restricted 19.80
		Sold put option [2]		19.80		
		Total	**3.60**			
		TOTAL 2012	**7.20**			
I half of 2013	Seagull[2]	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
		Total	**1.80**			
II half of 2013	Seagull[2]	Sold call option	1.80	65.00	(1.98)	38.02 restricted to 20.00 participation restricted to 65.00
		Purchased put option		40.00		
		Sold put option		20.00		
		Total	**1.80**			
		TOTAL 2013	**3.60**			

HEDGING POSITION (condensed information) – CURRENCY MARKET

Period	Instrument		Nominal [million USD]	Execution price [USD/PLN]	Average weighted premium [PLN per 1 USD]	Effective hedge price [USD/PLN]
II half of 2011	Collar[1]	Sold call option	180	3.7000	(0.1028)	2.7972 participation restricted to 3.70
		Purchased put option		2.9000		
	Seagull[2]	Sold call option	90	4.4000	(0.1160)	3.1840 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
		Purchased put option	90	2.7000	(0.0920)	2.6080
		Purchased put option	120	2.8000	(0.0722)	2.7278
		Purchased put option	120	2.9000	(0.0993)	2.8007
		Total	**600**			
		TOTAL 2011	**600**			
I half of 2012	Seagull[2]	Sold call option	90	4.4000	(0.0990)	3.2010 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Collar	Sold call option	90	4.5000	(0.1527)	3.2473 participation restricted to 4.50
		Purchased put option		3.4000		
		Purchased put option	360	2.6000	(0.0947)	2.5053
		Total	**540**			
II half of 2012	Seagull[2]	Sold call option	90	4.4000	(0.0767)	3.2233 restricted to 2.70 participation restricted to 4.40
		Purchased put option		3.3000		
		Sold put option		2.7000		
	Collar	Sold call option	90	4.5000	(0.1473)	3.2527 participation restricted to 4.50
		Purchased put option		3.4000		
		Total	**180**			
		TOTAL 2012	**720**			

At 30 June 2011, the net fair value of open positions in derivatives amounted to PLN 12 536 thousand, of which PLN 195 435 thousand related to the positive fair value of hedging instruments, PLN 233 220 thousand related to the negative fair value of trade instruments, and PLN 50 321 thousand related to the positive fair value of instruments initially designated as hedging instruments excluded from hedge accounting. The fair value of open positions in derivatives varies, depending on changes in market conditions, and the final result on these transactions may vary significantly from the measurements described above.

Detailed information on positions in derivatives at 30 June 2011 is presented in the tables "Trade instruments", "Hedging instruments" and "Instruments initially designated as hedging instruments excluded from hedge accounting".

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.3 Commodity and currency risk management (continuation)

TRADE INSTRUMENTS — **At 30 June 2011**

Type of derivative	Volume/ Notional Cu [t] Ag ['000 troz] Currency ['000 USD] ['000 EUR]	Avg. weighted price/ex. rate Cu [USD/t] Ag [USD/troz] Currency [USD/PLN] [EUR/PLN]	Financial assets Current	Financial assets Non-current	Financial liabilities Current	Financial liabilities Non-current
Derivatives - Metals – Copper:						
Options						
Sold call options	5 541	1			(90 964)	(51 661)
Purchased put options	136 500	4 686	112	623		
Sold put options	195 000	4 670			(112)	(3 101)
TOTAL:			**112**	**623**	**(91 076)**	**(54 762)**
Derivatives - Metals – Silver:						
Options						
Purchased call options	3 600	62.00	769	3 813		
Sold put options	7 200	19.90			(415)	(11 315)
TOTAL:			**769**	**3 813**	**(415)**	**(11 315)**
Derivatives – Currency contracts – Currency:						
Forwards/swaps						
forwards/swaps– USD sale	8 090	2.7210-2.7808	202		(58)	
forwards/swaps– EUR sale	25 218	3.9627-4.2080	3 254		(293)	
Options USD						
Purchased call options	90 000	4.4000				
Purchased put options	180 000	2.4000	914			
Sold put options	540 000	2.7167			(70 289)	(11 594)
TOTAL:			**4 370**		**(70 640)**	**(11 594)**
Total trade instruments			**5 251**	**4 436**	**(162 131)**	**(77 671)**

HEDGING INSTRUMENTS — **At 30 June 2011**

Type of derivative	Volume/ Notional Cu [t] Ag ['000 troz] Currency ['000 USD]	Avg. weighted price/ ex. rate Cu [USD/t] Ag [USD/troz] Currency [USD/PLN]	Maturity/ settlement period From	Maturity/ settlement period To	Period of profit/loss impact From	Period of profit/loss impact To	Financial assets Current	Financial assets Non-current	Financial liabilities Current	Financial liabilities Non-current
Derivatives – Metals- Copper										
Options										
Collar	21 000	8 500-12 000	Jan-13	Dec-13	Feb-13	Jan-14		59 407		(32 198)
Collar - seagulls	195 000	7 000-9 350	July-11	June-13	Aug-11	July-13	14 618	64 174	(203 893)	(284 607)
Purchased put options-producer's puts	58 500	8 167	July-11	Dec-12	Aug-11	Jan-13	17 146	42 329		
TOTAL:							**31 764**	**165 910**	**(203 893)**	**(316 805)**
Derivatives – Metals - Silver										
Options										
Purchased put options	9 000	32.00	July-11	Dec-12	Aug-11	Jan-13	38 264	66 912		
Collar - seagulls	3 600	40.00-65.00	Jan-13	Dec-13	Feb-13	Jan-14		101 344		(12 924)
TOTAL:							**38 264**	**168 256**		**(12 924)**
Derivatives – Currency contracts										
Options										
Purchased put options	690 000	2.7000	July-11	June-12	July-11	June-12	62 319			
Collar	180 000	3.40-4.50	Jan-12	Dec-12	Jan-12	Dec-12	51 831	49 166	(24)	(286)
Collar - seagull	450 000	3.14-4.12	July-11	Dec-12	July-11	Dec-12	119 955	42 376	(89)	(385)
TOTAL:							**234 105**	**91 542**	**(113)**	**(671)**
Total hedging instruments							**304 133**	**425 708**	**(204 006)**	**(330 400)**

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.3. Commodity and currency risk management (continuation)

INSTRUMENTS INITIALLY DESIGNATED AS HEDGING INSTRUMENTS EXCLUDED FROM HEDGE ACCOUNTING **At 30 June 2011**

Type of derivative	Notional	Avg. weighted ex. rate	Maturity/ settlement period		Period of profit/loss impact		Financial assets		Financial liabilities	
	Ag ['000 troz] Currency ['000 USD]	Ag [USD/troz] Currency [USD/PLN]	From	To	From	To	Current	Non-current	Current	Non-current
Derivatives – Metals – Silver:										
Options										
Sold call options	3 600	62.00	Jan-12	Dec-12	Feb-12	Jan-13			(769)	(3 813)
TOTAL									**(769)**	**(3 813)**
Derivatives – Currency contracts										
Options										
Collar	90 000	3.40-4.40	July-11	Dec-11	July-11	Dec-11	54 903			
TOTAL							**54 903**			
Total instruments initially designated as hedging instruments excluded from hedge accounting							**54 903**		**(769)**	**(3 813)**

The fair values of derivatives and other liabilities due to unsettled derivatives with a settlement date of 5 July 2011, as at 30 June 2011, are presented in the table below:

	Total: fair value of derivatives and of other liabilities due to unsettled derivatives	Fair value of derivatives	Fair value of other liabilities due to unsettled derivatives
Financial assets	**794 431**	794 431	-
Financial liabilities	**(788 893)**	(778 790)	(10 103)
Net fair value	**5 538**	15 641	(10 103)

In the first half of 2011, the result on derivatives amounted to PLN 167 150 thousand, of which the amount of PLN 83 577 thousand was recognised in revenues from sales (the amount transferred from accumulated other comprehensive income to profit or loss in the reporting period), the amount of PLN 83 573 thousand increased the result on other operating activities, of which PLN 31 864 thousand represented gain from the realisation of derivatives, while PLN 51 709 thousand represented gain from the measurement of derivatives. The gain on the measurement of derivative transactions recognised in other operating activities results mainly from the change in the time value of options which, in accordance with the hedge accounting policy, are recognised in profit or loss.

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

	For the period	
	from 1 January 2011 to 30 June 2011	**from 1 January 2010 to 30 June 2010 restated**
Impact on sales	**83 577**	**82 294**
Impact on other operating activities	**83 573**	**(134 575)**
Gains / (losses) from realisation of derivatives	31 864	(21 977)
Gains / (losses) from measurement of derivatives	51 579	(112 598)
Total impact of derivatives on profit or loss:	**167 150**	**(52 281)**

In the first half of 2011 the amount recognised in profit or loss of the Parent Entity – in other operating costs due to the ineffective part of hedged cash flow – amounted to PLN 32 164 thousand, of which PLN 8 935 thousand is a gain on the measurement of hedging instruments and PLN 23 229 thousand is a gain from the realisation of the ineffective part of hedging instruments.
Meanwhile, in the first half of 2010, the amount recognised in profit or loss of the Parent Entity – in other operating costs due to the ineffective part of hedged cash flow – amounted to PLN 198 297 thousand, of which PLN 146 230 thousand represented a loss from the measurement of hedging instruments, and PLN 52 067 thousand represented a loss from the realisation of the ineffective part of hedging instruments.

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

34. Financial risk management (continuation)

34.1 Market risk (continuation)

34.1.3 Commodity and currency risk management (continuation)

At 30 June 2011, accumulated other comprehensive income (excluding the deferred tax effect) due to cash flow hedging instruments amounted to PLN 316 355 thousand, of which PLN 26 410 thousand related to the effective portion of the result from the measurement of transactions hedging metals price risk, and PLN 289 945 thousand related to the effective portion of the result from the measurement of transactions hedging currency risk.

At 31 December 2010, accumulated other comprehensive income (excluding the deferred tax effect) due to cash flow hedging instruments amounted to PLN 110 832 thousand, of which PLN (98 940) thousand related to the effective portion of the result from the measurement of transactions hedging metals price risk, and PLN 209 772 thousand related to the effective portion of the result from the measurement of transactions hedging currency risk.

During the first half of 2011 there was an increase in other comprehensive income by PLN 205 523 thousand (excluding the deferred tax effect), comprised of:

- changes in fair value during the period recognised as an increase in other comprehensive income due to the effective portion of hedging transactions entered into, in the amount of PLN 289 100 thousand,
- the amount of PLN 83 577 thousand, decreasing accumulated other comprehensive income transferred to increase revenues from sales, due to the settlement of the effective portion of hedging transactions.

	At	
Accumulated other comprehensive income	**30 June 2011**	**31 December 2010**
Commodity price risk hedging transactions (copper and silver) – derivatives	26 410	(98 940)
Currency risk hedging transactions – derivatives	289 945	209 772
Total accumulated other comprehensive income - financial instruments hedging future cash flows (excluding deferred tax effects)	**316 355**	**110 832**

34.1.4 Price risk related to investments in debt securities and participation units of investment funds

At 30 June 2011, the Group held participation units of open-end, liquid investment funds in the amount of PLN 531 295 thousand classified as available-for-sale financial assets, and participation units of open-end, liquid investment funds in the amount of PLN 46 162 thousand classified as cash and cash equivalents. This investment is slightly exposed to price risk. The investment funds invest assets in money market instruments and in other debt securities (such as government bills and bonds), whose remaining time to maturity does not exceed one year, or whose rate of interest is set for a period no longer than one year. Since the date of acquisition, this investment has been characterised by a stable rate of growth in the value of the participation units, with profitability higher than interest in comparable bank accounts.

34.1.5 Price risk related to the purchase of shares of listed companies

At 30 June 2011, the carrying amount of shares listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 1 213 637 thousand. Due to these investments, the Group is exposed to the risk of a substantial change in accumulated other comprehensive income due to changes in the prices of the shares held, caused by the current macroeconomic situation.

34.1.6 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.

At 30 June 2011, the Group held liabilities due to bank and other loans in the amount of PLN 177 707 thousand (at 31 December 2010, PLN 226 603 thousand) based on variable interest rates, and liabilities due to loans in the amount of PLN 832 thousand (at 31 December 2010, PLN 1 430 thousand) based on fixed interest rates. At 30 June 2011, the Group held bank deposits in the amount of PLN 6 006 413 thousand (at 31 December 2010, PLN 3 259 112 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.

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

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 2011, as well as in the comparable period, due to positive cash flow and the significant amount of cash balances, the Group made use to a slight extent of external financing in the form of bank and other loans from financial institutions and settled all of its liabilities in a timely manner.

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 companies monitor their capital, among others based on the *equity ratio* and the *ratio of net debt/EBITDA*. The *equity ratio* is calculated as the relation of net assets (equity less intangible assets) to total assets. The ratio of *net debt/EBITDA* is calculated as the relation of borrowings and finance lease liabilities minus unallocated cash and cash equivalents and short term investments with a maturity up to 1 year to EBITDA (operating profit plus depreciation and amortisation).

In order to maintain financial liquidity and the creditworthiness to 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 net debt/EBITDA* at a level of up to 2.0.

The above ratios at 30 June 2011, 31 December 2010 and 30 June 2010 are presented below:

	30 June 2011	31 December 2010	30 June 2010 restated
Equity	16 428 007	14 891 779	12 569 412
Less: intangible assets	607 315	523 874	280 460
Net assets	15 820 692	14 367 905	12 288 952
Total assets	25 152 593	21 177 323	17 950 279
Equity ratio	**0.63**	**0.68**	**0.68**
Operating profit	5 101 006	5 545 338	2 954
Plus: depreciation/amortisation	462 315	843 938	415 475
EBITDA	5 563 321	6 389 276	418 429
Borrowings and finance lease liabilities	217 066	269 814	267 862
Unallocated cash and cash equivalents	6 090 884	3 081 860	2 279 892
Ratio of net debt/EBITDA	**0.00**	**0.00**	**0.00**

Due to the low level of debt of the Group as at 30 June 2011, the *ratio of net debt/EBITDA* amounted to 0.00.

The equity ratio was above the assumed minimum level and amounted to 0.63 at 30 June 2011.

In the first half of 2011 and in 2010 there were no external equity requirements imposed on the Parent Entity.

34.3 Credit risk

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

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

Areas in which credit risk exposure has different characteristics from those mentioned above:

- cash and cash equivalents and deposits,
- derivatives,
- trade receivables,
- debt securities and participation units of investment funds.

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 deposit transactions are entered into by the Group 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 an appropriate level of equity and a strong, stable market position. The maximum exposure of the Group to a single bank in respect of deposited cash and cash equivalents amounts to 25.4% as at 30 June 2011.

The financial condition of those institutions with whom entities of the Group cooperate, and the short-term nature of the investments, restrict the credit risk of these assets to a minimum.

34.3.2 Credit risk related to derivative transactions

All entities with which derivative transactions are entered into by the Group operate in the financial sector. These are financial institutions (mainly banks), with the highest (42.1%), medium-high (52.6%) or medium (5.3%) credit ratings. Based on fair value at 30 June 2011, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Group amounted to 25.5%.

The fair value of derivative transactions entered into by the Group at 30 June 2011 amounted to[4]:

PLN 5 538 thousand positive balance on the measurement of derivatives, of which:

PLN 794 431 thousand financial assets (Note 12),

PLN 788 893 thousand financial liabilities (Notes 12, 21).

All entities with whom derivative transactions were entered into in 2010 by the Group operated in the financial sector. These are financial institutions (mainly banks), with the highest (40.7%), medium-high (48.2%) or medium (11.1%) credit ratings. The maximum share of a single entity with respect to derivative transactions entered into by the Group amounted to 29.7%.

Fair value of derivative transactions entered into by the Group at 31 December 2010 amounted to[5]:

PLN 541 965 thousand negative balance on the measurement of derivatives, of which:

PLN 701 423 thousand financial assets (Note 12),

PLN 1 243 388 thousand financial liabilities (Notes 12, 21).

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

In order to reduce cash flows as well as credit risk, the Parent Entity carries out net settlement (based on framework agreements entered into with its customers) to the level of the positive balance of fair value remeasurement of transactions in derivatives with a given counterparty.

34.3.3 Credit risk related to trade and other financial receivables

The Group's companies have been cooperating for many years with a number of geographically diversified clients. The vast majority of sales go to EU countries.

Most sales are made based on prepayments. The creditworthiness of its customers[6] is constantly monitored, 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 by promissory notes[7], frozen funds on bank accounts, registered pledges[8], bank guarantees, mortgages, letters of credit and documentary collection. Additionally, the majority of customers who hold buyer's credit on contracts have ownership rights confirmed by

---

[4]The measurement of transactions includes the measurement of both open positions as well as transactions which were settled on 5 July 2011, which were presented in the Group's statement of financial position under other financial liabilities (Note 21).

[5]The measurement of transactions also includes the measurement of both open positions as well as transactions which were settled on 5 January 2011, which were presented in the Group's statement of financial position at 31 December 2010 under other financial liabilities.

[6]Due to the lack of data necessary to measure credit risk, risk arising from derivatives transactions entered into by customers was not taken into consideration.

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

[8]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.

34. Financial risk management (continuation)

34.3. Credit risk (continuation)

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

a date certain[9]. 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 or have provided collateral which does not cover the total amount of the receivables. Taking into account the collateral held and the credit limits received from the insurance company, at 30 June 2011 the Parent Entity had secured 81.2% of its trade receivables.

The total value of the Group's net trade receivables as at 30 June 2011, excluding the fair value of collaterals, in respect of which the Group may be exposed to credit risk, amounts to PLN 1 578 594 thousand (at 31 December 2010: PLN 1 972 186 thousand), and this is the maximum exposure of the Group to credit risk.

The concentration of credit risk in the Group results from the fact that key clients of the Parent Entity (the majority of whom operate within the European Union) are allowed extended terms of payment. Consequently, at 30 June 2011 the balance of receivables from 7 of the Parent Entity's largest clients represented 48% of the Group's balance of trade receivables (at 31 December 2010: 57%). 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 risk that there will not be proceeds due to its trade receivables is low.

The following Group companies have significant trade receivables: CENTROZŁOM WROCŁAW S.A. PLN 93 874 thousand, KGHM Metraco S.A. PLN 90 170 thousand, DIALOG S.A. PLN 69 670 thousand, BIPROMET S.A. PLN 20 352 thousand, ZUK S.A. PLN 18 765 thousand, POL-MIEDŹ TRANS Sp. z o.o. PLN 17 510 thousand, WMN "ŁABĘDY" S.A. PLN 15 614 thousand, PHP "MERCUS" sp. z o.o. PLN 10 457 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.

34.3.4 Credit risk related to investments in debt securities and in participation units of investment funds

At 30 June 2011, the credit risk to investments in participation units of investment funds with a value of PLN 531 395 thousand is immaterial. Fund management institutions hold a medium-high rating.

[9]A confirmed notarial clause which is applied in trade contracts means that rights to ownership of merchandise are transferred to the buyer only after payment is received despite physical delivery. Application of this clause is aimed solely at hedging credit risk and simplifying any eventual legal claims with regard to deliveries. The Parent entity transfers substantially all of the risks and rewards of ownership, and therefore such transactions are treated as sales and accounted for as income.

34. Financial risk management (continuation)
34.3. Credit risk (continuation)

34.3.5 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 2011

	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	**131 654**	105 553	12 954	3 320	2 201	7 626
Other financial receivables	**809**	368	128	173	132	8

At 31 December 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	**99 246**	69 178	13 567	4 973	9 333	2 195
Other financial receivables	**525**	245	271	3	2	4

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.

35. Income tax

		For the period	
Income tax	**Note**	**from 1 January 2011 to 30 June 2011**	**from 1 January 2010 to 30 June 2010 restated**
Current income tax		914 025	581 639
Deferred income tax	23	39 947	(57 234)
Adjustments to income tax from prior periods		(3 296)	184
Total		**950 676**	**524 589**

The effective interest rate amounted to 18.05% (in the first half of 2010: 17.94%).

36. Earnings per share

	For the period	
	from 1 January 2011 to 30 June 2011	**from 1 January 2010 to 30 June 2010 restated**
Profit attributable to shareholders of the Parent Entity	4 315 554	2 396 363
Weighted average number of ordinary shares ('000)	200 000	200 000
Basic/diluted earnings per share (PLN/share)	21.58	11.98

There are no dilutive potential ordinary shares.

37. Dividend paid and proposed for payment

In accordance with Resolution No. 6/2011 of the Ordinary General Meeting of KGHM Polska Miedź S.A. dated 15 June 2011 regarding the appropriation of Parent Entity profit for financial year 2010, the amount of PLN 2 980 000 thousand, representing PLN 14.90 per share, was allocated as a shareholders dividend from profit for financial year 2010.
The right to dividend date was set at 11 July 2011, and dividend payment date - at 12 August 2011.
All shares of the Parent Entity are ordinary shares.

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

38. Adjustments to profit for the period in the interim condensed cash flow

	For the period	
	from 1 January 2011 to 30 June 2011	from 1 January 2010 to 30 June 2010 restated
Income tax recognised in profit or loss	950 676	524 589
Depreciation/amortisation	462 315	415 475
Losses on sales of property, plant and equipment and intangible assets	5 810	1 518
Gains on the sale of available-for-sale financial assets	(14 145)	(896)
Impairment losses on property, plant and equipment, intangible assets and loans	5 945	5 517
Share of profits of associates accounted for using the equity method	(187 755)	(155 219)
Interest and share in profits	(29 750)	7 287
Foreign exchange gains	(51 110)	(9 001)
Change in provisions	20 728	46 039
Change in derivatives	(218 815)	(198 766)
Reclassification of accumulated other comprehensive income to profit or loss as a result of realisation of derivatives	(83 577)	(82 294)
Balances of assets and liabilities items at date of obtaining control over a subsidiary	7 790	-
Other adjustments	(7 627)	(5 906)
Changes in working capital:	(131 249)	(404 099)
Inventories	(603 062)	(204 567)
Trade and other receivables	327 627	(262 088)
Trade and other payables	144 186	62 556
Total adjustments to profit for the period	**729 236**	**144 244**

39. Related party transactions

	For the period from 1 January 2011 to 30 June 2011		
Sales to related entities	**Sales of products**	**Sales of merchandise and materials**	**Other transactions**
- to associates	2 885	31	9
- to other related entities	87	93	4
Total sales to related entities	**2 972**	**124**	**13**

During the period from 1 January 2011 to 30 June 2011, no sales of property, plant and equipment, intangible assets and investment property to related entities of the Group were reported.

	For the period from 1 January 2010 to 30 June 2010 - restated		
Sales to related entities	**Sales of products**	**Sales of merchandise and materials**	**Other transactions**
- to associates	1 713	16	10
- to other related entities	55	59	-
Total sales to related entities	**1 768**	**75**	**10**

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

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

39. Related party transactions (continuation)

	For the period from 1 January 2011 to 30 June 2011			
Purchases from related entities	**Purchase of services**	**Purchase of merchandise and materials**	**Purchase of property, plant and equipment, intangible assets, investment property**	**Other purchase transactions**
- from associates	4 337	41	16	-
- from other related entities	9 972	5 928	2 563	2 111
Total purchases from related entities	**14 309**	**5 969**	**2 579**	**2 111**

	For the period from 1 January 2010 to 30 June 2010 - restated			
Purchases from related entities	**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	8 167	311	1 687	1 320
Total purchases from related entities	**11 312**	**358**	**1 712**	**1 320**

	At	
Trade receivables from related entities	**30 June 2011**	**31 December 2010**
- from associates,	251 378	734
of which due to dividend from associate held for sale	250 013	-
- from other related entities	6 311	2 251
Total receivables from related entities	**257 689**	**2 985**

	At	
Trade payables towards related entities	**30 June 2011**	**31 December 2010**
- towards associates	880	938
- towards other related entities	9 082	2 906
Total liabilities towards related entities	**9 962**	**3 844**

During the reporting period, two individual transactions were identified:

1. On 2 February 2011, KGHM Polska Miedź S.A. signed an agreement with the Minister of the State Treasury for the acquisition of 5 260 820 shares of the company NITROERG S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 052 thousand. The controlling interest acquired represents 85% of the share capital of NITROERG S.A. in Bieruń.
2. KGHM Polska Miedź S.A. participated in the selling process by the Ministry of the State Treasury of the shares of TAURON Polska Energia S.A., submitting a purchase order for the shares of TAURON Polska Energia S.A. As a result of this transaction, on 23 March 2011 KGHM Polska Miedź S.A. acquired 71 000 000 shares of TAURON Polska Energia S.A. at PLN 6.15 per share. The transaction was realised as part of an accelerated book building process. Following this transaction, KGHM Polska Miedź S.A. owns a total of 182 110 566 shares of TAURON Polska Energia S.A., representing 10.39% of the share capital.

The remaining transactions, which were collectively significant, between the Group and the government and with entities controlled or jointly controlled by the government, or over which the government has significant influence, were within the scope of normal, daily economic operations, carried out at arm’s length. These transactions involved the purchase by companies of the Group of materials and services to meet the needs of their current operating activities (fuel, energy, transport services). Turnover from these transactions in the current period amounted to PLN 380 410 thousand (for the period from 1 January 2010 to 30 June 2010: PLN 364 114 thousand), and the unsettled balance of liabilities from these transactions at 30 June 2011 amounted to PLN 62 272 thousand (at 31 December 2010: PLN 109 107 thousand).

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

39. Related party transactions (continuation)

	For the period	
Remuneration of the Supervisory Board of the Parent Entity	**from 1 January 2011 to 30 June 2011**	**from 1 January 2010 to 30 June 2010**
Remuneration due to service in the Supervisory Board, salaries and other current employee benefits	750	654
Total	**750**	**654**

	For the period	
Remuneration of the Management Board of the Parent Entity	**from 1 January 2011 to 30 June 2011**	**from 1 January 2010 to 30 June 2010**
Salaries and other current employee benefits	2 033	1 522
Post-employment benefits	-	91
Total	**2 033**	**1 613**

40. Contingent assets and liabilities

	At	
	30 June 2011	**31 December 2010**
Contingent assets	**283 124**	**291 180**
Guarantees received	203 523	178 881
Disputed State Budget issues	25 462	38 764
Promissory note receivables	19 171	40 206
Inventions, implementation of projects	34 953	33 329
Other	15	-
Contingent liabilities	**283 584**	**236 630**
Guarantees	40 206	32 897
Promissory note liabilities	116 755	80 930
Disputed issues, pending court proceedings	15 240	16 226
Preventive measures in respect of mine-related damages	1 522	2 475
Liabilities due to implementation of projects, inventions	109 669	104 098
Other	192	4

The value of contingent assets and liabilities was determined based on estimates. In the first half of 2011, there were no substantial changes in contingent assets and liabilities.

41. Employment structure

Average employment in the Group was as follows:

	For the period	
	from 1 January 2011 to 30 June 2011	**from 1 January 2010 to 31 December 2010**
White-collar employees	10 445	10 051
Blue-collar employees	21 598	20 877
Total:	**32 043**	**30 928**

42. Subsequent events

On 25 July 2011 the Parent Entity received information announcing that a suit had been filed at the Regional Court in Legnica, Section VI (Economic) by a shareholder of the Parent Entity, Krzysztof Skóra, submitted to the Court on 14 July 2011, requesting that resolution nr. 23/2011 of the Ordinary General Meeting of KGHM Polska Miedź S.A. in Lubin dated 15 June 2011, regarding the dismissal of Józef Czyczerski from the Supervisory Board of KGHM Polska Miedź S.A., be declared invalid, claiming that it is in conflict with existing law.
The Court committed the Parent Entity to submit a response to the suit within 14 days, otherwise a default judgment will be issued. The Regional Court in Legnica has not set a date for the hearing.

SIGNATURES OF PERSONS REPRESENTING THE COMPANY			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
26 August 2011	Herbert Wirth	President of the Management Board	
26 August 2011	Maciej Tybura	I Vice President of the Management Board	
26 August 2011	Wojciech Kędzia	Vice President of the Management Board	

SIGNATURE OF PERSON RESPONSIBLE FOR ACCOUNTING			
DATE	**FIRST, LAST NAME**	**POSITION / FUNCTION**	**SIGNATURE**
26 August 2011	Ludmiła Mordylak	Chief Accountant of KGHM Executive Director of Accounting Services Center	

KGHM POLSKA MIEDŹ S.A.

GROUP

REPORT ON THE ACTIVITIES
OF THE GROUP
IN THE FIRST HALF OF 2011

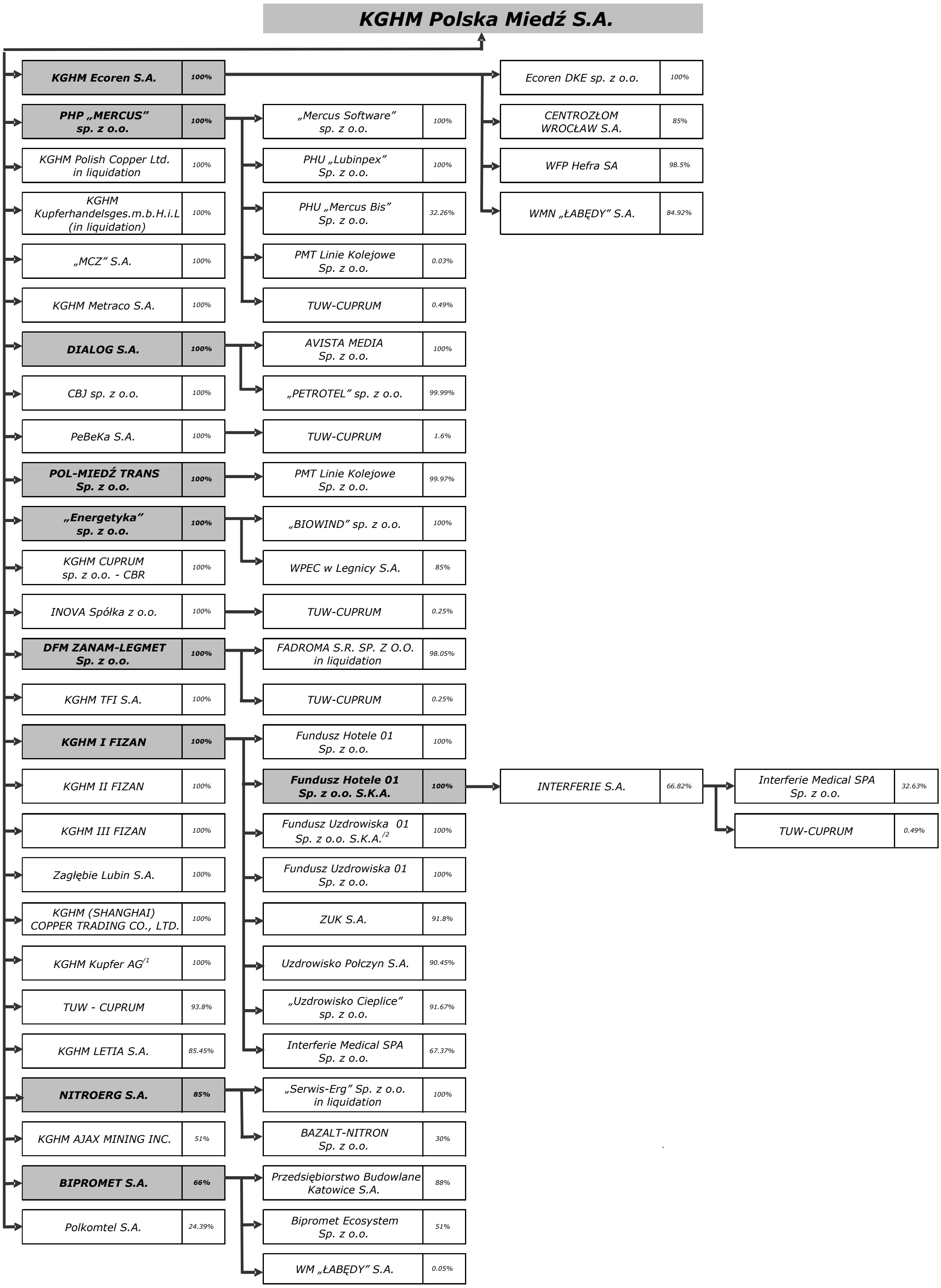
Lubin, August 2011

Table of Contents of the Report on the activities of the Group in the first half of 2011

1. Composition of the Group

The composition of the KGHM Polska Miedź S.A. Group at 30 June 2011 and the relations between entities are shown in the diagram below.

Diagram 1. *Group structure at 30 June 2011*



1/ company name change - formerly KGHM HMS Bergbau AG,
2/ company name change due to change in complementary company - formerly Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.

1. Composition of the Group (continued)

The Parent Entity of the Group is KGHM Polska Miedź S.A. At 30 June 2011 the Group was composed of fifty subsidiaries, including three closed-end non-public investment funds. Ten of these subsidiaries formed their own groups (see diagram, marked): KGHM Ecoren S.A., PHP „MERCUS" sp. z o.o., DIALOG S.A., POL-MIEDŹ TRANS Sp. z o.o., „Energetyka" sp. z o.o., DFM ZANAM-LEGMET Sp. z o.o., NITROERG S.A., BIPROMET S.A., KGHM I FIZAN and Fundusz Hotele 01 Sp. z o.o. S.K.A. At the end of the reporting period the Group owned a significant share of three associates.

In terms of the consolidated financial statements for the first half of 2011, 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 2011 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 47 subsidiaries and accounted for one associate – BAZALT-NITRON Sp. z o.o. – 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:

- TUW – CUPRUM,
- „Mercus Software" sp. z o.o.,
- PHU „Mercus Bis" Sp. z o.o.,
- „Serwis-Erg" Sp. z o.o. in liquidation.

2. Changes in the structure of the Group

In the first half of 2011 the following changes occurred in the structure of the Group:

- Combination of subsidiaries - Walcownia Metali Nieżelaznych spółka z o.o. and WM „ŁABĘDY" S.A.

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

- Acquisition of shares of NITROERG S.A.

  On 2 February 2011, an agreement was signed with the Minister of the State Treasury for the acquisition by KGHM Polska Miedź S.A. of 5 260 820 shares of NITROERG S.A. in Bieruń with a nominal value of PLN 10 per share, for PLN 120 052 thousand (i.e. PLN 22.82 per share). The shares were paid for in cash. The shares purchased represent 85% of the share capital of NITROERG S.A.

  The net asset value of NITROERG S.A. at the date control was obtained was PLN 84 741 thousand, of which PLN 72 030 thousand is attributable to shareholders of the Parent Entity, and PLN 12 711 thousand is attributable to non-controlling interests. Goodwill, provisionally set in the amount of PLN 48 022 thousand, will be settled during the 12 months from the date of acquisition following fair value remeasurement of the assets and liabilities of NITROERG S.A. Total cash flow due to acquisition, less acquired cash, amounts to PLN 93 990 thousand.

  From the date control was obtained to 30 June 2011, „NITROERG" S.A. had earned revenues from sales of PLN 111 541 thousand and profit of PLN 3 390 thousand.

  The controlling interest held by KGHM Polska Miedź S.A. in „NITROERG" S.A. (one of the largest producers of explosives) results in greater competitiveness in terms of supply for the core business, and in future to meet the needs of new mining projects (in accordance with realisation of the strategy of increasing the copper ore resource base).

- Increase of share capital in subsidiaries

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

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

- on 19 January 2011, the General Meeting of Uzdrowisko Połczyn S.A. resolved to increase the company's share capital by PLN 1 000 thousand, representing 0.54% of the share capital, and to increase the share of the Group to 90.45%. The entire amount of the guaranteed increase will be allocated to acquire or increase the value of company property, plant and equipment. Court registration of this increase in share capital was made on 3 February 2011;
- on 8 February 2011, the General Meeting of „Uzdrowisko Cieplice" sp. z o.o. resolved to increase the company's share capital by PLN 1 500 thousand, representing 1.96% of the share capital, and to increase the share of the Group to 91.67%. The entire amount of the guaranteed increase will be allocated to acquiring, manufacturing, rebuilding, developing and modernising property, plant and equipment, and to acquiring or prolonging water exploitation licenses. Court registration of this increase in share capital was made on 18 March 2011.

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

As a result of this transaction with non-controlling interests resulting from the change in the percentage held by the Group in the share capital of the above-mentioned companies, equity attributable to shareholders of the Parent Entity was increased in the consolidated financial statements, and equity attributable to non-controlling interests was decreased by PLN 260 thousand.

– Acquisition of shares and increase in share capital of KGHM HMS Bergbau AG (currently KGHM Kupfer AG)

On 20 April 2011, a sale and surrender agreement was signed between KGHM Polska Miedź S.A., and HMS Bergbau AG for the acquisition by KGHM Polska Miedź S.A. of 12 551 shares of KGHM HMS Bergbau AG held by HMS Bergbau AG, representing 25.1% of the share capital, for the price of EUR 127 895, i.e. PLN 509 thousand. The shares acquired were paid for in cash on 21 April 2011. Following this acquisition the Group holds 100% of the share capital of KGHM HMS Bergbau AG.

As a result of settlement of this transaction with non-controlling interests, the difference between the acquisition price of the non-controlling shares and the value of the share capital attributable to the non-controlling interests at the acquisition date in the amount of PLN (578) thousand was recognised in retained earnings in the consolidated financial statements.

On 27 April 2011, the Ordinary General Meeting of KGHM HMS Bergbau AG resolved to increase the company's share capital by EUR 750 thousand (from EUR 50 thousand to EUR 800 thousand). The newly-issued shares, with a nominal value of EUR 1 per share and an issue price of EUR 17.71, were acquired by KGHM Polska Miedź S.A. The shares were paid for in cash in the amount of PLN 52 364 thousand on 27 April 2011.

On 16 May 2011, occurred the court-registered change of name from KGHM HMS Bergbau AG to KGHM Kupfer AG.

– Opening of liquidation proceedings for the company KGHM Kupferhandelsges.m.b.H.

On 30 May 2011, the Extraordinary General Meeting of Shareholders of KGHM Kupferhandelsges. m.b.H. with its registered head office in Vienna resolved to dissolve and liquidate the company as at 1 June 2011. Mr. Michał Jezioro was appointed as liquidator of KGHM Kupferhandelsges. m.b.H.i.L. An application regarding registration of the company's liquidation was submitted to the Commercial Court in Vienna.

The decision to liquidate KGHM Kupferhandelsges.m.b.H. is connected with the takeover by KGHM Polska Miedź S.A. of this company's activities.

In the first half of 2011, there were no changes in the basic management principles of the Group.

3. Equity investments, payments to subsidiaries, dividends

Equity investments unrelated to changes in structure

Apart from equity investments causing a change in Group structure as described in the previous section, the Parent Entity realised the following investments:

– Increase in share capital of CBJ sp. z o.o.

On 14 February 2011, KGHM Polska Miedź S.A. acquired 11 159 shares in the increased share capital of CBJ sp. z o.o. covered by cash at their nominal amount, in the total amount of PLN 6 695 thousand. The funds obtained from this increase in share capital were used to finance an investment project: „Project for the automatisation of the sample preparation and measurement process from copper ore enrichment".
The percentage ownership by KGHM Polska Miedź S.A. in the share capital of this company following the increase did not change, and amounts to 100%.

3. Equity investments, payments to capital, dividends (continued)

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

In the first half of 2011, KGHM Polska Miedź S.A. acquired 71 292 212 shares of TAURON Polska Energia S.A. for the total amount of PLN 438 448 thousand, mainly from the State Treasury, as part of an accelerated book building process. As a result of this transaction, the percentage ownership of KGHM Polska Miedź S.A. in the share capital of this company increased to 10.39%.

All equity investments were financed from internal funds.

Payments to subsidiaries

In March 2011, KGHM Polska Miedź S.A. granted returnable payments to capital to two subsidiaries:

- KGHM CUPRUM sp. z o.o. – CBR – a payment of PLN 212 thousand, to finance the purchase of land in Wrocław, to be repaid by 31 December 2011,
- DFM ZANAM - LEGMET Sp. z o.o. – a payment of PLN 5 035 thousand, for the modernisation of a roofing bolts production line, payable in two instalments: PLN 2 400 thousand in March 2011, and PLN 2 635 thousand by 31 December 2012, to be repaid by 31 January 2015.

In January 2011, „Energetyka" sp. z o.o. granted a returnable payment to „BIOWIND" sp. z o.o. in the amount of PLN 100 thousand (through conversion of a portion of the loans granted to the company in 2009).

Dividends

The Ordinary General Meeting of KGHM Polska Miedź S.A. on 15 June 2011, resolved to appropriate profit for financial year 2010. The amount of PLN 2 980 000 thousand was appropriated as a shareholder dividend, representing PLN 14.90 per share. The dividend payment date was set at 12 August 2011.

The Ordinary General Meeting of Polkomtel S.A. (an associated entity) on 8 April 2011, passed a resolution on the appropriation of profit, the use of reserve capital and the payment of a dividend. The total amount of PLN 1 527 660 thousand was appropriated as a shareholder dividend, including PLN 1 151 759 thousand from appropriation of profit for 2010 and PLN 375 901 thousand from reserve capital. The amount of dividend per share was PLN 74.52. The amount attributable to KGHM Polska Miedź S.A., in proportion to the shares held, was PLN 372 620 thousand. In 2010, KGHM Polska Miedź S.A. received two interim payments on the dividend for 2010 in the total amount of PLN 122 607 thousand. The remainder of the dividend, i.e. PLN 250 013 thousand, was paid on 29 July 2011.

The Ordinary General Meeting of TAURON Polska Energia S.A. (a remaining entity) on 6 May 2011, passed a resolution on the appropriation of profit for financial year 2010, the use of reserve capital, and setting the amount appropriated as a shareholder dividend. The total amount of PLN 262 882 thousand was appropriated as a shareholder dividend, including PLN 190 477 thousand from profit for 2010 and PLN 72 405 thousand from reserve capital. The per-share dividend amounted to PLN 0.15. The amount attributable to KGHM Polska Miedź S.A., in proportion to the shares held, was PLN 27 317 thousand. The dividend payment date was set at 20 July 2011.

On 31 March 2011, PHP „MERCUS" sp. z o.o. (a subsidiary) earned, from allocation of profit for 2010, dividends from the following subsidiaries:

- PHU „Lubinpex" Sp. z o.o. – PLN 859 thousand,
- „Mercus Software" sp. z o.o. – PLN 145 thousand.

4. Share capital and ownership structure of the Parent Entity

At 30 June 2011, the share capital of KGHM Polska Miedź S.A., in accordance with the entry in the National Court Register, amounted to PLN 2 000 000 thousand and was divided into 200 000 000 shares, series A, having a face value of PLN 10 each. All shares are bearer shares. The Parent Entity has not issued preference shares. Each share grants the right to one vote at the General Meeting.

At 30 June 2011, and at the date of preparation of this report, based on information held by the Parent Entity, the only shareholder of KGHM Polska Miedź S.A. holding a number of 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 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., at 30 June 2011, 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 1 January 2011 to the date of preparation of this report, based on information held by the Parent Entity, there were no changes in the ownership structure of significant blocks of the shares of KGHM Polska Miedź S.A.

At 30 June 2011, and at the date of preparation of this report, the Members of the Management Board of the Parent Entity did not own shares of KGHM Polska Miedź S.A. or rights thereto. This situation remained unchanged during the period from the publication of the quarterly report for the first quarter of 2011 and in the first half of 2011.

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

At 30 June 2011, and at the date of preparation of this report, the Members of the Supervisory Board of the Parent Entity did not own shares of KGHM Polska Miedź S.A. or rights thereto. During the period from the publication of the quarterly report for the first quarter of 2011 and in the first half of 2011, the Members of the Supervisory Board neither bought nor sold the shares of KGHM Polska Miedź S.A. or rights thereto.

5. Bodies of the Parent Entity

Management Board

During the period from 1 January 2011 to 30 June 2011, the composition and segregation of duties of the Management Board of KGHM Polska Miedź S.A. was as follows:

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

Supervisory Board

At 1 January 2011, the composition of the Supervisory Board of KGHM Polska Miedź S.A. was as follows:

- Józef Czyczerski,
- Marcin Dyl,
- Leszek Hajdacki,
- Arkadiusz Kawecki,
- Jacek Kuciński,
- Ryszard Kurek,
- Marek Panfil,
- Jan Rymarczyk,
- Marzenna Weresa.

On 11 - 12 May 2011, due to the ending of the term of office of the Supervisory Board acting as then composed, the Parent Entity's employees selected 3 employee-elected members of the Supervisory Board: Józef Czyczerski, Leszek Hajdacki and Ryszard Kurek.
On 15 June 2011, the Ordinary General Meeting of KGHM Polska Miedź S.A.:

- dismissed: Józef Czyczerski, Marcin Dyl, Leszek Hajdacki, Arkadiusz Kawecki, Jacek Kuciński, Ryszard Kurek, Marek Panfil, Jan Rymarczyk and Marzenna Weresa from the Supervisory Board of KGHM Polska Miedź S.A.,
- confirmed the validity of the elections carried out in the Parent Entity on 11-12 May 2011, as a result of which the employees of KGHM Polska Miedź S.A. elected three members to the Supervisory Board,
- set the number of members of the Supervisory Board at 10 persons, and
- appointed the following persons to the Supervisory Board of the Company: Franciszek Adamczyk, Marcin Dyl, Arkadiusz Kawecki, Jacek Kuciński, Marek Panfil, Jan Rymarczyk and Marzenna Weresa.

At 30 June 2011 the composition of the Supervisory Board of KGHM Polska Miedź S.A. was as follows:

- Franciszek Adamczyk,
- Marcin Dyl,
- Arkadiusz Kawecki,
- Jacek Kuciński,
- Marek Panfil,
- Jan Rymarczyk,
- Marzenna Weresa.

On 25 July 2011, the Parent Entity received information from the Regional Court in Legnica, Section VI (Economic) announcing that a suit by a shareholder of the Company, Krzysztof Skóra, had been submitted to the Court on 14 July 2011, requesting that resolution no. 23/2011 of the Ordinary General Meeting of KGHM Polska Miedź S.A. in Lubin dated 15 June 2011, regarding the dismissal of Józef Czyczerski from the Supervisory Board of KGHM Polska Miedź S.A., be declared invalid, claiming that it is in conflict with existing law.

The Court committed KGHM Polska Miedź S.A. to submit a response to the suit within 14 days, otherwise a default judgment will be issued. The Regional Court in Legnica has not set a date for the hearing.

6. 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, the production of mining machinery and equipment, the production of explosives 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.

6. Scope of activities of Group companies (continued)

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.	CENTROZŁOM WROCŁAW S.A.	recovery of raw materials from segregated materials – purchase and sale of metal scrap, waste recycling (incl. vehicles withdrawn from use), sale of steel and aluminium and production of reinforcing building materials
4.	DIALOG S.A.	cable and wireless telecom services; re-emission of television channels and rental of audio-visual content
5.	PeBeKa S.A.	mine construction with infrastructure; construction of roadway/railway tunnels, underground metro routes; underground and specialist construction
6.	„Energetyka" sp. z o.o.	generation, transmission and distribution of electrical and heating energy, water-sewage management
7.	POL-MIEDŹ TRANS Sp. z o.o.	railway cargo transport, passenger and cargo road transport; trade in fuels
8.	KGHM Metraco S.A.	wholesale sales of scrap and waste, lead, non-ferrous metals, chemicals and salt; expediting services
9.	PHP „MERCUS" sp. z o.o.	trade in consumer goods; supply of technical materials; production of bundled electrical cables and hydraulic cables
10.	KGHM Kupferhandelsges.m.b.H.i.L *(in liquidation)*	copper trade
11.	KGHM Polish Copper Ltd. in liquidation	copper trade
12.	KGHM (SHANGHAI) COPPER TRADING CO., LTD.	wholesale sales and intermediary for the following: copper/silicon goods, mine products (copper/silicon), copper/silicon materials, chemicals and related services, and commercial consulting services
13.	KGHM AJAX MINING INC.	exploration for and analysis of mineral resource deposits, mining and processing of metal ores or other mineral resources, sale of products obtained from mining and processing
14.	CBJ sp. z o.o.	research and chemical-physical analysis; measurement of imissions and emissions; industrial research
15.	„MCZ" S.A.	hospital services; physician practice; activities related to protecting human health; occupational medicine
16.	KGHM CUPRUM sp. z o.o. - CBR	R&D activities; research and technical analysis; technological and construction design; maintaining technical and technological documentation archives; geological-exploratory work and geodesic and cartographic activities
17.	KGHM LETIA S.A.	operation of a technology park; promotion of scientific achievement; technology transfer; property sale and rental

6. Scope of activities of Group companies (continued)

18.	KGHM TFI S.A.	creation and management of investment funds; management of portfolios comprising one or more financial instruments
19.	Zagłębie Lubin S.A.	management of a football club, organisation of professional sporting events
20.	TUW-CUPRUM	mutual insurance services for its members
21.	DFM ZANAM-LEGMET Sp. z o.o.	production of mining machinery and equipment, construction machinery; machinery repairs; steel constructions
22.	FADROMA S.R. SP. Z O.O. in liquidation	production of fittings for construction machinery; servicing of construction and mine loaders; steel constructions
23.	INOVA Spółka z o.o.	design and production of telecommunication systems and automated systems, measurement and control systems; lamphouse servicing; design and production of electrical machinery and equipment
24.	WMN „ŁABĘDY” S.A.	production of flat goods from copper and its alloys; rolling services, coal and fine coal trading, railway scrap, smelter goods and steel grinding mediums
25.	WFP Hefra SA	production and sale of rust-proof, semi-silver-plated and silver-plated table settings
26.	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
27.	„PETROTEL” sp. z o.o.	telecom operator
28.	AVISTA MEDIA Sp. z o.o.	telephone central activities
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 Kupfer AG *(formerly KGHM HMS Bergbau AG)*	searching and exploiting deposits of copper and other minerals
35.	KGHM I FIZAN	capital investing
36.	KGHM II FIZAN	capital investing
37.	KGHM III FIZAN	capital investing
38.	Fundusz Hotele 01 Sp. z o.o.	diversified activities, including functioning as a holding company; management of companies
39.	Fundusz Hotele 01 Sp. z o.o. S.K.A.	acquiring shares of companies, in particular providing services related to the purchase and sale of property, the purchase, leasing and management of its own or leased property, i.e. hotels and similar quartering facilities, including overnight and tourism facilities, camping and tenting grounds, restaurants and other gastronomic facilities

6. Scope of activities of Group companies (continued)

40.	Fundusz Uzdrowiska 01 Sp. z o.o. S.K.A. *(formerly Fundusz Hotele 01 Sp. z o.o. Uzdrowiska S.K.A.)*	management of special purpose companies, whose activities involve holiday services, sanatoriums and spas and others related to improving fitness
41.	Fundusz Uzdrowiska 01 Sp. z o.o.	holding company functions, management of companies, whose activities involve the acquisition of shares, in particular of holiday, sanatorium and spa services companies and others related to improving fitness
42.	ZUK S.A.	spa healing and production and sale of natural mineral, healing and flavoured waters,
43.	Uzdrowisko Połczyn S.A.	spa healing, gastronomic activities and collection of peat
44.	„Uzdrowisko Cieplice" sp. z o.o.	services respecting prevention, healing, rehabilitation and health tourism, including based on thermal healing waters
45.	INTERFERIE S.A.	sale of tourism services, including tourism-recreation, sanatorium-healing and hotel
46.	Interferie Medical SPA Sp. z o.o.	services respecting hotels, recreation, rehabilitation, health tourism and wellness
47.	BIPROMET S.A.	design services, incl. feasibility studies and design, consulting, technical conceptual work; general realisation of investments; execution of complete installations and ecological facilities and environmental services
48.	Przedsiębiorstwo Budowlane Katowice S.A.	comprehensive construction work, including specialty work
49.	Bipromet Ecosystem Sp. z o.o.	production, design, servicing and commercial; R&D and popularisation respecting heating, water-plumbing and other installations
50.	NITROERG S.A.	production of explosives and Nitrocet 50, production of detonation agents
51.	„Serwis-Erg" Sp. z o.o. in liquidation	maintenance, repairs and conservation of machinery, equipment and production lines for the production of artificial materials; processing of metals and metallic elements; production of specialty tools; services involving the installation, repair and conservation of machinery and equipment; installation of electrical equipment in buildings and other constructions and CO, plumbing-sewage and ventilation installations
52.	BAZALT-NITRON Sp. z o.o.	trade in explosives and blasting agents, execution of drilling and blasting work, production of explosives (ANFO)

7. 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 2010	2010	I– VI 2011	Change 2010=100
White collar employees	9 014	10 051	10 445	103.9
Blue collar employees	19 928	20 877	21 598	103.5
Total	**28 942**	**30 928**	**32 043**	**103.6**

The highest employment is in the Parent Entity. In the first half of 2011, the average level of employment was 18 572 positions. Among the remaining Group companies the highest average number of employees in the first half of 2011 was recorded in the following entities (in positions):

- PeBeKa S.A. 1 592,
- DFM ZANAM–LEGMET Sp. z o.o. 1 496,

7. Employment in the Group (continued)

– POL–MIEDŹ TRANS Sp. z o.o. 1 107,
– NITROERG S.A. 1 002,
– DIALOG S.A. 918.

In the first half of 2011, average employment in the Group increased in comparison to 2010 by 1 115 positions. This was mainly due to the company NITROERG S.A. joining the Group.

Amongst the most important changes in employment in existing Group entities are the increase in average employment in DFM ZANAM – LEGMET Sp. z o.o. by 235 positions (by 19%), due to the opening of new operational areas by the company, and a decrease in average employment in POL-MIEDŹ TRANS Sp. z o.o. by 145 positions (by 12%), due to realisation of the voluntary departure plan.

Relations with the trade unions in the Group

<u>KGHM Polska Miedź S.A.</u>

On 28 March 2011, the trade unions submitted a letter with the following demands:

1) an increase in basic salary rates by PLN 300 for each salary category,
2) inclusion in the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. of the Employee Retirement Plan in force in the Company,
3) an increase to 7% of the contribution to the Employee Retirement Plan,
4) inclusion in the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. of the medical package in force in the Company,
5) a final agreement on acceptable conditions to buy out the employee coal equivalent due under paragraph 50 of the Collective Labour Agreement for the Employees of KGHM Polska Miedź S.A. – followed by a referendum, and after receiving the positive opinion of the employees, signing by the entitled parties to the Collective Labour Agreement.

During the course of negotiations, the Management Board presented the following position regarding the aforementioned demands:

ad. 1 - The Management Board of KGHM Polska Miedź S.A. does not accept a remuneration policy aimed at salary increases unassociated with:

– increases in productivity,
– the impact of the effects of work at various job positions on the results of the Company, and
– working conditions.

Any increase in funds for remuneration should in the first instance be allocated to jobs which are directly related to production and should stimulate an increase in productivity.

Taking into consideration the possibility of creating additional funds through increased production, KGHM Polska Miedź S.A. will increase the initially-planned amount of funds for remuneration, to be allocated to motivational salary solutions, i.e. an increase in salary categories of individual employees and to the payment of bonuses and premiums from the motivational fund.

ad. 2 and 4 - The Management Board of KGHM Polska Miedź S.A. consented to the inclusion in the Collective Labour Agreement of clauses related to the functioning in the Company of employee retirement plans and medical packages, based on principles of voluntary participation of employees in these benefits.

ad. 3 – The Management Board sees the possibility of increasing contributions to the Employee Retirement Plan by 1 percentage point, to 6 percent, under condition that rights to the entitlements due following retirement or disability will only cover existing employees and retirees, and will not be extended to future employees.

ad. 5 - The Management Board proposed the buy out of the coal equivalent due following retirement for the amount of PLN 15 thousand per employee and retiree, and consented to put this proposal to a referendum.

On 5 May 2011 the trade unions organised a manifestation at the Head Office of KGHM Polska Miedź S.A. The Management Board of the Parent Entity and all Division Directors met with the manifesting trade unionists. Due to the aggressive nature of the protestors, the Management Board and Directors ceased discussions.

At the date of preparation of this report, the parties had not reached a common position which would conclude with the signing of an agreement.

<u>„MCZ" S.A.</u>

On 29 June 2011, a meeting was held, pursuant to the Protocol of agreement dated 31 December 2010, with the trade unions regarding pay demands. The trade unions, referencing the 3 separate collective disputes commenced in prior periods, presented a common position in respect of an increase in basic salary rates for all company employees by PLN 300 monthly. It was determined that discussions would be deferred in this matter until 15 September 2011.

7. Employment in the Group (continued)

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. Since 12 August 2010, this dispute has been suspended for an indefinite period of time.

NITROERG S.A.

Since June 2010, NITROERG S.A. has been in a collective dispute with the trade unions, which are demanding an increase in the remuneration, the signing of an Employee Guarantee Packet, and an improvement in fire safety. Due to the lack of a resolution regarding an increase in the remuneration, the dispute remains unresolved.

AVISTA MEDIA Sp. z o.o.

On 25 May 2011, a collective dispute was commenced by the trade union ZOZ NSZZ „Solidarność", in which the trade union demanded an increase in remuneration. The Management Board of the company refused to introduce increases, due to the work being carried out on a new system of remuneration. On 9 June 2011 – during negotiations to resolve the collective dispute – a Protocol of dispute was signed. On 4 July 2011 a mediator was appointed.

8. Basic products, merchandise and services

Amongst the most important products manufactured by 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 share of these products in total Group sales is approx. 86%. The value and volume of the sales of the basic products of KGHM Polska Miedź S.A. are presented in the following tables.

Table 3. Revenues from sales of the basic products of KGHM Polska Miedź S.A.* ('000 PLN)

Product	2010	I-VI 2010	I-VI 2011	Change I-VI 2010 =100
Copper and copper products	12 837 041	5 847 649	7 660 870	131.0
Silver	2 467 928	1 069 933	1 969 454	184.1
Gold	101 504	36 305	18 913	52.1

** includes the settlement of hedging instruments*

Table 4. Volume of sales of the basic products of KGHM Polska Miedź S.A.

Product	Unit	2010	I-VI 2010	I-VI 2011	Change I-VI 2010 =100
Copper and copper products	'000 t	545.3	262.7	282.4	107.5
Silver	t	1 247	617	599	97.1
Gold	kg	840	334	148	44.3

In the first half of 2011, versus the comparable prior year period, KGHM Polska Miedź S.A. recorded an increase in the volume of copper sales by 19.7 thousand t (8%). There was a minor change in the structure of sales, i.e. an increase in the volume of sales of cathodes by 18% (23.4 thousand t) alongside slightly lower sales of copper wire rod by 5% (6.1 thousand t).

Silver sales amounted to 599 t, and were 3% (18 t) lower versus the comparable prior year period, while gold sales fell by 56% (186 kg) and amounted to 148 kg.

The increase in revenues from the sale of copper and copper products and from silver in the first half of 2011, versus the comparable prior year period, is mainly due to the higher prices of copper and silver and to the volume increase in copper sales.

Sales of the basic products, merchandise and services of the remaining Group are presented in the table below. They were selected based on their significance for the given company, as well as on the revenue from sales.

8. Basic products, merchandise and services (continued)

Table 5. Sales of basic products, merchandise and services of the subsidiaries of KGHM Polska Miedź S.A. ('000 PLN)

Company / product, merchandise, service	2010	I-VI 2010	I-VI 2011	Change I-VI 2010=100
KGHM Metraco S.A.				
trade in copper scrap	2 295 018	1 192 362	1 224 121	102.7
PHP „MERCUS" sp. z o.o.				
sales of merchandise and materials	564 773	248 785	304 117	122.2
DIALOG S.A.				
telecom services	497 661	247 167	240 187	97.2
CENTROZŁOM WROCŁAW S.A.*				
trade in scrap	280 063	-	179 036	-
trade in smelter products	296 587	-	211 067	-
PeBeKa S.A.				
mine work (excavation of drifts, building of shafts)	341 226	134 640	183 187	136.1
specialty mine construction	143 386	39 930	27 501	68.9
POL-MIEDŹ TRANS Sp. z o.o.				
sales of fuels	228 409	108 095	133 710	123.7
railway cargo transport	142 594	69 443	79 897	115.1
roadway transport of cargo and passengers	69 113	33 245	37 375	112.4
WPEC w Legnicy S.A.				
generation of heat	148 792	80 619	79 025	98.0
„Energetyka" sp. z o.o.				
generation of heat	124 165	59 437	68 460	115.2
generation of electricity	59 321	30 333	30 785	101.5
water-sewage management	59 549	28 894	30 551	105.7
NITROERG S.A. **				
production of explosives and detonation agents	-	-	78 737	-
production of Nitrocet 50	-	-	41 587	-
DFM ZANAM-LEGMET Sp. z o.o.				
production of self-propelled mining machinery and steel constructions	137 371	72 440	59 598	82.3
servicing, repair, maintenance	90 797	30 099	46 339	154.0
WMN „ŁABĘDY" S.A.***				
production of copper and its alloys	93 012	45 682	56 817	124.4
trade in coal	56 327	15 394	31 526	204.8
„MCZ" S.A.				
medical services	94 960	44 817	49 869	111.3
ZUK S.A.*				
production of spa water	48 103	-	26 924	-
spa recuperation services	48 282	-	23 266	-

** - the company entered the KGHM Polska Miedź S.A. Group in the fourth quarter of 2010; the presented revenues for 2010 respect the entire year,*
*** - the company entered the KGHM Polska Miedź S.A. Group in the first quarter of 2011; the presented revenues respect the entire first half of 2011,*
**** - the company was founded from the combination of Walcownia Metali Nieżelaznych spółka z o.o. and WM „ŁABĘDY" S.A. Revenues for 2010 due to the production of products from copper and its alloys respect Walcownia Metali Nieżelaznych spółka z o.o., and revenues due to trade in coal respect WM „ŁABĘDY" S.A.*

8. Basic products, merchandise and services (continued)

The trade in scrap realised by KGHM Metraco S.A. is mainly in respect of copper scrap, and nearly 100% is provided to KGHM Polska Miedź S.A. The share of the scrap trade in total sales of KGHM Metraco S.A. in the first half of 2011 amounted to 78%. 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 the Parent Entity and also sells the by-products produced by KGHM Polska Miedź S.A. on external markets.

The trade in scrap carried out by CENTROZŁOM WROCŁAW S.A. involves steel and iron scrap, and is realised on behalf of entities beyond the Group, as in the case of trade in smelter products realised by this company.

81% of the sales of merchandise and materials by PHP „MERCUS" sp. z o.o. are to KGHM Polska Miedź S.A. This company serves as logistical coordinator for the core business of KGHM Polska Miedź S.A. 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 2011 amounted to 93%.

The telecom services performed by DIALOG S.A. account for around 100% of the revenues of this company and are mainly provided to customers beyond the Group.

Mining services are the main business of PeBeKa S.A. and are provided mainly to KGHM Polska Miedź S.A. PeBeKa S.A. specialises in mine construction. In the KGHM Polska Miedź S.A. Group 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). Revenues from the sale of mining work in the first half of 2011 versus the comparable prior year period increased by 36%, mainly due to the freezing of openings for the sinking of the GG-1 shaft, as well as to a greater scope of mine drift work. The share of sales of mine work in total company sales in the first half of 2011 amounted to 87%. With respect to sales of specialty construction work realised by this company, in the first half of 2011 revenues decreased by 31% versus the comparable prior year period, among others due to changes in the schedule of work realised for KGHM Polska Miedź S.A.

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 60% to 70% of revenues from the sale of these services are from KGHM Polska Miedź S.A. The largest share in total sales of POL-MIEDŹ TRANS Sp. z o.o. is from the sale of fuels (53%) and railway transport (32%).

Electricity and heat, water-sewage management - „Energetyka" sp. z o.o. generates electricity together with heat. Around 97% of revenues from the sale of electricity and 46% from the sale of heat are earned from KGHM Polska Miedź S.A. In the first half of 2011 sales of heat accounted for around 48% of the total sales of „Energetyka" sp. z o.o., while electricity sales accounted for around 21%, similarly as sales of services for water-sewage management.

WPEC w Legnicy S.A. is one of the leading suppliers of heat in Lower Silesia. 100% of the company's revenues are derived from the sale of heat. The main recipients for the company are entities from outside the KGHM Polska Miedź S.A. Group.

Production of explosives and detonation agents, Nitrocet 50 – NITROERG S.A. is a leading Polish producer of explosives, and ensures the supply of these products to meet the production needs of KGHM Polska Miedź S.A. Around 30% revenues from the sale of explosives and detonation agents is achieved from sales to the Parent Entity. Nitrocet 50 is used as an additive to increase the cetane number of diesel engine fuels and is sold to customers from outside the Group. Revenues from the sale of this product account for 32% of total company revenues for the first half of 2011.

Mining machinery, steel constructions - DFM 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 85% of revenues from the sale of self-propelled mining machinery and steel constructions for the first half of 2011 came from companies of the KGHM Polska Miedź S.A. Group.

DFM ZANAM-LEGMET Sp. z o.o. also provides servicing, repair and maintenance, mainly for KGHM Polska Miedź S.A. The increase of revenues from the sale of these services by 54% in the first half of 2011 versus the comparable prior year period, is mainly due to the development of complex maintenance services for KGHM Polska Miedź S.A.

The production of products from copper and its alloys accounted for around 62% of the revenues achieved by WMN „ŁABĘDY" S.A. in the first half of 2011. The main recipients for company are entities from outside the KGHM Polska Miedź S.A. Group. A second business area is trade in coal. The significant increase in revenues from the sale of this commodity in the first half of 2011 versus the comparable period of 2010 (by 105%) was due to an increase in sales volume.

Medical services account for nearly 100% of the sales of „MCZ" S.A., of which sales to KGHM Polska Miedź S.A. account for approx. 18% of total revenues (occupational medicine services).

Spa recuperation services and the production of spa water are the main business activities of ZUK S.A. Revenues earned by the company in this regard account for nearly 100% of its sales.

9. Sales markets

Geographical structure of sales markets

Analysis of the structure of sales of the KGHM Polska Miedź S.A. Group by market showed that the largest portion, i.e. 26% of revenues from the sales earned by the Group in the first half of 2011, came from the Polish market. The largest foreign recipients of the products, merchandise and services offered by Group companies are Germany (21% of revenues from sales) and the United Kingdom (11% of revenues from sales).

Revenues from sales of the Group to external customers by geographic region are presented in the following table.

Table 6. Group sales by market ('000 PLN)

	2010	I-VI 2010	I-VI 2011	Structure %	Change I-VI 2010=100
Poland	4 970 621	2 326 535	2 939 310	26.2	126.3
Germany	3 739 356	1 593 185	2 405 862	21.4	151.0
United Kingdom	1 568 507	785 102	1 238 693	11.0	157.8
China	1 893 285	870 253	797 975	7.1	91.7
Czech Republic	1 156 340	541 785	723 515	6.4	133.5
Italy	790 772	264 746	649 887	5.8	245.5
France	581 027	296 913	327 488	2.9	110.3
Austria	345 213	159 812	303 093	2.7	189.7
Hungary	412 392	213 784	262 563	2.3	122.8
Other countries	1 835 077	759 662	1 572 786	14.0	207.0
Total	**17 292 590**	**7 811 777**	**11 221 172**	**100.0**	**143.6**

During the analysed period, in comparison to the first half of 2010, the largest value increase in sales was on the German market (an increase by PLN 812 677 thousand) and the Polish market (an increase by PLN 612 775 thousand).

The largest increase in sales, i.e. by around 246%, was on the Italian market.

Export sales and sales to the EU countries

Around 96% of revenues from Group sales for export and to European Union countries in the first half of 2011 were realised by the Parent Entity.

The sales volume of copper and copper products for export and to European Union countries represented 78% of total copper sales. During the analysed period, the largest foreign recipients of the copper produced by KGHM Polska Miedź S.A. were Germany, China, Italy and the Czech Republic.

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, the highest amount of export sales and sales to European Union countries in the first half of 2011 were realised by:

- KGHM Metraco S.A. - company share in Group export sales – 1.6%; the company mainly sold lead to the Czech Republic, Germany and the United Kingdom, copper sulphate to Germany, nickel sulphate to India, Belgium and Germany, and sulphuric acid to Switzerland;
- CENTROZŁOM WROCŁAW S.A. - company share in Group export sales – 1.4%; the company mainly sold smelter products to Slovakia, the Czech Republic and the United Kingdom and scrap to Germany.

Domestic sales

Revenues from sales of the Parent Entity on the domestic market in the first half of 2011 accounted for around 59% 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 22% 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 held a substantial share in revenues from sales of the entire Group on the domestic market:

- CENTROZŁOM (9%) - sales of scrap and smelter products,
- DIALOG S.A. (8%) - sales of telecom services,
- KGHM Metraco S.A. (6%) - sales mainly of refined lead, wire rod, sulphuric acid and salt.

10. Assets

At 30 June 2011, in comparison to the end of 2010, total assets increased by PLN 3 975 270 thousand (19%). The most important changes in assets were in positions such as cash and cash equivalents, available-for-sale financial assets, inventories and derivatives.

Table 7. Assets ('000 PLN)

	31.12.2010	30.06.2011	Structure %	Change 31.12.2010=100
Non-current assets	**12 414 423**	**11 602 368**	**46.1**	**93.5**
Property, plant and equipment	8 553 634	8 659 926	34.4	101.2
Intangible assets	523 874	607 315	2.4	115.9
Investment property	59 760	62 239	0.3	104.1
Investments in associates	1 431 099	498	0.0	0.0
Deferred tax asset	592 947	499 009	2.0	84.2
Available-for-sale financial assets	751 605	1 217 267	4.8	162.0
Held-to-maturity investments	84 157	110 350	0.4	131.1
Derivatives	403 839	430 144	1.7	106.5
Trade and other receivables	13 508	15 620	0.1	115.6
Current assets	**8 762 900**	**13 550 225**	**53.9**	**154.6**
Inventories	2 222 321	2 825 650	11.2	127.1
Trade and other receivables	2 730 658	2 352 635	9.4	86.2
Current corporate tax receivables	4 511	2 346	0.0	52.0
Available-for-sale financial assets	415 662	547 022	2.2	131.6
Held-to-maturity investments	4 129	1 435	0.0	34.8
Derivatives	297 584	364 287	1.5	122.4
Cash and cash equivalents	3 086 957	6 096 204	24.2	197.5
Non-current assets held for sale	1 078	1 360 646	5.4	x
TOTAL ASSETS	**21 177 323**	**25 152 593**	**100.0**	**118.8**

The structure of the assets of the KGHM Polska Miedź S.A. Group is dominated by the assets of the Parent Entity.

The continued high metals prices enabled KGHM Polska Miedź S.A. to generate a significant amount of cash resources. During the first half of 2011, cash and cash equivalents of the Group increased by PLN 3 009 247 thousand. Unallocated cash was invested in short term instruments, due to planned expenditures on capital investments and on the resolved dividend of the Parent Entity.

Available-for-sale financial assets (non-current and current) increased during the analysed period by PLN 597 022 thousand and amounted to PLN 1 764 289 thousand. These are mainly composed of shares held by KGHM Polska Miedź S.A. in listed companies (TAURON Polska Energia S.A. and Abacus Mining & Exploration Corp.) in the amount of PLN 1 205 981 thousand, and of participation units in investment funds in the amount of PLN 531 395 thousand.

Inventories, in comparison to their amount at the end of 2010, increased by PLN 603 329 thousand, primarily due to an increase in the amount of purchased copper-bearing materials used by KGHM Polska Miedź S.A. in the electrolytic copper production process.

The value of non-current and current derivatives at the end of June 2011 amounted to PLN 794 431 thousand, and in relation to their level at the end of 2010 increased by PLN 93 008 thousand, mainly due to changes in macroeconomic conditions.

At the end of the first half of 2011, trade and other current receivables decreased by PLN 380 188 thousand, mainly in respect of trade receivables (a decrease by PLN 395 573 thousand). In addition, in order to ensure the ability to make future payments, the commitment of cash resources in accounts with maturity over 3 and up to 12 months accounted for in financial receivables (a decrease by PLN 329 268 thousand) was reduced. Other financial receivables increased by PLN 280 401 thousand, mainly with respect to dividends due from Polkomtel S.A. and TAURON Polska Energia S.A.

Due to the signing of a preliminary agreement by the Parent Entity for the sale of shares of Polkomtel S.A., the shares of this company were reclassified from investments in associates to non-current assets held for sale. Immediately prior to reclassification, the shares were accounted for using the equity method in the amount of PLN 1 359 568 thousand, and at the same amount, as the lower of their carrying amount and fair value less cost of sale, the shares of Polkomtel S.A. were recognised in assets held for sale. Information on the subject of the aforementioned agreement for the sale of shares of Polkomtel S.A. may be found in point 14 of this report.

11. Equity and Liabilities

At the end of the first half of 2011, equity in the amount of PLN 16 428 007 thousand represented 65% of total equity and liabilities, and was higher versus the end of 2010 by PLN 1 536 228 thousand. The level of equity was mainly influenced by the profit earned by the Parent Entity in the amount of PLN 4 319 004 thousand and by the shareholder dividend resolved by the Ordinary General Meeting of KGHM Polska Miedź S.A. in the amount of PLN 2 980 000 thousand.

Table 8. Equity and liabilities ('000 PLN)

	31.12.2010	30.06.2011	Structure %	Change 31.12.2010=100
Equity	**14 891 779**	**16 428 007**	**65.3**	**110.3**
Share capital	2 000 000	2 000 000	8.0	100.0
Accumulated other comprehensive income	209 821	396 645	1.5	189.0
Retained earnings	12 440 852	13 781 209	54.8	110.8
Exchange differences from translation	-	450	0.0	-
Equity attributable to shareholders of the Parent Entity	**14 650 673**	**16 178 304**	**64.3**	**110.4**
Non-controlling interest	**241 106**	**249 703**	**1.0**	**103.6**
Non-current liabilities	**2 882 705**	**2 490 859**	**9.9**	**86.4**
Trade and other payables	121 560	122 655	0.5	100.9
Borrowings and finance lease liabilities	173 652	129 384	0.5	74.5
Derivatives	711 580	411 884	1.6	57.9
Deferred tax liabilities	133 392	120 162	0.5	90.1
Employee benefits liabilities	1 221 794	1 239 385	4.9	101.4
Provisions for other liabilities and charges	520 727	467 389	1.9	89.8
Current liabilities	**3 402 839**	**6 233 727**	**24.8**	**183.2**
Trade and other payables	1 994 579	4 954 438	19.7	248.4
Borrowings and finance lease liabilities	96 162	87 682	0.3	91.2
Current corporate tax liability	672 152	665 820	2.6	99.1
Derivatives	482 118	366 906	1.5	76.1
Liabilities due to employee benefits	110 912	119 474	0.5	107.7
Provisions for other liabilities and charges	46 916	39 407	0.2	84.0
TOTAL LIABILITIES	**6 285 544**	**8 724 586**	**34.7**	**138.8**
TOTAL EQUITY AND LIABILITIES	**21 177 323**	**25 152 593**	**100.0**	**118.8**

At the end of the first half of 2011, total liabilities increased versus the end of 2010 by PLN 2 439 042 thousand, due to the resolved but unpaid dividend of the Parent Entity from appropriation of 2010 profit. The dividend payment date was set at 12 August 2011 (at the end of 2010 there were no liabilities in this regard – the dividend for 2009 was paid in the second half of 2010).

An important item is employee benefits liabilities in the total amount of PLN 1 358 859 thousand, including provisions for the following: coal equivalent – PLN 766 194 thousand, jubilee awards - PLN 309 251 thousand, and retirement and disability benefits – PLN 231 735 thousand.

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

- derivatives PLN 778 790 thousand,
- trade payables, including due to the purchase and construction of property plant and equipment and intangible assets PLN 780 497 thousand,
- accruals PLN 479 687 thousand.

12. Contingent assets and liabilities

At 30 June 2011, contingent assets amounted to PLN 283 124 thousand, and mainly related to guarantees received, projects and inventions, promissory note receivables and disputed State budget issues.

Contingent liabilities amounted to PLN 283 584 thousand. Among them the largest item is liabilities due to promissory notes in the amount of PLN 116 755 thousand (PLN 80 930 thousand at the end of 2010).

During the reporting period, there were no significant changes in estimates in either contingent assets or liabilities.

13. Financial results

Table 9. Consolidated statement of comprehensive income (‘000 PLN)

	2010	I-VI 2010	I-VI 2011	Change I-VI 2010=100
Sales	17 292 590	7 811 777	11 221 172	143.6
Cost of sales	(9 612 905)	(4 546 164)	(5 690 644)	125.2
Gross profit	**7 679 685**	**3 265 613**	**5 530 528**	**169.4**
Selling costs	(251 255)	(123 231)	(141 554)	114.9
Administrative expenses	(738 722)	(351 960)	(423 022)	120.2
Other operating income	653 917	532 901	701 399	131.6
Other operating costs	(1 798 287)	(528 881)	(566 345)	107.1
Operating profit	**5 545 338**	**2 794 442**	**5 101 006**	**182.5**
Finance costs	(48 330)	(25 281)	(21 765)	86.1
Share of profits of associates accounted for using the equity method	280 542	155 219	187 755	121.0
Profit before income tax	**5 777 550**	**2 924 380**	**5 266 996**	**180.1**
Income tax expense	(1 062 687)	(524 589)	(950 676)	181.2
Profit for the period	**4 714 863**	**2 399 791**	**4 316 320**	**179.9**
Other comprehensive income	83 520	172 916	186 824	108.0
Total comprehensive income	**4 798 383**	**2 572 707**	**4 503 144**	**175.0**

The sales revenues of the Group in the first half of 2011 were higher compared to the comparable prior year period of 2010 by PLN 3 409 395 thousand. A major reason was the increase in revenues of the Parent Entity, due to the increase in the price of copper (an increase in the average price by 32%) and silver (an increase in the average price by 98%) and an increase in the volume of sales of copper products (an increase by 19.7 thousand t, i.e. by 8%).

Revenues from sales of KGHM Polska Miedź S.A. represented around 86% of revenues of the entire Group.

Basic operating costs increased during the analysed period by PLN 1 233 865 thousand. The largest impact on this was from the following:

- an increase in costs of materials and energy by PLN 535 164 thousand – mainly due to an increase in production and an increase in the purchase prices of purchased copper-bearing materials by the Parent Entity, and higher energy and fuel prices,
- an increase in costs of employee benefits by PLN 154 235 thousand, mainly due to a higher provision for the annual bonus,
- an increase in costs of external services by PLN 104 698 thousand.

In the first half of 2011, the total unit cost of electrolytic copper production by KGHM Polska Miedź S.A. increased versus the first half of the prior year by 4%, i.e. by 507 PLN/t and amounted to 13 350 PLN/t.

Other operating activities recorded a profit in the amount of PLN 135 054 thousand, mainly due to the following:

- gain on the measurement and realisation of derivatives + PLN 83 573 thousand,
- foreign exchange losses PLN (56 949) thousand,
- interest income from financial instruments + PLN 77 323 thousand,
- dividends received + PLN 27 462 thousand.

Adjustment of the result due to the share of profits of associates increased profit by PLN 187 755 thousand, of which Polkomtel S.A.: PLN 187 706 thousand, BAZALT-NITRON Sp. z o.o.: PLN 49 thousand.

Finally, profit for the first half of 2011 increased versus the comparable prior year period by PLN 1 916 529 thousand.

The results of selected Group companies are presented in the following table.

13. Financial results (continued)

Table 10. Structure of the profit for the period ('000 PLN)

Details	Profit or loss for the first half of 2011
KGHM Polska Miedź S.A.	**4 319 004**
Subsidiaries	**69 739**
including the most important:	
DIALOG S.A.	18 082
PeBeKa S.A.	14 931
CENTROZŁOM WROCŁAW S.A.	6 739
„Energetyka" sp. z o.o.	5 841
KGHM I FIZAN	5 570
KGHM Metraco S.A.	4 158
KGHM CUPRUM sp. z o.o. - CBR	3 903
NITROERG S.A. *(from 02.02.2011 to 30.06.2011)*	3 390
„PETROTEL" sp. z o.o.	3 353
WPEC w Legnicy S.A.	3 274
KGHM AJAX MINING INC.	(3 366)
Fundusz Hotele 01 Sp. z o.o. S.K.A.	(5 975)
Total profit of Group entities	**4 388 743**
Consolidation adjustments	(73 189)
Profit of the Group attributable to shareholders of the Parent Entity	**4 315 554**
Profit attributable to non-controlling interest	766
Total profit for the period	**4 316 320**

14. Results of major Group companies

The largest impact on the results of the Group is from the Parent Entity, followed by companies from the telecommunications sector:

- DIALOG S.A. – a subsidiary, the results of this company have a direct impact on the consolidated financial statements of the Group,
- Polkomtel S.A.– an associate, its impact on the consolidated financial statements of the Group is from accounting for this company shares using the equity method.

In March 2011, the market process began of collecting bids on the purchase of 100% of the shares of DIALOG S.A. Due diligence is currently being performed by selected bidders. The sale of 100% of the shares of DIALOG S.A. is contingent on KGHM Polska Miedź S.A. receiving satisfactory conditions for this transaction.

On 30 June 2011, a preliminary agreement was signed, between KGHM Polska Miedź S.A., PKN ORLEN S.A., PGE Polska Grupa Energetyczna S.A., Vodafone Americas Inc., Vodafone International Holdings B.V. and Węglokoks S.A. as the sellers, and Spartan Capital Holdings Sp. z o.o. as the purchasers, for the sale of 100% of the shares of Polkomtel S.A.

In accordance with the agreement, KGHM Polska Miedź S.A. will sell all of the shares it holds in Polkomtel S.A., i.e. 5 000 266 ordinary registered shares with a nominal value of PLN 100 per share, representing 24.39% of the registered capital at the total price of PLN 3 672 147 thousand. The sale price for the shares sold will be covered by the buyer in cash.

The total transaction consideration implies an Enterprise Value of PLN 18.1 billion. After deductions attributable to the debt of Polkomtel S.A. and the dividend which Polkomtel S.A. paid for the benefit of the current shareholders, the net proceeds amount to PLN 15.1 billion. That part of the dividend from Polkomtel S.A. for 2010 due to KGHM Polska Miedź S.A. amounts to PLN 250 013 thousand and was paid on 29 July 2011.

In case of certain breaches of the Agreement, the purchaser is obliged, under the Agreement, to pay a contractual penalty amounting to approx. 15% of the price. Payment of the price and the contractual penalty has been secured by issue of letters of credits to the sellers.

The transaction is subject to approval by the Polish Office of Competition and Consumer Protection which, based on the Agreement, must be obtained by the end of 2011, otherwise the Agreement will be terminated unless the parties agree differently.

14. Results of major Group companies (continued)

KGHM Polska Miedź S.A.

In the first half of 2011, revenues from sales of KGHM Polska Miedź S.A. amounted to PLN 10 000 920 thousand, and were 39% higher than revenues achieved in the comparable period of 2010, mainly as a result of higher copper and silver prices and an increase in the volume of copper sold. This increase consisted of higher revenues from the sale of copper and copper products by 31% and revenues from sales of silver by 84%, alongside lower revenues by 48% from the sale of gold.

Revenues from sales in the first half of 2011 reflected the positive result from the settlement of hedging instruments in the amount of 83 577 thousand (in the comparable prior year period, PLN 82 294 thousand).

Table 11. Financial data of KGHM Polska Miedź S.A. ('000 PLN)

	2010	I-VI 2010	I-VI 2011	Change I-VI 2010=100
Sales	15 945 032	7 199 551	10 000 920	138.9
Profit on sales	6 657 346	2 764 723	4 908 986	177.6
Operating profit	5 638 148	2 764 478	5 281 453	191.0
EBITDA	6 253 616	3 070 604	5 612 692	182.8
Profit before income tax	5 605 567	2 747 857	5 265 396	191.6
Profit for the period	4 568 589	2 226 638	4 319 004	194.0

In the first half of 2011, the Parent Entity generated a profit of PLN 4 319 004 thousand, i.e. by 94% more than in the comparable prior year period.

The increase in profit by PLN 2 092 366 thousand was due to changes in the following ('000 PLN):

- revenues from sales due to changes in copper, silver and gold prices +2 794 316,
- sales volume of copper, silver and gold +385 152,
- dividends received +253 279,
- the result on hedging transactions +213 654,

  (of which: an adjustment of revenues from sales, +PLN 1 283 thousand, and the measurement and settlement of hedging transactions, which increased the result on other operating activities by +PLN 212 371 thousand)

alongside changes decreasing the result:

- costs of basic operating activities (657 106),
- revenues from sales due to changes in the exchange rate (485 401),
- exchange rate differences recognised in other operating activities (163 465),
- income tax expense (425 173).

A profit was earned on other operating activities in the amount of 372 467 thousand, due to the following (in '000 PLN):

- dividends received +277 330,
- gain on the measurement and realisation of derivatives +76 899,
- foreign exchange losses (49 871),
- interest income from financial instruments +71 517,
- other (3 408).

Finance costs amounted to PLN 16 057 thousand, and are mainly due to the revaluation of the present value of provisions (PLN 15 806 thousand).

DIALOG S.A.

DIALOG S.A. is the parent entity of the DIALOG S.A. Group, which at 30 June 2011 was composed of the following subsidiaries:

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

14. Results of major Group companies (continued)

Table 12. Financial data of the DIALOG S.A. Group (PLN '000)

	2010	I-VI 2010	I-VI 2011	Change I-VI 2010=100
Sales	528 755	260 624	256 673	98.5
Profit on sales	40 038	16 130	17 393	107.8
Operating profit	50 299	22 155	25 878	116.8
EBITDA	137 222	64 770	69 694	107.6
Profit before income tax	46 049	19 393	24 670	127.2
Profit for the period	80 155	21 800	20 147	92.4

Table 13. Financial data of DIALOG S.A. (PLN '000)

	2010	I-VI 2010	I-VI 2011	Change I-VI 2010=100
Sales	499 457	247 167	240 187	97.2
Profit on sales	35 028	13 320	14 934	112.1
Operating profit	45 132	19 172	22 984	119.9
EBITDA	123 123	57 371	62 484	108.9
Profit before income tax	41 151	16 562	21 878	132.1
Profit for the period	76 048	19 428	18 169	93.5

** the results in the separate financial statements of DIALOG S.A. differ from those in the data packet, due to adjustment of the separate statements of DIALOG S.A. for 2010 after publication of the consolidated statements for 2010*

Revenues from sales of the DIALOG S.A. Group for the first half of 2011 were lower by 2%, i.e. by PLN 3 951 thousand, than those achieved in the comparable prior year period. The decrease in revenues was mainly in respect of traditional voice services and from services directed at the subscribers of other operators (WLR, 1011, BSA). There was however an increase in revenues from new services: digital television IPTV and mobile telephony based on the virtual operator (MVNO) model.

Profit before taxation amounted to PLN 24 670 thousand, and was 27% higher than in the comparable period of 2010. Profit for the first half of 2011 amounted to PLN 20 147 thousand and was lower than that achieved in the first half of 2010 by PLN 1 653 thousand. The decrease in profit in the first half of 2011 was mainly due to the realisation in the current period of deductible temporary differences on unutilised tax losses of prior years, for which in the fourth quarter of 2010 a tax asset was recognised.

At the end of June 2011, the DIALOG S.A. Group recorded an increase in the number of ringing lines: 810 thousand versus 723.9 thousand lines at the end of 2010. Data transmission services at the end of the first half of 2011 amounted to 155.5 thousand.

The number of active IPTV services (digital television offered as part of the DIALOGmedia package with fixed-line telephone and Internet access) at the end of June 2011 amounted to 40.9 thousand. The number of active SIM cards and data transmission modems (as part of the mobile telephone service Diallo, introduced in February 2010), amounted in total to 38.9 thousand.

DIALOG S.A. is using financing from EU funds to implement an innovative services project based on a passive optical network (PON) – so-called „fiber to the premises", whose planned coverage target by 2012 is around 84 thousand homes, among others in Wrocław, Legnica, Zielona Góra and Łódź. This is the largest project of its type in Poland and one of the largest in Europe. As part of this project, DIALOG S.A., as the first telecom operator in Poland to do so, added videomonitoring services to its Internet offer for both individual and business customers.

The company is also realising a project using EU funds called „Development of a regional wide-band network in the voivodeship of Łódź".

14. Results of major Group companies (continued)

Polkomtel S.A.

In the consolidated financial statements the carrying amount of the shares of Polkomtel S.A., reclassified to non-current assets held for sale, accounted for using the equity method, amounts to PLN 1 359 568 thousand.

Table 14. Financial data of Polkomtel S.A. (PLN '000)

	2010	I-VI 2010	I-VI 2011	Change I-VI 2010=100
Sales	7 672 481	3 765 816	3 599 957	95.6
Profit on sales	1 519 681	828 083	733 527	88.6
Operating profit	1 534 829	849 316	1 002 923	118.1
EBITDA	2 890 185	1 520 207	1 650 682	108.6
Profit before income tax	1 429 363	785 701	945 305	120.3
Profit for the period	1 150 523	636 118	769 190	120.9

In the first half of 2011, Polkomtel S.A. earned revenues from sales 4% lower than in the comparable prior year period. Profit was higher by 21%, i.e. by PLN 133 072 thousand.

In April 2011 the Ordinary General Meeting of Polkomtel S.A. passed a resolution on the allocation of profit, the utilisation of reserve capital and payment of a dividend. The total amount allocated to the payment of a shareholder dividend was PLN 1 527 660 thousand, including PLN 1 151 759 thousand from the allocation of profit for 2010 and PLN 375 901 thousand from reserve capital. The amount attributable to KGHM Polska Miedź S.A., proportional to its share, is PLN 372 620 thousand. In 2010, KGHM Polska Miedź S.A. received two interim payments on the dividend for 2010 in the total amount of PLN 122 607 thousand. The remaining part of the dividend, PLN 250 013 thousand, was paid on 29 July 2011.

15. Risk management

The Group companies are exposed to risk in each area of its activities. A factor which has a very significant impact on the financial results of the Group is financial risk, divided into the following areas:

1) Market risks:
   - risk of changes in metals prices,
   - risk of changes in foreign exchange rates (currency risk),
   - risk of changes in interest rates (interest rate risk),
   - price risk related to investments in debt securities, in participation units of investment funds and in shares of listed companies,
2) liquidity risk,
3) credit risk.

Market 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.

Amongst Group companies, only the Parent Entity uses hedging strategies. KGHM Polska Miedź S.A. uses derivatives such as swaps, options contracts, forward contracts and embedded structures with these instruments. The market strategies implemented are selected in such a way as to best take advantage of existing market conditions. The Company applies a consistent and step-by-step approach to market risk management. Over time consecutive hedging strategies are implemented, embracing an increasing share of production and sales revenues as well as an extended time horizon.

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. To hedge against falls in metals prices, KGHM Polska Miedź S.A. uses derivatives.

In the first half of 2011 strategies hedging the copper price represented approx. 28%, and those hedging the silver price approx. 9%, of the sales of these metals realised by the Parent Entity. KGHM Polska Miedź S.A. implemented copper price hedging strategies with a total volume of 40.5 thousand tonnes and a time horizon falling in the second half of 2012 and the full year 2013.

In the case of the silver market, in the first half of 2011 the Parent Entity implemented strategies to hedge the price of this metal of a total volume of 10.8 million troz and a time horizon falling in the years 2012-2013.

15. Risk management (continued)

The Parent Entity remains hedged for a portion of copper sales planned in the period from July to December 2011 (78 thousand tonnes), in 2012 (156 thousand tonnes) and in 2013 (40.5 thousand tonnes), and for a portion of silver sales planned in the period from July to December 2011 (1.8 million troz), in 2012 (7.2 million troz) and in 2013 (3.6 million troz).

Currency risk

The Group is exposed to the risk of changes in currency rates, as it is generally accepted on commodities markets that physical contracts are either concluded or denominated in USD. However, the base (functional) currency for the Group is the PLN. To the extent possible, the Parent Entity attempts to restrict its exposure to the risk of changes in the USD/PLN exchange rate, applying natural hedging. Remaining exposure is hedged through the use of derivatives.

In the first half of 2011, hedged revenues from sales represented approx. 18% of total revenues from sales realised by the Parent Entity.

In the case of the forward currency market, in the first half of 2011 the Parent Entity implemented transactions hedging revenues from sales in the total nominal amount of USD 360 million and a time horizon falling in the first half of 2012. The Company made use of put options (European options).

With respect to revenues from sales the Parent Entity holds a hedging position for the second half of 2011 (USD 600 million) and 2012 (USD 720 million).

Interest rate risk

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.

At 30 June 2011, the Group held liabilities due to bank and other loans in the amount of PLN 177 124 thousand (at 31 December 2010, PLN 226 603 thousand) based on variable interest rates, and liabilities due to loans in the amount of PLN 1 415 thousand (at 31 December 2010, PLN 1 430 thousand) based on fixed interest rates. At 30 June 2011, the Group held bank deposits in the amount of PLN 6 006 413 thousand (at 31 December 2010, PLN 3 259 112 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.

Price risk related to investments in participation units of investment funds and of shares of listed companies

At 30 June 2011, the Group held participation units of open-end, liquid investment funds in the amount of PLN 531 295 thousand classified as available-for-sale financial assets, and participation units of open-end, liquid investment funds in the amount of PLN 46 162 thousand classified as cash and cash equivalents. This investment is slightly exposed to price risk. The investment funds invest assets in money market instruments and in other debt securities (such as government bills and bonds), whose remaining time to maturity does not exceed one year, or whose rate of interest is set for a period no longer than one year. Since the date of acquisition, this investment has been characterised by a stable rate of growth in the value of the participation units, with profitability higher than interest in comparable bank accounts.

At 30 June 2011, the carrying amount of shares listed on the Warsaw Stock Exchange and on the TSX Venture Exchange amounted to PLN 1 213 637 thousand. Due to these investments, the Group is exposed to the risk of a substantial change in accumulated other comprehensive income due to changes in the prices of the shares held, caused by the current macroeconomic situation.

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 2011, as well as in the comparable period, the Group companies barely used external sources of financing. Positive cash flow and the significant amount of cash and cash equivalents balances enabled obligations to be met on time, while maintaining financial liquidity.

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 Net Debt/EBITDA at a level of up to 2.0.

15. Risk management (continued)

Due to the low level of Group debt at 30 June 2011, the ratio of net debt/EBITDA amounted to 0.00, while the equity ratio was higher than the assumed minimal level, and at 30 June 2011 amounted to 0.63.

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, and
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

The companies of the Group have been cooperating for many years with a number of geographically diversified clients. The vast majority of sales go to EU countries.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 or have provided collateral which does not entirely cover the amount of receivables. Taking into account the collateral held and the credit limits received from the insurance company, at 30 June 2011 the Parent Entity had secured 81.2% of its trade receivables.

Individual Group companies operate in various economic sectors, such as transport, construction, trade, industrial production and telecommunications, as a result of which, in sector terms, there is not a concentration of credit risk. 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.

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 appropriate levels of equity and strong, stable market positions. At 30 June 2011, the maximum exposure of a single bank in respect of cash and cash equivalents deposited by the Group amounted to 25.4%. The financial condition of institutions with which entities of the Group cooperate, as well as the short term nature of these investments, reduce the credit risk of these assets to a minimum.

All entities with which derivative transactions are entered into by the Group operate in the financial sector. These are financial institutions (mainly banks), with the highest (42.1%), medium-high (52.6%) or medium (5.3%) credit ratings. Based on fair value at 30 June 2011, the maximum share of a single entity with respect to credit risk arising from derivative transactions entered into by the Group amounted to 25.5%. Due to diversification of risk in terms both of the nature of individual entities and of their geographical location, as well as to cooperation with highly-rated financial institutions, and also taking into consideration the fair value of liabilities arising from derivative transactions, the Group is not materially exposed to credit risk as a result of derivative transactions entered into.

At 30 June 2011, the credit risk to investments in participation units of investment funds with a value of PLN 531 395 thousand is immaterial. Fund management institutions hold a medium-high rating.

16. Contracts of significance for the Group

In the first half of 2011, the Parent Entity entered into significant trade contracts.

On 18 January 2011 a contract was signed between KGHM Polska Miedź S.A. and Tele-Fonika Kable Sp. z o.o. S.K.A. for the sale in 2011 of copper wire rod and oxygen-free copper rod. The estimated value of this contract is from USD 622 901 thousand, i.e. PLN 1 796 943 thousand to USD 753 428 thousand, i.e. PLN 2 173 490 thousand.

On 4 February 2011 a significant contract was entered into between KGHM Polska Miedź S.A. and MKM Mansfelder Kupfer und Messing GmbH for the sale of copper cathodes in 2011. The estimated value of this contract is USD 692 093 thousand, i.e. PLN 1 967 205 thousand.

On 15 June 2011 appendices were signed to contracts for the sale of copper wire rod in the years 2010-2011, entered into on 4 May 2010 with nkt cables GmbH (Cologne) and its subsidiaries: nkt cables Warszowice Sp. z o.o., nkt cables s.r.o., nkt cables Velke Mezirici k.s., nkt cables Vrchlabi k.s. and nkt cables a/s. These appendices prolong the lifetime of the contracts by a further two years, i.e. 2012 and 2013. The total estimated value of contracts for the years 2012-2013 is from PLN 4 033 517 thousand to PLN 4 400 200 thousand, depending on the amount of tonnage under option.

In addition, on 30 June 2011 a preliminary agreement was signed for the sale of 100% of the shares of Polkomtel S.A., described on Point 14 of this report.

17. Information on transactions entered into between related entities, on collaterals and on guarantees

In the first half of 2011, neither the Parent Entity nor its subsidiaries entered into significant transactions between related entities under other than arm's length conditions.

In the first half of 2011, neither the Parent Entity nor its subsidiaries granted collateral on credit or loans, nor did they grant guarantees to a single entity or subsidiary thereof whose total value would represent at least 10% of the equity of KGHM Polska Miedź S.A.

18. Disputed issues

At 30 June 2011:

- the value of receivables due to ongoing court proceedings, in which KGHM Polska Miedź S.A. and its subsidiaries are parties, amounted to PLN 115 096 thousand, of which PLN 35 956 thousand relates to the issues of the Parent Entity and PLN 79 140 thousand to subsidiaries,
- the value of liabilities due to ongoing court proceedings, in which KGHM Polska Miedź S.A. and its subsidiaries are parties, amounted to PLN 132 685 thousand, of which PLN 93 664 thousand relates to the issues of the Parent Entity and PLN 39 021 thousand to subsidiaries.

At the end of the first half 2011, the total value of on-going proceedings before the public courts, bodies appropriate for arbitration proceedings and bodies of public administration respecting liabilities and debtors of KGHM Polska Miedź S.A. and subsidiaries, did not exceed 10% of the equity of KGHM Polska Miedź S.A.

19. Realisation of projected financial results

Forecasts of the consolidated results of the KGHM Polska Miedź S.A. Group are not prepared. Each company prepares its own projections of the results.

On 31 January 2011, the Supervisory Board of KGHM Polska Miedź S.A. approved the Budget for 2011, which assumed the achievement in 2011 of revenues from sales in the amount of PLN 16 067 million and profit for the period in the amount of PLN 8 345 million.

The revenues from sales and profit achieved in the first half of 2011, in the amount respectively of PLN 10 001 and PLN 4 319 million, represent respectively 62% and 52% of the forecasted results. Taking into consideration the assumed sale in the current year Budget of the telecom assets, the level of realisation of the forecast is higher than planned.

Due to the high advancement on the forecast after the first six months of 2011, and the more favourable than assumed macroeconomic conditions, the Parent Entity is preparing an adjustment to the Budget, reflecting updated assumptions, including: macroeconomic, production and investment, as well as in terms of hedging.

Table 15. Realisation of projected results of KGHM Polska Miedź S.A. after the first half of 2011

	Item	Budget 2011*	Execution I-VI 2011	Realisation of forecast (%)
Sales	**million PLN**	**16 067**	**10 001**	**62.2**
Profit for the period	**million PLN**	**8 345**	**4 319**	**51.8**
Average annual copper price	USD/t	8 200	**9 398**	114.6
	PLN/t	22 960	**26 519**	115.5
Average annual silver price	USD/troz	25.00	**34.84**	139.4
USD/PLN exchange rate	USD/PLN	2.80	**2.82**	100.7
Electrolytic copper production	'000 t	543.0	**283.8**	52.3
- of which from purchased copper-bearing materials	'000 t	110.8	**58.9**	53.2
Silver production	t	1 027	**609**	59.3
Unit cost of electrolytic copper production from own concentrate	PLN/t	12 634	**10 008**	79.2

- *Budget for 2011 approved on 31 January 2011 and published in a current report on the same day*

LIST OF TABLES AND DIAGRAMS

TABLES

DIAGRAMS

SIGNATURES OF ALL MEMBERS OF THE MANAGEMENT BOARD OF THE PARENT ENTITY			
Date	**First, Last name**	**Position/Function**	**Signature**
26 August 2011	Herbert Wirth	President of the Management Board	
26 August 2011	Maciej Tybura	I Vice President of the Management Board	
26 August 2011	Wojciech Kędzia	Vice President of the Management Board	